

From Disengagement to Active Economic Competition: Russia's Return to the South Caucasus and Central Asia

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Abstract: This article looks at the role of economic factors, particularly energy, as a key component of Russia's complex and evolving relationship with the states of the South Caucasus and Central Asia. This article explains the major trends and changes that have taken place during the Yeltsin and Putin governments to identify the driving forces behind Russian policy towards the states of the region. It then describes current processes, potential, and constraints of Russian economic expansion, and considers some implications for CIS integration and the dynamics of conflict and cooperation in the region.

Key words: Central Asia, economic relations, energy, foreign policy, geopolitics, Russia, security, South Caucasus

The significance of Russia in developments in the South Caucasus (Armenia, Azerbaijan, and Georgia) and Central Asia (Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, and Turkmenistan) has declined over the past decade; Russia's military and economic power continues to exceed that of these eight states combined, several times over, however. Russia continues to maintain a highly asymmetric structure of energy and trade relations with its southern neighbors, making most of them critically dependent in their economic development and security, and providing Moscow with leverage over internal political developments. Thus, no matter which way Russia turns, it is safe to assume that Russia will continue to have considerable influence on the domestic and foreign policies of these states for some time.

Although the single most important geopolitical development during the 1990s was Russia's disengagement from the region and the expansion of other outside powers, the years since Vladimir Putin's ascendancy to the presidency have seen

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a reemergence of Russian influence. The main features of Russia's presence in the region today are not, however, the military bases or facilities that Moscow continues to maintain but the Russian ruble and actors from Russia's business community, mainly from the energy sector. Whereas Russia's increased foreign economic engagement is related to the country's uninterrupted economic growth since 1998 and the subsequent expansion of some of Russia's giant energy companies into external markets in their quest for profits, economic expansion also reflects a foreign policy that today is more preoccupied with economic competition than military and political preeminence.

This article looks at the role of economic factors, particularly energy, as a key component of Russia's complex and evolving relationship with the states of the South Caucasus and Central Asia. The article explains the major trends and changes that have taken place during the Yeltsin and Putin governments to identify the driving forces behind Russian policy toward the states of the region. It then describes current processes, potential, and constraints of Russian economic expansion, and considers some implications for Commonwealth of Independent States (CIS) integration and the dynamics of conflict and cooperation in the region.

Geopolitics and Change in Russian Foreign Policy

Admittedly, Russia's policies toward the eight states south of its border differ and are thus difficult to analyze jointly in any coherent way. From a broader security perspective, however, the situations confronting Russia in the region are characterized by a number of common features. Along its southern border, Russia is facing a generally volatile security environment, caused by weak civic and state institutions in the individual states of the region; socioeconomic crises; and ethnic, religious, and political tensions. From the Russian perspective, the most important element uniting the South Caucasus and Central Asia region is that in all eight cases, Russia has been confronted with the same complex geopolitical process—the expansion of other external powers into the region. This geopolitical process has defined Russia's new immediate international environment more than anything else and has had far-reaching implications for its policy choices.

In the early 1990s, Russian foreign policy neglected the states south of its border and treated relations with the South Caucasus and Central Asia states more as an extension of internal affairs than as external affairs. Russia's ruling elite was fixated on the United States and, to a lesser extent, Western Europe. In this period, Moscow simply felt that the South Caucasus, and even more so Central Asia, were geographically too remote and, thus, beyond the reach of the West. If anything, Moscow was worried about Turkey's (and to some degree Iran's) supposed historical ambitions in the region. From the mid-1990s onwards, it was the growing frustration over Russia's partnership with the West, especially over plans to enlarge NATO, that shifted its attention to the CIS. This was illustrated in a presidential decree September 14, 1995, in which Moscow proclaimed the CIS to be of vital interest and a top foreign policy priority.

This meant that Russia declared itself as the region's exclusive security guarantor. Against this background, Russia considered the advances of other foreign

powers into this area as incompatible with Russia's interests. Russia's first National Security Concept, endorsed by President Boris Yeltsin on December 17, 1997, saw the major threat to Russia stemming from internal economic and social factors. However, the concept also stated that

[i]nternational threats to the Russian Federation's national security are manifested through the attempts of other states to counter Russia's consolidation as an influential center of the emergent multipolar world. This is reflected in actions aiming to wreck the Russian Federation's territorial integrity. Such actions try to take advantage of inter-ethnic, religious, and other domestic contradictions. (. . .) On the whole, this can serve to limit Russian influence, to encroach on its vital national interests and positions in Europe, the Middle East, the Transcaucasus, and Central Asia.¹

The revised version of Russia's National Security Concept of January 2000 generally puts more emphasis on international threats but essentially adopts the same wording with regard to the South Caucasus and Central Asia. Although it mentions the regions only once, this again is in conjunction with the challenges posed by regional players and external powers.²

During the second half of the 1990s, the public debate and official documents show an increasing tendency toward a securitization of geopolitics. When transnational companies from the West became more involved in the strategic rivalry for oil and gas in the Caspian Sea basin for economic reasons, many in Russia were inclined to interpret this as a concerted effort by Western governments to push Russia out of its sphere of interest. When the West was suggesting international solutions to settle the conflict in Chechnya, Moscow was inclined to see this as an attempt to interfere directly in Russia's domestic affairs and further weaken Russia's position in the Caucasus. To put it in more theoretical terms, Russia viewed the involvement of Western powers in the CIS in terms of a zero-sum game: every Western gain was considered Russia's loss.

Far from contributing to the stability of the region, the involvement of Western powers was seen as undermining stability on Russia's southern borders and as a threat to the security of Russia. In an article in *Nezavisimaya gazeta* on November 24, 1999, Viktor Ilyukhin, then chairman of the State Duma Committee on Security, argued that security threats in the Caspian region were on the rise because of third-power involvement. He claimed that U.S. plans were aimed at strengthening the Western position and "undermining the Russia position in the region" through large Western oil companies, which he saw as merely tools for the advancement of higher strategic interests. The Russian interest, he stated, was related less to the potential benefit from oil revenues than to the strategic threat to Russian security emanating from "separatism in the North Caucasus, Transcaucasus, Middle East, and Central Asia, interconnected with the growing threat of international terrorism and Islamic fundamentalism and radicalism."

During most of the 1990s, Russia's approach toward its southern neighbors was characterized by a defensive position with a focus on damage limitation. To reassert itself as the dominant power in the CIS, Russia applied whatever means it had at its disposal to halt the further erosion of its fast-fading influence. For a

long time, Moscow followed a policy of obstructing any solution to a legal division of the Caspian Sea. In the case of Turkmenistan, Russia's approach at times was outright blackmail; for instance, Moscow closed its pipelines for Turkmen gas deliveries to Ukraine until Ashgabat agreed to the gas price reduction demanded by Russia.³ Russia also vehemently opposed the decision by the governments of Azerbaijan and Georgia to reach an agreement on the construction of a U.S.-backed pipeline from Baku through Georgia to the Turkish port in Ceyhan (the Baku-Tbilisi-Ceyhan pipeline), which was designed to circumvent Russian territory. In the South Caucasus, a blunt "divide-and-rule" approach became evident in the conflicts over Abkhazia, South Ossetia, and Karabakh.

In light of the increased Western investment in Caspian oil and gas extraction and transportation projects toward the end of the 1990s, Russia began to reconsider its approach. A first turning point came in early 1998 when Moscow suddenly, and much to the surprise of many outside observers, reached a bilateral agreement with Kazakhstan over the delimitation of borders on the Caspian Sea bed, thereby shifting from a policy of obstruction to one of cooperation.⁴ This policy shift came about after the policymakers in Moscow realized that Russia's approach toward the Caspian Sea issue was effectively encouraging, rather than preventing, this Caspian Sea littoral state to look for outside assistance to push oil production and explore transportation options through non-Russian territory.

