



# Two Caspian Sea Resource Rich Countries Encounter the East-West Rift: A Comparative Analysis of the Foreign Policy Objectives of Turkmenistan and Azerbaijan in a Turbulent Region

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Two Caspian Sea Resource Rich Countries Encounter the East-West Rift:  
A Comparative Analysis of the Foreign Policy Objectives of Turkmenistan and  
Azerbaijan in a Turbulent Region.

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A Thesis in the Field of Government  
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## Abstract

This study examines the foreign policy decisions of Turkmenistan and Azerbaijan in the complex international relations environment of the Caspian Sea region.

Specifically, this investigation attempts to answer how regional and global international relations are affected due to the decisions made by these two small energy-rich Caspian Sea countries straddling the saltwater basin. Additionally, Russia has demonstrated that it considers the Russian near abroad to be under its sphere of influence and the future plans that Moscow may have for the region are uncertain. China, the West, Kazakhstan, Turkey, Iran, India, Israel, and Georgia all play a role too, and from this cauldron of interests the leaders of the two Caspian Sea countries must choose their path.

Turkmenistan and Azerbaijan are playing delicate balancing acts within their increasingly complex foreign affairs environments. Moreover, each of these two countries is slowly moving in an opposite direction, Turkmenistan is meandering to the East while Azerbaijan continues to look to the West with certain caveats. Conflicting goals of global and regional powers make missteps dangerous. A complex model including variables of identity, geography, resource, and legacy path dependency explains the actions of west-facing Azerbaijan and isolated Turkmenistan. Thus far Turkmenistan has ably negotiated to improve its circumstance as it drifts towards China. Azerbaijan is in a more precarious position and a future conflict is a possibility.

## Dedication

To Mom and Dad, without your support I could not have done this.

## Acknowledgements

I would like to give my most profound gratitude to the community of experts, dedicated professionals, and long-suffering supporters that have guided and assisted me throughout my thesis work. My thesis director in particular, Timothy Colton, the Morris and Anna Feldberg Professor of Government and the Chairperson of the Department of Government at Harvard University, has inspired me to pursue truth over all else.

Additionally, I would like to thank Donald Ostrowski, an Associate at the Davis Center for Russian and Eurasian Studies, for his guidance throughout this long process.

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## List of Abbreviations

CIS	Commonwealth of Independent States
EEC	European Economic Community
EEU	Eurasian Economic Union
ENP	European Neighborhood Policy
EP	Eastern Partnership
EU	European Union
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GDP	Gross Domestic Product
IADS	Integrated Air Defense System
IMF	International Monetary Fund
LNG	Liquefied Natural Gas
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
SCPX	Southern Caucasus Pipeline Expansion
SCO	Shanghai Cooperation Organization
SGC	Southern Gas Corridor
SSR	Soviet Socialist Republic
TANAP	Trans-Anatolian Natural Gas Pipeline

TAP	Trans Adriatic Pipeline
TCM	Thousand Cubic Meter
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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## Chapter I

### Introduction

Days after the Olympic torch had been extinguished on the coast of the Black Sea the world watched a more dangerous competition take place. Little green men secured military objectives competently and with minimal bloodshed in the fifteenth-century Tatar homeland, a seven-minute journey to the Northwest of Sochi if taken by a Russian SU-24 attack/reconnaissance jet, before closing off the Crimean peninsula to Ukraine. One referendum later and the state sovereignty principle derived from the 1648 Peace of Westphalia appeared to be slipping away for the Russian near abroad.

Moscow continued to speak by actions rather than words and the “special war” a few months later in Eastern Ukraine was as sloppy and bloody as the Crimea operation had been smooth.<sup>1</sup> The Donbas conflict of the summer and autumn of 2014 solidified the new political and social uncertainty that the post-soviet world faced. Open and thinly veiled conflict is but part of Russian resurgence, as Putin will implement the Eurasian Union in 2015 for the four post-Soviet states of Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan using the Russian Ruble as its trading currency in yet an additional show of strength. Azerbaijan and Turkmenistan wait to meet their fate within this uncertain landscape. The wise or reckless foreign policy actions taken by leaders in the two countries bordering opposite coasts of the Caspian Sea will maneuver the states to

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<sup>1</sup> Special war refers to “an amalgam of espionage, subversion, ... forms of terrorism to attain political ends without actually going to war in any conventional sense.” John Schlinder, “The Coming Age of Special War,” *20Committee.com*. Last modified September 20, 2013. Accessed October 4, 2014 <http://20committee.com/2013/09/20/the-coming-age-of-special-war/>.

successfully achieve specific goals, to deflect the chaos coming upon them, or to doom their peoples to violence, bloodshed, and tears.<sup>2</sup>

Policymakers in the EU, NATO, and the United States have been caught largely unprepared for Putin's actions even as they try to implement their own values-based agenda increasingly farther to the east.<sup>3</sup> China adds to the complication of the international relations calculus, as its increasing and insatiable demand pulls resources from all over the world to its ancient homeland, using sea and pipeline methods of delivery for energy supplies. The interests of Turkey given its changing domestic political conditions and Iran's desires add to the regional complexity. Within this climate I examine the foreign policy decisions of Turkmenistan and Azerbaijan as the energy rich Caspian Sea region could take its turn next in the international limelight. I will consider ethnic identity, geography, resources, and path dependency as I seek to understand and compare how the leaders of the two countries make decisions based on their unique and shared circumstances. Specifically, this study attempts to answer the following question: How are the regional and global international relations affected due to the decisions made by these two small energy-rich Caspian Sea countries straddling the saltwater basin?

Turkmenistan and Azerbaijan are playing delicate balancing acts within their increasingly complex foreign affairs environments. I hypothesize that each of these two countries is moving slowly in an opposite directions, Turkmenistan is meandering to the East while Azerbaijan continues to look to the West with certain caveats. Conflicting

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<sup>2</sup> Bruno Sergi (professor at the University of Messina and associate at Harvard Davis Center for Russian and Eurasian Studies) in email discussion with author, October 2014.

<sup>3</sup> During a recent symposium on the conflict in Ukraine retired Ambassador Herbst said, "I know of no one who expected Putin to take the actions that he did in Ukraine" in reference to his colleagues still in government service across agencies. Ambassador (retired) John Herbst, "The War in Ukraine: One Off Kremlin Aggression or Gateway to a Broader Eurasian Crisis?" (presentation, Seminar in Ukrainian Studies at Harvard University, Cambridge, MA, September 29, 2014).

goals of the EU, NATO, Russia, the United States, China, and other regional powers such as Turkey and Iran make the environment uncertain and dangerous for missteps. I propose that a complex model including variables of identity, geography, resource, and legacy path dependency explains the actions of West-facing Azerbaijan and isolated Turkmenistan. Finally, I explain scenarios that Russia could pursue to pressure Azerbaijan. One example is the heating up the Nagorno-Karabakh conflict. Thus far, Turkmenistan has ably negotiated to improve its circumstance as it drifts towards China.

To test the hypothesis I will rely on scholarly works published in academic journals, books written by experts, official publications produced by governments and regional organizations, interviews given by subject authorities, and media sources of all types produced anywhere. This work uses theoretical concepts of identity principles, political economy, and realist and liberal theories of international relations to vigorously analyze a multifaceted problem. Therefore, I also will consult theoretical works in these categories to fully understand the latest thinking in these fields. I then plan to use a mix of theoretical explanation, a broad array of sources, and my analysis to create a new model to systematically answer the Caspian Sea foreign policy question.<sup>4</sup>

The outcome of my thesis will be a model that describes how a relatively small state forms and implements foreign policy in a region at the vortex of dynamic action by larger powers and interests. The model will explain how identity, geographical, resource, and historical legacy variables interact, and how this reality mix combines with the human agency of the leaders who set the policy for the governments. Policymakers in the region must navigate the storm that is international relations of the early twenty first

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<sup>4</sup> Henry Hale and his work, *The Foundations of Ethnic Politics: Separatism of States and Nations in Eurasia and the World*, is an example of a highly theoretical work that explores in great depth identity issues and how these shape politics.



century, and my desire includes understanding the choices that these actors make in a dynamic and complex scenario.

## Chapter II

### Background

With a stroke of a pen in 2014, Putin committed Russia to the newly formed Eurasian Economic Union (EEU) that began January 1, 2015. The EEU has as its initial members Russia, Kazakhstan, Belarus, and Armenia.<sup>5</sup> Despite the economic qualifier in its name, the new union appears to include political objectives as well. The ultimate plans of Moscow and the future scope of this union raise many questions. Russia certainly has broader plans for the EEU and this is one factor in the increasing likelihood for future instability in the Caspian Sea region.<sup>6</sup> Moreover, the European push for an ever-increasing single economic space conflicts with these future plans of Russia. Additionally, NATO's expansionary and joint military security interests threaten the current leadership of Russia, many of whom played vital roles in the security services of the Soviet Union and retain a professional adversarial attitude towards perceived western interests. Oil and gas energy politics enter the discussion as well. Variables of identity, geographic, and legacy issues then impact all of the mentioned factors. The problem is complex in the matter of "wicked problem" with multiple moving variables.<sup>7</sup>

Azerbaijan has had a Western facing government for over a decade and has

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<sup>5</sup> "О ходе Евразийской Экономической Интеграции." Translated: On the Eurasian Economic Integration, Russian Foreign Ministry, Last modified January 2015, <http://www.mid.ru/bdomp/ns-rsng.nsf/559a6afd63b0fb02432569ee0048fe70/7997bf0078720d1d44257cc900416fd5!OpenDocument>. Barbara Tasch, *Time.com* May 29, 2014.

<sup>6</sup> Bruno Sergi (professor at University of Messina and associate at Harvard Davis Center) in email discussion with author, October 2014.

<sup>7</sup> Interview, Bruno Sergi, October 2014.

established relationships with Western regional organizations such as the European Neighborhood Policy (ENP) and the Eastern Partnership (EP) in 2004 and 2009. Previous Western efforts, such as those towards Georgia in the early 2000s, have not been completely successful without setback as the 2008 Russo-Georgia war demonstrated, yet the West is reaching farther to the East by cooperating with Azerbaijan on certain initiatives in the area of economic and political liberalization and enhanced security.<sup>8</sup> In particular the actions of NATO, the EU European Neighborhood Policy and Eastern Partnership initiatives would most likely cause a reaction from Russia if they are too aggressive given the most recent political and conflict events in Ukraine.<sup>9</sup> These outreach activities by Western institutions concern Russia, for Moscow has the perception of encirclement by the EU and especially NATO.<sup>10</sup>

There are other powers nearby the Caspian region and Turkey is such an example. Although for the last century the Turks have had a tradition of secularism and strength from the nonreligious military, Turkish politics are now experiencing turbulence in a possibly transformation away from its secularly controlled past of the twentieth century.<sup>11</sup> Turkey is at a crossroads and the news is full of young people protesting in the streets. It is still possible that the current government could continue with business as usual, though

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<sup>8</sup> Svante Cornell and Frederick Starr, *The Guns of August 2008: Russia's War in Georgia*, ed. Svante Cornell and Frederick Starr (New York: Central Asia-Caucasus Institute, 2009), 123.

<sup>9</sup> Interview, Bruno Sergi. October 2014.

<sup>10</sup> Donald Ostrowski (Harvard University-based expert in Russian history and politics) in discussion with author September 2014.

<sup>11</sup> Interview, Bruno Sergi. October 2014. In a seminar Jocelyne Cesari explained that even in the twentieth century the Turkish state combined religion with politics, however it made an effort to have an equidistant relationship with many religions, such that Jewish or Christian followers had access to equal rights. She provides a useful three-tier model of State, Society, and Individual aspects of religion and secularism. Since 2007 this religious freedom is eroding in Turkey at the State level due to a reduction in the equidistant relationship. Jocelyne Cesari, "The Awakening of Muslim Democracy: Religion, Modernity, and the State," Presentation at Seminar hosted by East Asian Institute of Harvard University, Cambridge, MA, October 7, 2014.

scenarios such as further radicalization or conversely a return of the Kemalists escorted by tanks seem more likely.<sup>12</sup> This NATO member plays a major role in the politics of the Eastern Mediterranean and an increasingly important role to the Northeast of its border. Policymakers and academics in Europe and the United States are heavily invested in the idea of a Southern Gas Corridor that would bring Azerbaijani gas to Europe through Turkish pipelines.<sup>13</sup> Today, the pipelines bring Oil to the global markets from the Caspian Sea countries to European and global markets through Turkey. Moreover, rising economic fortunes in Turkey further increases its sway. All of these facts mean that Turkey matters.

Russia meets this cauldron of interests with a renewed sense of power. Throughout the second half of the 2000s oil prices steadily increased and Russia systematically rebuilt its state infrastructure and intangible confidence. Marshall Goldman writes: “Russia has not hesitated in the past to cut off the flow of both petroleum and gas to strengthen its side of a political dispute.”<sup>14</sup> Indeed, Russia has used its hydrocarbon resources to pressure countries in foreign policy interests and is even now raising the stakes through “special war” techniques when these threats are not enough.<sup>15</sup> Goldman argues that hydrocarbons are essential to Western economies and that this gives Russian leadership significant leverage. Furthermore, Russia has returned to great power status while domestically it is quite different from a modern liberal

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<sup>12</sup> Vladimir Vepryev (regional expert) in discussion with author October 2014.

<sup>13</sup> Morena Skalamera, (post-doctoral Research Fellow, Geopolitics of Energy Project at Harvard University) in discussion with author, October 2014.

<sup>14</sup> Marshall Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2010), 3.

<sup>15</sup> John Schlinder, “The Coming Age of Special War,” *20Committee.com*. Last modified September 20, 2013.

democracy.<sup>16</sup> Even with the recent oil price movement that is eating into Russian foreign currency reserves at an alarming rate, Russia retains power through the nature of the natural gas market and infrastructure. A major foreign policy goal of Russia is to maintain this political leverage over Europe that hydrocarbon and pipeline resources provide Moscow.

Similarly, the two Caspian Sea countries of Turkmenistan and Azerbaijan, situated on the eastern and western shore respectively, use their geographical location, energy and pipeline resources, and competing larger interests to maximize the utility that they can grab in the foreign policy realm. For example, Turkmenistan renegotiated a gas supply deal to Russia in that increased by almost eight fold the price per tcm that it would charge to Russia.<sup>17</sup> Turkmen leaders could finally capture a market price of gas because the new pipeline to China that was coming online in 2009.<sup>18</sup>

Liberalization, democracy, freedom, civil society and other popular western words and phrases that modern Western Democracies and liberal action groups use bring additional context to the reality of Azerbaijan and Turkmenistan. Azerbaijan in particular has been West-facing in the past decade or so, and there is an internal conflict between domestic policies and the friendly relations it is pursuing with institutions such as the EU, NATO, and the United States. One example is the stated goals of the Eastern Partnership

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<sup>16</sup> Goldman, *Petrostate*, 93-135.

<sup>17</sup> Thousand cubic meter is tcm. Indra Overland and Stina Torjesen, "Kazakhstan's and Turkmenistan's energy relations with Russia," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 141. Figure 7.1.

<sup>18</sup> There actually is no "market price" of gas in way that economists think of a market price of oil. Gas is not fungible; it cannot be shipped in barrels anywhere but rather must use extremely expensive pipeline networks or a combination of Liquid Natural Gas (LNG) ships and pipelines. Overland and Torjesen, *Caspian Energy Politics*, 141.

and Azerbaijani current domestic policies and the reality in Baku.<sup>19</sup> Oil and gas price increases of the past decade have driven an economic expansion in Azerbaijan but the catalyst for political reform has been much less potent. The reformation and liberalization of domestic policies of Turkmenistan and Azerbaijan are a goal of Western institutions, yet the autocratic system suits the respective Caspian Sea countries leadership. China plays an important role in this regard, for its state-owned companies have bags of cash and a no-questions-asked policy on doing business with regimes that have natural resources it craves.<sup>20</sup> Turkmenistan is a clear autocratic state and considers quite seriously domestic ramifications of its foreign policy decisions.<sup>21</sup>

As uncomfortable as the discontinuity between autocratic regimes and soft Western values may be there is a greater explicit threat to the Western Caspian shore state. Russia has a perception of encirclement by the West, and it is particularly wary of actions by NATO that add to this encirclement idea.<sup>22</sup> China adds to this mix of a Western push for universal values, Russian perception and paranoia of encirclement, in the fact of the constant demand for increased energy supplies to feed its voracious economy.<sup>23</sup> Yet even here there are risks as one author, former Indian cabinet official Sumbramanian Swamy claims that there is a real possibility of the Chinese economy

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<sup>19</sup> “The Eastern Partnership – Frequently asked questions (FAQ),” *European Union – European External Action Service*, Accessed online October 7, 2014.  
[http://eeas.europa.eu/eastern/faq/index\\_en.htm#1](http://eeas.europa.eu/eastern/faq/index_en.htm#1).

<sup>20</sup> Interview, Timothy Colton, May 2011.

<sup>21</sup> Amnesty International, *Individuals Continue to Be at Risk of Violations in Turkmenistan* (London: Amnesty International, 2010), 6.

<sup>22</sup> Bruno Sergi, *Misinterpreting Modern Russia: Western Views of Putin and His Presidency* (New York: Continuum International Publishing Group, 2009), 225-235.

<sup>23</sup> Wang Qian, “Oil Imports Hit Alarming Levels in China,” *China Daily*, Last modified April 24, 2011, <http://instituteforenergyresearch.org/analysis/chinas-auto-boom-and-oil-strategy>.

entering into a slowdown at some point and this will also greatly influence the geopolitical calculus of the states and organizations analyzed in this study.<sup>24</sup>

Given the Western face of Azerbaijan, this project attempts to analyze the different foreign policy choices that Azerbaijani leaders make in comparison to those of the leaders of Eastern facing Turkmenistan. How do these countries manage their regional and global neighbors and how do these choices affect domestic politics, energy policy, and interactions with Western institutions and organizations? Additionally, how does Turkmenistan manage its own foreign policy given similarities and differences of identity, geographical, resource, and historical path dependency variables? Each country has unique geography concerns, differences in petroleum and pipeline resources, and a separate national identity with distinct leaders who pursue these foreign policy goals. Separately, Turkmenistan would like to diversify the markets where it sells its gas, and would prefer no outside interference to domestic affairs. China is happy to oblige as it buys Turkmenistan's gas in vast quantities for its rapidly growing economy. Finally, Azerbaijan appears to be pro-Western in some respects and it also wants to diversify its customer and supplier base. However, Azerbaijan would not like to submit to the Western ideas of domestic governance.<sup>25</sup>

#### Four Variables of Proposed Model

The small state actors of Turkmenistan and Azerbaijan maneuver in the context of hegemonic powers such as the US and potentially the EU, large powers such as Russia

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<sup>24</sup> Subramanian Swamy, *Economic Development and Reforms in India and China: A Comparative Perspective* (New Delhi: Har-Anand Publications, 2010), 156.

<sup>25</sup> Interviews with Professor Colton of Harvard University and Vladimir Vepryev in February, March of 2011.

and midrange powers like Turkey, Ukraine and the like. Energy and resources, historical path dependency, geography, and identity are useful overlays to explain the actions that happen within the larger power dynamics. Energy is essential for the post-industrial revolution modern world, the history of regions and nations makes path dependency that limits choices of leaders, mountains form stable borders while open lands lead to insecurity, and ethnic and religious connections can bind peoples in unexpected ways.

Turkmenistan in Central Asia sits on a vast expanse of flat land that was in times past defended by proactive heroic action and now is becoming the newly contested ground between China and Russia. Additionally, Azerbaijan has the potential to be a source of future energy supplies and a conduit for the same to flow to Europe around the control of Russia. One must also consider that in the twentieth century the Soviet Union was arguably a civilizing force in Central Asia, and the historical legacy of former top leaders remain relevant to contemporary dealings. Trust among top human agents in the region remains particularly true regarding the cultural preference for the verbal contract over the written note. Finally, the Russian perception of identity plays a role. Although neither Turkmenistan nor Azerbaijan has a sizable Russian minority themselves, the Russian leadership feels threatened by many parts of the modern world encroaching on cherished values and threatening Russian people that live outside the motherland.

Turkmenistan and Azerbaijan can make foreign policy choices that have a butterfly effect, so to speak, and agitate a situation where Russian may eventually forcefully intervene into another region to protect the ethnic Russians outside of Russia, like in the Baltics as one example. Energy is the variable that is the most important in the Caspian Sea region, while historical legacy, geography, and identity also matter. Then



again, any disturbance that changes the systemic states in these four variables could set forth in motion a situation that escalated quickly.

