

## A New Direction for U.S. Policy in the Caspian Region

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## SUMMARY

- With Washington's influence on the Caspian region at its lowest ebb in many years, the Obama administration could reverse this trend with a new approach that accepts Russia's presence and China's interest as historical and geographical givens and emphasizes short- and medium-term problem solving in multilateral and bilateral settings instead of long-term political and economic transformations.
- The United States can accomplish more in the Caspian region by focusing on military reform and building security capacity than on forming military alliances.
- The United States should switch from a multiple pipeline strategy to a policy that advances competition by promoting market pricing for energy producers, consumers, and transit states.
- The United States could facilitate the introduction of renewable sources of energy as a stimulus to economic recovery and a source of enhanced social security.
- The United States should develop a nuanced strategy that encourages political development through social and educational programs and local capacity building.
- The Obama administration should name a high-level official as a presidential envoy to this region.

Every American president since 1992 has claimed that engaging the Caspian states is a strategic priority for the United States. The region is home to vast unexploited oil and gas reserves and is an important staging area for the U.S. military in Afghanistan. Yet Washington's influence in the region is at its lowest ebb in many years.

The Obama administration could reverse this trend with a new approach that accepts Russia's presence and China's interest as historical and geographical givens and advances U.S. strategic objectives by putting more emphasis on short- and medium-term problem solving in multilateral and bilateral settings and less emphasis on long-term political and economic transformations.

Since the mid-1990s, U.S. policy in the Caspian has been primarily shaped by three desires: to keep Moscow from overwhelming its weaker neighbors, to prevent Iran from gaining any kind of economic or geopolitical advantage in the region, and to slow the pace of China's economic penetration. Since 2001, Washington has also tried to use the Central Asian states to jump-start Afghanistan's economic recovery, often at the expense of their best economic interests.

These policies have done little to advance U.S. interests in the region. Central Asian and Caucasian leaders frequently feel caught in a struggle between great powers. They don't like what they see as Moscow's pushiness, but neither



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are they happy with Washington's emphasis on democratic institution building, neither understanding nor trusting the kinds of political changes that the United States would have them make.

Nor do they like the security choices they have been offered. The Collective Security Treaty Organization (Russia, Armenia, Tajikistan, Kazakhstan, Kyrgyzstan, and, since 2006, Uzbekistan), is more in evidence today than ever before. Engagement by the United States, European Union (EU), and North Atlantic Treaty Organization (NATO) has enhanced the ability of these countries to protect their national borders, but has not yet rendered them equal to the growing tasks they face. Terrorist groups are as at home in south Asia as they were just before the 2001 attack on the World Trade Center, although al-Qaeda camps have at least shifted eastward, farther away from Central Asia's borders. Drug trafficking is at an all-time high.

Regional leaders became even more wary of U.S. engagement after Georgia's conflict with Russia in August 2008, which many blame on a U.S. policy that gave Georgia's president Mikhail Saakashvili false expectations that Washington would come to his defense if he sought to reassert control over South Ossetia or Abkhazia.

Russia is also using its "success" in Georgia to further consolidate its domination of Caspian oil and gas transit routes. Moscow is trying to turn Azerbaijan away from the United States and EU by suggesting that Russia might recognize Azerbaijan's control of Armenian-occupied territories that adjoin the disputed region of Karabakh. If Russia resolves the conflict between Azerbaijan and Armenia, it could integrate Azerbaijan's gas industry into its own, gaining even greater control over energy supplies to Europe. That would slow even further the development of new, independent pipelines for Caspian energy.

Collectively, the Caspian region's gas reserves may even surpass Russia's. But after a decade of U.S. support for pipelines that bypass Russia, the eastern Caspian countries (Kazakhstan and Turkmenistan) still have limited options: either go west through Russia or east through China.

The new administration must find new ways to advance U.S. security interests in the Caspian

region, embracing an approach that provides opportunities for local elites and leaders to broaden their options by closer engagement with Washington, in ways that do not antagonize either Russia or China. U.S. policy can do this by focusing on five important building blocks.