Since Vladimir Putin's presidency, this attitude has begun to evolve into general policy. In spring 2000, at his first security council meeting as elected president, Putin declared the Caspian region to be a zone of vital interest. He attributed increased Western and Turkish presence to Russian inactivity and urged Russian companies to engage in more competition.⁵ It was during this time that the Russian government started actively backing the international expansion of some of Russia's major energy companies.⁶ From the beginning of his presidency, Putin aimed to achieve better coordination of Russian oil diplomacy, which was notorious for its lack of direction under Yeltsin.⁷ An early effort to balance the interests of the state with the interests of business was Putin's successful initiative to form the Caspian Oil Company. The purpose of this consortium, consisting of the three major energy companies YUKOS, LUKoil, and Gazprom, was the joint development of oil reserves in the Russian section of the Caspian.⁸ At the same time, Moscow also softened its opposition toward Western-sponsored projects that it had previously opposed, such as the construction of the Baku-Tbilisi-Ceyhan pipeline, and Russian oil companies even considered direct participation in this project.⁹

Russia's political establishment was sharply divided over how Russia should react to the stationing of Western troops in Central Asia after September 11, 2001. An overall pragmatic approach ultimately prevailed as the official policy line, based on the understanding that Russia had to adjust to the geopolitical realities and make the best of a difficult situation. And Russia's "strategic partnership" with the United States did result in one significant gain: an enhanced role in the states in the vicinity (Russia's "near abroad"). Thus, the events of September 11, 2001, were an important catalyst in prompting Russia to reinforce its proactive engagement and play its cards more vigorously in areas where it still had considerable

significance, owing to an advantageous set of dependency linkages. Since early 2002 the Russian state and Russian energy companies have noticeably intensified their cooperation efforts with this energy-rich Caspian Sea state; they have also reached out to the other countries of the region. Although cooperation was also strengthened in the military area, it was the economy that was now seen as Russia's strongest tool in the geopolitical battle for power and influence in the world. In his annual teleconference in December 2003, Putin told the nation that "[t]here is a tough, competitive battle going on in the world. As different from the past, this battle has moved from the realm of military conflict to economic competition."¹⁰

The fact that Russia has changed its behavior toward its neighbors has also changed its neighbors' perspective of Russia. Thus, as well as Russia's wish for cooperation, there have also increasingly been initiatives from Russia's neighbors in this direction. Unlike the situation during the 1990s, most governments of the region now welcome Russia's engagement as an overall stabilizing factor rather than a potential threat to their independence. In particular, the leaders of the Muslim-dominated states of Central Asia understand that they can receive both economic and political benefits from cooperation with Russia by using Russia—and other external powers—as allies in their counterterrorism efforts and to stabilize their domestic power against Islamic opposition movements.

The shift in Russian policy from a military and political emphasis to a geo-economic one extends beyond mere tactics into a more profound redefinition of the concept of Russian power. Along with traditional parameters of power such as military might, territorial size, and economic potential, Russia's political elite today also consider their country's integration into the world economy, the flow of foreign investment, or the nation's technological capabilities to be important indicators of Russia's great power status.¹¹ In this context, the concept of "economizing" foreign policy has increasingly come to the fore. President Yeltsin had already urged Russian diplomacy to work toward creating favorable political conditions for a deepening of Russia's integration into global and regional economic structures.¹² Under Putin, however, Moscow's efforts have become more concrete. There is now a growing recognition in the Foreign Ministry and in the Economic Development and Trade Ministry that they need to support Russian businesses abroad. For the first time, the Russian government has set aside a modest \$500 million in state guarantees in the 2005 budget to support exports. In a more significant move, a new law went into effect in Summer 2004 that simplifies rules for transferring cash out of the country for investment purposes.¹³

These trends in Russian foreign policy result from the understanding that the forms and intensity of economic cooperation between Russia and its international

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environment are crucial elements in the creation of Russia's overall security structure and in the restoration of Russia as a great power. Although there was a common understanding among all political strata from an early stage that Russia should aim at becoming a great power again, there was never a common understanding on precisely what it meant to be a great power and where the "Russian way" should lead. Now, for the first time since the end of the Soviet Union, a foreign policy program is beginning to take shape that is based on a broad domestic consensus.

The major characteristic of Putin's program is the combination of a nationalistic, Russia-first position with a largely pragmatic attitude toward international relations. The idea of Russia's greatness derives less from an abstract notion of great power, or a special "Russian mission," than from a fairly realistic assessment of Russia's resources and possibilities. According to the program, Russia should seek hegemony in the CIS area through control of key strategic areas, but restoration of any new version of the Soviet Union is rejected on the grounds that this would burden the country with costs and obligations that its developing economy simply cannot sustain.¹⁴ Thus, Russia is not seeking hegemony for its own sake but, rather, aiming at the selective reestablishment of those ties that are considered beneficial to economic growth and the promotion of stability along its southern border. At the same time, Russia hopes that this will allow it to further its security and geopolitical interests.

Dynamics of Economic Expansion

Russia's interests in the South Caucasus and Central Asia regions are both national and corporate: influence and market share. Ultimately, what Russia wants is oil and gas, which the region has, and stability. If the states of the region remain dependent on Russian energy imports or on the Russian pipeline system, then they remain within the sphere of influence of the Russian state and Russian energy companies. Although it is not appropriate to think about the Russian state and Russian energy companies as unitary entities, in the case of the South Caucasus and Central Asia regions there is a high level of convergence between state and corporate energy interests.¹⁵ In fact, if Russian foreign policy today appears less contradictory and more coordinated, it is not only the result of a tightening of state control over business but also less of a contradiction between different foreign policy agendas; the interests of the state and Russia's big business are largely overlapping, at least when it comes to the issue of energy in the South Caucasus and Central Asia regions.

The three key energy sectors relevant to Russia's foreign economic engagement in the South Caucasus and Central Asia are electricity, gas, and oil. With regard to electricity, the driving force of expansion is the Russian electricity monopolist RAO UES, which is 52.5-percent state owned. UES is a major supplier and importer of electricity and has recently made serious efforts toward establishing a common CIS electricity market.¹⁶ In the gas sector, the leading company is the Russian gas monopolist Gazprom, which also has a large stake in Russia's oil business. Gazprom owns the network of Russia's gas pipelines and, thus, controls practically all flows to and from the former Soviet states. Even

energy-rich Azerbaijan imports more than half of its gas from Russia. Here, again, the major shareholder of Gazprom is the Russian state with 38.37 percent.¹⁷

In the oil sector there are a number of companies involved, but the leading investor in the Caspian region is LUKoil, Russia's largest private oil company.¹⁸ Russia's oil companies do not own pipelines; these are managed by the state through Transneft.¹⁹ In this sense, every deal concerning the transportation of oil through the Russian pipeline system is a deal between the Russian state and its foreign counterpart. Russia's predominance becomes clear in the case of the energy-rich Caspian Sea countries of Azerbaijan, Turkmenistan, and Kazakhstan. Seventy percent of the oil exported by these three states still passes through Russian pipelines. Kazakhstan is almost totally dependent on Russian pipelines—95 percent of Kazakh oil is exported through Russian territory.²⁰

Although each company chooses its own expansionist strategy and follows its specific agenda, there are certain common features of Russia's current economic expansion. One common feature is the imperative to ensure that existing energy dependencies are stabilized and that Russia maintains its monopoly over energy flows via its transportation system. Examples include the "strategic partnership agreements" that have now been signed by Russia—or rather Russian companies—with all five Central Asian states and Georgia. These deals, all over a medium- to long-term timeframe, offer these states security in terms of the volume of and tariffs attached to the oil and gas they receive from Russia and allow them to pump through the Russian pipeline system. At the same time, Russia has built, or plans to build, new pipelines, which are offered as an alternative to Western-supported projects.

Russian companies also seek to acquire key energy infrastructure in these states, for instance energy distribution stations or oil and gas refineries, which are sometimes purchased but are more often acquired through debt-for-equity swaps. This method constitutes a powerful bargaining tool for Moscow. Russia still may be financially weak, but many states of the region have accumulated huge debts for Russian energy supplies that they are unable to pay. Russia is now said to account for approximately 10 percent of the national debt of Armenia, Georgia, Kyrgyzstan, and Tajikistan.²¹ Russian energy companies are now also more actively participating in large international oil and gas extraction or transportation projects through direct financial investments. Admittedly, all these various components of Russia's economic engagement are meshed together. Thus, the negotiation of far-reaching energy deals is often accompanied by other agreements, be these on joint development projects or deals concerning debt-for-equity swaps.

