The Myth of the Caspian Great Game and the “New Persian Gulf”

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If old pessimistic pseudo-verities of resource scarcity resurfaced in the late-1990s, a wholly contemporary fallacy of misplaced optimism also emerged: the idea that the newly independent states of Central Asia and the Caucasus ringing the Caspian Sea promise a resource bonanza, a new “Persian Gulf,” with competition over control of oil and gas reshaping geopolitics into a twenty-first century version of the old “Great Game” between Britain and Russia in the nineteenth century. Such hopes, however, have fostered perceptions not supported by knowable facts, which have led to dangerous exaggeration of the region’s commercial and strategic significance. Indeed, the fate of the Caspian region may be an interesting test of whether the commercial logic of geo-economics or the strategic logic of geopolitics prevails.

The meteoric rise of the Caspian region to center stage of world politics — and its ascendency on U.S. and Asian foreign policy agendas— underscores yet again that oil remains “The Prize,” as Daniel Yergin dubbed it in his Pulitzer Prize-winning epic history. Before the demise of the Soviet Union in 1991, the term “Caspian Basin” was rarely invoked even by Soviet experts. The Soviet republics of the Caucasus and Central Asia were the obscure preserve of “Soviet nationalities” specialists. Suddenly, with the breakup of the Soviet Union, new frontiers of prospective oil and gas presented themselves; Islamic territories that

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had only been confederations of clans and tribes before being absorbed into the Russian empire in the nineteenth century became independent nation-states overnight.

A part of the world until recently unknown and profoundly esoteric to 99.9 percent of Americans, Japanese, and Filipinos alike suddenly adorns the cover of the New York Times magazine, and even Parade, the popular Sunday supplement in hundreds of U.S. newspapers. And that ultimate sign of arrival: it boasts its own James Bond movie, the 1999 thriller The World Is Not Enough, filmed in Baku, Azerbaijan, with a plot revolving around the struggle over which pipeline route should prevail. The Caspian region has similarly moved up the ranks of importance on the U.S. foreign policy agenda, going from a backwater on the Soviet affairs desk to a trendy, career-enhancing assignment that rates its own presidential special envoy and inter-agency task force. As evidenced by Madeleine Albright's April 2000 tour, it now rates hectoring visits by the American secretary of state as part of the diplomatic landscape. Leaders from Kazakhstan and Azerbaijan are ushered into the White House like new potentates. Indeed, when President Clinton attended a November 18, 1999, signing ceremony in Istanbul of a preliminary agreement among states of the region creating a legal framework for a trans-Caspian oil pipeline, the New York Times described it in a front-page story as "one of the President's most cherished foreign policy projects."

The specter of the Chinese premier out-lobbying vice president Al Gore to get a Chinese state-oil company an oil concession in Kazakhstan underscores that the region holds a similar priority for Beijing.

The initial flurry of literature and official policy statements amplifies this view. "Central Asia," writes leading specialist S. Frederick Starr, "is once more a key to the security of all Eurasia." Ian Bremmer, in an otherwise sober analysis claims, "the Soviet Union has been eclipsed by the Caspian Basin as an American strategic priority." Still more remarkable is the doubly dubious claim of U.S. Secretary of Energy Bill Richardson, arguing, "The Caspian region will hopefully save us from total dependence on Middle East oil." Similar views can be found in discussions with Chinese and Japanese analysts and in their respective newspapers and journals.

It is not difficult to see how the current obsession with the Caspian has gained its remarkable political momentum. In fact, the mix of wildcatters, major oil companies, and political jockeying bears far more resemblance to the initial scrambling for concessions in Saudi Arabia nearly 100 years ago—a classic tale of oil, money, and power—than the "Great Game" of the nineteenth century. In this case, the sudden opening up of one the last unexploited, massive oil and gas fields sent major oil firms scrambling not to get left out. Local regimes, impressed by the alacrity of Western oil firms to curry favor, shrewdly realized that the Western companies' governments could provide assistance as a buffer against domina-
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It seems to have been forgotten that the nineteenth century “Great Game” was not really about Central Asia but rather about British dominance of India. Central Asia was only of importance as a buffer for Britain against feared Russian incursions to displace the British in India.

The romantic dream that these newly independent states of the Caspian, wrested from the Russian yoke, could at once solve Western energy needs, expand democracy, and garner geopolitical advantages against Russia, Iran, and perhaps China may be alluring to underemployed or misguided post Cold War strategists and oil executives alike. But it is a chimera that could prove counterproductive to American and even NATO long-run interests in Russia and Iran. It could also inadvertently draw the United States into a snake pit of local and ethnic conflict in unstable, embryonic states that Zbigniew Brzezinski has aptly dubbed the “Eurasian Balkans.”

Energy Bonanza?