### **1) THE UNITED STATES CAN ACCOMPLISH MORE BY FOCUSING ON MILITARY REFORM AND BUILDING SECURITY CAPACITY THAN ON FORMING MILITARY ALLIANCES.**

Georgia's failed military campaign to recapture South Ossetia ended any realistic chance of bringing that territory, or Abkhazia, back under Georgian control. Whether or not Russia goaded Georgia into attacking Tskhinvali, Georgia's military overestimated its ability to gain control of this territory and underestimated Russia's military response.

The crisis underscores the wisdom of NATO's traditional approach to expansion: as a first condition, members must control the territories within their internationally recognized borders. NATO's priority should be continuing engagement with Georgia, Ukraine, and other interested Commonwealth of Independent States (CIS) states to help them develop the military forces appropriate to their individual security needs. This would leave these countries free to work closely with NATO and to accept military aid for Russia or China, hopefully making both those powers less eager to foist unwanted assistance on these countries.

The United States would benefit from a resolution of the dispute between Azerbaijan and Armenia, and Washington should welcome efforts by Russia to facilitate this outcome, within and outside the Organization for Security and Co-operation in Europe's (OSCE) Minsk group. Resolution of this conflict would eliminate opposition by U.S.-based, pro-Armenian groups to offers of basing rights by Azerbaijan, which would put U.S. forces near Iran's border and within easy reach of Afghanistan.

The eroding security situation in Afghanistan, coupled with uncertainty over Pakistan's reliability as an ally, argue for increasing U.S. military cooperation with all interested Caspian states. This includes Washington's former partner,

Uzbekistan, where the United States was evicted from its airbase as part of the fallout from Tashkent's brutal suppression of demonstrations in Andijan after local authorities were forcibly ousted from the center of the city in May 2005. Using commercial convoys to move NATO military supplies and humanitarian assistance across Uzbekistan and Tajikistan may appease U.S. critics of military cooperation with nondemocratic states. But it is slower, far more costly, and does not provide the range of support that NATO's forces in Afghanistan need.

The United States cannot become a party to human rights abuses, but military reform in Uzbekistan is in the U.S. interest, because increasing the military's adherence to the rule of law should make it easier to pursue political reform more broadly. Closer U.S. military engagement with Tashkent is critical to NATO success in Afghanistan, given the strategic location of that country.

## **2) THE UNITED STATES SHOULD SWITCH FROM A MULTIPLE PIPELINE STRATEGY TO A POLICY THAT ADVANCES COMPETITION BY PROMOTING MARKET PRICING FOR ENERGY PRODUCERS, CONSUMERS, AND TRANSIT STATES.**

For over fifteen years, the United States has expended enormous diplomatic effort to press for the development of oil and gas pipelines that would bypass Russia, a policy that has antagonized Russia without relieving most Caspian energy producers of their dependence upon Russia to transport their products.

The one success of this policy is the opening of new pipelines linking Azerbaijan (through Georgia) with Turkey's Mediterranean coast through the Baku–Tbilisi–Ceyhan (BTC) oil pipeline and the Baku–Tbilisi–Erzerum (BTE). These are of great benefit to Azerbaijan and provide transit income to Georgia. But they allow only limited transit options for Kazakh oil, and no new options for gas from Kazakhstan or Turkmenistan, both of which are on the eastern side of the Caspian Sea. This is also bad news for southern Europe, which must have the extra volume of gas running through BTE if they are going to build the EU-supported Nabucco pipeline, as U.S. sanctions effectively preclude

shipping Turkmen and Kazakh gas overland to Turkey through Iran.

The increased bargaining power of the Central Asian states owes more to the entry of China into the market than to the opening of BTC and BTE. Russia's offer to pay higher purchase prices for Central Asian gas in 2008 and 2009 came only after China signed a long-term purchase agreement for Turkmen gas at a base price that was higher than what Moscow was offering.

The interruption of gas sales from Russia to Europe in December 2008 and January 2009 is certain to revive talk of the need for alternative

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pipeline routes to Europe. But these alternative routes will be even harder to develop in this period of global recession, when demand is uncertain and low energy prices double and triple the expected payback period of costly pipeline projects.

