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**ENERGY AS A FOREIGN POLICY TOOL IN THE  
CASPIAN REGION**

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## Yemin Metni

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Tarih

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İmza

## **ABSTRACT**

### **MASTER THESIS**

**Energy as a Foreign Policy Tool in the Caspian Region**

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**The Caspian region offers a complex view to its observers. Comprised of Russia, Azerbaijan, Kazakhstan, Turkmenistan, and Iran, the region is, on one hand, often identified with frozen conflicts, political instability, and controversies regarding the legal status of the Caspian Sea. On the one hand, the same region also boasts promising hydrocarbon reserves and is located right next to another prominent region in world politics; the Middle East. Due to these complex, even controversial, points related to its geopolitical and geostrategic significance since the end of the Cold War, the Caspian region has attracted the attention of IR scholars. The power positions of the regional states in the future are directly proportional to their ability to produce and commercialize their oil and gas resources. However, there have been a number of constraints to develop the Caspian energy trade. Frozen conflicts in the region, including Nagorno-Karabakh, the legal status of the Caspian Sea, lack of transport infrastructure, and political instability are some of these constraints.**

**This study overviews the role of energy resources as a foreign policy tool in Azerbaijan and Kazakhstan cases. It tries to offer a new perspective, which reconciles oil politics in Azerbaijan and Kazakhstan with the mainstream IR theories. The current literature on energy politics expects these countries to gain leverage in foreign policy-making due to their considerable hydrocarbon resources. However, this study argues that Azerbaijan and Kazakhstan face several limitations to using their energy potential to have independent foreign policies. The study explains the main assumptions of the theoretical approaches on oil politics with a particular emphasis on the Caspian region. In this regard, the study deals with classical realism, geopolitical theory, neorealism, transnationalism and interdependence theories and social constructivism. It**

**tries to examine what these theories offer to explain oil politics regarding the Caspian region. Finally, it intends to apply theoretical models to explain the role of hydrocarbons in Azeri and Kazakh foreign policies.**

**Key Words:** Energy, Oil Politics, Foreign Policy, Caspian Region, Azerbaijan, Kazakhstan

## ÖZET

Yüksek Lisans Tezi

Hazar Bölgesi'nde Bir Dış Politika Aracı Olarak Enerji

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Hazar Bölgesi araştırmacılara karmaşık bir görünüm sunmaktadır. Rusya, Azerbaycan, Kazakistan, Türkmenistan ve İran'dan oluşan bölge, bir yandan çoğu kez dondurulmuş sorunlar, siyasi istikrarsızlık ve Hazar Denizi'nin hukuki statüsü üzerindeki anlaşmazlıklar ile özdeşleşirken; diğer taraftan aynı bölge uluslararası politikada bir diğer önemli bölge olan Orta Doğu'ya komşu olup, umut verici hidrokarbon kaynaklarıyla övünmektedir. Soğuk Savaş'ın sona ermesinden itibaren Hazar Bölgesi jeopolitik ve jeostratejik önemine ilişkin karmaşık noktalardan dolayı Uluslararası İlişkiler alanında çalışan sosyal bilimcilerin ilgisini çekmektedir. Bölgedeki devletlerin gelecekteki güç konumları büyük ölçüde petrol ve doğal gaz kaynaklarının üretimi ve pazarlanması ile doğru orantılıdır. Bununla birlikte, Hazar enerji ticaretinin gelişiminin önünde birtakım engeller vardır. Dağlık Karabağ gibi bölgesel sorunlar, Hazar Denizi'nin hukuki statüsüne ilişkin anlaşmazlıklar, petrol ve gaz taşımacılığı altyapısındaki yetersizlik ve siyasi istikrarsızlık bunlardan bazılarıdır. Çalışma Azerbaycan ve Kazakistan örneklerinde enerjinin bir dış politika aracı olarak rolünü incelemektedir.

Bu çalışma, genel olarak, kuramsal yaklaşımların petrol siyaseti üzerine sundukları önermeleri Hazar bölgesini vurgulayarak açıklamaktadır. Enerji siyasetiyle ilgili mevcut literatür Azerbaycan ve Kazakistan'ın sahip oldukları hidrokarbon kaynakları sayesinde dış politika alanında bağımsızlaşacaklarını öngörmektedir. Söz konusu çalışma ise, bu ülkelerin enerji potansiyellerini kullanarak bağımsız dış politika yürütme sürecinde bir takım engellerle karşılaştıklarını savunmaktadır. Çalışma, petrol siyasetini başlıca Uluslararası İlişkiler kuramları ile bağdaştırarak yeni bir bakış açısı sunmaya çalışmaktadır. Bu bağlamda çalışma klasik realizm, jeopolitik kuram, neorealizm, ulus üstüçülük, karşılıklı bağımlılık ve sosyal inşacılık kuramlarını ele almaktadır. Söz konusu kuramların Hazar havzasına ilişkin petrol siyasetini açıklamak için

sunduđu önermeleri incelenmektedir. Çalışma hidrokarbon kaynaklarının Azeri ve Kazak dış politikalarındaki rolünü söz konusu kuramsal yaklaşımlar ile açıklamayı amaçlamaktadır. Enerjinin dış politika aracı olarak kullanım sorunlarının sadece bu bölgeyle sınırlı olmayıp diđer bölgelerde de yaşandığı çalışmada örneklerle belirtilmektedir.

**Anahtar Kelimeler:** Enerji, Petrol Siyaseti, Dış Politika, Hazar Bölgesi, Azerbaycan, Kazakistan

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## INTRODUCTION

This study examines the foreign policy initiatives of Azerbaijan and Kazakhstan in their post-independence years. It particularly seeks to answer the question of why these countries have failed to form “independence” in foreign policy matters despite their considerable hydrocarbon wealth.<sup>1</sup> The general assumption prevailing in the current International Relations (IR) literature assumes that the states with strategic natural resources are perfectly capable of utilizing their resources for an independent foreign policy-making. Based on the Azeri and Kazakh experience, however, this study argues that a number of key constraints can limit their foreign policy choices and prevent them from using their resources efficiently.

Most of the studies in the IR literature on the region claim that the energy reserves in the Caspian region would lead to a cooperation environment, common identity and similar foreign policy agendas of the states, which have a considerable hydrocarbon wealth. For instance, according to Robert Cutler, the Caspian region can achieve regional development through cooperation on energy trade between ‘resource-holders’, ‘transport-holders’ and ‘capital-and-technology holders’.<sup>2</sup> However, this study argues that the Caspian states face some key constraints, in particular in the security field, to achieve this cooperative environment in the regional energy politics.

Following the disintegration of the Soviet Union, many observers expected the newly independent Caspian states with considerable energy resources to pursue more independent foreign policy. However, when certain foreign policy steps of Azerbaijan and Kazakhstan are taken into account through the mainstream IR theories, it becomes obvious that they are influenced by several factors, including geography, demography and security. Geographical factors have been key factors that

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<sup>1</sup> In this study, “independent foreign policy” refers to political and economic power that will prevent states to align with the strong powers on which they rely. State, which can pursue an independent foreign policy, are free from influences of other states on their policy choices. On the contrary, dependent foreign policy refers to the lack of economic and military resources and obligation of a state to comply with major powers’ demands rather than its own national interests. See Jeanne A. K. Hey, “Foreign Policy Options under Dependence: A Theoretical Evaluation with Evidence from Ecuador”, *Journal of Latin American Studies*, October, 1993: 43-50.

<sup>2</sup> Robert M. Cutler, “Cooperative Energy Security in the Caspian Region: A New Paradigm for Sustainable Development?”, *Global Governance*, 5:2, April-June 1999: 251-271.

shape the transportation routes, through which the oil and gas delivered. A landlocked geography of the region and lack of access to the open seas have made regional states remain dependent on the Russian pipeline infrastructure. Regarding demography, the Caspian states' demographic structures have included different ethnicities, in particular the ethnic Russians. This condition makes them vulnerable to the Russian influence in their domestic and foreign politics. Security issues include territorial conflicts and demarcation of the Caspian Sea, which also pose threats against independent foreign policy-making of the Caspian states.

Along with their energy concerns, Azerbaijan and Kazakhstan have security-oriented foreign policy agendas, which indicate that high-politics still outweighs low-politics in these states. For Azerbaijan, Russia, to a large extent, has lost its traditional influence over the country. However, it still has several cards to make pressure on Baku, such as its status as a Minsk Group co-chair, which makes it a key player in the Nagorno-Karabakh conflict.<sup>3</sup> Meanwhile, in the Kazakh case, two issues are particularly significant<sup>4</sup>: First is the transportation of the Kazakh oil and gas through the Russian pipeline infrastructure to the global markets. In 2007, more than 60 million tons of Kazakh oil was delivered to global markets through Russian territory, which makes that country the most important transit route for Kazakh oil.<sup>5</sup> Second is the joint development of three oil fields in the Caspian Sea by two countries.

Another prominent argument in the IR literature argues that, these energy resources would provide Azerbaijan and Kazakhstan significant leverage in foreign policy-making, compared to those countries lacking this wealth. However, this study disagrees with this argument and argues that this so called "strategic resources" may not always increase the foreign policy options of a state. The study therefore seeks to answer the question of: why these states cannot have more independent foreign policies, when compared to other countries in the region, such as Georgia and Kyrgyzstan, despite their rich hydrocarbon reserves? For instance, although Georgia

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<sup>3</sup> Heidi Kjarnet, "The Energy Dimension of Azerbaijani-Russian Relations: Maneuvering for Nagorno-Karabakh", **Russia's Energy Relations with Its Caspian Neighbors**, *Russian Analytical Digest*, 56, 2009: 4.

<sup>4</sup> Stina Torjesen, "Russia and Kazakhstan: A Special Relationship", **Russia's Energy Relations with Its Caspian Neighbors**, *Russian Analytical Digest*, 56, 2009: 6.