### Resource Variables

The industrial revolution ended the era where brave men and heroic leaders could claim the glory and power of the state without chief concern for energy supply continuity. Oxen, carts, and humans provided transport and power for industry prior to the era of Pax Britannica. First the invention of the high-pressure boiler and then the development of the internal combustion engine ended the era where a king only needed to encourage more efficient husbandry to improve the raw material and source of industrial power. Jumping forward to the world today, economists claim that we are in a “post-industrial age” where personal tablets and knowledge workers are the lifeblood of the economy instead of factories and resource-gulping activities.<sup>26</sup> Yet the fact remains that more energy than ever is used to power countries, provide services, and build goods. Certain countries are at a resource supply disadvantage, such as most of those in Europe for example. Europe must provide value to the world in seemingly disproportionate manner so that its ravenous automobiles, factories, and homes can access the oil and gasoline products that they need. In contrast, energy supplier and transit countries have a power that is unique and new. These countries, Turkmenistan and Azerbaijan as two examples, have seeming immunity from Western values as consumers covet the resources they produce and have shown an ability to overlook domestic policies and practices of the leadership. Although

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<sup>26</sup> In a class the author took with Pedro Videla at IESE Business School in 2005, the professor claimed that services replace industrial work at a certain stage in economic development. Nevertheless the global level of energy consumption continues to rise in aggregate even as automation and outsourcing may replace workers in certain areas.

certain political theorists explain to academia that these apparently anachronistic energy supply and transit countries will inevitably have their comeuppance, it does appear that the benevolent dictatorship of Azerbaijan or the harsher personality cult regime of Turkmenistan have staying power precisely because of the global demand for energy. Energy-rich countries in the post-industrial world of Apple and Silicon Valley still get away with illiberal and often repressive regimes.

Beyond avoiding providing the individual liberty that the Western liberal tradition requires, the Caspian Sea countries structure their economy in an inefficient and illiberal way. Resources can bring curses to leadership in addition to the blessings of ignoring Western activists. The curse includes structuring an economy too much around the particular resource, leaving the economy vulnerable to price shocks and mal-investment of resources. When the dictator provides easy jobs in the energy sector for all who are willing to work, or at least for all who show up to a place of work without a commitment to perform actual duties, then citizens are discouraged from pursuing their natural talents and develop a diverse skillset that translates into a robust economy. The Caspian Sea countries have access to large amounts of gas and oil and have structured their economies to take advantage of this wealth. The recent large-scale price change in oil is exposing the lack of wisdom of not having a diverse economy to the detriment of Azerbaijan in particular. Resource-based economies have dangers of collapse given the wrong circumstance of supply or price and we are seeing the tide recede in real time for the oil-rich countries that have failed to diversify their economies adequately.

Oil and gas can both be dangerous in the incentives they offer leaders to misallocate resources in an economy. For projection of power to pursue foreign policy

objectives it is gas that matters more than oil in the realm of hydrocarbons. Gas is far more valuable than oil in gaining concessions in the international arena for several reasons. Oil can easily bring wealth but gas can bring power. Table 1 displays some key differences that oil and gas have regarding how these resources are useful to suppliers, consumers, and transit countries. Oil is fungible where gas is not; consumers can usually easily replace oil needs with other substitutes from other producers while the same is not true for gas consumers. Additionally, huge capital costs accompany not only the resource extraction of gas but also the delivery of gas to market. With the exception of high priced Liquefied Natural Gas (LNG), the gas supply is delivered in pipelines that are monstrously expensive to build and vulnerable to a host of players including transit countries and terrorists to name two. Gas is difficult to store in large quantities while most countries comfortably maintain significant strategic reserves of oil.

Table 1.

Oil and Gas: Differences and their impact on Market and value-added Chains.

	Oil	Gas
Type of substance in terms of fungibility	More fungible because it can be divided and shipped more easily	Less fungible because it cannot be divided and shipped easily
Transportation options	A variety of options available: tanker, pipeline, rail	Shipped almost exclusively by pipeline. Use of LNG technology is limited by its high cost
Importers' ability to respond to blockades/supply suspensions by switching to other suppliers	Switch to other suppliers can take place relatively quickly: oil can also be supplied by tanker or rail	Switch to other suppliers more difficult due to infrastructure issues (fixed pipelines or LNG facilities)
Level of sunk transportation infrastructure costs relative to total costs	Relatively low due to the possibility of shipping by means other than large sunk-cost pipelines	Relatively large, as transportation mainly limited to pipelines
Ease of storage	Relatively easy	Relatively difficult

Source: Morena Skalamera, China's Energy: Getting it There – Pipelines, CSR, and

Other Challenges Part 2, April 28, 2014, accessed January 24, 2015:

<https://www.youtube.com/watch?v=XL65nvYWMCg>. Data sourced from slide

presentation Balmaceda, 2013. P.33.

## Historical Legacy

Highly educated upper and middle classes of Eastern Europe considered the communist takeover post World War II to be a less than desirable. In many instances, newly appointed and politically connected proletariat bosses lorded over their previous betters in many parts of the extinguished Austria Hungarian Empire. When unrefined managers lacked technical and leadership competence they would on occasion beat the drum of Leninist propaganda to the annoyance of their charges.<sup>27</sup> In contrast certain areas of Central Asia began the twentieth century as an agricultural and goat-herding society, with a high percentage of the populace descended from illiterate nomads. The Soviets arrived and installed giant factories and expensive defense installation works in the steppes, providing families a lifestyle that their grandparents never imagined. Turkmens under the USSR learned to read at a greater literacy level than currently exists in Portland Oregon.<sup>28</sup> In general the wealth vastly increased in the region to such an extent, with all of the caveats and accompanied by the many downsides of communism, that Central Asia flourished even as Prague fell into repression. In Eastern Europe today huge majorities of the population continue to hate the communist legacy. Contrarily a mixed view prevails in Central Asia. Some argue that the people in Turkmenistan live a more cultured and richer life than if they had been left alone on the dusty remnants of the Silk Road as a byproduct of the Soviets. It may also be argued that the general technological

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<sup>27</sup> In a discussion during the 2012 class “Comparative Politics of Post-Socialism” Professor Grzegorz Ekiert pointed out the Eastern European view of the Soviet takeover was negative, especially by the elites.

<sup>28</sup> During a symposium on the Ferghana Valley at Harvard University on 24 October 2011 Baktybek Beshimov said that the Soviets did “an amazing job” to set up modern infrastructure in Central Asia though the local traditions and behavior remained the foundations of society. The illiteracy rate of Oregon, a progressive state in the United States, was estimated to be 10% in 2003. “State & County Estimates of Low Literacy,” National Center for Education Statistics, accessed February 25, 2015, <http://nces.ed.gov/naal/estimates/stateestimates.aspx>.

advancement of the 20<sup>th</sup> century would have provided development in Central Asia in any political power scenario. Perhaps even better results could have been accomplished if the market-oriented systems were in place in Central Asia for the entire duration of the same century.

Historical legacy shaped the attitudes of the people toward autocratic control, and it also placed men into positions of power who retain the reigns still today. Communism in Central Asia brought many of the current leaders and their families who control the countries in the region. It brought and continued ways of doing business that exist today, including the supremacy of the spoken and verbal agreement between leaders.<sup>29</sup> The embedded presence of corruption also overwhelmed Central Asia since communist times. It is difficult for outside observers to see what is really happening in the region until actions already are taking place. These verbal agreements have frustrated Western powers greatly as it is difficult to understand exactly what is happening between Russia and Central Asian states until “too late” from the perspective of Western influencers. Without written agreements Western observers often do not understand the nuanced relationship between the leaders of these countries. Verbal agreements take place because the business of the state has been done this way for centuries, and also because many of the same high level leaders of the Soviet time remain in power. There is a legacy of trust, or perhaps history of understanding the actions of the other, in the area.

Azerbaijan has a history of working with outsiders from the nineteenth century as they began using experts to help exploit their newly found oil wealth. Also, Azerbaijan became accustomed to the presence of diverse ethnic minorities with distinct cultures much earlier than Turkmenistan largely due to the geographic reasons. Azerbaijani

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<sup>29</sup> Nina Lazaridi (expert on Russo-Kazakhstan treaties) in discussion with author in February 2015.

pragmatism is based on path dependency in part.

Russians have endured enormous shocks; two world wars, tens of millions killed, a cold war, economic stagnation, and the collapse of the system from 1989-1991. Even with the shocks certain institutional reality remains. For example the collapse of the Soviet System did not necessarily remove the structures or the people.<sup>30</sup> Nor did the collapse remove the sense of history that all Russian school children learn, the invasions of the khans, the invasion of that brilliant tactician Napoleon who Russian literature regards as an anti-Christ, and the invasion executed by the darkest monster to come out of humanity, Adolf Hitler.<sup>31</sup> Insecurity is linked highly with the geography of the region due to this history.

## Geography

British warships dominated the seven seas from the time of the French Revolution until the American escort carrier and Admiral Halsey's lucky mistake demonstrated to the Imperial navy and the world the power of naval aviation. Still today the United States can enforce its national interest with its ten nuclear-powered aircraft carriers, using them to bring destruction from the heavens to anywhere within range of the onboard fighter-attack aircraft. Unfortunately for US policymakers, Russian land is not close to the sea, minor exceptions aside, making the F/A-18E/F Super Hornets \$70 million useless joyriders with few targets other than the nearly impenetrable border integrated air defense systems. Russian Czars ruled by land, and the Soviets used tanks to keep this heartland

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<sup>30</sup> Timothy Colton (taken from class notes in International Relations of Post-Soviet States) May 2011.

<sup>31</sup> Tolstoy's War and Peace has several characters refer to the invading Napoleon as the anti-Christ or an anti-Christ figure.

supremacy. The modern Russian state fields armed forces that places full trust in the MacKinder theory of the heartland.<sup>32</sup>

Tense writings of military defensive tactics are not the only aspect of geography that matter. Commerce depends on location, and Azerbaijan sits upon the ancient Silk Road where it has the sense of politeness and pragmatism of those who are hospitable to strangers. The new Silk Road brings hydrocarbon riches from the East to the energy-starved European countries. Pipelines, not camels, traverse thousands of miles from the Caucasus through Turkey and then to terminals and to the West. Azerbaijan is located in the Caucasus that provides a southern geographic barrier to Russia. Turkmenistan and Azerbaijan are each landlocked countries, and must exercise the politics of shrewdness to access the transnational trade routes and blue waters from which riches arrive.

Russia is a great power though the West has recently only considered it a regional one. Midlevel powers such as Turkey and Iran or Great powers farther afield such as India that has an unquenchable thirst for gas affect the politics of the region too.<sup>33</sup> Ukraine, Uzbekistan, Kazakhstan are also mid-level powers in the sphere of Russia and the Caspian Sea. Within this context Azerbaijan and Turkmenistan are among the 11 of 15 post Soviet countries that are small powers. These smaller countries have to take part in international relations being aware of their size and limitations.

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<sup>32</sup> In a lecture February 2011 Timothy Colton explained the Halford Mackinder theory of dividing the world into three zones. Mackinder said that the future of power was based on land during the period when the United States was building a blue water navy. John LeDonne has done work using the MacKinder approach, specifically with military power while Levine has done work on the strategic issues.

<sup>33</sup> Morena Skalamera, "China's Energy: Getting It There – Pipelines, CSR, and Other Challenges Part 2," Youtube Video, 51:16, posted by "columbiauniversity," April 28, 2014, <http://www.youtube.com/watch?v=XL65nvYWMCg>.



Table 2.

Former Soviet Union countries listed according to population size. The GDP and percent of population that is ethnically Russian according to Russian interpretation is also listed.

	Population (million)	2013 GDP (Purchasing Power Parity in Billions of US Dollars)	% Russian Ethnicity
Russia	142	2,553	77.7
Ukraine	44	337	17.3
Uzbekistan	29	113	5.5
Kazakhstan	18	244	23.7
Azerbaijan	9.7	103	1.3
Belarus	9.6	150	8.3
Tajikistan	8.0	19	1.1
Kyrgyzstan	5.6	14	12.5
Turkmenistan	5.2	55	4
Georgia	4.9	27	1.5
Moldova	3.6	13	5.9
Lithuania	3.5	67	5.8
Armenia	3.0	21	<0.7
Latvia	2.2	39	26.2
Estonia	1.3	30	24.8

Source: CIA World Fact Book, accessed January 25, 2015:

<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2119rank.html>

## Identity

The Russians believe that a “Russian” can mean a member of the Russian language and ethnic group or more broadly a person who is a citizen or subject of the Russian state. The Russian person who is a Russkii is considered a Russian even if he should reside in Kazakhstan or Estonia as he shares the language, religion, ancestry, and other characteristics of the Russian people. Putin has explicitly said that it is his duty to protect the Russkii people, historical Russians who might be living in Eastern Ukraine or in the Baltic regions as two examples.<sup>34</sup> Identity is increasing in importance to Russia as they feel threatened by the West, and this is reflected in certain journal writings.<sup>35</sup>

The Kosovo conflict of the late 1990s pulled offered a window to the serious nature that Russians take with identity politics. A few companies of hungry Russian paratroopers confronted a NATO Captain leading well-armed and competent troops. The Russian soldiers refused to surrender the Pristina airport in Kosovo to the British column that had orders to capture the airport even if it meant fighting to obtain the objective. In the middle of the night these ill-equipped Russians had outraced the West to capture the main prize in Kosovo and were prepared to lay down their lives to stop what they perceived to be hegemonic actions by Western leadership. This action by the Russian soldiers enraged the leadership of NATO who then gave orders to engage the Russians in

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<sup>34</sup> There are two words for a Russian person. The first is Russkii, referring to the Russian language and ethnic group or “Ethnic Russian.” Other characteristics of a Russkii include a common language and Orthodox religion. There is also Rosskiiskii, which is a broader definition of citizenship or being subject to the Russian state. Putin and the leadership of Russia feel that it is their responsibility to protect the Russkii people no matter where they live, and this is an obvious driver of conflict. Note from February 15, 2011 lecture note in International Relations of Post-Soviet States taught by Timothy Colton.

<sup>35</sup> Sergei Karaganov emphasizes the importance of Russian identity both from a cultural and religious standpoint in a recent article published in a journal read by Russian foreign policy experts. Sergei Karaganov, “Европа: поражение из рук победы?” Translated: “Europe: Defeat from the hands of Victory?” *Russia in Global Affairs*, February 19, 2015. <http://www.globalaffairs.ru/number/Evropa-porazhenie-iz-ruk-pobedy-17304>

combat. Captain Blunt disobeyed the attack orders saving two nuclear-armed powers from beginning a war that could have massively escalated.<sup>36</sup> Later, Ted Hopf wrote that Russians were quite upset that NATO bombed Kosovo, and claimed that the issue of NATO attacking the fellow Orthodox Serbians was more important to the Russians than even the enlargement of NATO.<sup>37</sup> Other Scholars disagreed with this assertion. Whatever the ultimate concern of Russia in the Kosovo instance Russia took a gigantic gamble while at its weakest position in one hundred years. Russia continues to hold the same importance for identity today as it did in the late twentieth century. The difference is that the bear is no longer weak militarily.

Azerbaijan joins Russians on emphasizing identity as an elevated issue. Russia is neutral on the Nagorno-Karabakh conflict yet the dispute over the Nagorno-Karabakh region inflames identity issue of entire region. Russia, Azerbaijan, Armenia, Turkey, and even the Greeks are drawn into the identity issues of this war that heated up even while the USSR still maintained power. Some groups representing the various identities and ethnic groups, particularly Armenia, use high priced lobbyists in Washington DC to work and influence those in power.<sup>38</sup>

The modern world presents more challenges to identity as a factor in scholarly discussion. Today the daughter of the Russian Foreign Minister studies at Columbia University in New York City while Russian ministers and US high-level government

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<sup>36</sup> Tom Peck, "How James Blunt Saved Us from World War 3," [www.independent.co.uk](http://www.independent.co.uk/news/people/news/how-james-blunt-saved-us-from-world-war-3-2134203.html), November 15, 2010, accessed online February 22, 2015, <http://www.independent.co.uk/news/people/news/how-james-blunt-saved-us-from-world-war-3-2134203.html>.

<sup>37</sup> Timothy Colton (taken from class notes International Relations of Post-Soviet States) March 2011 and Ted Hopf, *Social Construction of International Politics: Identities & Foreign Policies, Moscow, 1955 & 1999* (New York: Cornell University Press, 2002).

<sup>38</sup> Timothy Colton (taken from class notes International Relations of Post-Soviet States) March 2011.

officials hurl threats at each other over the current international relations disputes.

Identity may be transitioning from traditional views to modernism even in Russia. There is a crisis and lots of room for politicking and misunderstanding. Yet identity remains important, especially to the Russian leadership and people and could be used as an excuse if not a quite real reason for future conflict.<sup>39</sup>

Other scholars claim that although identity is important it is not the foundational matter in international relations of the former Soviet Union countries. Rawi Abdelal claims that not all interests are defined by identity, but rather identity is often used as a filter.<sup>40</sup> Identity can be an excuse for action. In the case of Russia and the Baltics, looking at a map it seems clear that Stalin wanted to put some land in between Leningrad and Germany yet it is identity that is used as the excuse for Stalin's action given the historical and ethnic ties. The US and Europe view that the Baltics were illegally annexed by the USSR. Likewise countries can go too far the other way, for example Georgia has removed all Russian signs as of 2010, and with nothing in English it is difficult for a person who does not speak Georgian to navigate.<sup>41</sup>

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<sup>39</sup> Baktybek Beshimov spoke of the transitions of identity in a seminar on the Ferghana Valley at Harvard University on 24 October 2011. He specifically addressed the identity issues of the three peoples who live in the Valley and how the Soviet System did not wipe out these old customs, religions, and traditions. Additionally, Ted Hopf writes; "Society is assumed to consist of a social cognitive structure within which operate many discursive formations" and that, "Identities constitute these formations." In other words persons in a country have many identities but these are driven by society. Hopf claims that these identities drive interests and therefore actions. Hopf, *Social Construction of International Politics*, 3.

<sup>40</sup> Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective* (New York: Cornell University Press, 2001). 45.

<sup>41</sup> Colton said that when he was in Georgia in 2010 that all Russian signs had been taken down, and everything was now written in Georgian. He said that there were no English signs and it was difficult to get around. Class notes April 19, 2011.

## Research Methodology and Limitations

This project will use a qualitative approach to examine the data, insights, and arguments of experts. There will be quantitative data included, specifically energy resources, pipeline capacities, and new hydrocarbon reserves discovered in the past ten years. The model that I propose to solve this research question will integrate both of these factors. Additionally, this thesis uses theoretical concepts of identity principles, political economy, realist and liberal theories of international relations to vigorously analyze a multifaceted problem.

My assertion that Azerbaijan is balancing delicate foreign policy realities while drifting to the West will be corroborated if the data show Azerbaijan continuing a practice of placating the West while not reducing domestic autocracy by a substantial amount. Likewise, my claim that Turkmenistan is moving slowly to the East while also skillfully managing a complex international relations environment will have additional credibility should the data show Turkmenistan negotiating quite successfully with all parties while orienting itself increasingly towards China as manifested by new trade deals, continued importation of Chinese technological expertise, and other indications of bilateral cooperation.

I plan to limit the scope of the research to the foreign policy decisions of Turkmenistan and Azerbaijan. There will be a discussion on how domestic politics affects the regimes in each of these countries, but this is not a systematic analysis of Turkmen or Azerbaijani political institutions. Likewise, I will be limiting my study to certain European institutions and other regional organizations in how they play a role in the Caspian Sea area and I do not plan on a systematic exploration of all European or

Western institutions. Furthermore, I plan to focus my research on the English language work of this area.

There are external limits to the project including that I have not traveled to Azerbaijan or Turkmenistan nor can I read or speak the Azerbaijani or Turkmen language. I do not see this as a significant obstacle as many official documents are published in English or Russian. There is a further problem of governments in the two states removing previously published materials if officials deem that circumstances no longer favor a particular policy statement.<sup>42</sup> Additionally, data taken from reputable IGOs, NGOs, and third parties can generally be verified, but certain statistical data taken directly from Turkmenistan publications in particular might not offer the same level of trustworthiness. I will attempt to verify data through several sources where prudent and possible.

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<sup>42</sup> The Azerbaijani Presidential 2009 New Years Eve Speech was removed from the official President's website, perhaps because it contained military threats against Russia.