Nonetheless, the allure of new, potentially huge oil and gas fields to add to their balance sheets understandably led the major Western oil companies to rush into the new energy-bearing states lest they miss an important opportunity. They quickly hired a star-studded cast of former secretaries of state, national security advisors, and other ex-U.S. government officials to promote these new interests in the Caspian. This may have facilitated a similar fascination that gripped the U.S. government—important new interests to protect, new states to democratize, a whole new bureaucracy to create. One measure of this seemingly unbridled enthusiasm—bordering on self-aggrandizing hyperbole—was a report to Congress issued by the U.S. Department of State in 1997 putting the weight of the U.S. government behind a highly speculative—some might say fanciful—estimate that the region might hold “up to 200 billion barrels” of oil reserves. This figure was subsequently cited by top U.S. officials, including Deputy Secretary of State Strobe Talbott. The U.S. government report sent the Western media into a feeding frenzy. The Wall Street Journal announced that Caspian Energy might be bigger than previously thought. The Economist magazine expressed concerns about the rise of “Dutch oil disease” that was likely to accompany the flood of oil revenue.

Suddenly, Kazakhstan was being touted as the next “Saudi Arabia.” But amid all this excitement, little distinction was made between the potential reserves of the Caspian, resources that might be uncovered after perhaps two decades of exploration, and the immense proven reserves of the Persian Gulf—two-thirds of the world’s total—that have already been discovered and delineated by long-standing, substantial drilling and seismic programs. Although it may be several more years before definitive judgments can fairly be made about the resource potential of the Caspian Basin, the region’s resources are not of sufficient magni-
tude to dramatically alter the shape of global oil markets or displace the Persian Gulf.

The proven oil reserves of the Persian Gulf exceed 600 billion barrels. The proven oil reserves of Central Asia and the Caucasus are pegged at roughly 30 billion barrels, representing an oil province roughly the size, in terms of proven oil resources, of Norway or Libya, or less than 3 percent of the world’s proven oil reserves. By comparison, proven oil reserves in the Middle East account for nearly two-thirds of the world’s proven reserves. Moreover, where oil in Saudi Arabia can be produced for under $3 a barrel, the expensive transport costs of Caspian oil mean that oil companies need about $13 a barrel to turn a profit from Caspian oil exports.

But there is no question that the oil reserves of the Caspian Basin are significant, even if not close to those in the Persian Gulf. Future exploration may confirm that the region potentially holds between 50 and 140 billion barrels of oil. However, this figure remains speculative and even high-end estimates are not in the same league as Saudi Arabia with its 269 billion barrels of already discovered proven oil reserves. Several major Western energy companies now appear to be leaning toward lower-end estimates of total recoverable reserves. After an initial phase of exploration, the mood among a number of Western oil companies is decidedly circumspect. One somewhat disillusioned oil company official told the author, “In retrospect, the Russians didn’t do such a bad job looking for oil, given the limits of their technology.” Much of the hope for new Caspian reserves centers on the Kashagan field in Kazakhstan, which seismic surveys indicate may be several times larger than that nation’s huge Tengiz field, one of the world’s largest. Western firms exploring the field suggested in June 2000 that Kashagan’s potential appeared very promising. If Kashagan does hold 20–30 billion barrels of reserves—nearly doubling Caspian proven reserves—it could produce 1 to 1.5 million barrels per day (bpd). Such volume could moot the pipeline competition; an east-west, i.e., Baku-Ceyhan, as well as north-south pipeline would then become economically feasible.

But the size of the Caspian reserves—whatever they may prove to be, over the next 10 to 15 years—are only one part of the much larger story and may not achieve the output potential its promising reserve estimates imply. Obscured by all the fanfare are a daunting set of complex technical, economic, logistical, geopolitical, and social obstacles that must be overcome before the Caspian’s potential can be realized. Perhaps the most fundamental overlooked aspect of the Caspian
energy issue is one simple and unique feature: Caspian hydrocarbon resources are landlocked and located at a great distance from the world’s major energy-consuming regions.

**Landlocked: Drilling Problems**

In fact, the geography of Caspian reserves may be one of the most complex in the history of the oil industry: rarely have major oil exporters faced such a situation with no direct outlets to foreign markets. The region’s producers cannot simply ship oil by tanker from domestic ports to international sea-lanes as is done from the Arab Gulf. Instead, the Central Asian and Caucasus states must rely on costly pipelines crossing several neighboring countries as the chief means of transport. Moreover, none of the many possible routes under consideration offers even a whiff of reprieve from the region’s hornet’s nest of long-standing ethnic conflict and bureaucratic entrapments.

For openers, there are vastly underappreciated drilling constraints. The Caspian Basin is far from major supply centers for exploratory equipment and faces a debilitating shortage of modern drilling platforms and other related supplies. This shortage is more severe than virtually anywhere else. Despite huge demand for equipment, there are only two assembly yards equipped for manufacturing or refurbishing offshore drilling rigs for the region: one at Astrakhan in Russia along the northern Caspian and one in Primorsk, near Baku. In early 2000 there were only two operational semi-submersible platforms operating in the region. To bring additional semi-submersible rigs into the Caspian Sea will be a logistically difficult and expensive venture, forcing the oil companies operating in the region to pool resources and take turns drilling prospects. The usual practice of towing platforms out to sea is not possible. Oil rigs have had to be cut up into parts, floated down the Volga River, and then reassembled. BP Amoco is reported to have spent nearly $200 million to reconstitute one such rig. To put it into perspective, the North Sea, with comparable reserves, had nearly 100 offshore rigs in operation as it tripled production from 1980 to 6.1 million bpd in 1998.