<sup>5</sup> Ibid: 7.

does not have strategic resources, it can stand up to Russia. In countries, such as Kyrgyzstan, democratization attempts can take place. However, in countries, which have considerable amounts of energy resources, like Azerbaijan or Kazakhstan, it is difficult to observe such developments.

Regarding these resources, this study argues that the attempts of the Caspian states to use their hydrocarbon wealth to achieve an independent foreign policy, replaced their dependence on Russia with another dependence on major extra-regional powers, including the United States, the European Union and China. In other words, energy politics in these states have been subordinated to the outcomes of the geopolitical struggle between these global powers over their hydrocarbon resources. Meanwhile, in addition to this new dependency on global powers, such as the US, their dependence on Russia, while somewhat lessened, has also persisted. The result is ironic: based on the mainstream IR theories, while energy reserves are supposed to help Azerbaijan and Kazakhstan to gain the upper hand in their relations with the other states; in reality, they have hardly lessened their dependence on other countries while making their foreign policy decisions.

Thus, the study attempts to take an initial step toward applying general assumptions of both mainstream and contemporary IR theories to discuss the research question stated earlier. Unfortunately, the number of academic studies that study the dynamics of Caspian energy politics in the post Cold War era from the viewpoint of the mainstream theories are limited. While some of the approaches in the existing studies remain too weak to explain the regional dynamics, others offer satisfactory arguments about the regional oil politics. Rather than applying a single theoretical framework with its weak and strong points, the study aims to combine the valid assumptions of these approaches and complement them with each other. It attempts to offer its own approach composed of these powerful assumptions of the mainstream IR theories. These theories generally use a single level of analysis, whether state level, individual level or system level. However, the study intends to use all three levels of analysis while applying main approaches on Caspian oil politics.

Together with the three levels of analysis, the study underlines the restrictive role of security concerns on using the hydrocarbon resources in the Caspian states.

Since national security and political power concepts are redefined in the post-Cold War era, the term “economic security” became an indispensable leverage in foreign policy-making. The topic of energy security with its three dimensions, namely supply, transit and consumption, are included within the economic security agenda of the new security environment defined by Buzan.<sup>6</sup> According to Buzan, Wæver and Wilde the term refers to

“The ability of states to maintain independent capability for military production in a global market or, more broadly the relationship of the economy to the capability for state military mobilization. The possibility that economic dependencies within the global market, particularly oil, will be exploited for political ends or, more broadly questions of the security of supply when states abandon the inefficient security of self-reliance for the efficient insecurity of dependence on outside sources of supply”.<sup>7</sup>

Regarding the focus of the EU on energy security, the European studies on the Caspian region have mainly focused on forging a Euro-Atlantic strategy for the “Wider Black Sea-Caspian” region. This strategy includes a variety of issues, ranging from security to energy trade. It is expected to underline the role of the Caspian Basin as an alternative energy supplier to the European energy markets. A significant factor is the need for decreasing dependence on a limited number of producer countries, especially Russia and the Organization of Petroleum Exporting Countries (OPEC).<sup>8</sup> Following the end of the Cold War, the EU has increased its efforts to secure its energy supplies.<sup>9</sup> Recently, it has allocated a 2.3 billion Euro budget for a variety of pipeline projects in order to decrease its dependence on Russia.<sup>10</sup> This new strategy underlines the need for the Western initiatives towards the region, including the enlargement of NATO and the Partnership for Peace (PfP) program, and the

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<sup>6</sup> See Barry Buzan, Ole Wæver and Jaap de Wilde, **Security: A New Framework for Analysis**, London: Lynne Rienner, 1998.

<sup>7</sup> Barry Buzan, Ole Wæver and Jaap de Wilde, **Security: A New Framework for Analysis**, London: Lynne Rienner, 1998: 98.

<sup>8</sup> See Paul J. Sanders, **Russian Energy and European Security: A Transatlantic Dialogue**, Washington: The Nixon Center, 2008.

<sup>9</sup> See Pami Aalto (ed.) “The EU–Russia Energy Dialogue and the Future of European Integration: From Economic to Politico-Normative Narratives”, **The EU–Russian Energy Dialogue: Europe’s Future Energy Security**, Aldershot and Burlington: Ashgate, 2008: 23-42.

<sup>10</sup> “AB”den Gaza 2,3 Milyar Euro”, Milliyet, 5 March 2010.

European Union's programs, including European Neighborhood Policy (ENP), the Baku Initiative, and Inter State Oil and Gas Transport to Europe (INOGATE), and East-West Energy Corridor. However, these studies are unable to offer useful insight on the regional energy politics, since they only focus on the energy sector and extra-regional involvement of certain international actors, such as the United States, NATO and the EU. Thus they ignore the impact of security on regional politics.

Apart from security concerns, due to the attempts of major energy consumers, such as the US, the EU, India and China to diversify their energy suppliers, the regions that have considerable hydrocarbon resources are likely to play critical roles in global energy politics in the foreseeable future. On the one hand, the Chief Economist of the International Energy Agency (IEA), Fatih Birol declared that there has been a decline in the European energy demand and added that in 2010, it would decrease to 2000 year's level.<sup>11</sup> On the other hand, the US Energy Information Administration (EIA) assumes that the world energy consumption is projected to increase by 44 percent over the 2006 to 2030 period.<sup>12</sup> Behind the ever rising global energy demands are some factors, including the rapid and intense industrialization of developing countries, raising population, and the "Chindia effect".<sup>13</sup>

Similarly, in 2030, 75 percent of the growing demand for hydrocarbon resources will rise from China and India; and the rest from developing non-OECD countries.<sup>14</sup> How China and India choose to respond to their energy requirements can therefore play a significant role in shaping the new international system in the near future. This indicates that in the middle-run energy demand is likely to increase to a significant level, thus energy producing regions would deserve a particular interest of the energy politics.

One of these regions with promising alternative energy supplies is the Caspian, which offers a complex view to its observers. Comprised of Russia, Azerbaijan, Kazakhstan, Turkmenistan, and Iran, the region is, on the one hand,

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<sup>11</sup> Gila Benmayor, "Merkel Nabucco'ya Neden Soğuk?", **Hürriyet**, 2 April 2010.

<sup>12</sup> **International Energy Outlook 2009**, EIA, 2009: 1.

<sup>13</sup> The term "Chindia effect" has been used to explain the growing energy demand of China and India. Mert Bilgin, "Fosil Yenilenebilir vet Nükleer Yakıtların Neopolitik Anlamı", **Uluslararası İlişkiler**, 5.20, 2009: 58.

<sup>14</sup> See Michael Wesley (ed.), **Energy Security in Asia**, London and New York: Routledge, 2007.



often identified with frozen conflicts, political instability, and controversies regarding the legal status of the Caspian Sea. On the one hand, the same region also boasts promising hydrocarbon reserves and is located right next to another prominent region on the world politics; the Middle East.

The Middle East is undoubtedly going to preserve its leader position in world energy supply with the 60 percent of the world's proven oil and 40 percent of proven gas reserves. When compared with the Middle East, the Caspian region is far from becoming the major energy supplier of the world. It can offer consumer states only an alternative complementary role in their policies for energy security.

Despite its secondary role as an energy producing region, the future of the Caspian states is directly proportional to their ability to produce and commercialize their oil and gas resources. There have been a number of constraints to develop Caspian energy trade. Frozen conflicts in the region, including Nagorno-Karabakh, Chechnya and Ossetia-Abkhazia, the legal status of the Caspian Sea, the lack of transport infrastructure, political instability, and lack of trade liberalization are some of these constraints.

### **Case Selection**

Rather than considering the region as a whole, this study proposes to focus on Azerbaijan and Kazakhstan. Both countries display remarkable similarities. They share similarities that are also shared by all the former Soviet republics. To begin with, both have similar presidential, autocratic and centralized political systems. Second, in terms of economy, both are endowed by considerable amount of natural resources and low economic diversification.<sup>15</sup> Third, they have similar structures of traditional social networks of clans, families and tribes. Finally, both countries have weak national identities due to the repression of the Soviet rule.<sup>16</sup> These factors have exacerbated the ethno-national cleavages between ethnic minorities and the dominant

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<sup>15</sup> See Anja Franke, Andrea Gawrich and Gurban Alakbarov, "Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse' in Post-Soviet Regimes", *Europe-Asia Studies*, 61.1, 2009:109-140.

<sup>16</sup> Ibid: 109.

Kazakh and Azeri nationalities of these countries.<sup>17</sup> Azerbaijan and Kazakhstan have also performed similar post-independence-experiences. Both face several security threats against their territorial integrity and independence, both depend on foreign capital and investment for growth.

Despite these outstanding similarities, Azerbaijan and Kazakhstan also display some differences. For instance, while Azerbaijan has maintained a pro-western stance in its foreign relations and challenged some of the Russian attempts to intervene in its foreign policy since its independence, Kazakhstan has kept a more cautious stance for several reasons that are later outlined in the study. At the same time, however, the newly found independence of Baku from Russia's domination seems to be replaced by its emerging new dependence on the Euro-Atlantic community. Kazakhstan has perceived an early exclusion of Russia and an absolute dependence on the United States as a threat to its independence.

The main purpose of Azerbaijan has been to secure its political independence and national sovereignty over its territory and sustain its economic development through oil exports. The country has to pursue these goals amidst the complex geopolitical rivalries between the extra-regional actors, namely Russia and the US. In such a context, there are two major regional conflicts, which have been influential in the foreign policy of that country.<sup>18</sup> One of these conflicts is the occupation of the Nagorno-Karabakh by the Armenian forces backed by Russia. The other one is the legal status of the Caspian Sea, which also constrains the foreign policy options of Kazakhstan. Unlike Azerbaijan, the foreign policy initiatives of Kazakhstan are further complicated by its Eastern neighbour China, which has taken the leading role with a new pipeline project between two countries.