## Chapter III

### Key Actors

In the last quarter century the West has acted as if Russia were a regional power at best and of no consequence to the global agenda at worst. Russia did not want to see itself in this reduced role; rather the people and leadership disparaged the humiliation that accompanied the collapse of the USSR. Putin covets a seat at the big table of international affairs and he uses regional conflicts to push this agenda to join the great powers. Turkmenistan and Azerbaijan leaders do well when they consider that Russia's actions are never simply a reaction to a Caspian Sea foreign policy conflict, as an example. Instead, Putin considers the Russian place vis-à-vis global powers in each policy choice. Though Russia considers the larger picture in regional conflicts, no other potential threat to Turkmenistan and Azerbaijan matches that of the ruler who came out of Leningrad. Thus Russia is a top concern to these two former Soviet states.

More unsettling to actors and observers are the diverging opinions on the cause of the European-Russo rift. Anglo-American scholars point to reasons for the decent into a new cold war ranging from practical geopolitical realities to scary scenarios of a new dictatorship overwhelming the nascent civil society of Russia. Russian analysts increasingly romanticize the identity differences between traditional Orthodox Christian Russia and the decadent West. There is no doubt however that Russia fears the power of the West, particularly the threat of NATO encirclement.

Where Russia carries the stick China offers a pillow laden with goodies. China

has the capital to invest in resource exploitation efforts that require much money and expertise. These Chinese bags of US dollars that fund huge capital projects cost something dear in their own right, namely equity stakes in the long term production fields of gas and oil. The wedge is a slim one however and the leaders of resource rich countries, first in Central Asia and now in Russia proper, with a smile but perhaps not so happily comply with the golden handcuffs. The vast wealth promised does start to flow and for Turkmenistan in particular, the decision to work with China brings the reward of additional autonomy from Russian control. In Sino-Russo relations Russia ultimately is losing some control with the Chinese as a customer and now an investor into its hydrocarbon fields. Yet Russia still benefits beyond the currency that it generates through sales, as it bleeds of excess gas away from Europe, maintaining the leverage it has over European economic health through the supply of gas.

Kazakhstan has a long shared border with Russia, and many cross industries and defense cooperation.<sup>43</sup> Mid-size powers such as Kazakhstan have the size, resources, and strategic importance to confidently pursue national objectives. However they must also take care when negotiating with Russia, and Nazarbayev has shrewdly acted in a way that changes when the larger circumstances change. Human agency is a plus for Kazakhstan though a possible negative when the inevitable replacement for the Kazakh President takes place.

The EU has specific interests in the region, not the least securing additional energy supplies for its economy that is not dependent on Russian sources or transport pipelines as referenced in the above paragraph. In particular the former President of the

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<sup>43</sup> CIA World Fact Book, accessed January 25, 2015: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2119rank.html>.



European Commission José Manuel Barroso pushed the Southern Gas Corridor (SGC) pipeline project that routes Azerbaijani gas through the Caucasus, then through Turkey and Greece, and finally into Europe through Greece and Italy. During the first years of the SGC the international power equation would not be much changed. However, gas deals are long-term affairs and Russia could lose a measure of power should the capacity of the project reach the high estimates. Gas project must be sold first to client and transit states and then built later. Such deals require tens of billions of dollars of committed capital and a half-decade or more of invested time to complete. Putin recognizes the long-term nature of the SGC project and has acted decisively, canceling the Russian South Stream Project. Moreover, Russian leadership is looking for ways to compete with the SGC. Should Putin be successful in either replacing Azerbaijani gas at high supply levels with Russian gas routed south through the TANAP pipeline, or building an altogether separate pipeline that runs through Turkey and competes with the SGC, he will have largely nullified the European purpose for building the SGC, while simultaneously weakening the hand of Ukraine.<sup>44</sup>

Turkey is another regional power that took the place of the Ottoman Empire standing guard over the Eastern Mediterranean Sea. Turkey also has an interest in supplying its own increasing energy demands from a variety of sources. Disconcertingly, changes in the domestic political sphere continue to escalate.

Likewise, Iran is regional power that has a great deal of influence on the Middle East while also influencing the interests of the West and China. In an international relations irony American Special Forces and Iranian Republican Guard soldiers are

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<sup>44</sup> “Встреча с Премьер-министром Турции Ахметом Давутоглу,” President of Russia News, December 1, 2014 <http://kremlin.ru/news/47127>.

fighting nearly shoulder to shoulder against the ISIS threat that has overtaken Iraq and Syria. There are additional shared interests of the West and Iran irrespective of a path dependency factor of bad blood over the last forty years.<sup>45</sup> Should Iran come to an agreement to exit the sanctions imposed by the West, it could grow into the capability to produce significant power through nuclear means. Additionally, Western expertise could provide the necessary technical innovation that is needed to drill new productive wells in its vast gas fields, and also provide expertise and capital to build an Iranian export gas pipeline infrastructure. Helping Iran develop a more robust gas export industry would align with Western interests to reduce the power of Russia. Israel is a factor here as it is an undeclared nuclear power that has a simmering conflict against Iran while maintaining close ties to the United States.

India provides additional context on the demand side of the energy equation. India's vast population and continuously growing economy mean that it must import increasingly high amounts of energy. The more active foreign policy of the Modi administration is also relevant. Some analysts say that now is the time for the United States to improve relations with India, on the other hand diplomatic miscues do not point to warming relations happening soon.

## Russia

Russia uses its vast mineral resources and energy reserves to supply a sizeable portion of the global demand for such commodities, and it reaps the monetary benefits to

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<sup>45</sup> According to Vali R. Nasr, a former special advisor to President Obama the US and Iran are working together even though each country officially denies this. He says, "You can't have your cake and eat it too – the U.S. strategy in Iraq has been successful so far largely because of Iran." Helene Cooper, "US Strategy in Iraq Increasingly Relies on Iran," [www.nytimes.com](http://www.nytimes.com), March 5, 2015, Accessed online March 7, 2015, [http://www.nytimes.com/2015/03/06/world/middleeast/us-strategy-in-iraq-increasingly-relies-on-iran.html?\\_r=0](http://www.nytimes.com/2015/03/06/world/middleeast/us-strategy-in-iraq-increasingly-relies-on-iran.html?_r=0)

fund the state apparatus. Yet Moscow creates and implements its foreign policy with a set of motivations much more complex than simple energy politics. Historical legacy, Russian identity, national security, and the economic interests of its trading partners join energy politics to create a foundation from which Russian leaders plan and act.

### From Empire to Humiliation to a Lust for Great Power Status

Peter the Great applied the lessons of Western politics, statecraft, and power that he had learned in Amsterdam and ushered in the beginning of the Russian empire. One hundred years later the Russians defeated the French army in a supreme demonstration of great power status. The chaos in the Leninist revolution did not last long as Stalin industrialized the economy and managed to repeat the victory over invaders from the West. Consumer goods were in short supply for Russians during the cold war, while the quarter of the USSR GDP dedicated to strategic objectives led to military parity with NATO and made sure that the Russians shared great power status with the United States. For multiple centuries Russians thought of themselves as making up a state of Great Power status without irony and with much justification.

Then the collapse of the Eastern bloc and Soviet Union in 1989 to 1991 shattered several hundred years of progression. There had been earlier setbacks like the defeat of the Russians in the Russo-Japanese war in 1904-05 and the 1917 October revolution but in neither of these instances was the global humiliation of the Russians so complete. According to Colton, “Russians in general have not been psychologically prepared” to leave this exclusive club that “further diminution [of territory] would knock Russia out of

the club of great powers.<sup>46</sup> Nevertheless the disintegration of the Soviet Union did lead to the humiliation of a loss of a seat at the big table in international politics, though Russia was able to hold on to its internal republics. Russia was dismissed by the West for twenty some years, and for the first ten years utterly ignored. Not without reason, for Yeltsin barely kept the internal Russian republics from leaving the country. In 1996 Russia lost the first Chechen civil war and signed a humiliating agreement with rebels who were only literate due to the efforts of the Soviet school system.

In 1998 Yeltsin appointed Vladimir Putin to the head of the FSB, the security service responsible for areas of Russia and outside of Russia included in the former-Soviet Union countries. Nationalist fighting in an Orthodox area of the former Yugoslavia and terrorists bombings in Moscow gave Yeltsin and Putin the popular domestic support to finish the Chechnya problem and assure the territorial integrity of Russia. And finish it he did by leveling Grozny with deadly air raids soon after the new millennium. In 1999 Putin led a brutal second Chechen war after a provocation of several apartment bombings. The swift victory of the second Chechen war increased Putin's popularity, his power, and credibility among the elite, and was also the first step that reversed the path Russia had taken in the previous decade. The world quickly learned of Putin's ruthlessness, but it was this quick and messy exercise of power that gained him popular support of the Russian people. The brutal resumption and swift completion of the war vividly indicated to the world that the decade of Russia making deals with republics in an asymmetrical federal system was over. The Russian bear awoke from its decade long hibernation, and the unitary state loomed. For those watching the affairs of Russia the leadership sent a clear message. Russia was no longer to be humiliated by internal

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<sup>46</sup> Timothy Colton (taken from lecture notes) Russian Politics in Transition, November 16, 2011.

rebels or external powers who were running roughshod over Slavic interests in the 1990s.

NATO learned this lesson the hard way and to its great embarrassment in June 1999. A few hundred Russian paratroopers risked war to stand up to the might of the Anglo-American juggernaut in Yugoslavia, and these tired but mighty Russians succeeded stopping the NATO assault on the Pristina Airport.<sup>47</sup> The victory of the second Chechen war, the incident of the Russian troops meeting the future pop star in Pristina, and the escalating price of oil throughout the 2000s invigorated the Russian people. Alas, events and leaders were too slow. The sinews of the nation did not strengthen quickly enough and NATO gobbled up three former Soviet countries along the Baltic Sea in 2004. Having succeeded at stopping the disintegration internal to the state, Putin determined to reassert regional power. In 2008 he did so.

In the mid 2000s one Russian expert said that Russia had the motivation, means, and leadership to recreate an empire, and that Putin and other hardliners were ready to launch a new cold war.<sup>48</sup> These predictions seemed alarmist at the time but now the words are prescient. From the Western point of view Russia has become aggressive. Russia views these moves in the lens of national security, the pride of a great power state, and with an economic motive that comes with being an energy supplier.

## Russian Identity

Russian scholars tend to emphasize the importance of identity over geopolitical

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<sup>47</sup>Tom Peck, "How James Blunt saved us from World War 3," [www.independnet.co.uk](http://www.independnet.co.uk), November 15, 2010, accessed online February 22, 2015, <http://www.independent.co.uk/news/people/news/how-james-blunt-saved-us-from-world-war-3-2134203.html>.

<sup>48</sup> Lucas, Edward, *The New Cold War: The Future of Russia and the Threat to the West* (New York: Palgrave Macmillan, 2008), 3-15.

realities. For example, in a recent article Sergei Karaganov says that the deteriorating relationship that Russia has with Europe stems from identity differences, that the values are different, and that now Asia gives Russia an alternative to Western Europe for its economic and strategic cooperation. Sergei says, “Current differences with the West have become a powerful argument in favor of not only economic but also political reorientation to the East.”<sup>49</sup> This difference in perspectives from the West and Russia also leads to a misunderstanding among policy makers when they interact with each other. Western viewers are taking a quite harsh view of Putin and Russia at the present while Russia views itself with an increasingly poetic manner. The understanding that experts have of the conflict between the West and Russia is diverging.

Although Russian experts might be emphasizing identity in the analysis of the current conflicts, they take the national security side seriously. Sergei Glazyev, cofounder of the Rodina party in Russia and PhD graduate from Moscow State University, writes that the next ten years are extremely dangerous for Russia as the United States and the Western world come out of the Great Recession. Specifically, he says that the United States will openly threaten Russia on all fronts but the Russian army should be modernized enough by then to withstand the threat.<sup>50</sup>

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<sup>49</sup> “А нынешние разногласия с Западом становятся мощным аргументом в пользу не только экономической, но и политической переориентации на Восток.” Sergei Karaganov, “Европа: поражение из рук победы?” *Russia in Global Affairs*, February 19, 2015. <http://www.globalaffairs.ru/number/Evropa-porazhenie-iz-ruk-pobedy-17304>

<sup>50</sup> Sergei Glazyev says in the concluding paragraph of an article written September 3, 2014 that “К 2017 г., когда США начнут открыто и по всем фронтам угрожать России, российская армия должна иметь современное и эффективное вооружение, российское общество – быть сплоченным и уверенным в своих силах, интеллектуальная элита – владеть достижениями нового технологического уклада, экономика – находиться на волне роста этого уклада, а российская дипломатия – организовать широкую антивоенную коалицию стран, способную согласованными действиями прекратить американскую агрессию.” Translation: “By 2017, when the US will begin to threaten Russia on all fronts, the Russian army should have modern and effective weapons. Furthermore the Russian society should be able to organize a broad coalition of anti-war countries capable of joint action to stop US aggression, due to

Russia views those who share a common language and cultural affinity such as the Orthodox Christian religion to be Russians to be protected and guided under the hand of the Kremlin. In a speech before the Duma in March 2014, Putin stated that the Russian people in Ukraine are his responsibility to protect as part of the justification for the conflict that is raging in the Donbas region.<sup>51</sup> This view of people is different than a post-Westphalia view where the borders of a sovereign state solely determine who has the power and responsibility for individuals and ethnic groups that reside in these borders. Scholars can see Russia following a different path than the post-Westphalia consensus of international relations in the Caucasus in addition to Ukraine. Russians have a shared identity with the Armenians, and has historically backed Armenia in disputes with Azerbaijan. The Nagorno-Karabakh dispute is one clear example that has implications for Azerbaijan.

#### National Security and Encirclement Threats

Flat steppes to the Southeast of European Moscow invited the invasions of the Kahns galloping on horseback to plunder and rape the settled Slavs. Centuries later Napoleon coveted the land to the East and arrived from the West, his armies marching through inviting roads along fertile lands. Hitler invaded in the 20<sup>th</sup> century and the tanks

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the confidence Russians have in their abilities, intellectual elite, new technological achievements, economic growth, and Russian diplomacy.” Glazyev is an advisor to the President of Russia and a member of the Russian Academy of Sciences. Sergei Glazyev, *The Threat of War and Russia’s Response*, Russia in Global Affairs, September 3, 2013. Accessed online February 25, 2015. <http://www.globalaffairs.ru/number/Ugroza-voin-i-otvet-Rossii-16920>.

<sup>51</sup> In a speech before the State Duma Putin said among other things, “На Украине живут и будут жить миллионы русских людей, русскоязычных граждан, и Россия всегда будет защищать их интересы политическими, дипломатическими, правовыми средствами,” Translation: “In Ukraine live and will live millions of Russian people, Russian-speaking citizens, and Russia will always defend the interests through political, diplomatic, and legal means.” Vladimir Putin, “Message from the President of the Russian Federation,” March 18, 2014, kremlin.ru, accessed online March 2, 2015, <http://kremlin.ru/news/20603>.

chewed up Russian defenses that were not augmented by geographic advantages due to a lack of mountains or seas. The steppes to the East and flat lands in the West mean that horsemen and tanks alike have free reign in battle. Russian warriors survived due to the sheer size of their Slavic lands. Enemy logistic chains stretched too thin and the inhumanly freezing winters gave openings for counterattacks. Russians eventually prevailed in each of the three previous cases and the policymakers always keep the vulnerabilities of the geography of Russia in mind while managing national security matters.

Aircraft and modern missiles cover the vast distances that protect the Russia homeland in a much shorter period of time. Russia has invested in the worlds best and most dense Integrated Air Defense System (IADS) to prevent nuclear tipped cruise missiles and American bombers from reaching Moscow.<sup>52</sup> Russian leadership gains crucial minutes by pushing the distance of possible enemy missiles and aircraft attacks hundreds of kilometers farther away from its main population centers and capitol. Space means life in Russia. Not everyone agrees with this analysis however.

For Putin vast expanses of land mean the promise of additional minutes for decision-making when cruise missiles are inbound to Moscow, and for Russian military planners additional days of tactical operations by tank battalions to counter the invading armies. The reduction of this insulating buffer between the enemies and possible enemies of the motherland foreshadows a doom from which the people may not resist. Russian leadership including Putin viewed the NATO expansion beginning in 1990 in apocalyptic

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<sup>52</sup> According to Carlo Kopp, "The reality of evolving IADS technology ... is that most of the US Air Force combat aircraft fleet, and all of the US Navy combat aircraft fleet, will be largely impotent against an IADS constructed from ...Russian ... Manufacturers." Carlo Kopp, "Surviving the Modern Integrated Air Defense System," Air Power Australia Analysis, February 3, 2009, 2 accessed online March 1, 2015, <http://www.ausairpower.net/APA-2009-02.html>.



terms. Yeltsin was too weak and too preoccupied trying to hold together his own country to mount much more than verbal protests. Russia nonetheless took a grim view of what it perceives to be encirclement of its country by NATO. In 2004 Putin experienced the last and most embarrassing humiliation when the three Baltic States joined NATO. Russia aggressively struck back in 2008 when it appeared that Georgia was flirting with the same Western interests. The newly reformed military divisions smashed any hopes that Georgia had of joining NATO in the manner of the Baltic States.

Russia does not want Azerbaijan to have any NATO desires; this would be a problem for several reasons including the Nagorno-Karabakh conflict and continued encirclement concerns. Russia does not want Western influences in its near abroad, particularly when it comes to security concerns and who makes the ultimate decisions. Russian siloviki may like Mercedes automobiles and other Western consumer goods but they do not want the West to have any sort of veto power over the Russian near abroad.

Russia claimed that the expansion of NATO, especially in the Baltics but also in other Eastern European countries, violated agreements that were made at the fall of the Berlin wall and collapse of the Soviet Union. Russia has a history of verbal agreements between high-level leaders where the United States has written-contract way of thinking stemming from its literalist puritan past. This may explain the different perspectives that Russian leaders and US officials have on any such agreement of non-expansion of NATO, but in any case Russia felt humiliated by Western push for institutional change during the Russian decade of utter weakness. By 2008 Russia was no longer weak. In 2013 with high oil prices for a decade having filled its coffers Russia felt strong.

## Hard Power, Soft Power, and Economic Power

Military might or “hard power” is one part of a three-part equation that Russia uses in its pursuit of foreign policy objectives. Two other variables exist, including soft power and economic power.<sup>53</sup> Russian soft power includes the Russian identity and cultural aspects that binds a people together through affinity. Economic power is sometimes referred in the context of hard power but it is helpful to think of it has a separate variable entirely.

When considering Russian power versus European power, Russia wins the hard power and soft power battle quite clearly. The EU relies on NATO, mostly supplied and controlled by the United States, while Russia has divisions of T-90 tanks with practically invincible special reactive armor. Additionally, the EU is made up of twenty-eight states each with different historical legacies, cultures, and values. The soft power of Europe is greatly weakened by the amalgam of peoples who do not see the world with the same eyes. Realistic or not, the Russian story of hardship and triumph is a clear call to oneness of the Russian people. Meanwhile the dysfunction of the large twenty-eight seat EU is anything but cultural oneness. Russia wins again; it has the edge on soft power if one ignores European ideology of togetherness. Only in one area does Europe lead, and that is in its economic might, or in the economic power variable. The combined economic output of Europe is eight times that of Russia.<sup>54</sup>

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<sup>53</sup> Joseph Nye has explained the differences of Hard Power and Soft Power that nations use in international relations. In this analysis, I have separated the economic factors of hard power into another variable as Russia’s control over European gas can negatively affect the economic power that Europe has over Russia and other nearby countries. Conversation with Morena Skalamera February 2015. Joe Nye on hard power and soft power.