Such constraints severely limit the amount of drilling that can take place in the region at any one time. They also mean oil well installations take considerably longer to finish—in some cases up to two years as compared to two to three months in many other oil provinces in other parts of the world. These constraints also mean that a discouraging first effort can have a devastating impact on development schedules for any particular field. If an oil company has a dry hole or expected natural gas find, rather than just drill again at another location, it may have to get into the queue before a second rig can be acquired to drill elsewhere in its exploration concession area. In the case of Azerbaijan’s Karabakh field, for
example, initial failures will mean that schedules to produce oil at the field by 2001 are no longer feasible.

Drilling obstacles also mean that while its energy resources may be geologically equivalent in scale to the North Sea, the region's output is unlikely to achieve such potential. North Sea production rose from roughly 2 million bpd in 1980 to 6.1 million bpd today, or 8 percent of current world demand. By contrast, after two decades of development, Caspian oil production may top no more than half that and represent little more than 3 to 4 percent of world oil demand by 2010. Projections for Caspian production by 2010 range as high as 4.5 million bpd. But at present, unless oil prices stabilize at high levels, the International Energy Agency “low case” scenario—as little as 2.5 to 2.8 million bpd by 2010—appears a higher probability. Of those exports, perhaps as much as 1 to 1.5 million bpd could remain within the Black Sea region. By 2000, however, the Caspian was producing just 1.2 million bpd, less than 200,000 of which were exported outside the immediate region.

In fact, a series of dry holes drilled in late 1998 and 1999 in Azerbaijan, combined with a large BP Amoco gas discovery at its Shah Deniz field, led two major Western firms to forgo their oil concessions and withdraw their operations from Azerbaijan in 1999. Azerbaijani gas may require Baku to reach a commercial understanding with Turkmenistan, which possesses the world's fourth largest gas reserves and whose pipeline to markets in Turkey must pass through Azerbaijan. This situation has complicated an already problematic U.S.-led effort to build a major east-west pipeline from Baku to Ceyhan on Turkey's Mediterranean coast. Baku-Ceyhan, as it is known, appears the least commercially competitive of several possible oil and gas pipeline schemes, one that the Western-dominated oil consortia who control the production of the vast majority of Caspian hydrocarbon resources have viewed with considerable skepticism.

**Landlocked: Transport Dilemmas**

The Azerbaijan-Turkmenistan pipeline sharing question and the debate over Baku-Ceyhan offer hints as to why the logistical problems involved in drilling for oil are eclipsed by the still more daunting transport problems involved in getting the oil and/or gas to market. Not only is the region landlocked, but the major Caspian resource-states, Kazakhstan, Azerbaijan, and Turkmenistan, are surrounded by neighbors who are commercial rivals and possess the major access routes. For example, Russia, with the most elaborate, if dilapidated, pipeline network, has traditionally dominated transit routes for its former republics. Thus, in a dispute with Turkmenistan, Moscow cut off the new state's pipeline flow to European markets in 1997. Iran, by dint of geography, possesses the shortest, most commercially attractive access routes.
All told, a plethora of alternative oil and gas pipeline routes have been proposed, and current political gaming in the region revolves around the “division of rents” — e.g., tariffs and transit fees — and geopolitical influence a firm decision on pipeline routing will generate. Each of several east-west and north-south pipeline routes has its own political calculus and economic logic. The United States has waged an impressive and sustained diplomatic campaign, investing enormous political capital in order to make Baku-Ceyhan the Main Export Route (MER), the course favored by Azerbaijan, and especially by Turkey, and more broadly, to mold the region in its preferred image. The key strategic point about Baku-Ceyhan is that it would skirt both Russia and Iran, while reinforcing Turkey's economy and role as an oil entrepôt.

Washington has multiple objectives that it has repeated mantra-like, with a few minor variations in virtually every official policy pronouncement: strengthening the independence and promotion of democracy of the newly independent states; increasing and diversifying world energy supplies; enhancing commercial opportunities for U.S. companies; bolstering the energy security of the United States and its allies and friends. Decoding this diplomatic vocabulary and the geopolitics of this policy means freeing Central Asian and Caucasus states from overdependence on Russia, continuing to isolate Iran, and weaving Central Asia and the Caucasus into the fabric of the international economic and political system. Secretary of Energy Bill Richardson articulated one of the most lucid, unvarnished descriptions of American policy in an interview with the New York Times:

This is about America’s energy security, which depends on diversifying our sources of oil and gas worldwide. It’s also about preventing strategic inroads by those who don’t share our values. We’re trying to move these newly independent countries towards the West. We would like to see them reliant on Western commercial and political interests rather than going another way. We’ve made a substantial political investment in the Caspian, and it’s very important to us that both the pipeline map and the politics come out right.