Turkmenistan and Iran are excluded from this study for a number of reasons. Due to the restrictive state policies of the authoritarian regime in Turkmenistan, it is difficult to find sufficient number of academic works or make field research in that country. Existing studies on Turkmenistan heavily rest on local newspaper and

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<sup>17</sup> Ibid: 110.

<sup>18</sup> Pınar İpek, "Azerbaijan's Foreign Policy and Challenges for Energy Security", **Middle East Journal**, 63.2, 2009: 228.

magazine articles, which are often biased and puts Turkmenistan out of bounds for an objective study.<sup>19</sup> Iran is another Caspian state, which the study excludes. The major reason is the marginal position of the country, both in regional and global politics. Iran is excluded from pipeline projects that are financed by the Western oil companies. The role of Iran in the Caspian energy politics has remained limited due to its antagonism with the US. Recent nuclear crisis between Iran and the US has showed that the hostility between two countries would continue in the short-run.<sup>20</sup>

Although the study excludes these regional states due to abovementioned reasons, the external consistency of the proposed arguments in this study requires them to be applicable to other regions and cases. Widely applicable studies attract researchers to consider applying the findings of that research to another region. Another reason is to avoid the selection bias. Generally, random selection of observations in *small-n* researches is a difficult task. However, according to King, Keohane and Verba “avoiding randomness in case selection opens the door to many sources of bias”.<sup>21</sup> They argue that, “to find as many observable implications of your theory as possible and to make observations of those implications has crucial importance”.<sup>22</sup> In addition, increasing the number of observations can help researchers to overcome the problem of indeterminate research design. While testing a hypothesis or theory, using single observation is not appropriate as in studies with more observations, researchers usually reach better conclusions. In general, looking beyond a single observation or a case makes it possible to combine conclusions from many observations.<sup>23</sup>

The aim at increasing the number of observations is to show that the hypothesis, which the study tests, is also valid in other regions. For example, among developing oil exporters, Algeria, Nigeria Ecuador, Indonesia, Trinidad and Tobago, and Venezuela particularly stand out in terms of their *per capita* income, area, population, natural resources, political system and the role of government in their

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<sup>19</sup> R.H. Dekmejian and Hovann H. Simonian, **Troubled Waters: The Geopolitics of the Caspian Region**, London: I.B. Tauris, 2003:74.

<sup>20</sup> “US and Iran Clash at Nuclear Talks”, BBC News, 4 May 2010.  
<<http://news.bbc.co.uk/2/hi/8658743.stm>>

<sup>21</sup> Gary King, Robert O. Keohane and Sydney Verba, **Designing Social Inquiry**, Princeton: Princeton University Press, 1994: 128.

<sup>22</sup> Ibid: 208.

<sup>23</sup> Ibid: 212.

economy.<sup>24</sup> They also share some common features with the other oil exporting countries, such as Qatar, Saudi Arabia and Libya.

Among these six oil-producing countries, two of them deserve a special interest, since they offer some clues, which can help to better understand the Caspian states. Two African countries, Algeria and Nigeria have been attracting foreign investors and oil MNCs due to their oil and gas reserves. They also demonstrate how having rich hydrocarbon reserves can alter their domestic political regime and shape the nature of international linkages. There has been a close association between oil reserves and the foreign affairs of these countries.<sup>25</sup> They also can be taken as examples for the argument that energy reserves do not automatically make states powerful in international relations. To the contrary, hydrocarbon wealth can usually hinder the development of its owners. Such countries often become dependent on developed powers for foreign aid, investment or capital and in turn developed states depend on their energy reserves.

While oil represents a large portion of their exports, it has a low share of gross domestic product (GDP).<sup>26</sup> This makes these states vulnerable to the volatility in oil and gas prices and supply. They strengthen their position when the prices keep high; whereas they face economical problems when the prices go down. Gelb argues that, “the level of consumption and its distribution over time and across groups are the most important criteria for assessing the use of oil windfalls.”<sup>27</sup> Accordingly, some sectors of the non-oil economy were negatively affected by the oil income since certain groups in the population depend on these sectors for income. Thus, costless income from oil radically altered the distribution of income within these states.

The experiences of these oil-rich countries offer some clues while studying the energy politics in Azerbaijan and Kazakhstan. For instance, there are some studies on possible ‘Dutch disease’ in Azerbaijan due to the growth of country’s oil

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<sup>24</sup> See White, G. and S. Taylor, “Well-Oiled Regimes: Oil & Uncertain Transitions in Algeria & Nigeria”, **Review of African Political Economy**, 28.89, 2001.

<sup>25</sup> See Alan Gelb and associates, **Oil Windfalls: Blessing or Curse?** , Washington DC: World Bank Publication, 1988.

<sup>26</sup> Ibid: 5-6.

<sup>27</sup> Ibid: 9.

revenues.<sup>28</sup> Gulieva, an economic journalist and IWPR contributor in Baku, in his report about the country warned that “the influx of revenue could also cause huge problems if not handled properly”.<sup>29</sup> Hydrocarbon products account for nearly 90 per cent of the country’s exports. The report claims that this is unlikely to decrease in the short-run. Azerbaijan is likely to face with severe problems as well as benefits of oil revenues. In 2006, the minister of economic development, Heydar Babayev said that the initial symptoms of ‘Dutch disease’ became evident in Azerbaijan.<sup>30</sup> Inglab Akhmadov from Azerbaijan's independent Public Finances Monitoring Center agrees with Babayev and believes that “the oil wealth is inducing a dangerous sense of complacency and providing fertile ground for the further spread of corruption”. He asks whether the oil revenues has provided any job possibilities beyond the energy sector and warns that

“We are at the beginning of Dutch disease's negative impact on Azerbaijan's economy because we observe trends in our national currency. We're observing a very big inflation process in Azerbaijan, and we observe a lot of problems in the non-oil sector and business climate for all other sectors in Azerbaijan. It means we have all of the classical attributes of Dutch disease but unfortunately it is just the beginning of this process.”<sup>31</sup>

This study follows the indicated outline. The first chapter focuses on the historical background of energy politics in the Caspian region. Following the part, which explains why the Caspian Sea is often identified as a “distinct region”, it gives some geographical information about the region and examines the background of the Caspian geopolitics. This part is taken in chronological order, which includes the Caspian politics before the Soviet Period, during the Soviet Union period and in the post-Soviet era. The final period gives the period from the demise of the Soviet Union to date. The first two periods are explained briefly in a historical spectrum for

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<sup>28</sup> “Future of Azerbaijan or “Dutch disease” of soul”, **Today Azerbaijan**, 14 February 2010. <<http://www.today.az/news/society/45761.html>> ( 5 March 2010).

<sup>29</sup> Nurlana Gulieva, “Azerbaijan Debates Dutch Disease”, Institute for War and Peace Reporting, 2 August 2006. <<http://www.iwpr.net/report-news/azerbaijan-debates-“dutch-disease”>> (3 April 2010).

<sup>30</sup> Ibid.

<sup>31</sup> Robert Parsons, “Azerbaijan: Hydrocarbon Boom Sparks Fears of Dutch Disease”, Radio Free Europe/Radio Liberty, 20 September 2006, <<http://www.rferl.org/content/article/1071495.html>> (21 February 2010).

a better understanding of the background of the oil politics in the region. The final period intends to explain the developments in energy politics in three Caspian states, Russia, Azerbaijan and Kazakhstan. While explaining this period, the study includes only these states because of the ongoing influence of Russia on Baku and Astana in the early years of their independence.

The second chapter gives some preliminary information about the hydrocarbon potential of the Caspian Sea. The region attracts considerable interest in the international community due to its considerable hydrocarbon reserves. However, the estimates over the energy reserve potential of the region have always lacked clarity. There are various studies and researches about the real estimates of the reserves, but attempts to achieve a dependable estimation of the potential reserves hitherto have been mostly driven by political and economic motives. The distribution of these reserves among the riparian states of the Caspian would define the capacity and route of the pipeline projects. Finally, the distribution of reserves among regional actors is critical to defining their roles in the regional and global spheres of influence.

The following chapter deals with the Caspian energy politics through the mainstream international relations theories. Rather than running a general criticism of the mainstream International Relations theories, the study attempts to evaluate the ability of these approaches to explain the post-Cold War oil politics in Azerbaijan and Kazakhstan, and their applicability to the question at hand, in particular. The chapter tries to offer its own view on using oil as a foreign policy tool in the Caspian region.

First, the study attempts to explain the oil politics in Azerbaijan and Kazakhstan from the viewpoint of classical realism represented by Hans J. Morgenthau.<sup>32</sup> Classical realism defines the state as the principal actor of international relations. It regards the state as a single and unitary actor and focuses on its behavior based on “national interest”. It assumes that there is a hierarchy among subjects. Realists pay most attention to the military and security issues which they categorize as “high-political issues”.<sup>33</sup> The special emphasis of classical realism on

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<sup>32</sup> See Hans J. Morgenthau and Kenneth A. Thompson, **Politics Among Nations: The Struggle for Power and Peace**, NY: Alfred A. Knopf Press, 1985.

<sup>33</sup> Morgenthau and Thompson, 1985: 4-8.

security and military further makes the approach applicable to the Caspian politics. Especially in Azerbaijan case, security issues, namely Nagorno-Karabakh conflict, prevail other foreign policy initiatives, such as energy projects. Classical realism, however, remains weak in exploring or explaining the role of non-state actors in regional politics in the post-Cold War period. The study emphasizes that, in the post-Cold War era, along with states, non-state actors such as multinational oil companies have also become significant actors that take a part in shaping regional energy politics. The chapter then focuses on the state concept in international relations and its ongoing dominance over the Caspian energy politics.