Even under the best-case scenarios, new pipelines are still years away. Oil moving from Kazakhstan to Azerbaijan by freighter will increase to 500,000 barrels a day, but not until the very end of 2012, at the earliest. Small connectors between off-shore gas deposits in the Azerbaijani and Turkmen portions of the Caspian could move between 8 to 10 bcm (billion cubic meters) of gas per year, but not before 2015. And supporters of the U.S.–backed TransCaspian (undersea) pipeline admit it would not be likely to become operational until 2018 or 2020.

There may be sufficient gas developed in the next ten to 20 years to fill new alternative routes, but for the moment Russia and China have bought up, and are the only ones able to ship, the existing supply of gas. Russia plans to use Central Asian gas to meet European demand, and has more incentive to do this now that lower oil prices make development of Russia's own fields prohibitively expensive. China's position has also been enhanced. Beijing has signed a long-term supply agreement with Turkmenistan, which provides an improved price structure for gas delivered to the Chinese border through a new 30–40 bcm pipeline that will pick up additional gas in Uzbekistan

and Kazakhstan along the way. Because China is the sole customer for this gas, the Turkmens are concerned that the price will drop when the supply for these pipelines has been secured.

Energy income is critical to Caspian states, and U.S. policy should emphasize helping them maximize it during this period of global economic crisis. All of these states face the risk of short-term social unrest, and the prospects for long-term economic diversification have diminished. Plummeting energy prices are causing sharp drops in projected revenues in Kazakhstan and Azerbaijan, leading both governments to spend down national funds to cover budget shortfalls instead of financing projects of economic diversification. A prolonged period of lower global oil

heat) during daylight hours in winter, because officials limit gas purchases from Uzbekistan to protest high prices, and there are similar outages in Uzbekistan, because the Russian purchase price is four times what Uzbek customers pay. Subsidized gas prices have served as a gift for unreformed industries and have hampered the development of new energy-efficient and globally competitive economic sectors, hurting the quality of life in these countries more than low utility prices have helped it.

Most of the work necessary to introduce commercial energy prices will have to be done by Europe and Russia in the context of the EU–Russia energy dialogue. Russia, Kazakhstan, and Uzbekistan are all in the process of moving toward market pricing, and Ukraine, Kyrgyzstan, and Tajikistan are being forced by circumstances to do so as well. They all need encouragement to do so more quickly.

U.S. technical assistance should focus on helping these governments and their private sectors develop projects that make energy consumption more efficient in the commercial and domestic sectors. There is earmarked funding from the Asian Development Bank for Renewable Energy and Energy Efficiency and the World Bank's Global Environment Facility that is not being dispersed because of the lack of fundable projects. The United States should also exert pressure on the International Monetary Fund (IMF) to make sure that any new financial stabilization packages for the CIS countries facilitate the transition to commercial prices. The international financial institutions could do this by permitting increased social spending to cope with higher domestic energy prices, or better still, by offering discounted lending for projects that facilitated this transition.

### **3) THE UNITED STATES COULD FACILITATE THE INTRODUCTION OF RENEWABLE SOURCES OF ENERGY AS A STIMULUS TO ECONOMIC RECOVERY AND A SOURCE OF ENHANCED SOCIAL SECURITY.**

Even before the collapse of the Soviet Union, Central Asia faced an acute water shortage, and water levels have been steadily dropping since. The headwaters of the region's rivers are found in

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prices would slow the pace of western investment in Central Asian projects, further reducing their potential revenues.

The introduction of market-based pricing for producers, consumers, and transit states alike is the best way to achieve energy security for U.S. allies in Europe and the only long-term guarantee that the Caspian states will be fairly treated in the global market.

There is a positive side to lower energy prices; it lowers the gap between local energy prices and those paid in European and Asian markets. The United States should support efforts by Russia and the producing states in the Caspian as well as their various CIS customers to end domestic subsidies in the energy sector, which are a major cause of these price differentials. No one wins from these differentials.