Unfortunately, the very headline in the Times article in which Richardson is quoted hints at some of the inherent problems, if not contradictions in U.S. policy: “On Piping Out Caspian Oil, U.S. Insists the Cheaper, Shorter Way Isn’t Better.” There are several other oil and gas pipeline routes, both east-west and
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north-south (See Figure 1). The shortest, least expensive route is a pipeline south to Iran, with oil to be shipped out from transport lines in the Persian Gulf. There are variations on these pipeline options for gas and oil, including still shorter pipelines to feed demand in northern Iran with Tehran swapping its own oil for export. There is a northern route into Russia and its existing pipeline system as well as a northwest route to the Russian port of Novorossiysk for shipment to Europe through the Black Sea. This route has operated to move "old oil"—i.e. pre-Soviet break-up—when problems such as conflicts in Chechnya and Dagestan have not disrupted operations. Another east-west pipeline, albeit modest in scale,

![Figure 1: Possible Caspian Oil and Gas Export Routes](image)

already operates taking about 100,000 barrels a day from Baku through Georgia—bypassing Russia— to the Black Sea port of Supsa. In addition there are two west-east pipeline ideas, both from Turkmenistan, with one through Afghanistan to Pakistan and India; and a second through Kazakhstan to China. Both ideas are dormant as of 2000.

Understandably, the leaders of the fledgling states of the region have powerful and compelling financial reasons for a quick decision on how to transport their precious energy resources to market. All of the Caspian Basin states have fragile economies and view oil and gas revenues as critical not only to their well-being but in some respects to their viability as nation-states. But there are also compelling arguments against a choice made in haste. There are a number of long-range variables that will influence what will principally be commercially driven decisions. It is the oil consortia who must pay for the pipelines. These variables range from shifts in Russian attitudes and behavior toward its republics and the West, an economic revival in former Warsaw Pact states and the Ukraine that could create bigger local markets for oil and gas, and the geopolitical and commercial implications of rapidly evolving political change in Iran.

But the most fundamental reason for cautious, prudent decisions is that the approximately one million barrels a day Azerbaijan International Operating Company (AIOC) says is necessary for the Baku-Ceyhan pipeline to be profitable have yet to be found! A major find at the Kashagan field in Kazakhstan may provide sufficient amounts of crude for the large pipeline to go forward. Indeed, oil industry sources suggest that the new finds at Kashagan may be three to four times the size of Tengiz, the largest oil field in the region. If this is the case, it might yield 1 to 1.5 million bpd by 2001–2002. This would mean a total of some 30 billion barrels in recoverable reserves, roughly doubling existing estimates of Caspian reserves but still several orders of magnitude smaller than the official State Department report has suggested.18

But it remains uncertain what the total volume of oil and gas reserves of the Caspian Basin may be, and an authoritative assessment is not likely to be attainable before 2001–2002 or later.19 The November 1999 Baku-Ceyhan accords signed with great fanfare in Istanbul only created a legal framework for moving forward with the pipeline, and the promise of a Turkish guarantee to cover costs beyond the $2.4 billion Washington and Istanbul estimate the price of constructing the 1,200-mile pipeline. Oil companies such as BP Amoco estimate the construction costs of Baku-Ceyhan at $3.8 billion, while other oil companies in the main AOIC surveyed by the author claim still higher estimates.20 If Kashagan can produce 1, or by some estimates 2 million or more bpd, not only would that provide economic feasibility for Baku-Ceyhan, but it might end the “mediocre game” of pipeline competition by creating an economic basis for other pipelines, not least, through Iran.
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The cautious move by the oil consortia underscores the prematurity of making decisions with long-term consequences in a fluid political and uncertain economic environment based on judgments of short-term realities. Public rhetoric by the Clinton administration about the value of an east-west route from Baku to the Turkish Mediterranean port of Ceyhan notwithstanding, the United States has been unwilling to subsidize the pipeline, leaving the financial burden principally in the private sector. Both adequate amounts of oil to export and stable prices above $13 a barrel are prerequisites for AIOC to give a green light to Baku-Ceyhan. In the interim, as one U.S. official conceded, “all the routes are still up in the air.”

Political Risk

In addition, there is a layer of political risk in the region’s numerous ongoing local conflicts and disputes that must be part of the Caspian energy development calculus. Take for example the fact that both the Baku-Ceyhan and Baku-Supsa pipelines traverse the Republic of Georgia, where Moscow can assert itself by supporting that country’s already simmering separatist movements— as it has done in the past. Georgia’s leadership currently suffers under the heavy pressures of blatant Russian interference in its internal affairs. Bloodshed has already been spilled over Abkhazia’s aspirations for independence while tensions are high in other regions as well, including South Ossetia, Ajaria, and the Javakheti region.