The next section deals with oil politics through Kenneth Waltz's neorealist perspective.<sup>34</sup> The emphasis of neorealism on the structure of the system and systemic constraints of foreign policy making makes it relevant to this study. Neorealism can better explain some issues that make it difficult to study the Caspian energy politics, such as the involvement of international organizations such as NATO and other cooperation initiatives. Given the Russian preponderance due to the considerable difference between the relative powers of Russia, Azerbaijan and Kazakhstan, their relations could be an easy case for neorealism. For instance, the Nagorno-Karabakh conflict can be considered as a problem of two major powers, the US and Russia. These two states try to balance and **counterbalance** each other in the Caspian region, where a power vacuum occurred after the collapse of the Soviet Union.<sup>35</sup> Energy has become an efficient factor that shapes the nature of balance of power of the international system. Within such as context, Azerbaijan becomes subordinated to the outcomes of the struggle between these major powers. Thus, the system level analysis is suitable to study the Nagorno-Karabakh conflict.<sup>36</sup> Regarding Kazakhstan, its relations with the US, Russia and China also offers a good case for the system level analysis. Kazakhstan tries to diversify its traditional dependence on Russia with new dependencies on the European, the American and Chinese partners. It tries to form new balance of power in the region by using its energy card.

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<sup>34</sup> See Kenneth Waltz, **Theory of International Politics**, Reading, MA: Addison-Wesley, 1979.

<sup>35</sup> Morten Anstorp Rosenkvist, "Black Soil: Oil and Ethnicity in the Nagorno-Karabakh Conflict", Master Thesis, Department of Political Science, Oslo University, 2005: 17.

<sup>36</sup> Ibid: 17-18.

Together with neorealism, the study approaches the geopolitical theory.<sup>37</sup> It gives a brief overview of the historical evaluation of Spykman, Mahan and Mackinder's approaches to geopolitics. After some preliminary information about geopolitics and the use of geography in international relations, it underlines the relation between realism and geopolitical theory. Two approaches converge on their overemphasis of the "national power" concept and regard geography as one of the most influential factors in foreign policy-making. Then the chapter considers the strong and weak assumptions of geopolitics on the energy politics in Azerbaijan and Kazakhstan. Geopolitical theory can be useful since it underlines the effect of geographical factors in regional energy politics. However, it remains weak due to its neglect of domestic variables and specific characteristics of each state. In the Caspian case, geopolitical theories are too weak to explain the distinctive characteristics of local actors. For instance, they ignore the ability of domestic factors on foreign policy, such as the leadership factor. It also ignores other variables in foreign policy-making such as the demographic structure. Heavily affected by realism, geopolitical theories take state as the single actor of international politics and ignore the specific features of nations, independent from geography. Therefore, geopolitical studies alone fall short of providing a full understanding of the Caspian oil politics.

The next section is devoted to transnationalism and complex interdependence theories. While state-centric approaches regard state as the principal actor of international politics, transnationalism and complex interdependency<sup>38</sup> theories challenge this position of states and emphasize the role of non-state actors in international politics. Thus, the study takes these approaches into consideration to better explain the role of oil MNCs and other non-state actors in the Caspian oil politics. These approaches also offer valid assumptions for the study, since they devote more significance to 'low-politics', including economic and social issues, which the state-centric approaches often ignore.

In Azerbaijan and Kazakhstan, energy resources have become a considerable source of national power. These countries have closely associated economy and

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<sup>37</sup> See Francis P. Sempa, **Geopolitics: From the Cold War to the 21<sup>st</sup> Century**, London: Transaction Publishers, 2002.

<sup>38</sup> See Robert O. Keohane and Joseph S. Nye, **Power and Interdependence: World Politics in Transition**, Boston: Little Brown Company, 1977.



politics in the region. Therefore, explaining regional politics only through state-centric approaches that focus on 'high-politics' would be difficult. Nye and Keohane's approach contain useful assumptions to understand the dynamics of the Caspian oil politics. Following the Russian-Ukrainian gas crisis in 2006, the Council of the European Union argued that the European Union might diversify its energy supply.<sup>39</sup> The Caspian region, in turn, depends on the EU to integrate to the global markets, international organizations and financial institutions that have critical importance for development and investment in oil sector. This offers a case, which displays the interdependence between the European states and the cases of this study, namely Azerbaijan and Kazakhstan.

Finally, the chapter focuses on the social constructivist approach to explain the foreign policy-making decisions in Azerbaijan and Kazakhstan. Constructivism has been skeptical about assumptions of the mainstream approaches about the prevailing role of security in international affairs. It tries, instead, to offer alternative understandings on a number of central themes in international relations theory; including the meaning of anarchy, the relationship between state identity and interest, power, and foreign policy making.<sup>40</sup> First, the chapter gives a brief explanation of the main assumptions of the theory that offer distinct interpretation of the international politics. Then, it gives a special emphasis on three concepts that social constructivism provides useful insight on the argument of the study: national interest, national identity and foreign policy. Regarding the first, the study asks in case of Azerbaijan and Kazakhstan, how these national interests and national identity are socially constructed. Constructivists claim that the increasing participation of these states in international institutions, organizations and cooperation can lead to some shifts in their strategic cultures, in the international norms of international behavior and foreign-making of their leaders, as well as their conceptions of national identity.<sup>41</sup> Second, constructivism offers a useful understanding for change and

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<sup>39</sup> Council of the European Union, *Brussels European Council, 15/16 June 2006. Presidency Conclusions*, Brussels, July 17, 2006.

<sup>40</sup> See Alexander Wendt, **Social Theory of International Relations**, Cambridge Studies in International relations: 67, Cambridge: Cambridge University Press, 1999. Stefano Guzzini and Anna Leander eds. **Constructivism and International Relations: Alexander Wendt and His Critics**, NY: Routledge, 2006.

<sup>41</sup> Aaron L. Friedberg, "The Future of U.S.-China Relations: Is Conflict Inevitable?" **International Security**, 30:2, 2005: 35.

makes this approach relevant for foreign policy analysis.

The final chapter intends to deal with the application of IR theories to Azerbaijan and Kazakhstan's foreign policy steps concerning their oil politics. By sketching some of the distinctive characteristics of both Azerbaijan and Kazakhstan, it aims to underline that these differences and similarities have proven significant in their respective foreign policy orientations concerning their hydrocarbon reserves. As aforementioned, the Caspian region in general, and Azerbaijan and Kazakhstan in particular, do not suit the confines of a single approach or a theoretical model. Therefore, this chapter takes these countries into consideration through the lens of a blend of theoretical models, which can help to provide a comprehensive understanding of the role of hydrocarbons in the foreign policies of Baku and Astana.

While trying to apply mainstream IR theories on Caspian oil politics, the chapter utilizes Dekmejian and Simonian's approach to the post- Cold War Caspian politics.<sup>42</sup> Dekmejian and Simonian argue that the theorists of International Relations were caught unprepared by the disintegration of the former Soviet Union and the end of the Cold War. As a result, the field of IR has remained too weak to build a dominant theory that can cope with diverse structural alterations, including ethnic conflicts, the clash of cultures, increasing the role of regional cooperation initiatives, and the impact of globalization. Given the diversity of such issues that occupy the contemporary international relations, and the interaction between global, local and regional actors and dynamics, they argue that building a comprehensive approach for the analysis of the Caspian region needs to be both theoretically and methodologically eclectic. Thus, any framework for analysis for the region requires the input of geopolitical theories, neorealism, social constructivism and interdependence theories.

Due to its strong and valid assumptions on energy resources as a foreign policy tool, the chapter first explains Azerbaijan and Kazakhstan foreign policies with neorealism. It is the most appropriate theory to approach the role of hydrocarbons in independent foreign policy-making of these states. Then, the chapter deals with the Azeri and Kazakh foreign policies separately. Azerbaijan foreign

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<sup>42</sup> Dekmejian and Simonian, 2003: 3.

policy in the axis of energy is reviewed in three levels of analysis: the individual level, state level and the system level. Then, it deals with the Nagorno-Karabakh conflict with a special emphasis, since it has been the most decisive element of the Azeri foreign policy. Similarly, Kazakh foreign policy is evaluated in three levels. In the state level, the chapter examines the roles of ethnic Russian population and geography. The individual level discusses the leadership of Nazarbayev. The state level analysis focuses on the relations with external and regional actors, namely the US, Russia, Iran and China. Both of the countries' foreign policy goals are also the focus of the study. Since Azerbaijan and Kazakhstan share some key constraints to use their hydrocarbon reserves as efficient foreign policy tools, the chapter deals with these common barriers, which are the legal status of the Caspian Sea, geographical factors and transportation of oil and gas from the Caspian region to global markets.

As a result, the study overviews the role of energy resources as a foreign policy tool in Azerbaijan and Kazakhstan cases. It tries to offer a new perspective, which explains the energy politics in Baku and Astana through the mainstream IR theories. It argues that, despite having considerable oil and gas resources, Azerbaijan and Kazakhstan cannot use their energy card efficiently to maintain an independent foreign policy due to above mentioned reasons.

## **CHAPTER ONE**

### **HISTORICAL BACKGROUND OF ENERGY POLITICS IN THE CASPIAN BASIN**

The Caspian is one of the most promising regions that offer an alternative for additional oil and gas supplies to global energy demand. Having similarities with other oil-rich regions, it also displays some original characteristics. This chapter focuses on the historical background of energy politics in the Caspian region. First, it tries to explain the geographical factors that are affective in regional energy politics in a chronological order. Then it gives a short background of the Caspian politics in three periods: the pre-Soviet period, Soviet Union period and the post-Soviet period. Since the study intends to focus only on the use of energy as a foreign policy tool, domestic dynamics will make up a small part of the chapter. The study rather aims to focus attention on the network of relations among these Caspian states. Each of these actors has distinct set of interests and foreign policies. The chapter deals with Russia, Azerbaijan and Kazakhstan separately in order to examine the changing roles of energy as a foreign policy tool. It tries to figure out that the historical background of the regional politics has always been shaped by energy affairs of the states. Oil and gas have been a major element of foreign policy-making in the region. Geography has been another major element that affects policy choices of Azerbaijan and Kazakhstan while using their resources.