<sup>54</sup> The 2014 GDP for the EU was \$16.7 trillion while the 2013 GDP for Russia was \$2.1 trillion. “World Economic Outlook Database, April 2014, International Monetary Fund, <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/weorept.aspx?pr.x=46&pr.y=16&sy=2014&ey=>

To secure its interests, that is to have a seat at the big table on the global platform and to secure its interests vis-à-vis Europe Russia uses a combination of hard power, soft power, and the threat against European economic power as a general case. Russia uses its energy resources as a method of achieving foreign policy goals by threatening the economic power of Europe. In a relationship of Europe versus Russia, Russia wins on hard power, meaning militarily, it wins on soft power, a united culture and history of the “Russian” people, but the European Union wins on economic power. Energy is the tool that Russia can use to threaten EU economic power. This also means that sanctions against Russia might be less effective than policymakers would desire, as Russia is already weak on economic power so the West is simply hitting the Russians where they have no strength. Sanctions do not address that Russian strength comes from hard power and soft power, rather than economic power.<sup>55</sup>

In the three-part power model of hard power, soft power, and economic power, access to cheap and abundant energy is the foundation of Europe’s economic power supremacy over Russia. Europe has a robust market economy with robust innovation and high technology, yet it is vulnerable to shut-offs in natural gas that could devastate the high economic output. Therefore, the energy sector plays an important role in the international relations or Russia vis-à-vis Europe in particular. Russia uses its unique energy supplier status to weaken the economic power advantage that Europe has over it. When Russia threatens to cut off the gas supply to Europe in the dead of winter either explicitly or implicitly, it is using the threat of a negative economic action to gain an advantage in the only area where it already does not have the advantage. Russia is more

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2014&sort=country&ds=.&br=1&c=998&s=NGDPD%2CPPP&grp=1&a=1.

<sup>55</sup> Morena Skalamera in conversation with author February 2015.

powerful than Europe in hard power and soft power. When energy comes into play Russia has ultimate leverage over the final variable in the new power model, economic power. The third strike against Europe in the power equation is the hardest for Western leaders to bear.

### Energy Sector

Russia has two main interests in the energy sector in general. Firstly, Russia has wanted to exclusively control the supply of hydrocarbons to the market, by assuring that its pipelines are the only way for oil and gas to reach end customers. Moscow has been unsuccessful in this effort, and it has pragmatically accepted the rent losses as other supply routes bring energy out of the Caspian Sea region. Secondly, Russia wants to control the demand side of the European gas consumption.<sup>56</sup> Perhaps just as pragmatically, Russia is willing to risk much higher stakes to protect this monopoly on the European gas demand. Russia gains a great deal of strategic leverage through controlling the gas shut-off valve to Europe; even the threat of Russian action can make Western politicians think carefully before provoking the Eurasian power.

As explained in more detail in later chapters, Russia has lost some control over the supply side of the equation as Turkmenistan and Azerbaijan have each developed alternative routes to export their hydrocarbon resources. For example, in the case of Turkmenistan gas Russia is no longer the only way Turkmenistan can export its gas due to the massive deals with China. This means that Russia can no longer pay Turkmenistan

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<sup>56</sup> When I refer to Russia controlling the demand side of the energy equation, I am referring to the fact that Russia wants Europe to only buy gas that has travelled through Russian pipelines. This gives Russia significant strategic leverage over European countries if the threat of a cold winter or a shutdown of gas power plants loom. Marshall Goldman addresses this at length. Goldman, Marshall, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2010).

a greatly reduced price for gas and then export to Europe to receive a premium.

There are consequences to losing control of the supply side of the equation. Gazprom has not adequately replaced the gas reserves used to produce the gas that supplies domestic and export uses, resulting in yearly shrinking production numbers. Furthermore, Russia is gasifying its economy and thus increasing domestic demand. The gasification effort may require as much as 12,000 km of gas pipeline, plus huge quantities of Gazprom gas. Worse, the gas used domestically is usually subsidized to the point that Gazprom loses money.<sup>57</sup>

When Turkmenistan and China completed the gas pipeline that ran east in 2009, Russia could no longer pay only \$50 per tcm when the market price was closer to \$400 per TCM.<sup>58</sup> Russia could get Turkmen gas at such a discount precisely because it controlled the only pipelines out of Turkmenistan until 2009.<sup>59</sup> When the gas from Turkmenistan began to flow east, Russia had to pay market price and could no longer supplement its insufficient domestic production or “gasifying” interior. Moreover the racket where Russia bought cheap Turkmen gas and resold it to Europe for a big profit ceased. Yet since the Turkmen gas flowed east and not west, it did not change the European demand side of equation. Russia accepted the loss of control of Turkmenistan and the loss of economic rents.

The European gas demand equation is a more serious issue in Moscow’s view. Russia has a greater interest in controlling the demand side of the energy equation and to

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<sup>57</sup> Timothy Colton (professor of Government at Harvard University and regional expert) in discussion with author February 2011.

<sup>58</sup> Thousand cubic meter is TCM.

<sup>59</sup> Indra Overland and Stina Torjesen, “Kazakhstan’s and Turkmenistan’s Energy Relations with Russia,” *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 141. Figure 7.1.

preserve its monopoly on the supply of gas to Europe. A quick analogy can help explain why Russia wants control over European gas demand. For many years in the 1990's Apple computer wanted complete control over the demand for its computers, and did not allow any clones to be made. This meant that if a person wanted an Apple, he would have to pay whatever Steve Jobs said the machine cost. Conversely, IBM licensed many makers of its computers, and the various manufacturers quickly reduced the price to increase sales.<sup>60</sup> Russia wanted to be like Apple computers concerning European demand for gas. It had hoped to maintain complete control over the delivery of gas to Europe for the economic, political, and foreign policy control that it derives from this scenario but this reality is no longer possible. As Russia continues to lose control of the demand side of European gas it will lose significant strategic power along with suffering economic losses.<sup>61</sup>

On the European demand side there are several factors in play, including the building of a NordStream pair of pipelines, now completed and delivering gas that bypasses the volatile Ukrainian region.<sup>62</sup> This gas pipeline links directly into Germany, and has helped to limit the power that Ukraine had due to its status as the primary conduit for gas into Europe. Ukraine used to provide the necessary gas pipelines that allowed eighty percent of the gas to be transferred from Russia to Europe while Belarus provides the other twenty percent of pipeline capacity.<sup>63</sup> This percentage is around forty percent

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<sup>60</sup> Lecture from Business Strategy class, Africa Arino, 2005 at IESE Business School.

<sup>61</sup> Andre Kazantsev, "The Crisis of Gazprom as the Crisis of Russia's 'Energy Super-State' Policy towards Europe and the Former Soviet Union," *Caucasian Review of International Affairs* 4 (Summer 2010): 275.

<sup>62</sup> In late 2011 the first of two pipelines began deliveries and by 2015 were fully operational. The capacity is 55 bcm per year. <http://www.nord-stream.com/en/>.

<sup>63</sup> Indra Overland and Stina Torjesen, "Kazakhstan's and Turkmenistan's Energy Relations with

now and could half again once the Southern Gas Corridor is running, with or without Russian gas as a partial supply.

In a direct attack on the monopoly that Russia holds on European demand for gas, the West encouraged the construction of the Nabucco pipeline although this effort ultimately failed. The Southern Gas Corridor replacement still has the potential to conflict with the Russian interest to control the demand side of the equation by allowing gas suppliers other than Russia to reach the European market without having to use Russian controlled pipelines. Gas supplies from the Middle East, and possibly Central Asia might be available to Europe if additional feeder pipelines were built into the SGC. For example, if Azerbaijan and Turkmenistan cooperated on building a gas pipeline under the Caspian Sea and then built a gas pipeline alongside the existing BTC oil pipeline, there would theoretically be enough gas supply to completely take up all supply capacity of the SGC. Russia has already moved to stop this by canceling the South Stream project and indicating that it will redirect its gas supplies through Turkey.<sup>64</sup> Putin cancelled the South Stream project December 1<sup>st</sup>, 2014 on the same day that Putin met leaders in Turkey.<sup>65</sup> The SGC without gas supply from Russia directly threatens Russian strategic interest and Moscow may risk war to keep control of the demand side of

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Russia,” *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 146. Also from class discussion with Professor Colton April 2011.

<sup>64</sup> From Conversation with Morena Skalamera, March 2015, Russia has not yet decided how to route the gas to Europe now that South Stream is canceled. It may build a parallel pipeline to Blue Stream or another pipeline through Turkey. Heidi Kjaernet, “Azerbaijani-Russian Relations and the Economization of Foreign Policy,” *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 157.

<sup>65</sup> On December 1, 2014 Putin announced the cancellation of South Stream on the same day as high-level talks with Turkish leaders. The clear unsaid message is that Turkey will be the new conduit for Russian gas into Europe. “Встреча с Премьер-министром Турции Ахметом Давутоглу,” President of Russia News, December 1, 2014 <http://kremlin.ru/news/47127>.

European gas.

Russia is maneuvering with purpose although some scholars claim that the state is floundering. Europe is constrained by geographic realities though Russia may be binding itself through its purposeful choices. China is on an economic trajectory that put it as the largest economy in the world as of 2014 according to one measure.<sup>66</sup> To feed this massive growth China needs energy and has taken advantage of what it perceives to be Russian short-term weakness to make a 2009 long-term oil and 2014 long-term gas deal that gives China energy diversification, security, and price stabilization for thirty years.<sup>67</sup>

Russia is increasingly making deals with China and attempting to improve relations with the giant country to the East albeit from a position of relative weakness according to the Chinese view. Sino-Russo trade reached 100 billion dollars in 2014 and the leaders have met a dozen times over the past two years. Regarding the importance of China especially with the renewed tension between Europe and Russia, Sergei Karaganov says, “For the first time in history there was a geopolitical and economic alternative – Rising Asia.”<sup>68</sup> Sergei meant that Russia has an alternative to Europe by trading with China, specifically by supplying China gas and oil to propel China’s economy. China sees weakness where Russia may see strength however, and it negotiated for favorable long-term deals with Russia in 2009 and 2014. Trade benefits both parties according to

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<sup>66</sup> Using the Purchasing Power Parity method of measuring economic GDP of countries. Chris Giles, “China poised to pass US as world’s leading economic power this year,” April 30, 2014, [www.ft.com](http://www.ft.com), accessed online February 23, 2015, <http://www.ft.com/cms/s/2/d79fff8-cfb7-11e3-9b2b-00144feabdc0.html#axzz3Tq8lgiGw>.

<sup>67</sup> Morena Skalamera, “China’s Energy: Getting It There – Pipelines, CSR, and Other Challenges Part 2,” Youtube Video, 51:16, posted by “columbiauniversity,” April 28, 2014, <http://www.youtube.com/watch?v=XL65nvYWMCg>.

<sup>68</sup> Original Russian quote, “Впервые в истории появилась геополитическая и экономическая альтернатива – поднимающаяся Азия.” Sergei Karaganov, “Европа: поражение из рук победы?” Translated: “Europe: Defeat from the hands of Victory?” *Russia in Global Affairs*, February 19, 2015. <http://www.globalaffairs.ru/number/Evropa-porazhenie-iz-ruk-pobedy-17304>



Adam Smith even if one party benefits more. There are other areas of possible conflict between Russia and China, including the Central Asian, Siberian, and the Russian Far East regions. The contest in Central Asia may not be following classic economic rules, and “Russian paranoia about [its] sparsely populated... Eastern Siberia” region combined with the new contest between Russia and China in Central Asia means that Russian conflict with Europe is weakening its hand vis-à-vis China.<sup>69</sup> In the Russian Far East vast resources await those ambitious and daring enough to claim the mineral riches. Conflict would begin should the ambitious include Chinese who dare to exploit the subterranean bounty to fuel the Sino resource-hungry economy, tempted with the endless and empty northern landscape.

China definitely benefits from closer trade with Russia. Skalamera concludes that energy cooperation between China and Russia has been growing because China can remove a portion of its energy supply from the US controlled Sea-lanes and guarantee long-term low prices for supplies. Russia had a crisis in 2009 and when China made the first deal of oil supply and was entering another crisis in 2014 when China made the second the deal, this time of gas. Russia needed additional customers for its energy and its escalating conflict with the West, with the war with Georgia and then with Ukraine, put it at a disadvantage position. As an indication of the power balance, Russia allowed China to have equity stakes in the gas deal, something that it had been purposefully avoiding and reducing in the prior decade.<sup>70</sup>

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<sup>69</sup> Morena Skalamera, “China’s Energy: Getting it There – Pipelines, CSR, and Other Challenges Part 2,” Youtube Video, 51:16, posted by “columbiauniversity,” April 28, 2014.

<sup>70</sup> Marshall Goldman records cases where Putin forced Western companies to reduce their equity stakes in Russian energy projects. Conversely, Russia has allowed equity stakes with China in certain gas projects. Marshall Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2010). Morena Skalamera, “China’s Energy: Getting It There – Pipelines, CSR, and Other Challenges Part

## China

Where Russia has impressive tanks and fighter attack aircraft to round out its improving military, China wields dollars in a display of true economic power. China is capitalizing on Russian weakness that results from the Russo-Ukrainian conflict and the resulting cold shoulder from the EU and other Western countries to use its monetary resources in an advantageous manner. China consumes energy at an enormous and increasing rate due to the economic growth that it continues to experience. Additionally, environmental and energy diversification concerns means that China has a large annual gas shortage. In 2015 it will have gas consumption of 250 bcm while it produces only 100 bcm.<sup>71</sup> China can increase domestic production of gas to as high as 150 bcm per annum in the medium term but still has profound gas import needs. Additionally, it must compete with Japan and India for gas imports. Japan is phasing out nuclear power after the 2011 tragedy while India consumes ever more gas each year. China needs to import at least 110 bcm or more gas per year.

China now matters in the Caspian Sea energy political equation. Firstly, the phenomenal growth in the middle class means that China has been looking for additional ways to satisfy its domestic hydrocarbon needs. Secondly, China would like to diversify the transit routes over which it obtains energy, and adding land routes through Central Asia accomplishes this strategic goal. The decade long increase in energy prices justify the capital investment needed for these land routes. Finally, China as a rule does not

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2,” Youtube Video, 51:16, posted by “columbiauniversity,” April 28, 2014.

<sup>71</sup> Morena Skalamera, “China’s Energy: Getting It There – Pipelines, CSR, and Other Challenges Part 2,” Youtube Video, 51:16, posted by “columbiauniversity,” April 28, 2014.

interfere in the domestic politics of the countries with which it does business. Rather, it wants stability and long-term relationships. China is cash rich and is willing to overpay for resources without asking uncomfortable questions. China also wishes to have equity stakes in projects where it is the customer.<sup>72</sup>

### Chinese Energy Concerns

China is aggressively moving into the Central Asia region for its own domestic energy policy interests. With its exploding middle class and resulting high demand for automobiles, it needs increasing amounts of petroleum. One clear indication of Chinese future energy needs is that in 2009 there were more automotive sales in China than in the United States.<sup>73</sup> China has large coal reserves for power production but cars require oil to run, and China must now import half of its oil needs.<sup>74</sup>

Sometimes overlooked by those living in fully developed countries, the importance of the interconnected electric grid illuminates additional clarity to the domestic energy situation. China does not have a modern national electric grid as found in Western regions, so it is difficult to adjust power production in a variable manner using its coal fired plants.<sup>75</sup> Importing natural gas from Turkmenistan helps it to produce

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<sup>72</sup> Morena Skalamera, "China's Energy: Getting It There – Pipelines, CSR, and Other Challenges Part 2," Youtube Video, 51:16, posted by "columbiauniversity," April 28, 2014.

<sup>73</sup> In China there were 13.6 million auto sales in 2009. Source: Institute for Energy Research (2010), "China's Auto Boom and Oil Strategy," October 14, accessed April 23, 2011: <http://www.instituteforenergyresearch.org/2010/10/14/chinas-auto-boom-and-oil-strategy/>

<sup>74</sup> Wang Qian, "Oil Imports hit Alarming Levels in China," *China Daily*, January 14, 2010. Accessed April 24, 2011: [http://www.chinadaily.com.cn/bizchina/2010-01/14/content\\_9317926.htm](http://www.chinadaily.com.cn/bizchina/2010-01/14/content_9317926.htm).

<sup>75</sup> Coco Liu, "China Rebuilds Its Power Grid as Part of its Clean Energy Push," *EE Publishing LLC*, April 20, 2011. Accessed April 24, 2011: <http://www.eenews.net/public/climatewire/2011/04/20/1>.

variable power on the coasts. Natural gas power plants can provide stand-alone variable power; Coal fired plants do not have this ability.

China's second main energy concern is just as important. Beijing wants to diversify the sources of its hydrocarbon energy supplies for security reasons. Currently, most of the imported oil comes from the Middle East and must be shipped over long distances using oil tankers. Transporting oil by ship involves vulnerabilities and China does not yet have a Navy that controls the international trade routes.<sup>76</sup> China feels that when "eighty percent of the country's oil imports are shipped through the Strait of Malacca," it is too "vulnerable to blockade by several potential rivals."<sup>77</sup> Diversifying its energy sources from pipeline sources from Central Asia helps secure its domestic energy needs while lessening the leverage that potential adversaries with blue water navies, particularly the United States, might exercise over it. Additionally, the increased cost of hydrocarbons made the pipelines across vast stretches of land feasible.

Chinese energy security is also an important factor in the trade deals that it has made with Russia and Central Asian countries. The US still controls the high seas, and with China's increasing assertiveness in what it perceives to be its waters while other powerful countries dispute these claims it is important for China to have land based energy supplies. Some point to the shale revolution as a possible solution to additional energy supplies. However, Morena Skalamera asserts that this shale revolution will not take place in China for at least 10 years due to several factors, namely geology and institutional constraints. The shale gas in China is very deep in the ground and will take

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<sup>76</sup> David Zweg and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* 84, no. 5 (2005): 25-38.

<sup>77</sup> Ryan Kennedy, "Chinese Investment in Kazakhstan," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*, (New York: Routledge, 2010), 118.

some technical knowhow to extract. Additionally eighty percent of the acreage of shale gas lands is owned by CNPC and SINOPEC and they do not have incentive to develop these deposits unless the pricing structure is reformed.<sup>78</sup> Shale gas is not profitable for these companies as of now. Gas is too cheap and there is still plenty of conventional gas to recover, though granted not enough for the demand of the economy. There is a final issue on the lack of shale gas development that involves a Chinese government bureaucratic dispute on which government agency has oversight authority. These factors mean that Chinese shale gas will not be available to the market until 2025 at the earliest.

Finally, China does not interfere with the domestic politics of its energy suppliers. It prefers to have a stable and long-term relationship with its vendors, and authoritarian regimes do not phase it. Ryan Kennedy says that, “Chinese companies are much more willing to take positive steps to support the stability of the sitting government, even if that means turning a blind eye to corrupt practices or human rights issues.”<sup>79</sup> Moreover, China is cash rich from the decades of American consumers buying its manufactured wares, and it is willing to pay top dollar for oil and gas assets that will serve its needs well into the future.<sup>80</sup> In a positive feedback loop, China’s increased demand for energy has contributed to the increase in demand for oil and subsequent decade long price increase. This in turn has made it economically viable to invest money into capital-intensive infrastructure projects in Central Asia to produce and then transport oil and gas to the east. These new pipelines then provide diversification of China’s energy needs while

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<sup>78</sup> Morena Skalamera, “China’s Energy: Getting It There – Pipelines, CSR, and Other Challenges Part 2,” Youtube Video, 51:16, posted by “columbiauniversity,” April 28, 2014.

<sup>79</sup> Ryan Kennedy, “Chinese Investment in Kazakhstan,” *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 122.

<sup>80</sup> Christopher Pala, (2006), “China Pays Dearly for Kazakhstan Oil,” *New York Times*, 17 March, Accessed May 1, 2011: [www.nytimes.com](http://www.nytimes.com).

diversifying the demand for the product that enriches Turkmenistan. Historically, it was not worth the huge expense to build pipelines from Central Asia to a market thousands of kilometers away. Russia benefited from this situation, as its Gazprom pipelines were previously the only way to move significant quantities of energy products from Central Asia to the customers. Unfortunately for Russia the facts changed, and Turkmenistan has demonstrated brilliance in negotiating in an environment that is quickly giving them the advantage of a new customer.

Russia may have tanks but China has dollars. Dollars seem to be winning. A big question is what happens if there is a large slowdown in the economy of China, and slowdown in gas demands? It is possible that the 2014 severe reduction in the oil price is due to a slowdown in demand, though some analysts argue that it is oversupply that has caused this price collapse.<sup>81</sup> In general, gas is a longer-term game than oil as discussed previously, and would be less affected by an economic slowdown.