As if the problems in Georgia weren’t sufficiently discouraging, this preferred pipeline route and the more modest operational one also passes within artillery range of Russian-backed Armenian militias who are pitted in a deeply entrenched territorial conflict with Azerbaijan. Certain Armenian hard-line factions believe that it is vital that Azerbaijan be denied significant oil revenues that could be channeled into arms acquisition programs. This sentiment is entrenched despite the fact that Armenia currently maintains a sizable military edge over Baku. Dividing up transit fees and other benefits from oil and gas development may, as was the case in the previous 1996 conflict in Chechnya, eventually become a positive factor in resolution of the conflict.

But chances of speedy resolution of the Armenian-Azeri conflict appear remote. Azerbaijan’s government faces a large-scale refugee problem deriving from Armenian occupation of Azeri territory during fighting between the two countries. These refugees tie the hands of Azerbaijan’s president Haydar Aliev from showing flexibility. Meanwhile, the Armenian population of the disputed territory— Nagorno-Karabakh— cite historical claims to demand self-rule and autonomy or even statehood in association with Armenia. They are supported financially and politically by the Armenian diaspora in the United States and Europe and by the government of Armenia. Their U.S. lobby has been so successful
that the U.S. Congress initiated sanctions against Azerbaijan in 1992. But there is growing support for lifting them if any progress can be made in conflict resolution between the two sides. The conflict obviously pours cold water on hopes of an export route from Baku via Armenia.

Other political barriers have also inhibited a steady stream of Caspian energy exports more directly through Russia or Iran. Moscow's bureaucratic chaos, corruption, and weak administrative control have combined to deny access to key sections of Russia's vast pipeline network. Moreover, certain elements inside Russia's foreign policy hierarchy work to block exports from Kazakhstan, Azerbaijan, and Turkmenistan on nationalistic and economic grounds.

Russia has attempted to retain control over Caspian oil developments by utilizing its leverage over transportation routes, asserting legal claims in the Caspian Sea and pressing Western companies to include Russia oil firms into international consortia. The view from inside Russia's oil sector—which through Lukoil holds a 10 percent stake in AIOC and 5 percent in Kazakhstan's Tengiz field—continues to be integrationist. The former Soviet state oil sector invested heavily in existing Caspian oil facilities and Moscow's oil men believe this entitles Russia to control and compensation. Difficulties in obtaining land rights and transit rights may eventually lead to Russian firms being given larger shares as an incentive to pressure both Moscow and local authorities to cooperate.

In any case, there are competing Russian interests and tendencies, with a divide between nationalists who consider Central Asia their birthright and a constituency of corporate interests and more pragmatic economic realists gravitating toward a more cooperative posture. However, Russia's economic weakness suggests it is more likely either to play a spoiler role in regard to the development of Caspian resources or seek to use the threat of being a spoiler to gain leverage to be better dealt in to what is a not-so-great game by the Western oil consortia. More recently, there seems to be a counter-trend of the Putin administration reasserting itself in the region. Torn by instability and Islamic insurgency, many Central Asian states appear to be rethinking relations with Russia as the United States continues to focus more on democracy, as beleaguered regimes are looking for support for tough measures against prospective instability. The prospect of less conditional military support from a sympathetic Russia has a trend toward improving military and economic ties between Central Asian states and Russia. This was manifested in the welcoming of Putin to the region with open arms during his May 2000 visit.

In contrast, despite its geographic advantages, Iran has had much less leverage to exploit in the pipeline game. Iranian export routes have largely been on hold as a result of the containment approach of the U.S. administration and the U.S. Congress that still views Tehran as a rogue regime to be isolated. Since the landslide election in 1997 of Mohamed Khatemi, a gradual diplomatic dance
between the U.S. and Iran has slowly unfolded. This began with Khatemi's CNN interview in January 1998, and saw Clinton waiving sanctions against Russian, French, and Malaysian firms investing in Iran's oil industry May 1999, under the extraterritorial Iran-Libya Sanctions Act (ILSA). That June, there was a diplomatic overture from Secretary of State Madeleine Albright. In a speech to the Asia Society, Albright described Khatemi's electoral victory as “a mandate for change, demanding from the Iranian government greater freedoms, a more civil society based on rule of law, and a more moderate foreign policy aimed at ending Iran's estrangement from the international community.” But a backlash by conservatives who hold the levers of power makes the pace of change problematic.

Relatively weak and inward-looking countries like Iran and Russia have been sucked into a “Mediocre Game” for local spoils and played off by Central Asian actors.

the religious decree ordering the murder of Salman Rushdie— while at the U.N. General Assembly in September 1998, has dramatically softened the atmosphere. Absent Iran's revolutionary evangelical ideology, there is no necessary reason for adversarial U.S.-Iranian relations. Moreover, while there is major internal political drama playing out in Iran, the overwhelming reformist victory in the February 2000 parliamentary elections underscore that Khatemi's ascendancy marks the beginning of the end of first-generation Iranian revolutionary leadership, if not the total waning of the revolution. Neither private Iranian specialists nor U.S. officials dispute the possibility that within five years or less Iran might be viewed as a neutral—if not friendly—nation by the U.S. Such an eventuality would recast the pipeline equation dramatically, with Western oil companies strongly favoring the shorter, less expensive routes through Iran for Caspian oil.