Twice gas shipments between Russia and Ukraine have been stopped in the dead of winter because of the absence of a transparent price structure, causing major dislocations all the way down the European supply chain. For years consumers outside of the capital cities in Kyrgyzstan and Tajikistan have lacked electricity (and often

the high mountains of Kyrgyzstan, Tajikistan, and Afghanistan, and then pass through Uzbekistan, Turkmenistan, and Kazakhstan. Spring melts provided water for irrigated agriculture and electricity in spring and summer, and in Soviet times heavily subsidized gas was used in all the countries for electricity and heating the rest of the year. A USSR state agency issued water quotas for each republic. High-level international efforts to establish a new long-term Central Asian water management system have been unsuccessful.

Angry that they must now pay steadily rising prices for gas, Kyrgyzstan and Tajikistan have sought international sponsors to complete massive hydroelectric projects, some of which would be of substantial benefit to Afghanistan. If funded and completed, they would give these countries major export capacity for electricity as well as enough to meet domestic needs. But critics fear these dams will reduce the amount of water available for irrigation.

The United States could use its technical assistance projects to work in a low-key manner

with each country to help them to identify how they can better use renewable energy sources to meet their own energy needs without threatening its neighbors or endangering the existing water

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supply. This approach would be a critical supplement to the high-profile efforts by the World Bank and would help build the confidence necessary to gain regional support for larger hydroelectric projects. This approach also might make it easier to find commercial partners for them.

Central Asian states are potentially rich sources of solar, wind, and bio-energy. Low-head dams on the small rivers and run-of-the-river projects on the large ones could also provide electricity with low environmental impact.

Russian Oil and Natural Gas at a Glance



By combining two or more renewable energy sources, most communities could create reliable access to electricity.

Renewable energy projects would create major economic opportunities in rural and even remote areas, increasing the employment of women (in small home and agricultural-based enterprises), bringing electricity back to schools to improve the quality of instruction. Renewable energy

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projects also would create new sources of clean water and improved water usage, and allowing health care delivery systems to be re-introduced in many communities that have lost them.

There is no production of renewable energy systems in the region, and imported goods are subject to tariffs and substantial transport costs. Most Caspian countries welcome technical assistance to develop renewable energy, to prepare legislation necessary to secure its economic viability, and to help attract foreign investment and technology to support local production.

There is much the United States can do to facilitate this. The U.S. Department of Energy and the National Renewable Energy Laboratory should include the Caspian as a priority region. Funding for the Initiative for Proliferation Prevention Program projects in Central Asia should be increased, since most of the former Soviet-era nuclear research institutes and scientists left in the region are working on topics related to renewable energy. The Department of Commerce's BISNIS (Business Information Service for the Newly Independent States) should target U.S. businesses in the region for potential joint-venture investments, and the United States Agency for International Development (USAID) should provide legal and technical assistance grants to projects in this area.

### **4) THE UNITED STATES SHOULD DEVELOP A NUANCED STRATEGY THAT ENCOURAGES POLITICAL DEVELOPMENT THROUGH SOCIAL**

### **AND EDUCATIONAL PROGRAMS AND LOCAL CAPACITY BUILDING.**

Over the last 20 years, a few Caspian states (Georgia and, to a degree, Kazakhstan) have progressed toward becoming democracies, while others (Uzbekistan, Turkmenistan, and even Azerbaijan) are farther away than they were in the waning days of the USSR. Only Georgia has transferred power to a new generation of leaders in anything approximating a democratic process. Elections in Armenia and Tajikistan have become less competitive over time. The media is controlled in Uzbekistan and Turkmenistan, and under increasing pressure in Azerbaijan, Kyrgyzstan, and Tajikistan.

All the Central Asian countries are strong presidential systems. Although Kazakhstan and Kyrgyzstan have transferred more power to their legislatures in recent years, even they remain weak. Only Kazakhstan is making a serious effort to develop a professional judiciary, and it is still far from independent.

The United States must adapt its policies to the evolving nature of these polities, if it wishes to retain its influence and preserve any prospect of democratic transitions occurring in the next few decades.