#### **1.1. THE GEOGRAPHICAL FACTORS**

Before discussing the Caucasian ‘region’, it is appropriate to explain the term briefly in the regionalism literature. Traditionally, there are no clear cut criteria that make a region different or original from any other land. History has often witnessed the division of areas with common cultural, linguistic, religious or historical background into mutually antagonistic states or regions.<sup>43</sup> Meanwhile, King says:

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<sup>43</sup> Charles King, “The Wider Black Sea Region in the Twenty-First Century” in Daniel Hamilton and Gerhard Mangott, (eds.), **The Wider Black Sea Region in the Twenty-First Century: Strategic,**

“Some areas with very few historical or social commonalities have managed to sustain a sense of mutual identity and cooperate in foreign policy relationships. Regions emerge as political concepts as a result of ‘self-conscious projects’ to build them whether cooperatively or through trial-error approach of imperial expansion or state conquests.”<sup>44</sup>

According to King, “regions exist where politicians and strategists say they exist.”<sup>45</sup> In other words, regions are areas that are politically and socially constructed and expected to possess some differential originality.

Some theories on nationalism studies argue that nations are ‘imagined’ by the political elites.<sup>46</sup> Parallel to this idea King argues that regions can be imagined by both politicians and strategists. Drawing borders and defining the inhabitants and the outsiders of a region is actually a political construction process. It involves systematic constraints, clashing aims of political elites, domestic institutions, and international organizations.

Nevertheless, none of these actors have exactly the same perception of what constitutes a region with borders. There are different approaches on the emergence of a region.<sup>47</sup> For instance, for the systemic theorists and political economists, growth of regions is a function of rising or declining hegemony, or a response to the pressure of globalization process. Neoliberal institutionalists and constructivists underline the existence of common foreign policy goals and shared identities, both of which may be reciprocally enhanced by the institutions of cooperation they created. State-level explanations emphasize the patterns of interaction between states with similar political regimes, or the multilevel interactions between local elites and international institutions.

Similarly, security theorists such as Barry Buzan and Ole Wæver see ‘regional security complexes’ not as an anomaly in the Westphalian order of nation-states, but

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**Economic and Energy Perspectives**, Washington DC: Center for Transatlantic Relations, 2008: 2.

<sup>44</sup> Ibid: 2.

<sup>45</sup> Ibid: 3.

<sup>46</sup> See Benedict Anderson, **Imagined Communities: Reflections on the Origin and Spread of Nationalism**, rev. ed., New York: Verso, 1991.

<sup>47</sup> King, 2008: 3-4.

rather as the building blocks of the international system.<sup>48</sup> One of the major points in the regionalism literature is that shared identities are not essential components of regions as politically constructed entities. Rather a region has fundamental commonalities and interests that bind people together.<sup>49</sup>

As a geographical area of the region, the Caspian Sea is a 700-mile-long lake in Central Asia, all four sides surrounded by land. Volga and Don rivers, the artificial Volga-Don canal and the Sea of Azov connect it to the Black Sea.<sup>50</sup> As the world's largest inland sea with 386,400 square km, the Caspian Sea is located between the Caucasus Mountains and Central Asia. The region varies in climate and physical features.<sup>51</sup> The Caspian region can stand for a geographical area either in a broad sense, which refers to whole Caucasia and a large part of Central Asia; or in a strict sense that includes only five riparian states. In this study, the Caspian region is used in a strict sense that includes only the five riparian states of the Caspian Sea. If the criterion for the membership of a region is having a border on the sea itself, then the Caspian is a small region including five states: Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan. Among these five nations, only Iran is not an ex-Soviet republic and is a member of OPEC.<sup>52</sup> The three ex-Soviet states, Azerbaijan, Kazakhstan, and Turkmenistan became independent following the dissolution of the Soviet Union 1991.

Aside from oil politics, the politics of the region is heavily affected by two interrelated issues: the legal status of the Caspian Sea and the environmental problems of the sea and its littoral.<sup>53</sup> Since the region has never been under the jurisdiction of a single riparian state, the legal status of the Caspian Sea has complexities about the management of the transboundary energy resources. The legal status of the Caspian became a more complex issue after the emergence of the newly independent states following the end of the Cold War. Until the dissolution of the

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<sup>48</sup> Ibid: 4.

<sup>49</sup> Ibid: 5.

<sup>50</sup> Bülent Gökay, "The Background: History and Political Change", Bülent Gökay (ed.), **The Politics of Caspian Oil**, NY: Palgrave Macmillan, 2001:1.

<sup>51</sup> Dekmejian and Simonian, 2003:19.

<sup>52</sup> Bernard A. Gelb, "Caspian Oil and Gas: Production and Prospects", **CRS Report for Congress**, 8 September 2006:2.

<sup>53</sup> Dekmejian and Simonian, 2003:19.

Soviet Union, it was managed by two states, the Soviet Union and Iran. The disintegration of the Soviet Union, however, has brought new littoral states.<sup>54</sup> Each littoral state has pursued its own thesis to preserve their own national interests that clash with each other, thus it has not been possible to reach an agreement about the issue.

According to Yapıcı, a comprehensive regional analysis should involve an accurate analysis of historical, cultural, ethnic, religious and linguistic realities of the region.<sup>55</sup> In the current international politics, the separation between domestic and foreign affairs have blurred. Governmental and non-governmental institutions intertwines or telescopes into each other. Furthermore, reflections of these consequences of the globalization process on regional politics also matter.<sup>56</sup>

For instance, after the disintegration of the Soviet Union, the Baku government felt itself obliged to formulate a foreign policy agenda to maintain the country's newly gained independence and geo-strategic position. Mehdiyeva argues that this strategy had to deal with two sets of factors.<sup>57</sup> First one is the historical, religious and cultural characteristics and ethnic affiliations of the Azeri people. Second is related to the geopolitical and strategic concerns of the state. Accordingly, the second set of factors has been more difficult for Azerbaijan to deal with.

The cultural-historical handicap also worsens the situation. Mehdiyeva explains this cultural-historical predicament as a situation resulting from that country's complex historical and religious bonds with Iran; and political, intellectual and linguistic ties to Russia.<sup>58</sup> This situation has become more complex with the altered security perceptions of Azerbaijan in the post-Cold war era. Following its independence, Azerbaijan has found itself located in the middle of a geopolitical triangle consisting of Russia, Turkey and Iran.<sup>59</sup> Due to its geographic location, it plays an intermediary role between Russia, Turkey, the US, the EU and Central Asia.

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<sup>54</sup> Roland Sinkler, "The Management of a Transboundary Energy Resource: the Oil and Gas of the Caspian Sea", Bülent Gökay (ed.), **The Politics of Caspian Oil**, NY: Palgrave Macmillan, 2001:55.

<sup>55</sup> Utku Yapıcı, **Küresel Süreçte Türk Dış Politikasının Yeni Açılımları: Orta Asya ve Kafkasya**, İstanbul: Otopsi, 2004: 13

<sup>56</sup> Yapıcı, 2004: 13-14.

<sup>57</sup> Nazrin Mehdiyeva, "Azerbaijan and its Foreign Policy Dilemma", **Asian Affairs**, 34.3, 2003: 271.

<sup>58</sup> Ibid: 271-272.

<sup>59</sup> Ibid: 272.

Azerbaijan's role in the Caspian region has also been referred to as the “Silk Road”, which links that region to Europe.<sup>60</sup>

According to Brzezinski, the ability to control this region’s energy reserves and promising potential benefits as an outcome of engagement within the region attracts global powers and triggers rivalry among them to control the region.<sup>61</sup> As long as the Caspian region continues to possess considerable hydrocarbon reserves, the topic of energy will have significant implications for regional actors, such as the inflow of foreign investment and capital for development. Laçiner argues that, since the independence of the Caspian states, they have been in a development process. He also underlines that these resources can have reverse effects over the region, if not used properly.<sup>62</sup>

Kim and Eom have formulated a hypothesis, which argues that the strategic geographical positions of the states in the Caspian have transformed their energy-rich lands into an arena of competition for influence over the region.<sup>63</sup> Russia has been trying to maintain its traditional influence over the region, whereas the US has been seeking an expansion of influence and the EU has intensified its efforts on energy security. Turkey and Iran have been the other regional powers looking for a more active role in the region.<sup>64</sup> Ehteshami claims that several external powers, in particular the US, have increased their efforts to counterbalance the influence of Russia and Iran over the region.<sup>65</sup>

Oil and gas reserves have been a means of saving the US and its allies from dependence on the Gulf oil. Thus, the US tries to encourage the Caspian states for a Western commitment, which promises an open-ended NATO and American involvement.<sup>66</sup> This promise has been very attractive to Azerbaijan and Kazakhstan, since their primary concerns include national security and independence. As a result,

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<sup>60</sup> Svante Cornell, (ed.), **The South Caucasus: Regional Overview and Conflict Assessment**, Stockholm: SIDA, 2002: 60.

<sup>61</sup> Zbigniew Brzezinski, **The Grand Chessboard: American and its Geostrategic Imperatives**, New York, Basic Books, 1997: 125.

<sup>62</sup> Ibid: 37.

<sup>63</sup> Younkyoo Kim and Gu-Ho Eom, “The Geopolitics of Caspian Oil: Rivalries of the US, Russia, and Turkey in the South Caucasus”, **Global Economic Review**, 37.1, March 2008: 93.

<sup>64</sup> Ibid: 93.