RAO UES has been very active in the South Caucasian markets. Through a combination of debt-for-equity swaps and buying out the American company AES, RAO UES controls now some four-fifths of Armenia's electricity generating capacity. Among other things, the company acquired a 100 percent stake in Armenia's only nuclear power plant. It has also bought up large parts of Georgia's electricity facilities. As of today, RAO UES controls some 20 percent of Georgia's generating capacities and 35 percent of electricity supplies to the republic's consumers. In Azerbaijan, RAO UES has not yet bought major assets; how-

ever it secured a contract for parallel operation of the Azeri and Russian electricity systems, and has signed contracts for transmission of Azeri electricity to Turkey and Iran.²² Talks with Azerbaijan on closer collaboration are under way. The company has also acquired stakes in electricity assets in Kazakhstan²³ and has set up a joint venture with two local companies in Kyrgyzstan to build a cascade of two hydroelectric power stations in the mountains that will meet the electricity needs of Kyrgyzstan and other Central Asian states. RAO UES seems to have very ambitious plans in the region, namely to reestablish a common electricity market uniting most CIS countries. During an interview in September 2003, RAO UES Chief Executive Officer Anatoly Chubais declared, "We have very aggressive plans, and these plans concern most of the [Commonwealth of Independent States] nations."²⁴

The expansion of RAO UES into Armenia and Georgia has been accompanied by the penetration of Russian gas companies. In late August 2002, for example, the Georgian government agreed to hand over 51 percent of the Tbilisi gas distribution company Tbilgazi and the chemical plant Azoti to the Russian Itera International Energy company.²⁵ In May 2003, a strategic partnership agreement was signed between Georgia and the energy conglomerate Gazprom. Under the agreement which covers a period of twenty-five years, Gazprom is allowed to conclude confidential future projects with the Georgian government, possibly paving the way for debt-for-equity deals that enhance the Russian company's control over Georgia's domestic energy distribution infrastructure. Such debt-for-equity swaps have already been made in neighboring Armenia.²⁶

At first glance, the moves of Russian companies into the markets of Armenia and Georgia look more like a politically motivated project, since both countries are poor in natural resources and massive foreign investment is required to develop infrastructure and industrial production. In addition, the method of acquiring assets through debt-for-equity swaps looks potentially disadvantageous for Russia because most of the enterprises Russia receives are in bad shape and in need of investment. In a medium- to long-term economic perspective, however, this will provide Russia with a strong foothold in a strategically important area. According to RAO UES Deputy CEO Andrey Rappoport, the UES's long-term targets are to buy shares in the energy companies of Armenia and Georgia, to enter the power market in Iran and Turkey, and to create the required basis for working with the energy systems of those countries. Turkey lacks energy supplies and is therefore a good potential market for energy exports.²⁷

Russia's economic push into the South Caucasus has been accompanied by diplomatic efforts to improve bilateral relations with these states. While Russia's relations with Armenia have been traditionally good, relations with Azerbaijan have improved since Putin came to power. In July 2002, Russia and Azerbaijan laid down the principles for drawing the long disputed boundary of the Caspian seabed and allocating each country rights to Caspian oil and gas. Soon afterwards, a trilateral agreement between Russia, Azerbaijan, and Kazakhstan was signed dividing the northern 64 percent of the Caspian Sea into three unequal parts according to a median line principle, giving Kazakhstan 27 percent, Russia 19

percent, and Azerbaijan 18 percent. Iran and Turkmenistan, the other two Caspian littoral states, have so far refused to sign up.²⁸ Moscow has also made efforts to promote existing pipelines through Russian territory to compete with pipeline projects promoted by foreign Western investors, such as the Baku-Tbilisi-Ceyhan pipeline. For example, Putin has pledged to supply more natural gas to Azerbaijan in exchange for oil transit via an existing venture, the Caspian Pipeline Consortium (CPC), which was designed to transport more Kazakhstani oil from the fields in Tengiz and Atyrau to the Russian port of Novorossiisk.²⁹

Relations between Russia and Georgia remain the most complicated. Moscow still supports the break-away republics of Abkhazia and South Ossetia and continues to maintain large numbers of troops and military bases on Georgian territory against the will of the government in Tbilisi. Russia's more economic-driven foreign policy could, however, help to improve relations. Moscow's first constructive move after Shevardnadze's fall in November 2003 was to help the new government resolve the issue of one of Georgia's self-declared autonomous republics, Adjara. In spring 2004, Russian National Security Advisor Igor Ivanov negotiated the departure of Adjara's president Aslan Abshidze, concluding Abshidze's thirteen-year rule. Moscow has thus indicated at one point that it does not want to see Georgia or other parts of the Caucasus drift into violent conflict. Moscow's business interests would likely be negatively affected since it would be difficult for Russia to export energy resources if the region descended into instability and chaos. In fact, after the Adjara-issue was resolved, the Georgian government invited Russia's business community to explore lucrative investment opportunities; at the same time, Putin promised to review the position over the visa regimes that make it difficult for Georgians to travel to Russia.³⁰

The Moscow government now maintains good relations with all five Central Asian states and has thus laid the foundations for increased economic cooperation. Moscow's relations with Kazakhstan have been, and remain, good. In addition to the 1998 agreement on the division of the Caspian Sea, Russia signed a comprehensive bilateral deal with Kazakhstan on June 7, 2002. This agreement ensures security for Kazakhstan in terms of the volume of and tariffs attached to the oil transfers through Russia for at least the next fifteen years. Moreover, the accompanying agreements set the stage for a similar Russian move on Kazakhstan's gas.³¹ A major motivation for Kazakhstan to sign the deal with Moscow is to be seen in Moscow's offer of incentives for the pumping of Kazakhstani oil through Russia's Baltic Pipeline System, currently under construction, thereby making Kazakh oil available, for the first time, to the lucrative European market. Shortly before signing the deal on oil transit, the two sides also agreed on the establishment of a joint venture that would provide Kazakhstan with access to Europe for its natural gas exports.³²

At the same time, Russia's giant gas and energy companies have also expanded their activities in Kazakhstan. In July 2003, for example, LUKoil and Gazprom established a joint venture with Kazakhstan's state oil company, KazMunaiGaz, to develop the Tsentralnaya hydrocarbon structure, located on the border of the Russian and Kazakhstani offshore sectors.³³ LUKoil is today the single largest Russian

investor in Kazakhstan, having invested around \$1.5 billion in the country's economy over the past eight years. And LUKoil plans to expand its investment in the future. In December 2003, LUKoil President Vagit Alekperov stated that "LUKoil is currently implementing seven projects in the Republic, and their number is sure to grow. Our planned investment in the Dostyk offshore project alone is nearly US\$3 billion. It is pleasing to know that this investment activity has the support of the leadership of Kazakhstan."³⁴

Russia's relations with Turkmenistan reached a turning point in spring 2003. The relationship, which was particularly complicated and tense in the 1990s, improved when the two sides signed two deals in April 2003: one on long-term

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energy exports, under which Turkmenistan undertakes shipments of gas to Russia for the next twenty-five years and the other on bilateral security, which aims at increasing bilateral strategic cooperation.³⁵ A major incentive for Turkmenistan to sign the deal with Russia on gas deliveries can be seen in Gazprom's offer to buy Turkmen gas at a price that

some analysts considered too high at the time the contract was signed.³⁶ Another reason might have been politically motivated. At the time the deal was signed, Putin gave in on the disputed issue of dual citizenship and agreed with Turkmen President (Saparmurat Niyazov) Niyazov to abrogate an agreement of 1993 that guaranteed Russians living in Turkmenistan their right to hold dual citizenship.