Almost all of the biggest oil producing consortia in the Caspian region contain at least one U.S. oil company partner and are thereby barred by U.S. laws from undertaking major energy investments in Iran. Japan has equity in AIOC as well. The U.S. government has also worked behind the scenes with mixed success to thwart foreign companies from joining with Iran's national oil company (NIOC) to construct energy export outlets via Iran. Were sanctions to be lifted in a rapprochement between Tehran and Washington, the attractions of various Iranian export routes from the Caspian would be compelling. Nonetheless, Iranian behavior suggest its political evolution is likely to be gradual in regard to normalizing relations with the United States. China and Malaysia are already investing in Iran, and Japan is also actively pursuing investment in Iran's oil sector.
Geopolitically, the inability to improve qualitatively U.S.-Iranian relations may be inadvertently fostering tension with the Central Asian states it has sought to cultivate. These states, faced with necessity to export oil, have quietly contemplated a variety of oil and gas deals involving Iran, most notably the Turkmenistan pipeline. Iran is already tendering to build its own pipeline to bring Caspian oil shipped by tanker to a Caspian Sea port inland to refineries in northern Iran. Moreover, it is not improbable that the reformist parliamentary victory might strengthen Khatemi’s hand in opening up Iran’s economy more robustly to foreign investment in the energy sector. It has built at its own expense a natural gas pipeline that is transporting Turkmen gas to Iranian industries near the Iranian-Turkmen border. Iranian officials continue to pursue the possibility of a major export pipeline from the Caspian to the Persian Gulf. U.S. chest-thumping may have delayed these projects slightly but is unlikely to stop them. Given the dominance of Soviet-style authoritarian and/or less than fully democratic leaders in Azerbaijan, Kazakhstan, and Turkmenistan, Iran may begin to look more stable and more pluralistic politically.

Not-So-Great Game

Socioeconomic problems threaten the stability of almost all of the governments of Central Asia and the Caucasus. This trend is likely to continue in lieu of the oil bonanza many in the region were expecting. The Caspian region’s populations now spend on average 70 percent of their income on food alone. In Azerbaijan, real GDP contracted by an average of 12.4 percent a year from 1992 to 1997. Kazakhstan’s GDP dropped 44.5 percent from 1990 to 1995, posting only minor recovery since. As Martha Olcott notes in a 1998 Foreign Policy article, “Deep ethnic divisions have left each of these new states sitting on the equivalent of a separatist time bomb.” On the deteriorating economic conditions she adds, “More troubling is the drastic decline in the ability of the Caspian governments to maintain even minimal levels of public services and social welfare protection, not to mention the kinds of benefits that the pre-independence population enjoyed. In the last several years, public education has broken down, health care has deteriorated, pensions have gone unpaid, and a relatively egalitarian social structure has been largely destroyed.”

Most of the ruling elite of the Caspian region have all but stamped out opposition movements and expression of political dissent, leaving no avenue for change except convulsive ones. Leadership successions can be expected in many of the region’s states as the older generation of ex-Communists pass the reins of power. As a new generation of nationalists emerges to replace the old Soviet guard, social and ethnic tensions—as well as Islamic fundamentalism—may resurface in a more virulent form.
In the absence of substantial new energy discoveries in the Caspian region, the U.S. vision of Central Asia and the Caucasus as independent democracies buoyed by newfound oil wealth may yield to a much harsher reality. Similarly, the Asian vision of an alternative to dependency on Persian Gulf oil appears at best grossly inflated. By exaggerating the region's significance, the Clinton administration set in motion a policy bureaucracy and created a political investment that may be ill-advised. Indeed, burgeoning U.S. military and political involvement may invoke the law of unintended consequences. Ironically, this occurs as the private sector, with its eye on the bottom line, has had second thoughts about the Caspian.

Thus, a disconnect has evolved, where the private sector, which initially sought government help to gain entry to the region, has begun to lower its expectations drastically. Not only U.S. firms are more skeptical: China has indefinitely postponed a planned pipeline from Kazakhstan. Yet rather impervious bureaucracies continue on their merry way, failing to adjust to the new realities. Central Asia and the Caucasus are not about to spew forth an oil and gas bonanza. Nor must America brace for the threat to world stability that might erupt from a competition for influence there from surrounding powers. In regard to the latter, the experience of the past eight years has been that relatively weak and inward-looking countries like Iran and Russia have been sucked into what might be dubbed a "Mediocre Game" for local spoils being largely played off by the various Central Asian actors. On balance, for the foreseeable future the principal threat to the region is and will likely remain internal instability, as with the Persian Gulf.

Nonetheless, the policy reality of the United States flies in the face of sensible and sustainable strategy. Promoting democratic evolution in the newly independent states is an admirable U.S. objective. But there are only very modest resources allocated to the sort of technical training and agricultural reform, humanitarian aid, and assistance in institution-building necessary to achieve that goal. At best, the oil wealth to fund such development will be deferred for a good part of this decade.