<sup>65</sup> Anoushiravan Ehteshami, “Geopolitics of Hydrocarbons in Central and Western Asia”, Shirin Akiner (ed.) **The Caspian: Politics, Energy and Security**, New York: Routledge Curzon, 2004: 57.

<sup>66</sup> Ibid: 61.



the region has been likely to be subordinated to the outcomes of the struggles between these powers over its hydrocarbon reserves and transportation routes. Thus Caspian region remains far from drawing an image of an independent region free from influence of major global powers.

## **1.2. A BRIEF HISTORY OF CASPIAN POLITICS**

After considering the geographical factors that are effective in regional politics, it is appropriate to focus on the late history of the political development of the region from pre-Soviet period to date. The history of the struggle for access to the Caspian oil goes back to the pre-Soviet period, when the first Western investors began to engage with regional oil politics. The disintegration of the Soviet Union initiated a harsh struggle between the newly independent republics and external players to secure access to the Caspian hydrocarbon reserves and control the pipeline routes. The most important problem of the newly independent Caspian states on political development was about the establishment of the new state authorities and premature institutional structures. Although most of the existing statesmen were former Soviet officials, they were inexperienced in foreign policy-making.<sup>67</sup> This condition has been highly manipulated by major powers that are actively involved in the region, including the US and Russia.

### **1.2.1. Pre-Soviet Period**

This period starts from the extraction of the first oil in Baku and ends with the establishment of the Soviet control over Azerbaijan and Kazakhstan in 1918. Baku and oil are two terms that are closely associated in the history of Azerbaijan. Oil extraction in Baku seems to date back to the seventh and eighth centuries in the Absheron peninsula.<sup>68</sup> Marco Polo, in his memoirs while narrating Azerbaijan,

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<sup>67</sup> Maureen S. Crandall, **Energy, Economics and Politics in the Caspian Region: Dreams and Realities**, CT: Praeger Security International, 2006:5.

<sup>68</sup> Ç. Kürşat Yüce., **Kafkasya ve Orta Asya Enerji Kaynakları Üzerinde Mücadele**, Ankara: Ötüken, 2006: 140.

mentioned about a liquid called ‘neft’ was used in lightning, heating and medicine.<sup>69</sup> The ‘neft’ in this case was nothing else but oil. Until 1844, oil wells were hand-dug. That year, an oil well was drilled for the first time. This opened a new phase in the oil industry.<sup>70</sup> Another turning point in history was the visit of a Swedish man to Baku in 1873. He was Robert Nobel, who came to Baku in search of cheap and high quality walnut timber for rifle hilt. Nobel was attracted by the widespread oil wells in throughout the city and decided to invest in the oil industry. He consequently founded ‘Nobel Brothers Oil Company’ with his brother in 1876.<sup>71</sup>

The second Western family, who invested in Azeri oil fields, was the Rotschids, who also financed the construction of the Baku-Batum Railway in 1883. The family founded ‘*the Société Commerciale et Industrielle de napthe Caspienne et de la Mer Noire*’ and became the rival of Nobel family.<sup>72</sup> In late 1800s, oil began to be used as an industrial raw material. During the final years of the 19<sup>th</sup> century and the first half of the 20<sup>th</sup> century, Azerbaijan remained as the world’s biggest oil producer country. About ninety seven percent of the Russian production and more than fifty percent of the world’s total oil production came from the Baku fields.<sup>73</sup>

Despite the prolific production in Azerbaijan, however the oil fields in Baku were isolated from most of the consuming centers. This handicap prevented Baku from playing major role in the development of its oil industry. Another reason for this was Russia’s perception of developing production as a threat against its integrity.

Prior to the Bolshevik Revolution, littoral states of the Caspian basin were seen as the components of a unitary body. Russia perceived a possibility of secession as the biggest threat against its power. A possible exploration of large hydrocarbon reserves in Azerbaijan and Kazakhstan consolidated this threat.<sup>74</sup>

However, this picture changed when the region came under Russian control. The tsarist regime was aware of Baku oil’s potential and gave importance to the region and its future role in the modern oil industry. Between 1825 and 1849, the

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<sup>69</sup> Ibid: 141.

<sup>70</sup> Yunus Şen., **Hazar’ın Kanı: Orta Asya’nın Petrolle Yazılan Tarihi**, İstanbul: Doğan Kitap, 2009: 18.

<sup>71</sup> Ibid: 19.

<sup>72</sup> Ibid: 20.

<sup>73</sup> Yüce, 2006: 142-143.

<sup>74</sup> Mert Bilgin, **Avrasya Enerji Savaşları**, İstanbul: IQ Kültür Sanat, 2005: 29.

existing oil fields were operated by the Russian government itself.<sup>75</sup> Three significant oil conferences were thus held consequently in 1884, 1885, and 1886, which were influential in the creation of the Baku Oil Producers Society.<sup>76</sup> The organization included all aspects of the oil industry, from production to transportation. After becoming the largest oil producer in 1898, Russia held its position until 1902. 1901 was the peak year, when half of the world's oil came from the Caucasus.<sup>77</sup>

Oil production on the eastern side of the region started during the tsarist regime. The Dossor and Makat fields, the territory of present-day Kazakhstan, were developed between 1911 and 1915.<sup>78</sup> In 1911, the Royal Dutch-Shell group bought the Rothschild's' company. As a result, until the outbreak of the First World War, oil industry in the Caspian region remained in the hands of large and well financed companies.<sup>79</sup> Those were the initial steps of foreign direct investment to develop oil in the region, which have continued to date.

### **1.2.2. The Soviet Union Period**

The Soviet period politically closed the region to the world oil industry. The external actors were suspicious about the hydrocarbon potential of the region, but it remained uncertain under the Soviet rule. Moscow did not intend to invest in the hydrocarbon development of the region, and resources remained untouched.<sup>80</sup>

During the First World War, oil fields around Baku attracted Germany, France, Britain and the United States' interest. Since the weaponry used during the war depended on oil, it gained considerable significance as a means of power.<sup>81</sup> The failure of the Tsarist regime and the break out of the Bolshevik Revolution in 1917 raised the expectations of Germany to have an access to the Baku oil. The victorious defense of the Soviet Union against the German advance however mostly depended on the Baku oil, too and granted enormous leverage during the war.<sup>82</sup> 1917 Bolshevik

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<sup>75</sup> Gökay, 2001:4.

<sup>76</sup> Ibid: 6.

<sup>77</sup> Ibid: 6-7.

<sup>78</sup> Dekmejian and Simonian, 2003:17.

<sup>79</sup> Gökay, 2001: 8.

<sup>80</sup> Ibid: 2.

<sup>81</sup> Yüce, Ç. Kürşat, 2006: 145.

<sup>82</sup> Ibid: 143.

revolution brought considerable changes to the Russian oil industry. Baku went under the Russian control after the revolution and oil fields were nationalized. After the First World War, efforts concentrated on developing the oil industry, however.<sup>83</sup> For the next ten years after the revolution, a chaotic environment dominated the oil industry. Between 1918 and 1921, when the Russian Civil War erupted, the region was faced with severe economic recession and political instability. In April 1918, shortly after the outbreak of the civil war, three of the Soviet republics declared their independence: Azerbaijan, Georgia and Armenia. After a few months, the Ottoman Empire occupied Baku; but it was replaced by the British forces after the conclusion of the war. Now the oil industry was under the sovereignty of the newly independent Azerbaijan government. However it did not last long. In April 1920, the Bolsheviks overthrew the independent Azerbaijan government and established the Soviet Azerbaijan.<sup>84</sup>

In the second half of 1924, five Central Asian Soviet republics were artificially created.<sup>85</sup> The Soviet economic structure was the largest production system based on central planning in the history.<sup>86</sup> The most obvious economic legacy of the Soviet period for the post-Soviet states has been central planning, which has institutionalized the supremacy of the state on the production and property processes. It also established economic dependence on the centre through Moscow's economic power and control over domestic and foreign trade.<sup>87</sup>

The social engineering process altered all the dynamics of social structure in these lands. Central decision-making allowed only agriculture and natural resource production in Azerbaijan and Kazakhstan like other Soviet republics. As a result, they remained underdeveloped lacking an industry.<sup>88</sup>

The Second World War had a major impact on the Soviet Union's perceptions on oil production. Especially, the German threat to the oil fields in Baku obliged Moscow to replace the focus on drilling activities from the Caspian to the interior,

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<sup>83</sup> Ibid: 144-145.

<sup>84</sup> Gökay, Bülent, 2001:8.

<sup>85</sup> These republics were Kazakh, Turkmen, Uzbek, Tajik and Kyrgyz Soviet Socialist republics derived from Turkistan.

<sup>86</sup> Philip Hanson, "The Economic System", R. W. Davies and Denis J. B. Shaw, (ed.), **The Soviet Union**, London: Routledge, 1989:90.

<sup>87</sup> Richard E. Ericsson, "The Classical Soviet-Type Economy: Nature of the System and Implications of Reform", **Journal of Economic Perspectives**, 5.4, 1991: 12.

<sup>88</sup> Bilgin, **Avrasya Enerji Savaşları**, 2005: 31.

particularly to Volga-Urals district. This change decreased the importance of the Caucasus in the Soviet oil industry. The centre of the Soviet oil development shifted from the Caspian-Caucasus to the region between Ural River and Ural Mountains; a strategically important area.<sup>89</sup>

Similar to Azerbaijan, Kazakhstan became dependent on the central economy during the Soviet era. The Soviet administration gave Kazakhstan the leading role in agricultural production, mining, oil and natural gas, heavy industry (metallurgy and petrochemical industry) and textile sectors. Thus, Kazakh economy became heavily dependent on processing natural resources. The land-locked geography of the country and lack of alternative routes to the Soviet transport system further obliged Kazakhstan to remain dependent on the Soviet Union.<sup>90</sup>

After the death of Stalin in 1953, the Soviet Union became the world's biggest oil exporter, which lasted into 1970s.<sup>91</sup> Despite the rapid development of oil industry during this period, however, significant problems remained, mostly involving the production techniques and efficiency. Most of the production came from the oil at the surface, not in the deep-ground. The lack of investment on drilling techniques made the Soviet Union remain underdeveloped vis-à-vis the high-technology techniques in the West. Furthermore, many new techniques of production in the Soviet Union, when compared to the West, were still at an early age of application. As Gökay states, "as a whole, the Soviet oil industry was 10 to 25 years behind US technology".<sup>92</sup> Despite these problems, however, as late as 1974, the largest oil production in the world still came from the Soviet Union, which remained as the only energy-independent country.