The years 2002 and 2003 marked a turnaround in Russian-Uzbek energy relations. In 2002, Gazprom signed a strategic gas cooperation agreement with the Uzbek national oil company Uzbekneftegaz. The agreement stipulates long-term natural gas purchases in Uzbekistan during the period of 2003–12, with the increase of the annual volume to 10 billion cubic meters by 2005. Under a further agreement signed with the Uzbek government in July 2003, Gazprom is operating Uzbekistan's trunk gas pipelines and, therefore, the company is objectively interested in the long term development of the republic's gas-transporting system. Another contract for Gazprom's participation in the development of a major gas field in Ustyurt was signed in fall 2004.³⁷ In April 2004, Uzbek President Islam Karimov and LUKoil President Vagit Alekperov discussed preparations for a joint project to develop the Khauzak-Shady and Kandym gas fields in Uzbekistan. Investments in this project, involving LUKoil and Uzbekneftegaz, are expected to amount to \$1 billion. Both the Gazprom and LUKoil agreements will be implemented under the new Uzbek law on production-sharing agreements.³⁸

Russian companies have also intensified their activities in Tajikistan and Kyrgyzstan. In April 2003, Gazprom signed two important deals with officials in Kyrgyzstan and Tajikistan on gas supply throughout the year. In these agreements, again

for a term of twenty-five years, Gazprom will assist in the development of local energy resources (including hydroelectricity) and in repairing and building gas pipelines. This provides Gazprom with a strong foothold in the gas industries of these countries and significantly reduces their dependency on the delivery of gas from Uzbekistan, which frequently used to cut off shipments to put pressure on those governments to repay their debts.³⁹ Of particular importance is the deal with Kyrgyzstan. Although Kyrgyzstan does not possess significant gas and oil resources, it could serve as a transit country for reserves in neighboring Kazakhstan, Turkmenistan, and Uzbekistan—all of which have large gas or oil deposits.⁴⁰

The creation of energy partnerships with the Central Asian states, which have been accompanied by an aggressive expansion of Russian energy companies into these markets, is the clearest indication of Russia's desire to control the flow and, if possible, production of energy throughout the entire post-Soviet space. A major economic reason behind the creation of such partnerships is to reduce, or ideally eliminate, potential competition. Russia understands that it will not be able simply to increase oil and gas production on its own territory as this would lead to a drop in world market prices and make Russian energy increasingly less competitive in comparison with the energy produced in countries with a lower cost of production. Another major economic reason behind the expansion of Russia's energy companies is to meet the growing demand of energy (in particular gas) in Europe and Asia. Given that some of Russia's own fields are entering the stage of declining production owing to the natural depletion of reserves, companies such as Gazprom are banking on Central Asian resources to replenish their energy balance. The creation of energy alliances will thus help Russia retain its position as a key energy supplier to the market in the West and the East. Naturally, energy alliances also serve the geopolitical interest of the Russian state. The control of energy flows through state-controlled Gazprom and state-owned Transneft will automatically boost Russia's political predominance over Caspian countries.

Potential and Limits of Expansion

If Putin today sees competition largely as a battle fought on the battlefield of economics, then the crucial question for Russia is how it can maintain, or rather regain, a leading position in the markets of the CIS. The dynamics of Russia's current economic engagement in the South Caucasus and Central Asia essentially come down to two basic trends. First, Russian capital is increasingly trying to participate directly in projects in these countries. In this sense, Russian companies are dependent, in the same way as Western companies, on the degree of liberalization of these markets to be able to compete in privatization projects. Secondly, Russia is trying to set up energy cartels, through which Russia and its business community are trying to gain an advantage over Western capital and ensure Russian dominance.

What might appear to be a contradiction in Russia's effort to achieve greater market share—through a free-market approach on the one hand and state-supported efforts on the other—is rather, seen from a Kremlin perspective, a situation of two largely complementary trends, both operating in Russia's interests. In fact, the two trends could be classified as a top-down and bottom-up approach

to the same process. Under the top-down approach, Russia's state-sponsored attempts to create energy alliances have been accompanied by efforts to revive CIS multilateral structures or create new ones, such as the Eurasian Economic Community (EurAsEC),⁴¹ or the Single Economic Space (SES).⁴² In late May 2004, Russia even joined the Central Asian Cooperation Organization (CACO), hitherto a purely Central Asian grouping, whose members have pledged to create a regional common market and free-trade zone within fifteen years.⁴³ All this means creating conditions for a unified economic space where Russian companies would enjoy preferential treatment over foreign companies. In terms of the bottom-up approach, the current expansion of Russian companies into the CIS-markets helps the process of integration, since all these efforts are largely aimed at restoring traditional ties, and at boosting the importance of Russia as an indispensable economic partner.

From this perspective, Russia's interest in CIS integration is obvious. This would enlarge Russia's accessible market, reduce international competition within this market, and ensure Russian political dominance, which is guaranteed if only by virtue of Russia's overwhelming economic predominance in any CIS structure. There is currently a strong conviction among Russia's political establishment that the Russia-driven integration of energy systems is not only an instrument for resolving political issues in the CIS but also a valid option for Russia to remain viable in an increasingly competitive international environment.⁴⁴

According to Deputy Prime Minister Viktor Khristenko CIS integration would stimulate incentives for investment, which is "completely lacking today." Once foreign investors become domestic investors, Khristenko hopes, among other things, to encourage Russian entrepreneurs to reinvest their money now lying frozen in offshore accounts.⁴⁵ At the same time, Russia does not intend to retreat into a "new isolationism," as some analysts have maintained.⁴⁶ On the contrary, Khristenko argues, the formation of a "united Europe" of CIS members in the East should proceed in parallel with rapprochement with a united Europe in the West, leading, in the future, to a "Common European Economic Space." Russia's goal is not to join the EU, he says, but to unite economic spaces while retaining its sovereignty.⁴⁷ Indeed, "together into Europe" has become the new ideology of Moscow's post-Soviet integration efforts.⁴⁸

There are limits to Russia's expansionist CIS integration strategy, at least for the time being, which derive from a mix of structural and political factors. Politicians and experts in both Russia and the states of the region see Russia's economic expansion into the CIS as a "natural" trend, which is likely to continue, given that Russia remains the principal economic partner for most former Soviet republics. Uzbek President Islam Karimov, who, in the 1990s had been the most outspoken of the Central Asian leaders in accusations that Russia was trying to dominate the region, emphasized at the Moscow CIS summit of November 30, 2000, that "present-day Russia is not the Russia of the 1990s. . . . If the ruble and the Russian economy continue to strengthen, none of us will be able to escape its influence."⁴⁹

In fact, the Russian economy has been growing rapidly. Since the financial meltdown in 1998, Russia's economy has seen cumulative growth of 38 percent, and

this growth shows no sign of abating. Inflation is low and the ruble continues to be stable. The federal budget is in surplus and the Russian government is paying its international debts as well as pensions and wages to citizens. Real disposable income grew by 14.5 percent in 2003 and poverty levels have fallen. Russia runs huge trade surpluses and the Central Bank now holds record-high reserves of \$86 billion.⁵⁰ Russia's real GDP, calculated on the basis of purchasing power parity (PPP), was estimated at \$1.17 trillion in 2002, which is more than five times the volume of all eight countries of the South Caucasus and Central Asia combined.⁵¹

When compared to most Western states, however, Russia's economy remains weak in every respect and precariously dependent on exports of oil, gas, and other raw materials. Other elements that could prevent further progress toward achieving sustainable growth include a lack of effective financial intermediation and continued dominance by unreformed natural monopolies.⁵² Even if Russia's economy continues to grow at the current rate of approximately 5 percent (a growth rate that Russia can sustain only if global energy prices remain favorable), the pre-1989-level standard will not be reached before the year 2015.⁵³ Scholars have pointed to further demographic decline and Russia's territorial size as further possible serious obstacles to sustained development in the future.⁵⁴

Thus, Russia is important for the South Caucasus and Central Asia states not because of its strength, but because these states are even weaker than Russia, and, more important, because of structural legacies. So far, economic integration processes between Russia and the regional states are understood as a readjustment to structural realities. Both Russia and the states of the region have an interest in stabilizing their relations, which were severely disrupted after the disintegration of the Soviet Union. Current integration trends among former Soviet states are not so much a reflection of nostalgia for the Soviet Union as linked to the concrete expectation that normalizing relations would ease the negative economic effects following the dissolution of common market structures. By fostering closer ties with Russia, the CIS states are not turning away from the West or other outside partners but, rather, are trying to readjust their foreign policies according to certain economic necessities and geopolitical realities. Thus, although the states of the region seek more Russian involvement, they clearly do not want Russian dominance.