### Kazakhstan

There are other regional powers that matter. Kazakhstan shares a long border with Russia and pulls oil and gas riches out of the Caspian Sea basin. The Russo-Ukrainian conflict is bringing worry and speculation to the forefront, and the analyst can easily mistake political posturing and worrying speculation as hard evidence. For example in 2014 Ambassador Herbst, the former ambassador to Ukraine, said that his high-level government contacts were openly speculating about Russian plans to take over Kazakh

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<sup>81</sup> Meghan O'Sullivan has argued that it is the increased supply of oil that has caused the recent oil price decline rather than a slowdown in economic demand. This author disagrees with that analysis and regards the demand side of the equation to be a major factor in addition to the supply side. "Meghan O'Sullivan on Dropping Oil Prices," In the News, Belfer Center for Science and International Affairs, Harvard Kennedy School, December 7, 2014.

territory in a manner that Russia has done in the Donbas region. Politicians say what they must but his sincerity seemed genuine.<sup>82</sup> There is a long historical legacy between the Russian and Kazakh people that must be taken into account before analyzing the reasonableness of such worries. Russia and Kazakhstan leaders interact with each other in a different way than those in the West are accustomed to observing. Oral agreements and negotiation have huge sway and take precedence to the written word.<sup>83</sup>

Though he was not addressing Ambassador Herbst or his stated worries of potential Russian aggression, Putin gave a speech at the Seliger Youth Forum in 2014 where he mostly praised Nazarbaev as a nation builder. Other analysts emphasize that Putin and Nazarbayev have a close working relationship. It is possible that Putin's words in the Seliger speech could cause concern for Russian intentions should Nazarbayev leave the Presidency of Kazakhstan, but it is unlikely that Russia would treat Kazakhstan the same way it has treated Ukraine with the current leadership. The succession plan of Kazakhstan and future Russian action vis-à-vis the Central Asian neighbor is likely what concerns policymakers in the US government the most. In the present relationship of Russia vis-à-vis Kazakhstan, Nazarbayev is taking steps to retain good relations with Russia. These steps are small, as Nazarbayev does not have the personality to make drastic changes.<sup>84</sup>

Fretting aside, cooperation between the two countries will remain close and

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<sup>82</sup> John Herbst (John Herbst was a former Ambassador to Ukraine) spoke at the end of 2014 at a Harvard presentation that his contacts in the upper echelons of the US government were openly worried that Putin could drive his forces into Central Asia, particularly Kazakhstan.

<sup>83</sup> Nina Lazaridi (expert on Russo-Kazakhstan treaties) in discussion with author in February 2015.

<sup>84</sup> Vladimir Vepryev (regional expert) in discussion with author March 2015. English text of Putin's speech, "Seliger 2014 National Youth Forum," President of Russia website, Accessed online March 1, 2015, [eng.kremlin.ru/news/22864](http://eng.kremlin.ru/news/22864).

integrate further in certain spheres, namely economic. Kazakhstan is a founding member of the Eurasian Union as of January 1, 2015. The recent Eurasian Economic Union is one example of the increased cooperation between a few core members of the former Soviet Union.

Russia and Kazakhstan have friendly relations and have the best economic trade of any two post-Soviet states. The human agency of the two countries' leaders along with resources of energy, industrial production capabilities, and joint security concerns provide a base for cooperation. The geography and "mutually dependent industrial variables favor a strong relationship."<sup>85</sup> Russia and Kazakhstan were the first two countries to support the new arrangement of the CIS following the collapse of the USSR. Kazakhstan had every reason to cooperate with Russia given its high Russian ethnic population at the time, economic compatibility, and mutual defense interests. Nazarbayev was a shrewd leader, pragmatic, not a nationalist, and knew that Russia was the key to the region. Following the dissolution of the USSR Nazarbayev was briefly shocked but "regrouped quickly."<sup>86</sup>

Kazakhstan has a history of verbal agreements, including those in the energy and national security arenas.<sup>87</sup> This absence of formal written agreements in the Western textualist conception of law gives room for Western actors and observers to claim discord between Kazakhstan and Russia when there is none. There are medium to long-term concerns that when Nazarbayev's replacement takes over the government of Kazakhstan that the good personal relationship between Russian and Kazakh leaders may not be as

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<sup>85</sup> Nina Lazaridi (regional expert) in conversation with author December 2013.

<sup>86</sup> Quote from Nina Lazaridi (regional expert) in conversation with author December 2013. Martha Olcott, "Nursultan Nazarbayev and the Balancing Act of State Building in Kazakhstan," in *Patterns in Post-Soviet Leadership* (Boulder, San Francisco, Oxford: Westview Press 1995), 179.

<sup>87</sup> Some oil agreements are verbal with Kazakhstan according to Nina Lazaridi (regional expert) in conversation with author December 2013.



good. Whether or not Putin has confidence that Kazakh nationalism can be kept under control by Nazarbayev's successor is an open question.<sup>88</sup>

### Energy and Security Interests of Kazakhstan

Kazakhstan has three primary interests. It seeks to access Western technology and Chinese money to maximize the production and profitability of its resource sector, and it can do this by accessing Western technology and Chinese money. The authoritarian regime can use these hydrocarbon funds to increase the probability of domestic stability. Similarly, Kazakhstan does not want outside interference from the West in its domestic politics. Secondly, Kazakhstan wants to have multiple export routes for its oil and gas resources so that it is not unduly vulnerable to Russia's pipeline network. Finally, Kazakhstan seeks to balance the large powers' interests in its energy resources while managing its own identity and geographic realities. As discussed previously, Kazakhstan has a strong Russian identity, and it shares long borders with Russia and China.

Firstly, Kazakhstan wants to develop its hydrocarbon sector, and it has needed the expertise of Western companies. Ryan Kennedy wrote, "Kazakhstan needed technology, quick development and massive investment to develop its resources in order to turn around the economy and for Nazarbayev to survive politically."<sup>89</sup> The problem is that Western governments often want to interfere with the domestic situation of a country once they become aware of certain practices that do not conform to liberal economic and political thinking. It has used the leverage of Chinese firms to quiet loud concerns that

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<sup>88</sup> English text of Putin's speech, "Seliger 2014 National Youth Forum," President of Russia website, Accessed online March 1, 2015, [eng.kremlin.ru/news/22864](http://eng.kremlin.ru/news/22864).

<sup>89</sup> Ryan Kennedy, "Chinese Investment in Kazakhstan," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*, (New York: Routledge, 2010), 132.

Western powers have regarding its domestic politics. Chinese companies are willing to turn “a blind eye to corrupt practices or human rights issues” as long as the government is stable and they can confidently invest and then reap the energy sources that the Chinese economy needs.<sup>90</sup> Western governments must then decide if they are going to play by the new rules or be left out of the energy game. In this new great game it is Central Asia that seems to have the upper hand.

As discussed in the previous section on China, the Eastern powerhouse has a huge appetite for energy and it does not want to feel vulnerable with only one transport route for its energy. Therefore, Chinese companies are using their government connections and the surplus of foreign reserves that the government holds to pay a premium for projects that are more developed.<sup>91</sup> The Western firms have the expertise to develop oil and gas fields, while the Chinese have the money to buy resources closer to actual production. Additionally, the state oil company Kazmunaigaz has negotiated in a vigorous manner with all who enter the Central Asian country in search of riches.<sup>92</sup> Table 1 describes a few advantages that Chinese and Western firms separately bring to Kazakhstan.

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<sup>90</sup> Kennedy, “Chinese Investment in Kazakhstan,”122.

<sup>91</sup> Kennedy, “Chinese Investment in Kazakhstan,”122.

<sup>92</sup> Kennedy, “Chinese Investment in Kazakhstan,”132.

Table 3.

Comparative advantages of Chinese and Western energy producers.

Advantages of Chinese Companies	Advantages of Western Companies
1. Enter countries under sanctions	1. Expertise, especially on complex projects
2. Access to finance from state-owned banks	2. Arms-length relationship with politics
3. Side deals involving foreign aid and arms sales	3. Reputation of successful development
4. Lack of transparency	4. Comparatively good track record on environmental aspects
5. Not bound by anti-corruption laws	5. Model for Kazmunaigaz
6. No reporting requirements	6. Large independent resources
7. Less pressure for political reform	7. Support diversification of markets
8. Willingness to pay more for producing assets	

Source: Ryan Kennedy, ‘Chinese Investment in Kazakhstan’, *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*, (New York: Routledge, 2010), 127, table 6.3.

Secondly, Kazakhstan does not want to be vulnerable to Russia exercising control over the export routes of Kazakh oil and gas. In 2002, it signed a treaty with Russia to ship oil through Russian pipelines to reach global energy customers. Kazakhstan shipped more than 60 million tons of oil through Russian pipelines in 2007, or 80% of the 75 million tons of oil it produced in 2009.<sup>93</sup> Kazakhstan has accomplished the diversification of oil exports in two ways. Once the Kazakhstan-Chinese oil pipeline was completed in 2009 Kazakhstan was able to sell oil directly to China.<sup>94</sup> Also, in 2008 Kazakhstan began using tankers on the Caspian Sea to transport oil to the BTC pipeline, where it could then be transported to a terminal in Turkey and reach international markets. In the first nine

<sup>93</sup> Kazakhstan MFA (2011) “Kazakhstan Oil Production to Reach 75 Million Tons in 2009,” [www.mfa.kz](http://www.mfa.kz) (accessed 15 April 2011).

<sup>94</sup> Kennedy, “Chinese Investment in Kazakhstan,” 126.

months of 2009, Kazakhstan shipped approximately 1.3 million tons of oil across the sea and into the BTC pipeline.<sup>95</sup>

Finally, there is another important variable in the calculus that Kazakhstan must manage. In 2009 the population of Kazakhstan contained almost 24% ethnic Russians.<sup>96</sup> Furthermore, the urban population has been educated mostly in a Russian manner. The institutions and people are the most ‘Russified’ of any post-Soviet states except perhaps Kirgizstan.<sup>97</sup> According to a poll taken in 2005, 35% of Kazakhstanis said that they wanted “their country more aligned with China, compared with 79% who preferred closer alignment with Russia.”<sup>98</sup> Many people in Kazakhstan do not trust the Chinese government, companies, or people. Kazakhstan identifies closer with the Russians, and the leadership has made it a point to emphasize the close relationship that the two countries share.

Moreover, Kazakhstan shares a long border with both Russia and China. It has been careful to give these two countries access to energy resources in addition to Western firms. For example, Kazakhstan and Russia signed an agreement in 2002 to develop three oil fields in the border region, namely the Kurmangazy, Tsentralnoe, and Khalynskoe fields.<sup>99</sup> Kazakhstan gave considerable respect to Russia by allowing them to have access to fields that had previously been part of a border dispute. Kazakhstan also seems to

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<sup>95</sup> Alexander’s Gas & Oil Connections (2011) “BTC Pipeline Reports on Transportation of Kazakh Oil,” [www.gasandoil.com](http://www.gasandoil.com) (accessed 21 April 2011).

<sup>96</sup> Republic of Kazakhstan Statistical Agency (2010), “Census for Republic of Kazakhstan 2009 Short Summary,” [www.stat.kz](http://www.stat.kz) (retrieved 10 December 2010).

<sup>97</sup> Notes from talking with Professor Colton, April 2011.

<sup>98</sup> Kennedy, “Chinese Investment in Kazakhstan,” 126.

<sup>99</sup> Indra Overland and Stina Torjesen, “Kazakhstan’s and Turkmenistan’s Energy Relations with Russia,” *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 137.

recognize Russian “aspirations for great-power status in global affairs” and they have followed Russia where it has cost them little and signaled to Russia support.<sup>100</sup>

Kazakhstan is allowing the three main interested powers, Russia, China and the West, to each have a piece of its hydrocarbon sector. It is pursuing close relations with Russia while allowing Western firms to use their expertise to develop energy resources, and also allowing China to buy into the oil production sector. China is furthermore exporting oil through the new Kazakhstan-Chinese oil pipeline. In masterfully giving a piece of the pie to those who ask for one, it has accomplished the multipronged goals of expanded access to markets, technical expertise to develop its hydrocarbon sector, and limiting the interference it receives in its domestic politics. The oil rich Central Asian State is emphasizing its close identity and geographic ties to Russia while assuring it has multiple paths for the oil to flow to customers. It is experiencing a huge boom economically as the global demand for energy gives the landlocked country seemingly large power over three truly powerful interests. Kazakhstan has balanced the interested of the three larger powers in a shrewd manner.

## Turkey

Leaders met in Prague in 2009 to discuss a new Silk Road that would once again bring resource riches to European customers.<sup>101</sup> This route would transport natural gas from several upstream sources and pipelines in the East through a long pipeline across

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<sup>100</sup> Overland and Torjesen, “Kazakhstan’s and Turkmenistan’s energy relations with Russia,” 137.

<sup>101</sup> Much of the material of this chapter was submitted for publication in the journal article titled, “Turkey as an Energy Hub for the Southern Gas Corridor,” SEER Journal for Labor and Social Affairs in Eastern Europe, submitted and expected for publication Spring 2015. Javier Solana, “Remarks by Javier Solana, EU High Representative for the Common Foreign and Security Policy, at the ‘Southern-Corridor – New Silk Road’ Summit” (speech given at the Southern Corridor – New Silk Road Summit, Prague, Czech Republic, May 8, 2009).

Turkey to EU markets in the West. The EU continues to have high hopes for Southern Gas Corridor (SGC) as part of its energy supply diversification strategy. In a rhyme of the thirteenth century resurgence of trade, Turkey finds itself sitting in between Eastern suppliers and Western buyers of the valuable commodity that powers factories and warms homes.

The implementation phase of the SGC began in 2014, though with a smaller gas supply base than what policymakers in Prague had hoped to achieve. Turkey recently awarded contracts to steel producers for the 1841 km Trans-Anatolian Natural Gas Pipeline (TANAP).<sup>102</sup> In September 2014 the Azerbaijani President inaugurated work on the Southern Caucasus Pipeline Expansion (SCPX) that will feed TANAP and Turkish domestic demand in 2018.<sup>103</sup> A year later the Trans Adriatic Pipeline (TAP) is scheduled to deliver Caspian Sea gas to European markets via Greece and Italy. The SGC project in its current status is insufficient to meet the EU's strategic energy diversification objective due to gas supply limitations feeding into TANAP and expected continued increased Turkish domestic demand. Moreover, in 2019 Russia is not likely to lose the geopolitical leverage that it holds over Europe, Eastern European countries in particular, as the region will maintain dependence on Russian supplied energy. Russia cancelled its South Stream project in December 2014 and indicated the same month that it will use Turkey as a route to ship additional gas instead of the Black Sea and Bulgaria project.<sup>104</sup> The current

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<sup>102</sup> Seyma Eraz, "Majority of TANAP entrusted to 6 Turkish Companies," *www.dailysabah.com*, last modified October 15, 2014, <http://www.dailysabah.com/energy/2014/10/15/majority-of-tanap-entrusted-to-6-turkish-companies>.

<sup>103</sup> "Turkey, Azerbaijan break ground for Trans-Anatolian Gas Pipeline," *www.hurriyetdailynews.com*, last modified September 20, 2014, <http://www.hurriyetdailynews.com/turkey-azerbaijan-break-ground-for-trans-anatolian-gas-pipeline.aspx?PageID=238&NID=71968&NewsCatID=348>.

<sup>104</sup> On December 1, 2014 Putin attended the High Level Cooperation Council between the Russian Federation and the Republic of Turkey. Putin also met with the President and Prime Minister of Turkey the

regional geopolitical events make the outcome of this particular situation uncertain.

Russia is unlikely to take reprisal action against any country participating in the SGC before 2020, but it swiftly walked away from five billion dollars in investment costs on South Stream when the leadership perceived that Russia's interest had changed.

### Motivations of Russia and Europe vis-à-vis the SGC

In the mid 2000s Russia aggressively clawed its way back onto the world stage after spending a decade and a half of irrelevancy due to institutional dysfunction and cheap hydrocarbon prices. Throughout the second half of the 2000s oil prices steadily increased and Russia systematically rebuilt its state infrastructure and intangible confidence. Marshall Goldman says, "Russia has not hesitated in the past to cut off the flow of both petroleum and gas to strengthen its side of a political dispute."<sup>105</sup> Indeed, Russia has used its hydrocarbon resources to pressure countries in foreign policy interests and is even now raising the stakes through "special war" techniques when these threats are not enough.<sup>106</sup> Goldman argues that hydrocarbons are essential to Western economies and that this gives Russian leadership significant leverage. A major foreign policy goal of the Russians is to maintain this political leverage over Europe that hydrocarbon and

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same day for private talks and a public press conference. The same day he announced the cancellation of the South Stream gas project. The clear unsaid message is that Turkey will be the new conduit for Russian gas into Europe. The replacement pipeline to South Stream is likely to be a parallel pipeline to Bluestream or a new build in Turkey, from conversation with Morena Skalamera March, 2015. "Встреча с Премьер-министром Турции Ахметом Давутоглу," Translated "Meeting with Prime Minister of Turkey Ahmet Davutoglu," President of Russia News, December 1, 2014 <http://kremlin.ru/news/47127>.

<sup>105</sup> Marshall Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2010), 3.

<sup>106</sup> Special war refers to "an amalgam of espionage, subversion, ... forms of terrorism to attain political ends without actually going to war in any conventional sense." John Schlinder, "The Coming Age of Special War," *20Committee.com*. Last modified September 20, 2013. Accessed October 4, 2014 <http://20committee.com/2013/09/20/the-coming-age-of-special-war/>.

pipeline resources provide Moscow.

In this context Europe wishes to diversify the sources from where it purchases its gas supplies, as gas is not fungible and supplies are hard to replace in the short term.<sup>107</sup>

The EU hopes that by having a broad and diverse gas supplier base it will reduce reliance on Russia and diminish the geopolitical power that this reliance gives Moscow. Many European countries rely on Russia for imported gas, and Eastern European countries in the Russian near abroad are specifically highly reliant on Gazprom pipelines full of Russian energy for domestic consumption needs and gas transit obligations to neighboring European countries. It is important to note that the specific energy mix of each of these Eastern European countries matters when discussing energy geopolitics. For example, Poland imports all of its gas from Russia, yet only uses gas for ten percent of its energy produced as it mostly relies on domestically produced coal.<sup>108</sup> Table 4 shows a selection of vulnerable European states reliant on Russian gas, whether for domestic consumption or transit purposes.

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<sup>107</sup> Skalamera, “China’s Energy: Getting It There.”

<sup>108</sup> Brenda Shaffer, “Energy as a Tool of Foreign Policy” (presentation, Kennedy School International Security series at Harvard University, Cambridge, MA, October 20, 2014).



Table 4.

Gas import dependency in Central and Southeastern Europe. Jack Sharples and Andy Judge compiled a table of gas import dependency in Central and South-Eastern Europe for 2012. These countries are vulnerable to Russian pressure without alternative gas supplies.

Country	Gas import dependency	Share of Russia in gas imports	Share of Russia in consumption
Slovenia	100.0%	60.2%	60.2%
Greece	100.0%	55.6%	55.6%
Slovakia	98.4%	83.5%	82.2%
Czech Republic	98.0%	58.6%	57.5%
Bulgaria	97.7%	100%	83.3%
Italy	88.5%	32.6%	28.9%
Austria	78.9%	76.1%	60.0%
Hungary	78.2%	100.0%	78.2%
Poland	72.0%	81.3%	58.6%
Croatia	34.5%	N/A	N/A
Romania	24.3%	100.0%	24.3%
Average	79.1%	68.0%	53.5%

Source: Jack Sharples and Andy Judge, March 13, 2014, accessed October 15, 2014: <http://blogs.lse.ac.uk/europpblog/2014/03/13/bulgaria-macedonia-and-romania-would-be-hardest-hit-by-a-suspension-of-russian-gas-exports-through-ukraine/>. Data sourced from Eurogas:

[http://www.eurogas.org/uploads/media/Eurogas\\_Statistical\\_Report\\_2013.pdf](http://www.eurogas.org/uploads/media/Eurogas_Statistical_Report_2013.pdf)

## Southern Gas Corridor Project

Journalists report that Russia and Ukraine have solved the gas dispute for the upcoming winter, yet the winter of 2014-15 still could be a repeat of the gas cutoffs of 2006 and 2009.<sup>109</sup> Leaders of Central and Eastern European countries are scrambling to make contingency plans should the worse case happen. One short-term measure that EU policymakers could do should Gazprom turn off the gas would be to backfill Eastern European gas pipelines from German supplies. Longer term, the EU sees a need to have robust gas supply diversification and the SGC is a main part of this effort.<sup>110</sup> European Commission President Jose Manuel Barroso said in June 2014 that the SGC is a priority project for the EU and an important source of energy supply diversification. The EU would like the SGC to be operational by 2019.<sup>111</sup>

Turkmenistan has some of the largest gas fields outside of the Middle East and Russia. In the late 2000s, Turkmenistan made deals with China to ship the gas east. Recently, Turkmenistan signed yet another deal with China to increase gas supplied to the Asian powerhouse. The current agreement is for the soon to be four pipelines to carry up to 65 bcm per year of gas from the Caspian Sea Central Asian country to China by 2020.<sup>112</sup> This large amount of gas combined with a presumably large quantity of gas from

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<sup>109</sup> Barbara Lewis, "Ukraine, Russia, EU energy chiefs meet to finalize gas deal" [www.reuters.com](http://www.reuters.com), Last modified October 21, 2014. <http://www.reuters.com/article/2014/10/21/us-ukraine-crisis-gas-idUSKCN0IA17920141021>.