U.S.-supported programs for nongovernmental organizations (NGOs) and opposition parties in Central Asia have been valuable, but none of these parties have developed a capacity to govern, and many opposition groups have no better understanding of democratic principles than do the governments they oppose. These groups should not, therefore, be the exclusive recipients of U.S. training. Democracy assistance should be extended more to the grassroots level and should include work with progovernment as well as opposition groups and parties.

The United States needs more presence at the grassroots level, especially if it hopes to increase its leverage in Central Asia's most autocratic states—Tajikistan, Turkmenistan, and Uzbekistan (all of which border Afghanistan)—since this will help create a U.S. presence in rural areas.

Washington should continue to press these states hard to respect the rights of all religious minorities, including nonviolent Islamists. But the flawed human rights policies of countries like

Uzbekistan and Turkmenistan should not lead to the introduction of sanctions (at the recommendation of USCIRF—the U.S. Commission on International Religious Freedom) that prevent the United States from working with these states to promote democratic and secular values.

Central Asia and Azerbaijan are witnessing a new awakening of interest in religious tradition and much greater contact with the global Islamic community, including its most radical elements. Unfortunately, state schools are deteriorating rapidly, especially in rural areas. Schools frequently lack suitable textbooks and teachers capable of teaching mandated subjects, such as foreign languages. Worse yet, many schools are unheated and lack electricity for almost eight months a year. Poorer families often choose to keep children at home or send boys to study with mullahs in heated buildings, which are generally paid for by local sponsors or through small donations by the families themselves.

The United States offers virtually no assistance to address this problem, and World Bank education priorities also lie elsewhere. If more resources are not devoted to improving public education, then the next generation of rural youth will at best have only a faint understanding of secular values and, at worst, could become indoctrinated jihadists.

The United States can organize international efforts on this issue, developing programs using renewable and other localized energy sources for schools. It should also support projects expanding the use of the Internet and electronic textbooks to supply otherwise unavailable resources in local and international languages (especially Russian and English). Enhanced school facilities could be used in the evenings for Internet-based programs for retraining adults—an area in which the United States and Russia could cooperate. Such programs are of increasing importance as transient, unskilled workers are sent home to face unemployment because of contracting labor markets in Russia and Kazakhstan. This is an area of potential synergy between U.S. and Russian interests, and Washington should try to get Moscow to engage with the United States directly in this effort.

#### **5) THE OBAMA ADMINISTRATION SHOULD NAME A HIGH-LEVEL OFFICIAL AS A PRESIDENTIAL ENVOY TO THIS REGION.**

This official needs to be senior enough to win the trust of regional leaders, such as a senior National Security Council officer or an assistant secretary of state. This official should facilitate interdepartmental and interagency cooperation so that the region's leaders are not sent conflicting messages from within the administration and the limited pool of foreign assistance dollars is matched with priority projects and augmented through more public-private initiatives and better integration of bilateral and multilateral international efforts.

The creation of this new position would increase the effectiveness of U.S. policy and underline the region's importance to the Obama administration. The EU has a senior diplomat who serves as its special envoy, China's leaders have direct high-level engagement with Central Asian officials through the Shanghai Cooperation Organization, while Russia's president, prime minister, and foreign and defense ministers meet several times a year with their Caspian counterparts.

The new presidential envoy would be expected to represent the United States in regular consultations with EU and Asian colleagues and to maintain a policy dialogue on Caspian questions with both the Russians and the Chinese. The security and fates of the states of this region must be decided from within, but is facilitated through a broad policy dialogue in which all interested international actors can participate.

This new approach to the Caspian states would enhance U.S. national security. It would also help improve the lives of the people of these countries and make them more likely to embrace the political and economic values that prompt the United States to international engagement. ■

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## RESOURCES

Visit [www.CarnegieEndowment.org/pubs](http://www.CarnegieEndowment.org/pubs) for these and other publications.

**Turmoil in Central Asia**, Martha Brill Olcott and Johannes Linn, *Wall Street Journal*, August 12, 2008, <http://carnegieendowment.org/publications/index.cfm?fa=view&id=20376&prog=zgp,zru>.

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