But the impressive U.S. campaign for its Caspian basin objectives risks fomenting unnecessary strategic competition with Russia and China. U.S. policy focuses on expanding already obtuse military ties that constitute the principal interface between key Central Asian states and Washington. Indeed, in some cases direct support is lent to training military police and ground forces—in a policy reminiscent of ill-considered U.S. activities in Latin America in the 1970s. The U.S. European Command now has responsibility for the Caucasus—including a budding relationship with Georgia, and CENTCOM's portfolio includes all of the former Soviet Republics of Central Asia. The vehicle—and driver—for these liaisons is NATO's Partnership for Peace (PFP) program, to which all the aforementioned states belong. Henry Kissinger has noted PFP is essentially therapeu-
tic, aimed at psychological reassurance, “far removed from the basic NATO mission [and] which waters down the function of the alliance.”

S. Frederick Starr, in arguing that Central Asia is the keystone of Eurasian security, cites its geographic position as well as mineral deposits, oil, and stores of conventional weapons. He advocates that Uzbekistan is “uniquely positioned to anchor the security of the region.” Starr’s position dovetails nicely with the views of some in the U.S. military. The United States has held joint military exercises in Kazakhstan and Uzbekistan and considers Uzbekistan—and Turkmenistan for that matter—an important listening post and bulwark against Russian and Iranian expansion. The Uzbekistan exercises were designed to show off its ability to “land” inside the landlocked region. But airborne refueling mightn’t have been as simple had a war situation really been in progress. There are no waterways in which a U.S. aircraft carrier can float. The region is too remote for a quick flyover. Military involvement in Central Asia and the Caucasus would take land troops in substantial numbers. That would mean the U.S. people, Congress, and NATO would have to support it, and the stakes would have to be high enough to justify the cost in terms of human lives and material. It would also highlight competing U.S. policy goals of relations with Russia with those of supporting independence and democracy in the newly independent states of Central Asia. In short, the U.S. lacks the force projection capabilities as well as the vital national interest to intervene successfully on a sustained basis. Even in the process of redefining NATO’s goals and missions, there would be extreme reluctance on the part of the EU countries to entertain the notion that NATO should be responsible for that peripheral area.

In any case, involvement in Central Asia and the Caucasus alone cannot significantly reduce the need for the United States to police the Persian Gulf, but such involvement could prove costly in political, military, and economic terms. For this reason, the United States would be better advised to encourage Russia into multilateral solutions toward the region’s problems than to confront it with the option of taking over Russia’s policeman role.

Russia faces a conundrum. Its own stability can be affected from either interfering too much or not interfering enough in the Caspian region’s affairs. Respected Russian analyst Andrei Kortunov recommends his government acknowledge limitations and seek international assistance and cooperation. “Russia will be well advised to continue refining multilateral mechanisms that may assist it in the performance of onerous duties of conflict resolution in Central Asia and the Caucasus.... Additionally, it may try to attract greater international—UN, OSCE, NATO, U.S., or European—attribution to mounting Central Asian problems to master additional support for peace-keeping activities in the region.” The idea that the United States could and should play a military role to “replace” Russia and guarantee the freedom of the Central Asian and Caucasus countries from the
"Soviet grip" drips with impracticality. A careful glance at the international map demonstrates the huge costs and risks such a policy would entail.

These new Central Asian entanglements, quite apart from complicating already troubled U.S. relations with Russia and China, may create expectations that NATO will intervene in the event of social or political turmoil in places as remote and geopolitically significant as the border of China's Xinjiang province. While there are understandable reasons to be enthusiastic about the hope of fostering new independent, democratic states closer to Russia's flank, the vast entanglements such intervention might entail should not be considered lightly. The complex problems of the Caspian region—evidenced by the turmoil in Chechnya, Dagestan, and Kyrgyzstan—left to fester without the panacea of promised oil wealth could make the Balkan horrors pale by comparison.

As the promise of oil-driven nation building in the Caspian region proves elusive and underlying tensions produce full-fledged crisis, the United States stands a great risk of drifting into a quagmire that it can neither handle effectively nor solve militarily. As a RAND study noted, NATO risks a "mission creep and a developing gap between its commitments and capabilities." RAND concludes wisely that "NATO's military capabilities [read U.S.] is of little utility in preventing 'failed states.'"37

Ironically, intense U.S. interest in the oil and gas of the region is sparking equally attentive focus from other national actors, not just Russia and Iran, who are necessarily part of the Caspian equation, but China and Japan as well. The Caspian region has begun to enter into both Beijing and Tokyo's energy security and strategic calculus in ways that may be unwarranted by the above-described realities of the Caspian. Both China and Japan have made significant investments in the region: China in Kazakh oil fields and promises of building pipelines, Japan in its aid and investment in the region. Both are searching for diversity of supply. In addition, there is a geopolitical dimension to both Chinese and Japanese involvement in the region. For Japan, it seems aimed at limiting Chinese influence and defining its foreign policy as a major player in Eurasia.