The détente period between 1972 and 1979 offered a unique opportunity to Moscow to focus on developing its oil industry. The unexpected increase in the oil prices created a chance for the Soviet Union to import Western know-how and technology to modernize its old-fashioned industry. However this process later

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<sup>89</sup> Gökay, Bülent, 2001: 9.

<sup>90</sup> See Flassbeck, Heiner, Lutz Hoffmann and Ludger Lindlar, "Kazakhstan", Padma Desai, ed. **Going Global - Transition from Plan to Market in the World Economy**, Cambridge: MIT Press, 1997.

<sup>91</sup> Gökay, Bülent, 2001: 10.

<sup>92</sup> Ibid: 11.

slowed down due to the rapid decrease in the hydrocarbon prices.<sup>93</sup> In the meantime, the West was in the process of high-computerization. The economic structure of the Soviet Union, however, was not well suited for such a technological reorientation. As a result, technological gap between the two blocs broadened. As a result during 1980s, the cost of oil production and extraction rose steadily and the petroleum industry began to deteriorate in the Soviet Union.<sup>94</sup> Exacerbating these conditions was inefficient administration.<sup>95</sup> This was the anticipated result of steady depletion of oil fields through over-exploitation and under-investment in the exploration techniques.

As a result of the problems in oil production facilities in the USSR, Azeri production also started to decline in 1970s, though it continued to rise in Kazakhstan and other Caspian riparian republics. For instance, oil production in Kazakhstan doubled and its gas production quadrupled between 1970 and 1990.<sup>96</sup> The decline in Azeri oil production, despite the increase in offshore reserves, was mainly due to the lack of finance and technology to produce oil in fields that are more difficult to access.<sup>97</sup> Barriers against the free enterprise erected by the centralist state structure of the Soviet Union and its relative inefficiency compared to the free market economy finally obliged that country to adopt some changes in the second half of 1980s. During his presidency, Gorbachev attempted to respond to this need through the dual policies of *Glasnost*<sup>98</sup> (openness) and *Perestroika*<sup>99</sup> (restructuring). The outcome of Gorbachev's reformist agenda, however, was a huge economic crisis and the rise of nationalist-separatist sentiments among non-Russian nations. The coup against Gorbachev altered the future of the Union and gave rise to the new leader, Boris Yeltsin. On 7-8 December 1991, the Soviet Union was dissolved as a result of decision of the leaders of Russia, Belarus and Ukraine, and it was replaced by the Commonwealth of Independent States (CIS).<sup>100</sup> Shortly after the disintegration of the Union, on 30 August 1991 Azerbaijan, on 27 October

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<sup>93</sup> Ibid: 11-12.

<sup>94</sup> Ibid: 12.

<sup>95</sup> Ibid: 12-13.

<sup>96</sup> Dekmejian and Simonian, 2003: 17.

<sup>97</sup> Ibid:18.

<sup>98</sup> Brian McNair, **Glasnost, Perestroika and the Soviet Media**, London: Routledge, 2006: 43-44.

<sup>99</sup> Archie Brown, **The Gorbachev Factor**, NY: Oxford University Press, 1996: 123-124.

<sup>100</sup> Dekmejian and Simonian, 2003: 43-44.

Turkmenistan and on 16 December Kazakhstan declared their independence.<sup>101</sup>

### 1.2.3. Post-Soviet Period aka Post-Cold War Period

Due to the reasons stated in the previous section, prior to the collapse of the Soviet Union, it was a difficult task for multinational oil companies to operate in the Caspian basin. After the demise of the Union, however, these multinational companies have found opportunities to access to the unexplored oil fields available for foreign direct investment. Nevertheless, the Caspian region was still not a secure place to invest in for foreigners due to security problems. The region was still engaged in ethnic tensions, civil wars and border conflicts. Karabakh and Chechnya problems are the most popular of them.<sup>102</sup> Azerbaijan and Armenia had always been in a harsh competition for the control over Karabakh, an autonomous region within Azeri borders during the Soviet period. Following the implementation of *Glasnost* and *Perestroika* policies in the Soviet Union, Armenia attempted to use its demographic advantage in Karabakh and demanded to control the region. This was the origin of the ongoing tension and struggle between Azerbaijan and Armenia, which triggered their declaration of independence in two countries.<sup>103</sup>

Beside ethnic conflicts and civil wars, there were also other conflicts over the demarcation of the Caspian Sea. According to Gökay, the region faced miscalculations at three inter-related levels. First was the dispute over the legal status of the Caspian Sea.<sup>104</sup> There has been a legal confusion over the definition of the status of the sea. Five riparian states were unable to reach an agreement since the vast amount of the hydrocarbon reserves of the region concentrates in the shallow shelf of the Caspian Sea. Second is the transportation of the extracted oil and gas from the region, which has become a critical issue especially between Russia, the US, Iran and Turkey. Third, there are some environmental and ecological problems

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<sup>101</sup> Yüce, Ç. Kürşat, 2006: 145-146.

<sup>102</sup> See Valery Tishkov, **Chechnya: Life in a War-torn Society**, California: California University Press, 2004. Gail W. Lapidus, "Contested Sovereignty: The Tragedy of Chechnya", **International Security**, 23:1, 1998: 5-49. John Arquilla and Theodore Karasik, "Chechnya: A Glimpse of Future Conflict?", **Studies in Conflict & Terrorism**, 22: 3, 1999:207-229

<sup>103</sup> Fahir Armaoğlu, **20. Yüzyıl Siyasi Tarihi**, İstanbul: Alkim, 2004: 934-937.

<sup>104</sup> Gökay, 2001: 13.

mainly related to hydrocarbon production and transportation.<sup>105</sup>

As a major reason of these conflicts, the Caspian oil became the focus point of local and external actors, both politically and economically. Following the demise of the Soviet Union, the oil became the new ‘connecting tissue’ within the region, providing the structure, through which the region could reintegrate itself to the world economy.<sup>106</sup>

While all riparian states demonstrated considerable interest for independence, Azerbaijan was the only Caspian state where oil has been the center of power struggle between the local government and Moscow. Baku government expected oil to become a tool that can be used to express its desire for emancipation. When the country militarily involved in Nagorno-Karabakh, the development of oil became a turning point for Azerbaijan.<sup>107</sup> Territorial lost of the country in its conflict with Armenia has been a key motive behind these rising expectations. Azerbaijan was dependent on the oil sector for national income; because the country has lacked other sectors of industry. The only way to increase revenues to develop its military capacity has been to manage its energy resources independently and gain the maximum levels of income. Another reason was to counterbalance the traditional Russian influence over the country with new relations with the US and the European countries by using its energy resources that required foreign investment to develop.

Despite Azerbaijan, a country using every strategy to escape from the Russian influence, Kazakhstan have acted cautiously while becoming independent from Moscow. The most significant variable that causes these different attitudes is geography. Since Azerbaijan is relatively less dependent on Russia to deliver its oil and gas to global markets due to its geographical position, it became the most available place for oil MNCs to invest in. Kazakhstan has limited options to export its hydrocarbons, due to its land-locked geography. The most of the pipelines has to pass through the Russian territory. Thus, geography has been one of the most significant factors that constrain Kazakhstan to use its resources for an effective foreign policy agenda.

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<sup>105</sup> Ibid: 14.

<sup>106</sup> Angeliki Spatharou, “Geopolitics of Caspian Oil: the Role of the Integration of the Caspian Region into the World Economy in the Maintaining Stability in the Caucasus”, Bülent Gökay (ed.), **The Politics of the Caspian Oil**, NY: Palgrave Macmillan, 2001:22

<sup>107</sup> Ibid: 22-23.



For a better comprehension of the post-Cold War Caspian oil politics, it is necessary to take into account the dynamic forces within these five littoral states, their political systems, energy policies, and national interests that form the basis of their interaction with the outside world. However, since the study intends to focus on the use of energy as a foreign policy tool, domestic dynamics will make up only a small part of the chapter. The study rather aims to focus attention on the network of relations among these Caspian states. Each of these actors have distinct set of interests and foreign policies as an outcome of the complex process shaped by a combination of domestic, regional and global dynamics.<sup>108</sup>

### **1.2.3.1. Russia**

Briefly stated, the Caspian policy of Russia has been two-fold. First, it has tried to control the regional energy trade and enforce the producer states to export their products through the Russian transport infrastructure in order to receive high transit costs. Second, by preserving its dominance in the regional energy politics, Moscow secures a critical mechanism to maintain its influence over the region.<sup>109</sup>

Russia has preserved its leading role in the region even after the demise of the Soviet Union. The major leverage of Moscow in relations with its southern neighbours has been the traditional dependence of these new actors on itself. Another one is its huge energy reserves. The 58 percent of the world's proven natural gas reserves remains in the hands of three countries: the Russian Federation, Iran and Qatar. This fact becomes more striking when one considers that Russia has the world's largest proven gas reserves, about the 27 percent of the world's total reserves constituting 47.8 trillion cubic meters.<sup>110</sup> Within this context, it is not surprising that Russia has used to perceive its energy reserves not only as economic, but also as an extremely powerful political leverage in its foreign affairs.