For example, although Russia's push for a deepening of its economic engagement with the energy-rich states of the region is mostly taking place at the bilateral level, attempts at strengthening integration at the multilateral level have had little effect so far. For example, Moscow has suggested the creation of a "Eurasian gas alliance" with Russia, Kazakhstan, Uzbekistan, and Turkmenistan.⁵⁵ This plan would, according to the Russian understanding, go beyond bilateral arrangements and ensure long-term stability and predictability of the energy market and pave the way for forming a "Eurasian gas space." Russia's interest in the alliance is linked to its desire to gain greater control over what Putin has called "volumes and directions" of gas, and later perhaps oil, exports in the region.⁵⁶

The Caspian states have been unwilling to commit formally to such a multilateral alliance, since this would increase their dependency on Russia and decrease

their maneuvering room vis-à-vis other possible options for exploitation and transportation of their gas—and oil—in the future. Even Kazakhstan, as Russia's most important energy partner, has indicated that it wants to keep its export options open. This policy was underlined in spring 2004 when the presidents of Kazakhstan and Azerbaijan met to consider expanding energy ties, including the possibility of transporting Kazakhstan oil to Baku for shipment through the Baku-Ceyhan-Tbilisi pipeline, or when Kazakhstan's Prime Minister Daniyal Akhmetov gave the order for the start of construction work on an energy export route to China.⁵⁷ Also, a closer look at the Russian deal with Turkmenistan reveals that although the pact covers twenty-five years, the nature of the business relationship between Gazprom and its Turkmen partner Turkmenneftegaz is clearly defined only for a three-year period. After this, the terms are to be renegotiated. This means that Turkmenistan, like Kazakhstan, has indicated that it wants to keep its options open.

The long history of failed CIS integration attempts shows that Moscow is only willing to engage in far-reaching integration projects if these are strictly on Russian terms, so that Moscow retains political control over any such union to protect its economic interests. Thus, given that the CIS states have been unwilling to give in to Moscow's conditions of integration, Moscow too has so far been loath to go ahead. The most recent case in point is the creation of the SES in September 2003, which includes Russia, Ukraine, Belarus, and Kazakhstan. The SES is an ambitious effort at CIS integration. However, its future is as uncertain as the many other CIS integration treaties because of the nonbinding nature of the SES treaty and because of Russia's determination to control this union as well.⁵⁸

The treaty aims to promote economic integration among the member states by lowering trade barriers and calls for the eventual creation of a unified economic space. A council of heads of state is to be in charge of coordinating relations among members, and a "single regulating body" is to become a supranational organ with real decision-making powers. Although decisions of the council will be based on the consensus principle with each member having one vote, the number of representatives for each country in the single regulating body is to be proportional to its economic significance. According to this criterion, more than half the members will be Russians, giving Russia virtual control of all major decisions. For the time being, however, the symbolism of actually signing such a document and thereby stressing common interests clearly outweighs any practical significance. Chapter 5 of the treaty states that the formation of the SES will evolve gradually and each member will decide independently on the form and direction of its integration in the organization. Thus, each member can decide whether and to what extent it is willing to participate in specific integration projects. And in the same way as any other member of the SES, it can be expected that Russia too will be careful in calculating the costs and benefits before undertaking more concrete steps toward integration.⁵⁹

Russian power in the region is restricted in other ways. If Russia's economic influence is considerable, mainly due to structural dependencies from Soviet times, Russia's overall performance in terms of the volume of trade turnover and financial investments is relatively moderate when seen in an international con-

TABLE 1. Trade Relations in Countries of the Former Soviet Union

Trade relations in 2002*		
Country	Main export partners	Main import partners
Armenia	Belgium 21.5%, Russia 14.6%, Israel 10.3%, Iran 9.4%, US 8.2%, Switzerland 6.8%, Germany 6.2%	United States 15.3%, Russia 12.9%, Belgium 12.3%, Iran 10.3%, United Arab Emirates 6.3%, Germany 5.5%, Italy 4.9%
Azerbaijan	Italy 28.7%, Germany 17.7%, Israel 10.6%, France 8.4%, Georgia 6.7%, Russia 4.7%	Russia 17.8%, Turkey 11.9%, Germany 10.7%, France 7%, Kazakhstan 6.3%, China 6%, UK 5.5%, United States 4.5%
Georgia	Turkey 23%, Italy 12.1%, Russia 11.4%, Greece 8.5%, Netherlands 7.5%, Spain 5.9%, Turkmenistan 4.7%, Ukraine 4.3%	Turkey 15.6%, Azerbaijan 11.2%, United States 9.9%, Russia 9.1%, Germany 7.2%, Italy 5.1%, Bulgaria 4.9%, Romania 4.3%, France 4.2%, Ukraine 4.1%
Kazakhstan	Russia 16.2%, Bermuda 12.1%, China 11.3%, Germany 8.8%, Italy 5.5%, Ukraine 4.9%, France 4%	Russia 37.1%, United States 9.3%, China 9.3%, Germany 9.1%
Kyrgyzstan	Switzerland 19.9%, Russia 16.5%, United Arab Emirates 14.2%, China 8.5%, Kazakhstan 7.6%, United States 7.4%, Uzbekistan 5.7%	Kazakhstan 21.1%, Russia 19.9%, Uzbekistan 10.2%, China 10.1%, United States 8.1%, Germany 5.3%
Tajikistan	Netherlands 29.4%, Turkey 16.1%, Russia 11.9%, Uzbekistan 9.9%, Switzerland 9.3%, Hungary 5.4%, Latvia 4.2%	Russia 22.7%, Uzbekistan 18.4%, Ukraine 11.2%, Kazakhstan 10%, Turkmenistan 6.5%, Azerbaijan 5.7%, India 4.4%
Turkmenistan	Ukraine 49.7%, Italy 18%, Iran 13.1%, Turkey 6.2%	Russia 19.8%, Turkey 12.8%, Ukraine 11.7%, United Arab Emirates 10%, US 7.5%, China 6%, Germany 5.7%, Iran 4.4%

(table continues)

TABLE 1. (Continued)

Trade relations in 2002*		
Country	Main export partners	Main import partners
Uzbekistan	Russia 17.7%, Ukraine 11%, Italy 7.6%, Tajikistan 6.8%, Poland 5.1%, South Korea 5%, Kazakhstan 4.5%, United States 4.2%	Russia 22.6%, Germany 9.8%, South Korea 9.4%, Kazakhstan 8.1%, United States 6.9%, Ukraine 6.8%, China 5.2%, Turkey 4.6%

*Source: CIA World Factbook 2003 (updated December 2003).

text. From January to September 2003, Russia's trade with the CIS states registered a 30-percent growth compared with the same period in 2002.⁶⁰ This upturn, however, marked the first substantial rise in Russia-CIS trade volume after years of decline or stagnation. Russian economic expansion started from a relatively low baseline. Russia is still an important trading partner for all states in terms of exports and/or imports. However, as illustrated in table 1, other states have also gained a considerable share and have, in some cases, even replaced Russia as the leading trade partner. Not Russia, but the EU and its member states, are the single most important external trading partner today, and also the largest provider of technical assistance to these countries.

It is also unclear to what extent Russian financial capital is able to compete with other foreign capital in the region, especially in the lucrative markets of the energy-rich Caspian states. Given that oil and gas production in countries such as Azerbaijan, Kazakhstan, and Turkmenistan are expected to increase substantially in future years and decades, Russia will have to increase its investment considerably if it wants to continue to play a role in the region alongside other international investors. However, Russia's involvement in Caspian development in Kazakhstan, Azerbaijan, and Turkmenistan is still fairly minimal when compared to other states and firms. Leading international companies British Petroleum (GB), Chevron Texaco (US), Exxon Mobil (US) and ENI-Agip (Italy).⁶¹ According to Yuri Shafranik, chairman of the board of the interstate oil company SoyuzNefteGaz, Russia would have to invest at least approximately \$1.5 billion every year—the anticipated cost of the projects in Russia's far north—in the three Caspian states to gain an overall market share of approximately 30 percent.⁶²

Theoretically speaking, Russia would now have the means to achieve that strategic objective, if it decided to invest more in the Caspian than in the far north of its own country. Although there has undoubtedly been an increase in activity on the part of major Russian energy companies in the Caspian, Russian companies still prefer to invest in their own country, with the bulk of investment concentrated in Russia's northern territories and Siberia. In addition, international

competition in the Caspian is likely to increase once these countries decide to further liberalize their markets. It can be argued that Russian private capital may currently have an advantage over Western capital in that Russian investors better understand the peculiarities of the post-Soviet markets. However, as post-Soviet states are trying to converge with Western standards and practices of doing business, Russia's advantage in this regard is likely to diminish in the future.⁶³