<sup>110</sup> Javier Solana, "Remarks by Javier Solana, EU High Representative for the Common Foreign and Security Policy, at the 'Southern-Corridor – New Silk Road' Summit" (speech given at the Southern Corridor – New Silk Road Summit, Prague, Czech Republic, May 8, 2009).

<sup>111</sup> "Barroso: EU, Azerbaijan to Accelerate Southern Corridor Project," Radio Free Europe Radio Liberty, June 15, 2014. Accessed online October 3, 2014.

<sup>112</sup> Huseyn Hasanov, "Gas Pipeline from Turkmenistan to China to be Completed in 2016,"

properly developed Iraqi fields to supply the SGC could have concretely changed the power equation of Russia vis-à-vis Europe. Alas it was not to be and the SGC is now scheduled to rely on Azerbaijan Caspian Sea gas production alone. The undersea Shah Deniz II gas field with an expected output by 2019 of 16 bcm will supply the SGC project, through the SCPX, TANAP, and TAP pipeline systems.<sup>113</sup> Shah Deniz is expected to produce a volume of 16 bcm per year of gas starting in 2019 and deliver this gas through the SGC are to be divided as follows: Turkey will receive six bcm, Bulgaria and Greece will each split one bcm per year, and Italy will receive nine bcm per year, of which it will probably absorb most of this delivery for its own consumption rather than export it to other Central and Eastern European countries. Bulgaria will receive roughly one half bcm per year, and this will equal 25 percent of its 2012 gas consumption and imports.<sup>114</sup> Greece will receive the equivalent of 12 percent of its 2013 gas imports from the SGC project while the 9 bcm delivered to Italy through TAP would equal almost 15 percent of its 2013 imports should it consume all of the gas domestically rather than transit the gas to Austria or beyond. The amount gas delivered to these countries is not enough to change the geopolitical game, but can provide additional supplies should there be technical difficulties in deliveries from other gas suppliers. Gas delivery systems are extremely complex and it is not uncommon to have temporary shutdowns for technical reasons so the SGC will add to a technical uptime mission of gas delivery even if it does

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*www.en.trend.az*, Last modified October 21, 2014, Accessed online October 21, 2014: <http://en.trend.az/casia/turkmenistan/2324446.html>. Morena Skalamera, "China's Energy: Getting it There – Pipelines, CSR, and Other Challenges Part 2," Youtube Video, 51:16, posted by "columbiauniversity," April 28, 2014, <http://www.youtube.com/watch?v=XL65nvYWMCg>.

<sup>113</sup> "Shah Deniz Stage 2," *www.bp.com*. Accessed online October 15, 2014. [http://www.bp.com/en\\_az/caspian/operationsprojects/Shahdeniz/SDstage2.html](http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage2.html).

<sup>114</sup> Brenda Shaffer, "Energy as a Tool of Foreign Policy" (presentation, Kennedy School International Security series at Harvard University, Cambridge, MA, October 20, 2014).

not change the European Russian strategic energy calculus.<sup>115</sup>

### Turkish Interests

Turkey imports nearly all of the natural gas that it uses. Moreover, figure one shows that during the past ten years domestic gas consumption has doubled making a reliable and diverse supply increasingly important to Turkey.<sup>116</sup> Thus, Turkey is pursuing a primary interest to further diversify its own gas imports in the face of increasing domestic demand by participating in the SGC project. As a secondary interest, Turkey would like to capture transit fees in the long-term, though there will not be significant transit fees in 2019 with the initial transit of 10 bcm of gas to Europe. Later increases in the volume of gas transported by the SGC project would lead to substantial fees, as much as \$3 billion per year.<sup>117</sup>

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<sup>115</sup> Brenda Shaffer, “Energy as a Tool of Foreign Policy” (presentation, Kennedy School International Security series at Harvard University, Cambridge, MA, October 20, 2014).

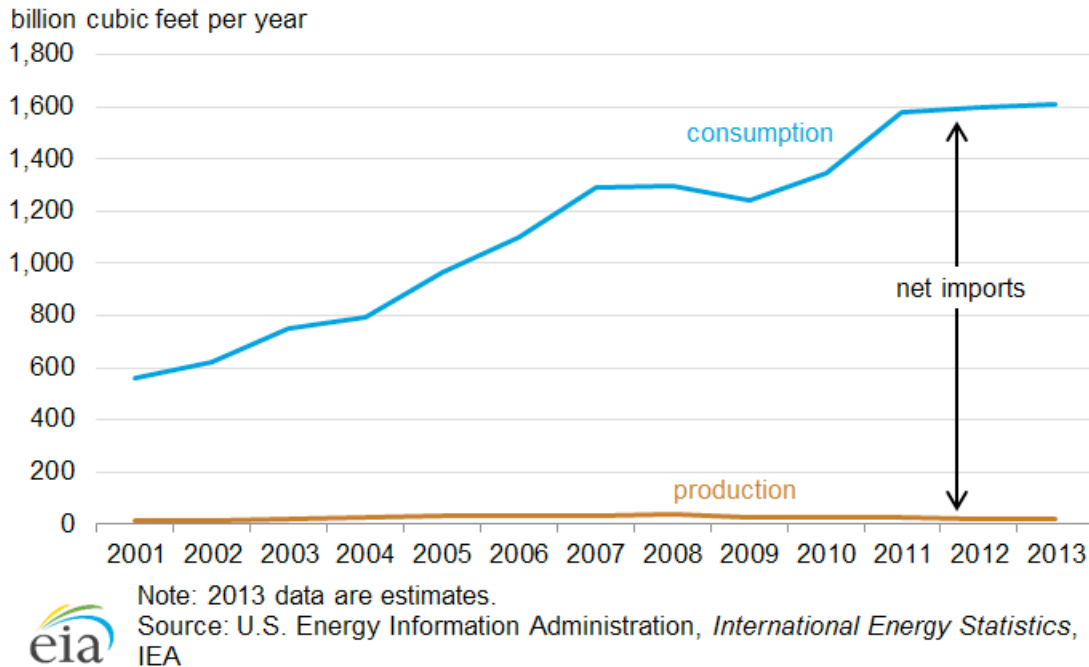
<sup>116</sup> “Turkey,” *www.eia.gov*, Last updated April 17, 2014, Accessed online October 15, 2014. <http://www.eia.gov/countries/cab.cfm?fips=tu>.

<sup>117</sup> Abduelkadir Karakelle, “TANAP to Provide Energy Security to EU, Turkey: Experts,” *www.dailysabah.com*, last modified September 21, 2014. <http://www.dailysabah.com/energy/2014/09/21/tanap-to-provide-energy-security-to-eu-turkey-experts>.

Figure 1.

Turkey natural gas consumption and production, 2001-13. This EIA produced graph shows that Turkish consumption of natural gas has doubled in the last ten years without any increase in domestic production. Turkey must import nearly all the gas that it uses.

### Turkey natural gas consumption and production, 2001-13



Source: EIA Analysis on Turkey, last modified April 17, 2014. Accessed online:

<http://www.eia.gov/countries/cab.cfm?fips=tu>

From Turkey's perspective, a higher priority is to diversify its own gas supplies before transporting gas on to Europe. Turkish domestic gas usage has significantly increased in the last ten years, and it imports virtually all of this gas, mainly from Russia through two pipelines, and Azerbaijan and Iran through the BTE pipeline. It imports some gas through LNG terminals from African nations and Qatar.<sup>118</sup> The Russian

<sup>118</sup> "Turkey," [www.eia.gov](http://www.eia.gov), Last updated April 17, 2014, Accessed online October 15, 2014. <http://www.eia.gov/countries/cab.cfm?fips=tu>.

pipelines are Blue Stream running south through the Black Sea and the Western Pipeline that runs from Bulgaria.

In 2012 Turkey imported 56 percent of its gas from Russia, 18 percent from Iran, 18 percent from Azerbaijan, and 16 percent of its gas in the form of LNG delivered mostly from Qatar and Algeria. The LNG imports are mostly long-term contracts. Turkey used 45 bcm of gas in 2012 and imported roughly 26 bcm from Russia. Turkey uses just under half the gas for power production, about a fifth for industrial uses, and the remainder for residential and commercial use.<sup>119</sup> The six bcm that it will get delivered from the SGC starting at the end of 2018 will further help to diversify and stabilize its gas supply in the face of technical disruptions. Additionally, gas is now the largest part of the Turkish “energy mix” making a diversified stable supply ever more important. Finally, Turkey has highly seasonal gas demand but only a five percent storage capacity compared to its annual usage.<sup>120</sup> This makes it even more dependent on a diverse supply to meet its own needs, and it would be unable to supply consumer countries for any length of time should supply disruptions occur. This is in contrast to countries like Germany or France that have much larger storage capacities.

There is a movement for Turkey to produce gas domestically from shale deposits and estimates vary widely of the total gas that could be produced. Proven reserves are a miniscule 7 bcm as of 2013 while some analysts claim that shale gas reserves could be

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<sup>119</sup> Consumption mix: Power 48%, Industry 21%, Residential 20%, Commercial 6%, Transport 1%. Source: “Turkey,” *www.eia.gov*, Last updated April 17, 2014, Accessed online October 15, 2014. <http://www.eia.gov/countries/cab.cfm?fips=tu>.

<sup>120</sup> “Turkey,” *www.eia.gov*, Last updated April 17, 2014, Accessed online October 15, 2014. <http://www.eia.gov/countries/cab.cfm?fips=tu>.

three thousand times as much.<sup>121</sup> Even if shale gas field development is successful, Turkey has an antiquated and limited gas pipeline system so it would be difficult to transport the gas everywhere that it is needed within Turkey or to easily export from the newly developed fields to European customers. Turkey would need to spend large sums of money to improve its pipeline system and increase its coverage and capacity both for bringing domestic gas production to its internal market and also moving gas from the production fields to external customers.

This NATO member plays a major role in the politics of the Eastern Mediterranean and an increasingly important role to the Northeast of its border. Policymakers and academics in Europe and the United States are heavily invested in the idea of a Southern Gas Corridor that would bring Azerbaijani gas to Europe through Turkish pipelines, and political factors could play a larger role in the reliability of Turkey as a transport partner in future years.<sup>122</sup>

#### Future Projects and Problems

The ambitious plans of the Prague conference for the SGC were reduced as the conflict in Iraq continued and Turkmenistan looked to the East to sell gas. However, there exist future possibilities to increase the amount of gas delivered to Europe through the SGC as supplier countries increase gas produced or even new supplies become available.

The main prospects of gas that could be supplied to the SGC in the future include

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<sup>121</sup> Orhan Coskun, "ExxonMobile in Talks with Turkey over Shale Gas Exploration," *www.reuters.com*, Last modified June 23, 2013, Accessed online October 21, 2014: <http://www.reuters.com/article/2014/06/23/exxon-mobil-turkey-idUSL6N0P425520140623>.

<sup>122</sup> Morena Skalamera, (post-doctoral Research Fellow, Geopolitics of Energy Project at Harvard University) in discussion with author, October 2014.

production from the Azerbaijani Shah Devin II field, extraction from domestic shale gas fields in Turkey, exploitation of the newly found offshore gas fields in the Levant Basin in the Eastern Mediterranean Sea, and transportation of Turkmenistan gas west through a future undersea Caspian Sea pipeline.

Azerbaijan already has plans to increase production in the Shah Deniz II field beyond 2019, when it plans to produce and export 16 bcm per year of gas. By 2025, there are plans to export 32 bcm of gas that will be delivered to Turkey, Italy, Greece, Bulgaria, and other countries in Europe.<sup>123</sup> Turkey is likely to absorb a portion of this newly provided gas as the EIA report on Turkey says, “in the long run, Turkey’s need to satisfy rapidly growing domestic demand consumption could affect the country’s position as a gas transit state.”<sup>124</sup> There is a question of how much gas Turkey will take out of TANAP as it continues to gasify its economy. Turkey as a transit state is in a position of leverage over the consumption and supplier states and it has used this power to achieve political goals in the past.<sup>125</sup> Turkey may begin to produce gas domestically but there are problems in this scenario including an inadequate pipeline infrastructure to carry such gas to market.<sup>126</sup>

The 2016 gas production of the Israeli Tamar and Leviathan gas fields will not be enough to satisfy the needs of Europe in a significant way. However, the total reserves in

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<sup>123</sup> Artem Krashakov, “Perspectives of Trans-Caspian Pipeline: Business View,” *www.naturalgaseurope.com*, Last modified April 7, 2014. Accessed online October 21, 2014: <http://www.naturalgaseurope.com/perspectives-of-trans-caspian-project-business-view>.

<sup>124</sup> “Turkey,” *www.eia.gov*, Last updated April 17, 2014, Accessed online October 15, 2014. <http://www.eia.gov/countries/cab.cfm?fips=tu>.

<sup>125</sup> Brenda Shaffer, “Energy as a Tool of Foreign Policy” (presentation, Kennedy School International Security series at Harvard University, Cambridge, MA, October 20, 2014).

<sup>126</sup> “Turkey,” *www.eia.gov*, Last updated April 17, 2014, Accessed online October 15, 2014. <http://www.eia.gov/countries/cab.cfm?fips=tu>.



the Levant Basin are substantial with estimates between 50 and 230 trillion cubic feet or 1400 to 6500 bcm.<sup>127</sup> Should there be additional large-scale exploitation of new gas fields in the Levant Basin the geopolitical situation could drastically change, and it might be inevitable that Cyprus, Israel, or both might hook their production pipelines into the SGC. In this scenario due to the trajectory of Turkey's domestic and foreign policies away from Israel and the frozen conflict with Cyprus the supply would most likely join TAP rather than TANAP. A long undersea pipeline would then be needed and this again raises the minimum threshold of the size of the gas field needed and annual production capability to justify an extremely expensive undersea 800km pipeline.

In some scenarios, analysts see that Turkmenistan could produce enough gas to supply China and Europe. However, with the recent upgrade to the Sino-Turkmen deal with up to 65 bcm per year of gas, I do not think this is a likely scenario, especially because China owns equity stake in the newly developed fields that are producing gas and sending it east.<sup>128</sup>

## The Turkish Factor

Clever negotiating by Turkmenistan to ship its gas to China and maximize its

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<sup>127</sup> Brenda Shaffer (Professor at University of Haifa) in conversation with author at the end of her presentation at the Kennedy School at Harvard University, October 2014. She indicated in her presentation that Israel is using its new gas production for energy intensive desalination efforts that have effectively ended the water shortage for Israel and neighbors with which it has made trade deals. She also mentioned in a post-presentation conversation with the author that she advised the Israeli government to not supply gas to any Russian customers, as it would be wise to not involve itself in Russia's sphere of influence due to fear of Russian repercussions. Conversation with Brenda Shaffer October 2014. For scale, estimated reserves in the Levant Basin are roughly one quarter of Qatari proven gas reserves. "Assessment of Undiscovered Oil and Gas Resources of the Levant Basin Province, Eastern Mediterranean," USGS, March 2010, <http://pubs.usgs.gov/fs/2010/3014/pdf/FS10-3014.pdf>.

<sup>128</sup> Artem Krashakov, "Perspectives of Trans-Caspian Pipeline: Business View," *www.naturalgaseurope.com*, Last modified April 7, 2014. Accessed online October 21, 2014: <http://www.naturalgaseurope.com/perspectives-of-trans-caspian-project-business-view>.

profits has eliminated the possibility for a trans-Caspian undersea gas pipeline that would have added significant gas supplies to the Southern Gas Corridor in the near future. Chaotic circumstances in Iraq attest that no gas will be flowing from the South to fill TANAP. Only the Western Caspian Sea remains, and Azerbaijan will be the supplier to TANAP with a relatively meager amount in the face of enormous European demand. Though it hopes to double the supply from 16 bcm in 2019 to 32 bcm by 2025 Turkey, Italy, and other European countries would be likely to absorb this capacity before it reached vulnerable Russian near abroad countries with the one exception of Bulgaria and the roughly half bcm it is allocated per year from the SGC.

The SCPX, TANAP, TAP pipeline network export gas capacity to Europe is too little to raise grave concern from Russia in the short term but longer term it poses a threat. Russia took action in late 2014 to counter the supply factor of the SGC by announcing the cancellation of the South Stream project. Russia will remain in a strong position, as the TANAP will not have enough gas to “circle around the horn” and provide supply to Eastern European Countries close to the sphere of influence of Russia. Each country along the way from TAP terminus to vulnerable Eastern European states is likely to use increasing amounts of gas from the SGC for their own domestic purposes, first Italy, then Austria, and likewise. There will only be 9 bcm to share after Greece and Bulgaria take their portion, and these other countries will quickly absorb the remainder. Romania and Poland as two examples will not benefit in any appreciable way from TANAP. Russia will retain substantial leverage in these countries, and have additional time to build its own supply pipelines that could feed into TANAP, possibly squeezing out Azerbaijan as a gas supplier and making sure that any Caspian Sea gas pipeline from Turkmenistan

remains not feasible in the future. Additionally, Russia will pursue its goal to reduce Ukrainian transit leverage over the European gas supply.

New gas field finds and exploitations might offer a different future. Turkish domestic gas production, including shale gas production could solve much of its own domestic needs and allow for the importation of Azerbaijani gas into Europe. The Turkish domestic needs are quite high and increasing each year, and Turkey would have to vastly improve its pipeline infrastructure and build robust shale production outfits to fully supply its needs. This domestic plan is costly, in finding and gathering the gas, and then improving the pipeline infrastructure. However, should Turkey make the commitment, it would help Europe achieve the strategic gas supply diversification goal. A scenario of an extremely large-scale gas find in the Eastern Mediterranean is unlikely but would have enormous geopolitical impact should it occur. Russian little green men might once again be seen, this time south of the Russian homeland.

#### Additional Relevant Players

Four more countries in the region add to the calculus of the foreign policy dilemma that the leaders of Turkmenistan and Azerbaijan must solve. Iran is a regional power of growing influence and possible future gas supply competitor, India enters the picture on the gas demand side of the equation, Israel is a wildcard depending on new geological discoveries, and Georgia provides an example for policymakers on what not to do vis-à-vis Russia.

## Iran

Barbarity has a new icon in the horrific terroristic organization of ISIS. Rolling heads make for partners out of necessity. The civilized peoples of the Arab and Persian lands along with their post-colonial masters are allying themselves in a tentative manner to fight and control the death cult from spreading. US Special Forces and Iranian Republican Guard units fight the same enemy in the same streets although publicly the two countries are not admitting to working together.<sup>129</sup> The Iranian position vis-à-vis the West has been strengthening over the past decade and will continue to strengthen. Iran has vast gas reserves although largely undeveloped. It currently exports gas mainly to Turkey and does not have the infrastructure for other customers, to deliver gas by pipeline or LNG.<sup>130</sup> This could change in the long term depending on if its relationship with the West continues to thaw, resulting in an increase in Western technological know-how for capturing its hydrocarbon resources. Iran is another country that is a possible source of gas for the European Southern Gas Corridor eventually, or it could direct gas exports to India.

## India

The largest democracy in the world is on an economic growth trajectory that continues to take the best of British industriousness while throwing off the remaining shackles of colonialism. While corruption remains a major hurdle high level Indians are

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<sup>129</sup> The Iranian commander of the Revolutionary Guard “Quds” Force is leading the operation to capture Tikrit from Isis Militants. US officials gave positive statements on this action without admitting cooperating with the Iranians. “Iraqi forces seek to encircle IS fighters in Tikrit,” March 4, 2014, BBC News, <http://www.bbc.com/news/world-middle-east-31727470>.