In China, it appears that some analysts are mirror-imaging the U.S.-exaggerated importance of the region. For example, one prominent Chinese intellectual wrote an essay arguing, "The U.S. regards Central Asia as a component part of its global strategy and hopes that Central Asia will dissolve into the West's 'free market' and establish a western style 'democratic' political system. Central Asia's abundant natural resources and important strategic position are becoming more and more important in America's economic and security policy."38 While one can find more benign and realistic views in Chinese policy journals and discussions with think-tank intellectuals, it is also conceivable that such misperceptions could grow into unnecessary strategic competition, or, given that China's Xinjiang province borders on Central Asian republics such as Kazakhstan, such perceptions of U.S. policy could feed Chinese anxiety about a U.S. containment policy.
China has immediate security concerns most notably in its volatile Xinjiang province, where ethnic Turkic Uighurs have exhibited serious political unrest. Moreover, conceptually, China views itself as a “landbridge” from Central Asia. More broadly some Chinese planners view Central Asia as a means of diversifying and reducing dependence on Middle East oil. For Beijing, Central Asia, in this sense, offers the hope, however, unrealizable, of avoiding dependence on the U.S. Navy to safeguard its oil imports through the sea-lanes. This is a point to which geopolitical analysts and military planners in China have paid much attention.

Conclusion

Apart from oil—and U.S. firms dominate the consortia which already control the major oil fields of the Caspian—American national interests in the Caspian Basin are more derivative than fundamental. For China and Japan, they are also case-specific rather than broad-based and part of a wider focus related to stability in Russia, China, Turkey, and the Persian Gulf. They are a pale second compared to U.S.-Russian relations. On an international level, they are oriented toward ensuring that the region doesn’t become a hotbed for illicit trafficking in arms, controlled technologies, and drugs, and a modest effort to facilitate moves toward political pluralism. Moreover, the lessons of the former Yugoslavia underscore the dangers of allowing rampant ethnic separatism in the Caucasus and Central Asia to stimulate political devolution in neighboring states such as Russia, China, or the subcontinent.

Apart from making a potentially costly policy mistake in Central Asia, the U.S. emphasis on the region appears to be playing a role in shaping Asian nations views of Central Asia. Certainly, as we have seen, China’s views of the Caspian region’s strategic significance appear at least in part a response to what Beijing views as U.S. strategy. Rather then allowing for the possibility that a variety of single issue interests are driving U.S. policy in ways that may be contrary to U.S. larger strategic interests, there is a tendency to assume American behavior results from some Grand Strategy. Similarly, Japan has followed the U.S. into the Caspian as well in a manner that suggests its perceptions are also shaped by American actions.

Finally, in regard to energy security for Asian actors as well as the United States, the key point is that the Persian Gulf’s importance will not be mitigated by the energy resources of the Caspian. Rather, it will be modestly, but not unimportantly, supplemented. For Asia, the Gulf and the Middle East will remain the principal supplier of oil as well as an increasingly important supplier of natural gas. The policy challenge for Asia and the United States is to rethink the Caspian and place it in the proper geopolitical and energy security perspective.
Notes

1. See for example Jeffrey Goldberg, "Getting Crude in Baku," New York Times Magazine, 4 October 1998, 2; and Tad Szulc, "Could This Happen To Us Again?" Parade Magazine, 19 July 1998, 6–8. Szulc invokes a neo-Club of Rome argument that the world is running out of oil, and that "Much of the future of the world's economy ... may hinge on who gains access to this wealth."


9. Ibid.

10. Interviews with geologists from U.S. companies such as Pennzoil, Amoco, UNOCAL, and Texaco, April 1997–October 1998. Those interviewed tended to favor estimates of below 100 billion barrels.


14. Author's interviews with National Iranian Oil Company (NIOC) officials, Central Asia, summer 1998. According to the interviewees, Iran would be likely to build a one million barrel per day pipeline from the Caspian to Kharg Island if it can find international partners. Tehran has already tendered to build a small pipeline from Neka on the Caspian coast to its Tabriz refinery.


16. See for example, Strobe Talbott, "A Farewell to Flashman: American Policy in the Caucasus and Central Asia," address to the Central Asia Institute, 21 July 1997; also Stuart Eizenstat, testimony before the Senate Appropriations Subcommittee on Foreign Operations, 31 March 1998.
19. Author’s interviews with British Petroleum (BP), UNOCAL, and Azerbaijan International Oil Consortium (AIOC) officials, Houston, TX, and New York, May, June, and October 1998.
32. Economist Intelligence Unit, Kazakhstan Country Profile, 1999–2000
35. Author’s interview with oil industry officials, Houston, TX, September 1998. Also see Christopher Cooper and Hugh Pope, “Dry Wells Belie Hope for Big Caspian Reserves,” Wall Street Journal, 12 October 1998, A13.
36. Kortunov, “Russia and Central Asia.”
38. Yang Shuheng of the Peace and Development Institute, Beijing 1998.