Prospects for Conflict and Cooperation

The South Caucasus and Central Asia regions have traditionally been arenas of competing regional and global powers. The states within these regions are all relatively weak, and their consolidation remains dependent to a significant degree on their ability to form successful economic, political, and military relations with foreign powers. The fate of the South Caucasus and Central Asia regions is, in important ways, bound to the dynamics of relations among foreign powers. Will the region benefit from a new "Great Gain" stemming from the coordinated policies of foreign powers, mainly Russia and the United States, resulting in greater regional stability, development, and conflict resolution? Or will the region revert to the confrontational pattern of the new "Great Game" marked by regional and global rivalries?⁶⁴

Both Russia and the West are interested in stability, and Moscow and Washington are likely to continue their strategic partnership in the light of security threats emanating from within the region and Afghanistan. At the same time, however, there are signs that Russia's strive for dominance in the southern belt of the CIS is increasingly displacing the potential for cooperation between Russia and Western states, especially the United States.

There is little doubt that competition has intensified in the economic sphere, in the struggle over the region's oil and gas wealth. The United States, heavily dependent on Middle Eastern oil, would like to reduce that dependency through diversification of its sources of supply. Western Europe would like to ease its dependency on Russian gas. While the European Union has stepped up its efforts to engage the countries of the South Caucasus and Central Asia politically and economically,⁶⁵ the United States has also significantly increased its economic and technical assistance.⁶⁶ However, Washington also has managed to establish military-security relations with all the countries in the region except Turkmenistan, which remains officially neutral.⁶⁷ Moreover, both Western European states and the United States continue to support pipeline projects that will carry oil and gas westward, across the South Caucasus and Turkey.

Greater competition for investment and resources is not an unfavorable development as such, since this might actually help the regional states improve the domestic political environment and stimulate economic growth and modernization. The key issue concerning the prospects for cooperation and conflict is the attitude adopted by outside powers in the battle for power and influence, that is, how they employ their means to achieve certain preferred outcomes. The expansion of Russia's big energy companies into the former Soviet space provoked speculation among Western commentators as to whether recent developments are

more driven by economic rationales or an ambitious geopolitical agenda to control the former Soviet space.⁶⁸

Especially worrisome to many observers is that Russia's increased economic engagement has gone hand-in-hand with an extension of its military resources in the region.

The most notable development in this respect is the opening of Russia's first new military base in Kyrgyzstan in October 2003, which hosts approximately twenty Russian aircraft and five hundred troops.⁶⁹ Also, Russia has undertaken efforts toward empowering multilateral security organizations to counterbalance a Western military presence or Western-sponsored regional organization, such as GUAM.⁷⁰ For example, Russia enhanced its relations with Central Asian countries and China by ratifying the Shanghai Cooperation Organization Charter in June 2003.⁷¹ Parallel to this, and more significantly, Moscow created the Collective Security Treaty Organization (CSTO), which is comprised of Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan. At the core of the CSTO is a rapid deployment force that provide an efficient response to strategic problems confronting member states, specifically terrorism and narcotics trafficking.⁷² Moscow's demonstration of its military power in the Caspian through large-scale military exercises, combined with efforts to modernize its naval fleet on the Caspian Sea, are seen as indications that Moscow is prepared to achieve greater control over Caspian energy assets through military means if necessary. One commentator even stated that "it is not a question of if but when such a conflict [over hydrocarbon resources in the Caspian] will occur."⁷³

Although such a scenario cannot be ruled out in the future, it would go against recent trends in Russian policy toward the South Caucasus and Central Asia regions. Moscow's success at regaining some of its influence results precisely from its efforts to normalize ties with its southern neighbors by building relations based on mutual interests and rewards rather than pressure and threats. Even Russia's military build-up in Central Asia is not to be seen as a unilateral move. Although Russia was the focus of concern for the regional states during the 1990s, now Moscow and the leaders in these Muslim-dominated states essentially agree on the nature of new security threats, especially radical Islam, and how to deal with such threats.

A good example is the case of Russia's relationship with Kyrgyzstan. After the two sides agreed on the opening of a Russian military base in Kant, Kyrgyzstan's President Askar Akaev stressed that relations between the two countries continue to develop successfully, mostly on the basis of the security factor. Akaev pointed out that "Kyrgyzstan, like all the countries in the region, has lately faced new threats and security and stability challenges. In 1999 and 2000 we became the target of international terrorists from Afghanistan. Therefore, we always remember that our friends from Russia were the first to help us, and this support then helped us a lot to fight against terrorism."⁷⁴

Although this is not to suggest that Kyrgyzstan and other regional states wish to downgrade their relations with the United States and other outside powers, recent years have seen a qualitative change in their relations with Russia. Admit-

tedly, there is a danger that regional leaders will perceive security cooperation with the United States and its Western allies as beneficial only for such time as Western help is not made conditional on the implementation of democratic changes in their countries, ultimately threatening their authoritarian hold on power. In contrast, Russia's interest in cooperating is unlikely ever to be tied to any condition of internal reform. Thus, whereas Western military presence might not ultimately be permanent, Russia, if only because of its geography, will always remain a security factor that all regional governments have to reckon with.

What does this mean for Western policy toward the South Caucasus and Central Asia? Western policy should not proceed from the assumption that the South Caucasus and Central Asia will develop free from Russian influence or without Russian involvement. This is not to suggest that the West should in any way disregard the sovereignty of the South Caucasian and Central Asian countries or privilege Russia's interests over those of other countries in the region. However, when formulating its policy toward the region, the West must take into consideration the complexities of the situation and the strong dependencies that exist between Russia and its southern neighbors. In this respect, it would be a mistake to base Western policy on any kind of rollback strategy, as advocated by the U.S. government during the 1990s, for instance, since this would only encourage further competition in the present situation. Such a policy would not only antagonize Russia, but more important, it would diminish the foreign policy options of the regional states, as they came under increased pressure to make their choice between the two camps rather than having the freedom to cooperate with all sides.

The major task of the West should be to involve, rather than bypass, Russia in its efforts to engage the states of the region. Although the strengthening of the U.S.-Russian partnership against international terrorism is important, it should not be the sole motivation for cooperation with Russia. Ultimately, the gravest danger in the region comes not from international terrorism but from the fact that almost no progress has been made toward the modernization of state institutions, the economy, and society. It is therefore important for the West to seek Russia's active participation in current and future efforts to encourage the democratization of these states and their integration into global economic and political structures.

NOTES

1. Author's translation. The document was published in *Rossiiskie vesti*, December 25, 1997.

2. The document states: "Threats to the Russian Federation's national security in the international sphere can be seen in attempts by other states to oppose a strengthening of Russia as one of the influential centers of a multipolar world, to hinder the exercise of its national interests, and to weaken its position in Europe, the Middle East, Transcaucasus, Central Asia, and the Asia-Pacific Region." Author's translation from the Russian document published in *Nezavisimoe voennoe obozrenie*, January 14, 2000.

3. Jan S. Adams, "Russia's Gas Diplomacy," *Problems of Post-Communism* 49, no. 3 (May-June 2003): 16-17.

4. Sergei Zhiltsov, "Resources of the Northern Caspian and Russian Policy," *Central Asia and Caucasus* 24, no. 6 (December 2003): 105.

5. Carol R. Saivetz, "Perspectives on the Caspian Sea Dilemma: Russian Policies since the Soviet Demise," *Eurasian Geography and Economics* 44, no. 8 (December 2003): 595.

6. See the interview with Russian Foreign Minister Igor Ivanov, "Igor Ivanov: 'U velikoi energeticheskoi derzhavy est' svoya energicheskaya diplomatiya,'" *Mirovaya energicheskaya politika*, no. 2 (April 2002): 8–9. For further reading, see also James Sherr, *The Contest Between Power & Policy in Russia*, study no. G124 (Camberley: Conflict Studies Research Centre/Royal Military Academy, Sandhurst, August 2003), 5.