<sup>130</sup> “Iran Country Analysis Brief Overview,” [www.eia.gov](http://www.eia.gov), Accessed online March 2, 2015, <http://www.eia.gov/countries/country-data.cfm?fips=ir>.

fighting graft and illegal rent-seeking behavior through activism and high-level lawsuits.<sup>131</sup> The billion people living in close proximity means that economic activity results easily seen externalities particularly in environmental concerns. As a result of this economic growth and need for relatively clean energy to protect the environment gas demand is soaring. This means that India is taking gas off of the world market and has the potential to be a customer to future gas finds in the Caspian Sea region. India's growth and demand for gas is one reason why the Chinese made a deal with Russia in 2014 to secure long-term gas contracts from Russia. The Chinese realized that in the coming years and decades India will be a direct competitor to purchase gas and therefore China decided to secure their own supplies for the next thirty years.<sup>132</sup> India also has the possibility to absorb gas that otherwise could transit to Europe, thus providing a circuitous route for Central Asian gas to flow in the interest of Russia.

The recently elected Modi administration is taking a pragmatic approach to its own international relations and this means the possibility for certain repaired relations. Policymakers in the United States have a chance to solidify good relations with India, although recent diplomatic hiccups are speed bumps in the road to closer ties.<sup>133</sup> India is reaching out to other relevant countries in the region, and Israel in particular is making an effort to improve relations. Azerbaijan and Turkmenistan would also benefit from a

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<sup>131</sup> Subramanian Swamy (expert on economics, corruption, and former high level minister of India) in lecture notes July 2011. For a comprehensive rundown of Indian economic development see: Subramanian Swamy, *Economic Development and Reforms in India and China: A Comparative Perspective* (New Delhi: Har-Anand Publications. 2010).

<sup>132</sup> Morena Skalamera, "China's Energy: Getting it There – Pipelines, CSR, and Other Challenges Part 2," Youtube Video, 51:16, posted by "columbiauniversity," April 28, 2014.

<sup>133</sup> Vladimir Vepryev (regional expert) in discussion with author February 2015. This author was in the same German-language training class at the Goethe Institute in Berlin in 2002 with an Indian Diplomat named Devyani Khobragade. In December 2013 Dr. Khobragade was arrested in seeming violation of standard diplomatic practice over a housemaid visa issue. This incident severely insulted the Indian government.

closer relationship with India should they make this a priority. Russia would not necessarily be apposed to such actions by the former Soviet Union Caspian Sea countries, as again, gas flowing south does not interfere with the Russian energy power lever vis-à-vis Europe.<sup>134</sup> Russia wants control over the gas that flows into Europe and they would welcome gas from Central Asia and the Caspian Sea effectively taken off the market to Italy and Bulgaria as two examples.

## Israel

Israel is a Middle Eastern regional power that has potential for more influence in the energy gas equation, depending on the choices of policymakers and the concrete exploitation of new fields within the Levant Basin. In 2013 Israel became self-sufficient for its domestic energy needs.<sup>135</sup> The Tamar and Leviathan fields by themselves do not hold enough reserves to significantly supply European gas needs even when both fields are online in 2016. As explained in a previous chapter, there is the potential to exploit additional large gas fields that would provide the output to supply Europe with a robust percentage of its annual gas demand.<sup>136</sup>

Israel is a wild card in the geopolitics of the region for the next decade. There is the possibility in ten years given fortuitous gas field finds and exploitations in the Levant Basin that Israel could position itself as an alternative gas source for Europe. Gazprom and the Russian leadership would take steps to close the European customer as an option

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<sup>134</sup> Vladimir Vepryev (regional expert) in discussion with author February 2015.

<sup>135</sup> Brenda Shaffer, “Energy as a Tool of Foreign Policy” (presentation, Kennedy School International Security series at Harvard University, Cambridge, MA, October 20, 2014).

<sup>136</sup> “Assessment of Undiscovered Oil and Gas Resources of the Levant Basin Province, Eastern Mediterranean,” USGS, March 2010, <http://pubs.usgs.gov/fs/2010/3014/pdf/FS10-3014.pdf>.

for the Eastern Mediterranean supplier.

## Georgia

Finally, Georgia is the example of what not to do in a country's foreign policy choices vis-à-vis Russia. The burning wreckage of the Georgian army and destroyed apartment flats in 2008 was a stark reminder of the terrible consequences that can come when a leader misjudges both Russia's resolve and the West's willingness to face the bear. Mikheil Saakashvili is lucky to be alive after his CNN adventures calling on live television for help while screeching fighter attack aircraft flew overhead Tbilisi and drowned out his voice. He is now in obscurity after his humiliation when the tanks rolled into his country. President Bush was no friend of his when it mattered, and the photograph of the US President playing beach volleyball in Beijing with the American Women's team instead of taking the frantic phone call from a leader who had counted on US power to protect him displayed to the world the limits of US intervention.<sup>137</sup> Still, Georgia did receive Western diplomatic support during the war in 2008 particularly from France, and the vast majority of the population in Georgia supported Saakashvili. Georgia represents that it is metal and armor that matter more than words. Putin used his newly rebuilt forces to great effect then, and he continues to use his increasingly competent forces now in Ukraine.

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<sup>137</sup> While at the 2008 Olympic Games in Beijing President Bush told Putin that the Georgian war was "unacceptable." "Bush Condemns Russia's Attack on Georgia," August, 10, 2008, [www.cbsnews.com](http://www.cbsnews.com), Accessed March 1, 2015, <http://www.cbsnews.com/news/bush-condemns-russias-attack-on-georgia/>.

## Chapter IV

### Turkmenistan

Central Asia was the origin of the Turkish people according to some accounts.<sup>138</sup> It is also widely understood that the Turks are some of the best negotiators in the world, as any businessman who has negotiated in Istanbul could relate. Turkmenistan is true to this reputation, and it has made the best out of a seemingly weak position. The landlocked country has used the unrelenting energy demands from China and the threat of new customers from the West to gain vast wealth in a short period of time all originating from its gas fields near the Caspian Sea. Additionally, Xi Jinping's efforts at building increased overland links to Europe and throughout Central Asia mean that Turkmenistan's actual position is now stronger than five years previously.

#### Energy Demand from China

Historically, Russia and its gas pipeline resources provided the only avenue to market of Turkmen gas. Russia enjoyed not only a monopoly on the gas lines to its European customers; it had the power over the gas supplier Turkmenistan. Russia used this power and in 2006 paid roughly \$50 per TCM for Turkmen gas, far under the market price.<sup>139</sup> However, Russia saw that the Turkmenistan-China gas pipeline was being built

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<sup>138</sup> Dominic Lieven writes about the origin of the Turkish people in his section about the Ottoman Empire. Dominic Lieven, *Empire: The Russia Empire and Its Rivals* (New Haven: Yale University Press: 2002).

<sup>139</sup> Indra Overland and Stina Torjesen, "Kazakhstan's and Turkmenistan's Energy Relations with Russia," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*, (New York: Routledge, 2010), 141. Figure 7.1.



during this time, and it was clear that it would be complete in 2009. In anticipation of this, Russia signed an agreement on January 1, 2009 to pay “market prices for natural gas from Turkmenistan.”<sup>140</sup> Russia agreed to increase its payments from \$50 per TCM to roughly \$400 per TCM by 2009 because it realized that the Central Asia-China gas pipeline would soon be complete and Turkmenistan would have an option of whether or not to sell to Russia. In November of 2009, the first pipeline of the parallel pipeline project was completed and in December of 2010 the second phase was completed. The second phase extended access to Kazakhstan to ship gas to China.<sup>141</sup> The capacity of the new pipeline from Turkmenistan to China is up to ten billion cubic meters (bcm) in 2010. In 2013 pipeline C was completed adding an additional 25 bcm transport capacity and in 2016 construction began on pipeline D, bring the maximum capacity for gas export out of Turkmenistan and Kazakhstan to China to total of 85 bcm per year.<sup>142</sup>

In 2009 Turkmenistan has a production capacity of 72 bcm, and could export roughly 55 bcm of this gas.<sup>143</sup> China is helping Turkmenistan increase both its gas production and transportation capacity. As of January 2015, Turkmenistan shipped gas at a rate of 35 bcm per year to China. The 2020 goal between the two countries is to reach 65 bcm of gas travelling overland from the Caspian Sea Basin fields to China.<sup>144</sup> There

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<sup>140</sup> Overland and Torjesen, “Kazakhstan’s and Turkmenistan’s Energy Relations with Russia,” 141. Figure 7.1.

<sup>141</sup> Downstream Today, “CNPC to Build Phase II Central-Asia Gas Pipeline,” [www.downstreamtoday.com](http://www.downstreamtoday.com) (2009), Accessed online April 21, 2011.

<sup>142</sup> “Milestone Year for Turkmen Gas Export to China?” February 10, 2015, [www.naturalgaseurope.com](http://www.naturalgaseurope.com), accessed online March 2, 2015: <http://www.naturalgaseurope.com/milestone-year-in-turkmen-gas-export-to-china>.

<sup>143</sup> Overland and Torjesen, “Kazakhstan’s and Turkmenistan’s Energy Relations with Russia,” 141.

<sup>144</sup> “Экспорт туркменского газа в Китай достиг почти 100 млн кубов в сутки,” Translated: “Turkmen gas exports to China reached nearly 100 million cubic meters per day”, January 28, 2015, Accessed March 2, 2015. <http://www.rosbalt.ru/exussr/2015/01/28/1361900.html>

are three main pipelines for the gas, and workers will begin construction on a fourth pipeline in 2016. The additional pipeline capacity was necessary as Turkmenistan shares some capacity with Kazakhstan. Before the additional pipelines were built, if Kazakhstan shipped zero gas for example, Turkmenistan could ship up to 55% of its exportable gas to China at 2009 production levels and a lower percentage as its production increases.

Russia understood that it could no longer buy cheap Turkmen gas and then resell it to Europe. However, it depended on Turkmen gas as it increased the gasification of its economy and lacked the new gas fields to replace declining production.<sup>145</sup> As discussed in a previous chapter, Russia wanted to prevent Turkmenistan from having an incentive to sell gas or to promise to sell gas through any gas pipeline that might run alongside the BTC pipeline into a Nabucco pipeline, or the Southern Gas Corridor system that appears in a limited way to be the successor to Nabucco.

There is an effort to encourage Turkmenistan to build a gas pipeline under the Caspian Sea and then to connect this gas supply ultimately into the SGC system. With the new Central Asia-China pipeline, Russia must have realized that the Western facing pipeline was less of a threat, and the northern pipeline for Turkmenistan mysteriously blew up in 2009 after the Turkmens refused to renegotiate the gas deal with Russia.<sup>146</sup> Gazprom said that due to the slump in demand, it would “probably be able to cope without” Turkmen gas for a period of time. Russia did not appreciate having to continue to pay a high price for gas when the global price had softened somewhat. With the Chinese-Turkmen deals and the gas flowing to the east from the fields of Turkmenistan it

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<sup>145</sup> Interview with Timothy Colton, February 2011.

<sup>146</sup> “Russia Accused of Causing Turkmenistan Pipeline Explosion,” [www.mosnews.com](http://www.mosnews.com), 2009, Accessed online April 20, 2011.

is unlikely that the undersea Caspian gas pipeline will be built. Russia would be threatened in a significant way if circumstances changed however.

With the new pipeline from Central Asia to China, and the repairs of the pipeline up to Russia, it appears less likely that Turkmen gas will be promised to any Western effort to bypass Russia's monopoly of gas to Europe. Russia and Turkmenistan have mutually agreeable interests in this regard; to send excess gas that Russia cannot buy east rather than west. Turkmenistan receives a market price from the Chinese without domestic interference of the Chinese government. China benefits by having a stable gas supply that travels overland routes and not across the Oceans controlled by the US Navy.<sup>147</sup> Furthermore, Russia feels that it maintains political power over gas suppliers to Europe, and it can continue to use energy as a means to accomplish its own foreign policy objectives.

### New Silk Road

Turkmenistan is gaining power due to the emphasis that Chinese leaders are placing on the route diversification of its goods to the West. In December 2014 Kazakhstan, Turkmenistan, and Iran held an opening ceremony for a new railway connection between the three countries. At the event that represented the new easy transport of Turkmen goods all the way to the Pacific Ocean, President Nazarbayev of Kazakhstan said: "We have virtually created a new silk road running across our three

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<sup>147</sup> Oleg Golishnikov, "Центральная Азия на прицеле Китая: последствия для России," Translated: Central Asia at gunpoint China: Implications for Russia," Oleg Golishnikov, June 6, 2014 [www.globalaffairs.ru](http://www.globalaffairs.ru), Accessed online March 4, 2015: <http://www.globalaffairs.ru/studconf/Tcentralnaya-Aziya-na-pritcele-Kitaya-posledstviya-dlya-Rossii-16693>.

countries and China to the Pacific Ocean.”<sup>148</sup>

The United States and Russia also realize the emerging importance of the Central Asian region, yet these two players are losing to China in actions. Russia is expanding the Eurasian Economic Union as discussed in previous chapters, and the United States has a less organized effort to expand influence in the region. Russia emphasizes the relationship with Kazakhstan over the other Central Asian countries, and tends to treat the entire region as one unit. Furthermore, the Turkmen leaders in particular keep their distance from Moscow policymakers according to one Saint Petersburg University professor.<sup>149</sup> Neither the United States nor Russia is matching the systematic infrastructure investment of China. It is becoming clear that “Beijing has outshined both countries in investment and execution.”<sup>150</sup>

Ashgabat plans to continue improving domestic transportation infrastructure and links to the global marketplace in response to this new reality. In addition to the new international rail connection of 2014 they will likely improve the international airport in the next five years. President Gurbanguly Berdimuhamedow understands that his country has “an important mission as a bridge for trade and transit” in the era of the new Silk

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<sup>148</sup> Azamat Kaiyr and Danna Bupezhanova, “Nazarbayev Helps Launch Last Section of Kazakhstan-Turkmenistan-Iran Railway,” *Eurasia & World*, December 4, 2014. Accessed online July 10, 2015. <http://www.astanatimes.com/2014/12/nazarbayev-helps-launch-last-section-kazakhstan-turkmenistan-iran-railway>. Douglas Bulloch, “Mapping the New Silk Road,” CKGSB Knowledge, March 24, 2015. Accessed online July 11, 2015. <http://knowledge.ckgsb.edu.cn/2015/03/24/finance-and-investment/mapping-the-new-silk-road/>.

<sup>149</sup> Konstantin Yevgenievich Meschcheryakov, “Russia’s Foreign Policy in Central Asia: Strengths, Weaknesses and Paths for Improvement,” *World Applied Sciences Journal* 30 (12) 2014. Accessed online July 8, 2015. [http://idosi.org/wasj/wasj30\(12\)14/11.pdf](http://idosi.org/wasj/wasj30(12)14/11.pdf).

<sup>150</sup> Reid Standish and Bethany Allen Ebrahimian, “Interactive Map: Follow the Roads, Railways, and Pipelines on China’s New Silk Road,” *Foreign Policy*, May 7, 2015. Accessed online August 2, 2015. <http://foreignpolicy.com/2015/05/07/interactive-map-follow-the-roads-railways-and-pipelines-on-chinas-new-silk-road/>.

Road.<sup>151</sup> Even in an era of sustained lower oil prices where gas prices could also diminish eventually, Turkmenistan now sits in the middle of a new link of comprehensive trade between East and West.<sup>152</sup>

Turkmenistan has negotiated well in the past years and has created a situation that gives it maximum utility while allowing Russia to have a mutual interest in Turkmenistan sending gas east rather than west. By Turkmenistan exporting gas east to China, Russia retains control of the European demand side of the equation. Turkmenistan has significantly strengthened its position while leaving Russia ample room to pursue its own primary interests. Now that China is taking concrete steps to realize the new Silk Road that connects East and West overland, the strategic position of Turkmenistan will continue to improve. Turkmenistan leadership might show assertive face as they play an increasingly important role in global trade.

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<sup>151</sup> Selcuk Colakoglu, "The New Concept of Turkmenistan's Foreign Policy," [www.turkishweekly.net](http://www.turkishweekly.net/2013/03/22/comment/the-new-concept-of-turkmenistans-foreign-policy/), March 22, 2013. Accessed online July 23, 2015.

<sup>152</sup> Chris Rickleton reports that there are rumors that Turkmenistan-Chinese gas contracts contain a clause that ties the price of natural gas to the price of oil. With the price of oil falling Turkmenistan would then receive less money for its gas exports to China. However, China and Central Asian countries are building road, rail, and other transportation links throughout the region such that Central Asia will be a hub for the new Silk Road, thus lessening the reliance that Turkmenistan has on gas exports. Chris Rickleton, "Turkmenistan Blasts Russia as 'Unreliable' Gas Partner," [www.eurasianet.org](http://www.eurasianet.org), February 17, 2015. Accessed Online August 2, 2015. [www.eurasianet.org/node/72121](http://www.eurasianet.org/node/72121).

## Chapter V

### Azerbaijan

Azerbaijan is involved in a three-way tug of war with national security concerns, elite business interests, and Russian interests in the region. The frozen conflict with Armenia over the Nagorno-Karabakh region, the small circle of businessmen who control the oil and other business interests in Baku, and a Russian concern over control of pipeline resources that feed Europe provide for a volatile cauldron that could erupt if not managed carefully. These factors combine to make Azerbaijan the country in the region most at risk for an armed conflict with Russia over the next decade. Such a conflict could take the form of a heating up of the Nagorno-Karabakh region or “special war” as the world has observed in other Russian near abroad areas.<sup>153</sup> The 2015 downturn in oil energy prices add further tension to the entire situation.

#### Historical Legacy

Following the dissolution of the Russian empire in 1917 Azerbaijan had a brief independence before the Soviets realized that they needed the oil resources of the Caspian Sea country on the Western shore. World War II further demonstrated the importance of the resource rich area to the Soviet Union. Hitler recognized this as well and his soldiers attempted to wrest control of the oilfields. Throughout the conflict

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<sup>153</sup> John Schlinder, “The Coming Age of Special War,” *20Committee.com*. Last modified September 20, 2013.

Azerbaijan supplied the Soviet war machine with hydrocarbons and other resources.<sup>154</sup>

The Nagorno-Karabakh conflict with Armenia defined Azerbaijani foreign policy in the early years of the dissolution of the USSR and increased the nationalism expressed by the citizens. Still today the ruling elite must balance the wider interests of the country against this nationalistic fervor.<sup>155</sup> So far Azerbaijani leaders have pursued a practical and realistic approach regarding Russia and the Nagorno-Karabakh conflict.

### National Security Concerns

Azerbaijani national security concerns are always at the forefront of the minds of its leaders. President Ilham Aliyev, the son of the late President Heydar Aliyev, outlined one of Azerbaijan's chief foreign policy goals when he spoke in a 2009 New Year's address: "we will make every effort to restore territorial integrity of Azerbaijan. We can use both political, diplomatic, and, if necessary, military means...."<sup>156</sup> The National Security Ministry of Azerbaijan faults the OSCE for "inconsistency" yet it states on its website that "the aim of the government...is liberation of all occupied territories."<sup>157</sup> The

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<sup>154</sup> Nina Lazaridi (regional expert) in discussion with author December 2013. During this independence, Azerbaijan gave women the right to vote making it the first Muslim republic to do so and demonstrating the liberal and pragmatic nature of its rulers.

<sup>155</sup> Nina Lazaridi (regional expert) in discussion with author December 2013. Olcott, Aslund, and Garnett, *Getting It Wrong: Regional Cooperation and the Commonwealth of Independent States* (Carnegie Endowment Policy Brief, 2001) 15.

<sup>156</sup> Ilham Aliyev, "Greetings by President Ilham Aliyev to People of Azerbaijan on World Azerbaijanis Solidarity Day and New Year," (2009), Accessed online April 2011: [http://www.president.az/articles/php?sec\\_id=135&item\\_id=20090101125246404](http://www.president.az/articles/php?sec_id=135&item_id=20090101125246404). Note: This link is no longer active, as the Azerbaijani government probably recognizes it is better to be lower key.

<sup>157</sup> The first quote is in Russian and is as follows: "Целью правительства Азербайджана является освобождение всех оккупированных территорий, возвращение в свои дома вынужденных переселенцев и достижение стабильности и мира в нагорно-карабахской части Азербайджана, а также во всем южно-кавказском регионе." Translated, "The aim of the government of Azerbaijan is the liberation of all occupied territories, return to their homes of internally displaced persons and the achievement of stability and peace in the Nagorno-Karabakh part of Azerbaijan, as well as throughout the

website continues, “The main purpose of the settlement process is the ... status of Nagorno-Karabakh within Azerbaijan,” and that any future status should be carried out by the entire population of the region, not selected Armenians after the Azerbaijanis have been kicked out of their homes.