7. Peter Rutland, "Paradigms for Russian Policy in the Caspian Region," in *Energy and Conflict in Central Asia and the Caucasus*, ed. Robert Ebel and Rajan Menon (Lanham, MD: Rowman and Littlefield, 2000), 163.

8. Doug Blum and Carol Saivetz, "Fishing in Troubled Waters: Putin's Caspian Policy (Transcript)," working papers, Belfer Center for Science and International Affairs (BCSIA). <http://www.ciaonet.org/conf/bld01/bld01a.html> (accessed May 2, 2001).

9. Michael Lelyveld, "Caspian: Russia Softens Opposition To Baku-Ceyhan Pipeline," *RFE/RL News & Current Affairs*, <http://www.rferl.org/> (accessed March 6, 2001).

10. Vladimir Radyuhin, "Russia's Economic Diplomacy," *The Hindu*, April 27, 2004.

11. See also Rosaria Puglisi, "The 'Normalisation' of Russia Foreign Policy: The Role of Pragmatic Nationalism and Big Business," in *Security Dynamics in the Former Soviet Bloc*, ed. Graeme P. Herd and Jennifer D. P. Moroney (London: Routledge Curzon, 2003), 63–79.

12. See, for instance, Yeltsin's address to both houses of parliament in February 1998, where he called explicitly for a further "economizing of Russian foreign policy." *Poslanie Prezidenta Rossiiskoi Federatsii Federal'nomu Sobraniyu. Obshchim silam – k podemu Rossii*. Moscow, February 17, 1998. Further on this subject, see Hans-Hermann Höhmann and Christian Meier, *Russlands "Ökonomische Sicherheit" in europäischer Perspektive*, Berichte des Bundesinstituts für ostwissenschaftliche und internationale Studien, 32 (Cologne: Bundesinstitut für ostwissenschaftliche und internationale Studien, 1998), 10.

13. Radyuhin, "Russia's Economic Diplomacy"; Catherine Belton, "Russia Revising Great Game Rule Book," *Moscow Times*, April 15, 2004.

14. See also Janusz Bugajski, "Russia's New Europe," *National Interest*, no. 74 (Winter 2003–04): 84–91.

15. Theresa Sabonis-Helf, "Competition in the Caspian: Its Implications for Energy Security and Regional Security," paper presented at the Central Eurasian Studies Society Fourth Annual Conference, Harvard University, October 2–5, 2003.

16. For information on RAO UES, visit the company's Web site at <http://www.rao-ees.ru/ru> (accessed February 18, 2005).

17. For information on Gazprom, visit the company's Web site at <http://www.gazprom.ru> (accessed February 18, 2005).

18. For information on LUKoil, visit the company's Web site at <http://www.lukoil.ru> (accessed February 18, 2005).

19. For information on Transneft, visit the company's Web site at <http://www.transneft.ru> (accessed February 18, 2005).

20. Yuri Shafranik, "Neftyanaya ekspansiya v SNG," *Mirovaya energicheskaya politika*, no. 5–6 (July–August 2002): 56–62.

21. Kathleen Knox, "CIS Debt: Another Tie Binding Commonwealth of Independent States Together," *RFE/RL Weekday Magazine*, <http://www.rferl.org/> (accessed November 13, 2002).

22. Zeyno Baran, "Deals Give Russian Companies Influence Over Georgia's Energy Infrastructure," *Eurasia Insight*, <http://www.eurasianet.org/> (accessed August 18, 2003); EIA Caucasus Region Country Analysis Brief, December 2004, <http://www.eia.doe.gov/emeu/cabs/caucasus.html> (accessed February 18, 2005); United Energy Systems of Russia (UES) Annual Report 2003 (chapter 6.4.4.), <http://www.rao-ees.ru/en/business/report2003/> (accessed February 18, 2005).

23. Martha Brill Olcott, *Kazakhstan: Unfulfilled Promise* (Washington, DC: Carnegie Endowment for International Peace, 2002), 135.

24. Chubais quoted from Alla Startseva, "UES Looking to Move Into Ex-USSR Power," *St. Petersburg Times*, September 9, 2003.

25. Mamuka Tsereteli, "Russia Close to Regaining Control Over Strategic Georgian Assets," *Central Asia-Caucasus Analyst*, <http://www.cacianalyst.org/> (accessed September 11, 2002).

26. Baran, "Deals Give Russian Companies Influence."

27. "RAO UES to take part in privatization of Turkish energy grids," *Russia Journal*, <http://www.russiajournal.com/news/cnewswire.shtml?nw=43511#n43511> (accessed April 27, 2004).

28. For an overview, see Saivetz, "Perspectives on the Caspian Sea Dilemma," 588–606.

29. Sergei Blagov, "Russo-Azerbaijani Deal on Caspian Encourages Putin's Ambitions," *Business & Economics*, <http://www.eurasianet.org/> (accessed September 25, 2002).

30. John Wright, "Russia, Georgia Bidding Farewell to Quid pro Quo," *ISN In Depth Article*, <http://www.isn.ethz.ch/news/sw/details.cfm?ID=8863> (accessed February 18, 2005); Joseph Stroupe, "Strategic Squeeze Over Caspian Resources," *Asia Times Online*, http://www.atimes.com/atimes/Central_Asia/FE11Ag01.html (accessed May 11, 2004).

31. "Kazakhstan: Putin, Nazarbaev Sign Oil, Gas Agreements," *RFE/RL Weekday Magazine*, <http://www.rferl.org/> (accessed June 8, 2002).

32. Michael Lelyveld, "Kazakhstan: Deal Brings Astana Closer to Europe's Gas Markets," *RFE/RL Weekday Magazine*, <http://www.rferl.org/> (accessed May 24, 2002).

33. For an overview on Kazakhstan, see the report "Kazakhstan" by the U.S. Government Energy Information Administration (EIA), Washington, DC, <http://www.eia.doe.gov/emeu/cabs/kazak.html> (accessed July 2003).

34. Cited from: "Lukoil President Appointed to Foreign Investment Council in Kazakhstan," *Russian Press Releases*, <http://www.capitallinkrussia.com/press/companies/50010142/25700.html> (accessed December 4, 2003).

35. Igor Torbakov, "Russian-Turkmen Pacts Mark Strategic Shift for Moscow in Central Asia," *Eurasia Insight*, <http://www.eurasianet.org/> (accessed April 15, 2003).

36. The initial price was set at US \$44 per cubic meter, whereby half of the amount is to be paid in barter. In December 2004, however, Turkmenistan re-negotiated the quantities and prices of its natural gas exports to Russia and to Ukraine. While all sides so far agreed on a substantial rise in the volume of Turkmen gas to be exported, as of early January 2005, only Ukraine agreed on a rise in price from US \$44 to US \$58 per thousand cubic meters. Gazprom announced it would continue to pay US \$44. See "Turkmenistan, Ukraine Agree on Gas Price, Talks with Russia Continue," *MosNews*, 3 January 2005, <http://www.mosnews.com/news/2005/01/03/turkgas.shtml> html (accessed February 18, 2005); EIA Caspian Sea Region Country Analysis Brief, December 2004, <http://www.eia.doe.gov/emeu/cabs/caspian.html> (accessed February 18, 2005).

37. *RIA-Novosti News Agency*, April 15, 2004.

38. "Lukoil, Uzbekistan Prepare Gas Document," *Interfax*, April 19, 2004.

39. "Kyrgyzstan and Tajikistan Sign New Deals With Gazprom," *Alexander's Gas and Oil Connections* 8, no. 13 (June 2003), <http://www.gasandoil.com/>; Marika S. Karayanni, "Russia's Foreign Policy for Central Asia Passes Through Energy Agreements," *Central Asia and Caucasus*, 22 no. 4 (August 2003): 90–96.

40. Hamid Toursunof, "Kyrgyzstan Inks a Deal With Russia's Gazprom: Is Russian Influence Growing Again in Bishkek?" *Transitions Online*, http://licas.org/libr_en/kg/ (accessed June 2, 2003).

41. Today the EurAsEC comprises Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. Moldova and Ukraine have observer status in the EurAsEC.

42. The SES includes Russia, Ukraine, Belarus, and Kazakhstan. See the following paragraphs for more information on the SES.

43. CACO, founded in 1994 as the Central Asian Economic Cooperation Organization, provides a framework for addressing regional and cross-border issues, such as the sharing of water and energy resources. The group now includes Kazakhstan, Kyrgyzstan, Uzbek-

istan, and Tajikistan. Reclusive Turkmenistan remains the only Central Asian state not to become part of the organization. The decision to create a regional common market and free-trade zone was taken as the Central Asian heads of states met in the Kazakhstan's capital, Astana, in late May 2004, where they also made the decision to accept Russia as a new member. See Sergei Blagov, "Russia: Yet Another Central Asian State," *Asia Times Online*, http://www.atimes.com/atimes/Central_Asia/FF03Ag01.html (accessed June 3, 2004).

44. Radyuhin, "Russia's Economic Diplomacy."

45. Victor Khristenko, "Making Headway to Integration," *Russia in Global Affairs*, no. 1 (January–February 2004), http://eng.globalisation.ru/live/archive.asp?issue_id=5157. (accessed February 18, 2005).

46. Iran Kobrinkaya, "The Multispeed Commonwealth," *Russia in Global Affairs*, no. 1 (January–February 2004), <http://eng.globalisation.ru/live/archive.asp>. (accessed February 18, 2005).

47. Khristenko, "Making Headway to Integration."

48. Kobrinskaya, "The Multispeed Commonwealth."

49. Karimov quoted from Igor Torbakov, "Economic Clout Gives Russia Growing Power in the CIS," *Eurasia Insight*, <http://www.eurasianet.org/> (accessed December 4, 2001).

50. World Bank, *Russian Economic Report VII* (Moscow: Russia Country Department, February 2004), <http://www.worldbank.org.ru/>; The World Bank, *From Transition to Development: A Country Economic Memorandum for the Russian Federation* (Moscow: Poverty Reduction and Economic Management Unit Europe and Central Asia Region, April 2004, draft), i.

51. World Development Indicators 2004, <http://www.worldbank.org/data/wdi2004/worldview.htm>.

52. The World Bank, *Country Brief: About the Russian Federation—2003* (Moscow: Russia Country Office, September 2003), <http://www.worldbank.org.ru/> (accessed February 18, 2005).

53. Vladimir Popov, "The Political Economy of Growth: Why Russia will not be the next 'Asian Tiger,'" paper presented at the international conference in Dundee on "Russian Politics under Putin," organized by the Department of Politics at the University of Dundee, May 17–29, 2002.

54. See, for example, Eugene B. Rumer and Celeste A. Wallander, "Russia: Power in Weakness?" *Washington Quarterly* 27, no. 1 (Winter 2003–04): 57–73.

55. The idea of creating a "Eurasian gas alliance" was first introduced by Putin on the occasion of his meeting with Turkmen President Saparmurat Niyazov in January 2002.

56. Michael Lelyveld, "Moscow Promoting CIS Integration through Gas Alliance," *RFE/RL Weekday Magazine*, <http://www.rferl.org/> (accessed June 21, 2002).

57. Ibragim Alibekov, "While Russia Watches, Kazakhstan and Azerbaijan Explore New Ties," *Eurasia Business & Economics*, <http://www.eurasianet.org/> (accessed March 3, 2004).

58. The presidents of the four countries, which make up 94 percent of the entire GDP of all CIS states and account for 88 percent of the total volume of trade among all CIS members, signed the relevant treaty on September 19, 2003, at Yalta. (See Tat'yana Rybakova, "Malenkaya globalizatsiya: Edinoe ekonomicheskoe prostranstvo stran SNG poyavitsya osen'yu," *Izvestiya*, April 9, 2003). By late April 2004, the national parliaments of Russia, Ukraine, and Kazakhstan had ratified the treaty, and Belarus was expected to follow soon after. See Askold Krushelnycky, "CIS: Russian, Ukrainian, Kazakh Parliaments Ratify Treaty On Single Economic Space," *RFE/RL Feature Article*, <http://www.rferl.org/> (accessed April 21, 2004).

59. The Russian text of the treaty ("Soglashenie o formirovani edinnogo ekonomicheskogo prostranstva") is available at <http://www.president.kremlin.ru/text/docs/2003/09/52478.shtml> (Accessed February 18, 2005).

60. Kobrinskaya, "The Multispeed Commonwealth."

61. For an overview of the participation of foreign companies in the Caspian Sea

region's leading upstream foreign investment projects, see the report on the "Caspian Sea Region" by the U.S. Government Energy Information Administration (EIA), Washington, DC, <http://www.eia.doe.gov/emeu/cabs/caspian.html> (accessed August 2003).

62. Shafranik, *Neftyanaya ekspansiya v SNG*, 56.

63. Kobrinkaya, "The Multispeed Commonwealth."

64. See Richard Giragosian, "The South Caucasus: After Elections 2003," *Russia and Eurasia Program, Caucasus Election Watch Series*, <http://www.resdal.org.ar/body/giragosian.html> (accessed November 12, 2003).

65. The European Union considers the Central Asian countries "of strategic importance to Europe" and Brussels has indicated that EU enlargement will allow a further strengthening of political and economic ties with the region. See "Commissioner Patten to visit Central Asia," *EuropaWorld*, <http://www.europaworld.org/week168/commissionerpatten12304.htm> (accessed March 12, 2004). In the case of the South Caucasus, the European Union has underlined its interest by considering the inclusion of the three states in its European Neighborhood Policy, which would mean a larger EU role in the region in the future but would also involve privileges and obligations for the members. See http://europa.eu.int/comm/world/enp/index_en.htm.

66. On U.S. policy toward Europe and Eurasia, see the Web site of the U.S. Department of State, Bureau of European and Eurasian Affairs, <http://www.state.gov/p/eur/>.

67. In late 2003, the United States had about a thousand troops on the ground in Uzbekistan, and some seven hundred personnel stationed in Kyrgyzstan. In early 2002, Washington sent some two hundred military advisors to Georgia. The U.S. government also struck a deal with Tajikistan and Kazakhstan on overflight rights and signed a major security assistance agreement with Azerbaijan in spring 2002. See "U.S.-Azerbaijan Program Launched," *Jamestown Foundation Fortnight in Review* 8, no. 8 (April 2002), <http://www.jamestown.org/>. Moreover, negotiations between Washington and the governments of Tajikistan, Kazakhstan, and Azerbaijan suggest that they would be inclined to support a direct U.S. military presence if it brought attendant economic benefits. The Pentagon is also said to have held secret military negotiations with Armenia, Russia's closest ally in the South Caucasus. See Jaquelyn K. Davis and Michael J. Sweeney, *Central Asia in U.S. Strategy and Operational Planning: Where Do We Go from Here?* (Washington, DC: Institute of Foreign Policy Analysis, February 2004), 51–53.

68. See, for example, Stephen Blanck, "Benign Hegemony? Russia's Grand Delusion," *Perspective* 14, no. 1 (October–November 2003): 2–6.

69. *ITAR-TASS News Agency*, October 20, 2003.

70. GUAM was created in 1997, and is composed of Georgia, Ukraine, Moldova, and Azerbaijan. Uzbekistan joined the organization in spring 1999 but left it three years later.

71. *The Military Balance 2003/2004* (London: International Institute for Strategic Studies, 2003), 87. The Shanghai Cooperation Organization consists of Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and, since June 2001, Uzbekistan.

72. The CSTO is an outgrowth of the relatively ineffective 1992 CIS Treaty on Collective Security. The treaty, signed in Tashkent in May 1992, was initially joined by all CIS states with the exception of Turkmenistan (the Baltic states were never members of the CIS). By the end of the 1990s, Georgia, Azerbaijan, and Uzbekistan left the treaty, and Kazakhstan and Kyrgyzstan were scaling down their participation considerably. The CSTO was inaugurated at a summit on April 28, 2003. Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan formally signed the treaty. The bulk of the organization's attention and resources was to be initially concentrated in Central Asia, with the rapid deployment force of a planned contingent of some five thousand men stationed at the Russian military facility at Kant.

73. Mehrdad Haghayeghi, "The Coming of Conflict to the Caspian Sea," *Problems of Post-Communism* 50, no. 3 (May–June 2003): 32.

74. Cited from *ITAR-TASS News Agency*, October 20, 2003.