The increased price of oil in the past decade has flooded the country and treasury with petrodollars that it has used to increase the capability of its military. Furthermore, Azerbaijan is using its gas resources to create a patron state in Georgia, mainly by providing Georgia with subsidized gas at \$120 per TCM.<sup>158</sup> Additionally, Azerbaijan is systematically purchasing the gas pipelines in Georgia through its state oil and gas company SOCAR.<sup>159</sup> Azerbaijan may have the possibility of significant influence over Georgia in future disputes with Armenia, Russia, or the West. This situation increases the instability in the region, and Russia has demonstrated the use of hard power when it invaded Georgia in 2008 and Ukraine in 2014.

Elkhan Mehdiyev says that Azerbaijan is not interested in joining NATO even though there had been talk several years ago about the subject. Following the Russian actions in the Crimea in 2014 the leadership of Azerbaijan have distanced themselves from any closer integration with NATO.<sup>160</sup>

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South Caucasus region.” Armenian aggression, The Ministry of National Security of the Azerbaijan Republic, accessed Feb 28, 2015, <http://www.mns.gov.az/ru/pages/50-115.html>

<sup>158</sup> Heidi Kjaernet, “Azerbaijani-Russian Relations and the Economization of Foreign Policy,” *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 156.

<sup>159</sup> Emil Sanamyan, “Georgia Cedes Its Natural Gas Network to Azerbaijan,” *Armenian Reporter*, November 25, 2008, Azerbaijani Studies Group, [Azerbaijani\\_Studies@yahoo.com](mailto:Azerbaijani_Studies@yahoo.com).

<sup>160</sup> Dzh. Sumerinli, “Внешняя политика Азербайджана вызывает вопросы,” April 25, 2014, Accessed February 26, 2015, <http://www.zerkalo.az/2014/vneshnyaya-politika-azerbaydzhana-vyzyivaet-voprosyi/>



## Elite Business Interests versus Russian Interests

Secondly, the economic interests in Azerbaijan are largely controlled by an elite group of businessmen. These men were in turn loyal to President Heydar Aliyev who led the country in an authoritarian, though somewhat benevolent manner.<sup>161</sup> Heydar Aliyev had been a KGB general and the Moscow-appointed leader of Azerbaijan from 1969 to 1982. The country needs Western technology to help invest and maximize the production of the oil and gas resources, but it does not want the West to meddle in its internal affairs. The business elite controls much of the economic activity and decision making, whether regarding domestic or foreign policy. These elite businessmen are largely considered corrupt, and it is Azerbaijan's version of crony capitalism. For example, a small group of businessmen own large oil ships that travel across the Caspian Sea to deliver Kazakh oil into the BTC pipeline.<sup>162</sup>

Interestingly, though these business interests are taking actions against Russian interests, namely bringing oil to the West without using Russian pipeline infrastructure, the ships are also lowering the chances for a trans-Caspian oil pipeline (TCP-O), as a TCP-O would take away the rents that the owners of the ships currently receive.<sup>163</sup> The elite business owners will likely work domestically in Azerbaijan to undermine efforts for a TCP-O oil pipeline. Therefore, though the corrupt businessmen work against Russia's

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<sup>161</sup> Conversation with Vladimir Vepryev in April 2011, and a former Azerbaijani roommate of mine, Hamid, in January 2007. Heidi Kjaernet, "Azerbaijani-Russian Relations and the Economization of Foreign Policy," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 152, 155.

<sup>162</sup> Heidi Kjaernet, "Azerbaijani-Russian Relations and the Economization of Foreign Policy," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 157.

<sup>163</sup> F Gioueve. Amd M. Aljrarljpdkaeva. *Transportation of Kazakhstani Oil vi the Caspia Sea (TKOC): Arrangements, Actors and Interests*, RUSSCASP Working Paper, November 18, 2008, Oslo: NUPI/FNI/ECON.

interests by exporting Kazakh oil to the west, they enhance a greater interest of Russia. Namely these businessmen reduce the risk from Russia's perspective that an oil pipeline will be built under the Caspian Sea that could then transport a higher volume of oil to international markets bypassing Russia and its oil pipelines.

The single biggest threat of conflict in the region stems from a possible trans-Caspian gas pipeline (TCP-G) that some in Azerbaijan and Turkmenistan want to build underneath the Caspian Sea. The TCP-G would then be connected to a yet to be constructed gas pipeline that would run parallel to the BTC oil pipeline. This scenario is shown below in figure 1. Oil is fungible, and Russia can tolerate Kazakhstan shipping minor amounts of oil via freighters on the Caspian Sea owned by corrupt Azerbaijani elites. However, gas is not fungible. The price of gas is closely tied to the infrastructure delivery network. If Azerbaijan and Turkmenistan were to build the TCP-G that then could provide sufficient gas to solely supply the European Southern Gas Corridor, Russia would see the power that it derives from the control over gas supplies to Europe severely limited.<sup>164</sup> Turkmenistan is the most likely player in this scenario; though if Kazakhstan developed new gas fields with a large enough volume it also could be tempted to participate in a slightly different version of the TCP-G.

Russia experienced competition on the supply side when Turkmenistan and China built a gas pipeline east; Russia then had to pay market price for gas from Turkmenistan in 2008. However, Russia and Turkmenistan still shared an interest in this case because

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<sup>164</sup> Brenda Shaffer said that "many" still hope for the undersea Trans-Caspian gas pipeline even with the cancellation of the Nabucco project. Presumably this gas would supply the Southern Gas Corridor pipeline, and Brenda asserted that Turkmenistan would have enough production capacity to fill the supply needs. I question if Turkmenistan would have the production capacity to justify an undersea pipeline to the West considering it will soon start construction on a fourth gas pipeline to China. Brenda Shaffer, "Energy as a Tool of Foreign Policy," Presentation at the Kennedy School International Security series at Harvard University, Cambridge, MA, October 20, 2014.

Turkmen gas was sent east, not west, and Russia maintained control of the European demand side for gas. If the TCP-G were built from Turkmenistan to Azerbaijan, Russia would experience competition on the European gas demand side. Europe would no longer have to pay Russia's price for gas, as it could use the newly available Turkmen gas to negotiate for better prices. Furthermore, the West would have significantly more leverage that they could use against Russia for human rights, national security, or foreign policy objectives. Russia would lose a great deal of its own political and economic power in such a scenario; worse, Russia might feel that it was not being treated as a great power. This would be a disaster for Russia and it will likely take steps that it feels are necessary to stop such a scenario from coming to fruition.

Figure 2.

Proposed TCP-G and overland gas pipeline parallel to BTC. This would have fed the now cancelled Nabucco gas pipeline, and is still a long-term possibility to feed the EU's Southern Corridor Project. Should Azerbaijan begin construction, Russia would take steps to hinder its completion.



Source: Thomas Blomberg, August 10, 2008, accessed January 23, 2015:

[http://en.wikipedia.org/wiki/File:Baku\\_pipelines.svg](http://en.wikipedia.org/wiki/File:Baku_pipelines.svg)

Russia can respond and pressure Azerbaijan through two main diplomatic avenues. Firstly, it sits on the Organization for Security and Cooperation (OSCE) Minsk Group, a group attempting to negotiate a peace with the Karabakh conflict. Russia can give the Armenians advantages over the Azerbaijanis in the course of peace negotiations.<sup>165</sup> This pressure is not significant, though the Azerbaijanis complain that Russia does favor its Christian allies. Secondly, many Azerbaijani expats work in

<sup>165</sup> Heidi Kjaernet, "Azerbaijani-Russian Relations and the Economization of Foreign Policy," *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan* (New York: Routledge, 2010), 153.

Moscow and other Russian cities, and the Russians could pressure the expats through work visa and immigration harassment as they did the Georgians leading up to the Georgian war of 2008.<sup>166</sup>

Azerbaijan has a greater chance of entering a conflict with Russia than Turkmenistan in the next decade. This specifically relates to the chance of Azerbaijan cooperating in building an undersea gas pipeline. A heating up of the Nagorno-Karabakh frozen conflict would also be a possibility in this scenario. Russia could use a variety of tough power towards Azerbaijan to stop the possibility of the TCP-G. It is less likely that Russia would directly confront the shrewd negotiator Turkmenistan, as it shares no border with the country. Furthermore, since Turkmenistan is able to satisfy its interest of gaining another customer for its gas, and this customer is to the east, which matches with a Russian interest of having no additional gas outside of Russian pipelines flow west, the risk of the TCP-G pipeline being built and the resulting conflict is mitigated. The TCP-O pipeline is less of a risk in the bilateral relationship between Azerbaijan and Russia because of the corrupt elite business interests that are making money off the Caspian Sea oil shipping business. Although the act of shipping oil from Central Asia to the West using channels outside of Russian controlled pipelines aggravates Russia, the amount of oil that can be shipped via ship on the Sea is not an amount that can significantly change the strategic position of Russia. Moreover, oil is fungible unlike gas, so the oil shipped across the sea has practically zero effect on the global price of oil. Contrarily, a gas pipeline could significantly lower the price that Russia receives for its gas sold to Europe. And furthermore leave Russia vulnerable to economic pressure from the West if it

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<sup>166</sup> “Putin Taps into a Growing Anti-Minority Fervor,” *Ministry of Foreign Affairs of Georgia*, 2011, Accessed May 2, 2011: [http://www.mfa.gov.ge/index.php?lang\\_id=ENG&sec\\_id=512&info\\_id=2425](http://www.mfa.gov.ge/index.php?lang_id=ENG&sec_id=512&info_id=2425).

retaliated for some anti-democratic action by the Russians, whether in domestic or foreign policy.

In November 2014 continuing into 2015 the price of oil significantly declined. Analysts are mixed whether this is a long-term phenomenon or a short-term blip such as happened in 2008. Since Azerbaijan is heavily reliant on energy to fund its economy and government there will be additional pressure to make long-term gas deals to bring in revenue to the country. There are several advantages that gas production brings a country over oil production as discussed in the Background chapter, namely stable long-term price agreements if the leadership can negotiate these. Roughly a quarter of the gas market is based on “hub” pricing, making these long-term agreements harder to arrange. Azerbaijan has a domestic economic incentive to push for a larger percentage of the gas supply for the Southern Gas Corridor project. Should it aggressively negotiate for the larger gas contracts with Europe it will be acting against the Russian interest to maintain control over the European gas supply. The decrease in oil price is increasing the chance for Russia to put additional geopolitical pressure on Azerbaijan.

## Chapter VI

### Conclusions

Regional and global tensions flare while the rise and fall of economies change the energy demand equation, which in turns amplifies mistakes that policy makers might make. Turkmenistan sits squarely in the middle of the new Silk Road and the better terms that it receives from China as compared to Russia are invigorating investment into future infrastructure projects. China has extracted a price for Russia's intransigent actions towards the West, including gaining excellent long-term deals on energy supply contracts from Russia. Likewise, China is making deals with Turkmenistan under favorable conditions, though Turkmenistan still benefits greatly as Russia treated its southern neighbor far worse when it had monopolistic power on the exit of Turkmen gas.

Azerbaijan wishes to be respected in the Western world and has several unique relationships, including a rare Muslim-Israeli friendship. The leadership is playing a delicate balancing act of domestic control and foreign policy decisions in the near abroad and with the rest of the world. Armenia and the Nagorno-Karabakh conflict is a particularly delicate matter that presents a vulnerability to Russian pressure. The decline in oil prices that began in 2014 and continues through 2015 is exposing the resourced-based economy of Baku. The country could be in for difficult times should petroleum prices remain low or continue to descend. Long-term gas contracts therefore increase in importance such as the Southern Gas Corridor project with Europe, but even here Russia is acting decisively, taking on enormous short-term costs by canceling South Stream in a

slow-moving chess game with the West. Azerbaijan is vulnerable to the possible long-term economic pain resulting from the low price of oil and geopolitical realities of whether or not European-funded gas pipelines plans come to fruition.

Russia has tried and largely failed to control the gas demand into Europe. As of late 2015 Russia supplies roughly one-third of all the natural gas that industry and consumers use in Europe, not enough to have veto power over European action. The three-part model of hard power, soft power, and economic power point to Europe's economic power as the single advantage it has over Moscow. Russia has the clout, slowly weakening, to threaten European economic power through the leverage of gas supplies to Europe and will not easily give up this influence. In December of 2014, Putin walked away from five billion dollars in infrastructure investment that the Russians had built for South Stream because he viewed the Russian ability to weaken European economic power if necessary an essential tool of Russian foreign policy. Russia looks to be maneuvering to reduce the influence of the SGC project, thus continuing its leverage over Europe. The circumstantial evidence, such as Putin's visit to Turkey the same day as the cancellation of the South Stream project, points to this objective of Russia. Azerbaijan might still be able to supply some measure of gas to the SGC project and to Turkey through TANAP in this speculative scenario of a Russian gas main supply, but it will have to maneuver carefully. In late 2015 a large gas field was discovered off the shore of Egypt, and should gas exploration companies find additional large fields in the Levant Basin the game might change again, for above a certain size and yearly production threshold Israel will suddenly become the tempting alternative supplier of European energy needs. This would weaken the Russian hand vis-à-vis European economic might.



Russia would use diplomacy and other methods to discourage any new major supply deals to Europe.

Russia retains considerable influence in the Caspian Sea region but China's trade route diversification efforts and high energy prices from 2000 to 2014 have changed the game. Russia tolerates the loss of control over the supply of energy of the region, yet it would resist with much greater vigor the total loss of control of the European demand side of the equation. Russia wants to maintain some semblance of control over the method that gas from Siberian fields or Central Asian sources reach German homes and cities, even though it has lost the ability to completely control the flow of gas.

High hydrocarbon prices over the last fifteen years made previously uneconomic projects worthwhile to plan and build. The new gas and oil pipelines in recent years became economical where they were not pursued a decade prior. High oil prices looked as though they were here to stay as recently as late 2014, but as the months progress into late 2015 with a continued low oil price a different reality may emerge. Demand from China and other BRIC countries led the increase in demand that now looks to be wavering. Additional large-scale oil and gas finds through non-traditional sources such as shale and tar sands affected the supply side. The weakening demand and increasing supply of energy have now made honest economists out of the leadership of both state-owned and publicly owned oil and gas companies.

The price of gas has fallen on the spot market, but the drop in gas prices has not followed the extreme oil price collapse. The delivery method, the non-fungible nature of gas, and the long-term contracts should buffer gas supplier-transit-consumer relationships in the near term. It would be worthwhile to examine how Turkmenistan would be

affected in a scenario if natural gas experienced a prolonged depression in price. Another question that would be worthwhile to pursue is the role of the West on the domestic politics of the region. Will the West become more businesslike, more like China in the face of authoritarian regimes?

Moreover, how close is Azerbaijan to getting into a shooting war with Russia? Will the combination of corrupt business interests, such as those who control the oil ships on the Caspian Sea and the Azerbaijani pipeline networks in Georgia that may be used to pressure Armenia, the threat of TCP-G, and the rhetoric of Azerbaijani leadership cause an eruption of conflict with Russia through the Armenia territorial agreement in the next five to ten years? Russia flexed its muscles in 2008 against the Georgians, friends of the Azerbaijanis. Ukraine felt the swift hand of Russian Spetsnaz in Crimea and is now in a protracted conflict in the Donbas region. Russia could easily heat up the Nagorno-Karabakh region should it feel a need to protect its perceived energy interests vis-à-vis Azerbaijan.

Azerbaijan sits facing the West and Turkmenistan is meandering slowly eastward. The conflict of Western values, Eastern pragmatism, and Northern paranoia is centered on the ancient saltwater basin. Nation-states and economies universally demand energy and trade so that factories can produce material goods and pensioners consume while in their happy years. However, the supply of gas and free flow of goods to those who need it is not guaranteed. Fate and geology colluded to place the particular peoples and resources in the Caspian Sea lands. The decisions of state leadership of these two countries will enhance or degrade future stability of the region and possibly the legacy of peace in the world.

## Appendix I

### Maps

Figure 3.

Caspian Sea Basin and surrounding countries. The Aral Sea is now much smaller than indicated on the map.

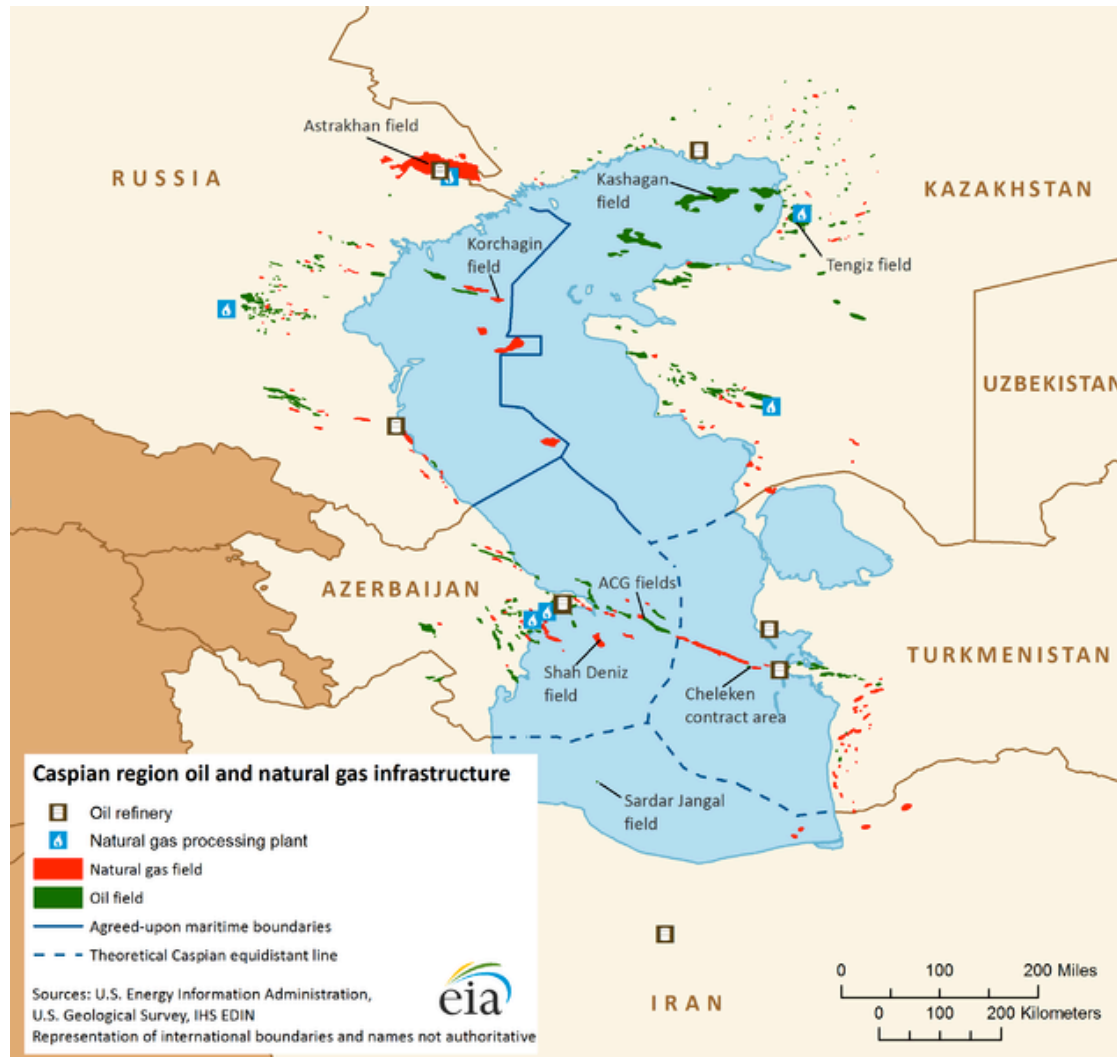


Source: Wikimedia Commons based on USGS and Digital Chart of the World data.

Accessed online March 4, 2015: <http://schools-wikipedia.org/images/509/50996.png.htm>.

Figure 4.

Caspian Region oil and natural gas deposits and infrastructure. Although the Caspian Sea territorial water demarcation is in dispute, the Shah Deniz gas fields are under Azerbaijani control without dispute. The Southern Gas Corridor project plans to use gas sourced from the Shah Deniz fields.



Source: US Energy Information Administration, 26 August 2013, accessed online March 3, 2015: [http://commons.wikimedia.org/wiki/File:Caspian\\_region\\_oil\\_and\\_natural\\_gas\\_infrastructure.png](http://commons.wikimedia.org/wiki/File:Caspian_region_oil_and_natural_gas_infrastructure.png).

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