After the demise of the USSR, at first Moscow could not focus considerable attention on the Caspian region. The first official visit of a Russian minister to the region took place in 1992. This trip signaled a more active phase in the Russian

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<sup>108</sup> Dekmejian and Simonian, 2003: 74.

<sup>109</sup> Bilgin, *Avrasya Enerji Savaşları*, 2005: 49.

<sup>110</sup> BP Statistical Review of World Energy 2007.

policy towards the region, named the ‘Near Abroad’ policy. This policy includes implementation of the economic, political and military integration with the former Soviet republics and providing stability and security according to its own interests in the former Soviet geography.<sup>111</sup> For the sake of its national interests, Russia aims to hold together the CIS, to have close relations with the US and to re-establish its hegemonic position in the Soviet era. After a short period, Moscow has come to the conclusion that the former Soviet geography would constitute its own sphere of influence. The main reasons behind such a policy were: (1) to control Eurasia geopolitics politically and militarily, (2) to neutralize movements that pose threats to its political and ethnic integrity, (3) to preserve the rights of ethnic Russian minority in the newly independent states and using it as a pretext to intervene in domestic affairs of these states, (4) to maintain a dominant position in extraction, transportation and marketing of hydrocarbons in the region.<sup>112</sup> Moscow then started to exert pressure on the newly independent states to integrate in the CIS. The CIS was designed to be a control mechanism that would maintain the Russian influence over the regional affairs.<sup>113</sup>

Yeltsin’s policies, however, collapsed when the economic crisis in Russia was coupled with a similar one in Asia and further exacerbated by the declining oil prices.<sup>114</sup> Under the pressure of the Chechen attacks in Dagestan and the ensuing economic chaos, Yeltsin was obliged to make a revision in the administration.<sup>115</sup> He once again changed the prime ministers in October 1999 and appointed Vladimir Putin, a former KGB official, as the new prime minister. This was the indicator of the new hard-line policy in the administration.<sup>116</sup> Putin’s charismatic leadership and authoritarian approach granted him popularity which paved the path for his presidency.<sup>117</sup> Putin was elected as the new president in the elections on 26 March 2000. On top of Putin’s agenda was the removal of the ‘nomenklatura’,<sup>118</sup> oligarchs

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<sup>111</sup> Yüce, 2006: 206.

<sup>112</sup> Ibid: 206.

<sup>113</sup> Ibid: 207.

<sup>114</sup> Bilgin, *Avrasya Enerji Savaşları*, 2005: 39.

<sup>115</sup> Ibid: 40.

<sup>116</sup> Dekmejian and Simonian, 2003: 45.

<sup>117</sup> Ibid: 45.

<sup>118</sup> *Nomenklatura* is

“the network of interdependence established by the people, who has used to enjoy their privileges and status yielded from the Communist Party (CPSU) membership to

and clans from the system. This decision turned out to have an important impact over Russia's energy policies, as one of the sectors dominated by these groups was the energy sector.<sup>119</sup> President Putin approved “The Foreign Policy Concept of Russian Federation” on 28 June 2000, whose goals, among others, involve

“achieving firm and prestigious positions in the world community, most fully consistent with the interests of the Russian Federation as a great power, as one of the most influential centers of the modern world, and which are necessary for the growth of its political, economic, intellectual and spiritual potential.”<sup>120</sup>

During the Putin administration, some key developments have led Russia to retain its control over the Caspian region.<sup>121</sup> They include the explicit attempts of the US to fill the power vacuum in the region, which emerged shortly after the demise of the USSR, Iran's policy intending to gain economic and political benefits through utilizing cultural and religious factors; and anxiety of Moscow rising from domestic and ethnic conflicts that pose threats to its own security.

NATO's eastern enlargement, ‘colored revolutions’ in some of the former Soviet republics and the project of the deployment of missile defense systems in Poland and the Czech Republic, which was cancelled in September 2009 are also some of these attempts.<sup>122</sup> As a result of these developments, Russia has utilized a proactive strategy based on its comparative advantages. The main pillar of these comparative advantages is the rich hydrocarbon reserves of the country. Gazprom,<sup>123</sup>

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maintain their privileged position. It was the list of leadership posts requiring the go-ahead of the CPSU prior to nomination. However, the term came to take on a broader meaning to designate the ruling circles that concentrate the decision-making powers. The *nomenklatura* thus became synonymous with a class united by a specific form of sociality, expressing the Soviet pyramid of hierarchies and enjoying material privileges.”

Marlene Laurelle, **In the Name of Nation: Nationalism and Politics in Contemporary Russia**, Series in International Relations and Political Economy, NY: Palgrave Macmillan, 2009:119. Mikhail Voslenskii, **Nomenklatura: Anatomy of the Soviet Ruling Class**, London: Bodley, 1984.

<sup>119</sup> Bilgin, **Avrasya Enerji Savaşları**, 2005: 46–47.

<sup>120</sup> Suat Akgün, “The Russian Federation as an Energy Supplier”, **Turkish Policy Quarterly**, Summer 2007: 28-29.

<sup>121</sup> Yüce, 2006: 201.

<sup>122</sup> “Obama Abandons Missile Defence Shield in Europe”, *Guardian*, 19 September 2009.

<sup>123</sup> Gazprom is the world's largest gas company basically focused on geological exploration, production, transmission, storage, processing and marketing of gas and other hydrocarbons. The state owns a 50.002 per cent controlling stake in Gazprom. It possesses the world's largest natural gas reserves. The company's share in the global and Russian gas stocks makes up 17 and 60 per cent. Gazprom's share in the global and Russian gas production is nearly 20 and 85 per cent,

the Russian state-owned gas company, has shouldered a critical role in this strategy.<sup>124</sup>

The Caspian policy of Putin was more assertive than the former presidents. He criticized their passive policies and believed that Russia ought to be involved in all aspects of regional politics. Putin further underlined the need for avoiding confrontation with any of the Caspian states.<sup>125</sup> Bilgin argues that Russia tries to achieve maximum control over the regional energy trade, to secure shares in pipeline projects and to prevent influence of extra-regional actors, especially the US. Its monopoly over the pipeline infrastructure encompassing the whole region remains as an assurance of the continuing Russian influence over the Caspian.<sup>126</sup> In this regard, natural gas has a particular significance. Since the gas needs to be transported only through pipelines, the infrastructure of the Russian pipeline system gains a critical importance. Construction of a new pipeline requires long term contracts, sustainable supplies, credible suppliers and large amounts of capital. Thus, the current pipeline system has been vital for Kazakhstan and Turkmenistan, two landlocked countries, to export their oil and gas. This gives Russia a considerable leverage in its relations with these two states.

According to the report of the London-based organization Global Market Briefings,

“Following Putin's rise to the presidency in 2000, Russia made determined effort to gain control of the energy infrastructure in the Caucasus. The Putin administration used Russian energy conglomerates, including Rosneft, Gazprom and RAO Unified Energy Systems (UES), to gobble up energy assets in Armenia, Azerbaijan and Georgia with the aim of "placing the Caucasus republics into a position of economic and thus political dependence on Russia.”<sup>127</sup>

Azerbaijan was able to resist the Russian pressure owing to its own energy reserves. The opening of the Baku-Tbilisi-Ceyhan pipeline in 2005 marked the

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respectively. <[www.gazprom.com](http://www.gazprom.com)> (15 April 2009).

<sup>124</sup> Akgün, 2007: 29.

<sup>125</sup> Dekmejian and Simonian, 2003: 76.

<sup>126</sup> Bilgin, **Avrasya Enerji Savaşları**, 2005: 48.

<sup>127</sup> “Azerbaijan Frustrates Russia's Bid to Control Caucasus Energy”, **Eurasianet**, 13 March 2006. <<http://www.eurasianet.org/departments/business/articles/eav031406.shtml>> (14 February 2010).

turning point in Azerbaijan's effort to resist Russian pressure, the report said. However, after the BTC's opening, Russia did not give up on its aims towards the Caspian region. Rather, it made a tactical shift and focused its attention on Kazakhstan has tried to deter Astana from participating in the BTC project.<sup>128</sup>

The new Russian policy on the Caspian also displays another dimension: security. Following the dissolution of the Soviet Union, Russia has retained its strategic security interests in the southern neighbours, through the establishment of numerous military bases along the borders with the CIS members and the deployment of Russian troops in conflict areas.<sup>129</sup> Russia also has intentions to benefit from the frozen conflicts in the region that prevent regional actors to cooperate and construct a regional identity.<sup>130</sup> It tries to keep these conflicts unresolved and serve it as a leverage to manipulate and abuse the vulnerabilities of the countries.

The conflict between Azerbaijan and Turkmenistan over the oil fields on the shores of the Caspian Sea, which stemmed from the uncertainty about the legal status of the sea, seems a good case in point here. Azerbaijan signed agreements to produce oil in the oil fields called 'Kepez', but Turkmenistan did not recognize sovereignty rights of Azeris over that region, which they named as 'Serdar'. According to the former Foreign Minister of Azerbaijan, Hasan Hasanov, however, the conflict between two countries over the oil field was fuelled by other powers.<sup>131</sup> Hasanov argued that Russia has abused the problems between the riparian states and benefited from these regional deficiencies.

Nevertheless, like all energy producer countries, the dependence of Russian economy on energy revenues also turn out to be the greatest vulnerability of that country. This argument has dominated the majority of the studies in the energy literature.<sup>132</sup> More than half of the Russian state revenues have been coming from the energy trade. On the one hand, this condition grants an enormous economic power to Moscow as the oil prices has kept high. On the other hand, heavy dependence on energy incomes can become a serious handicap for Russia when the prices are low.

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<sup>128</sup> Ibid.

<sup>129</sup> Dekmejian and Simonian, 2003: 75.

<sup>130</sup> Ibid: 76-77.

<sup>131</sup> Şen, 2008: 177.

<sup>132</sup> Bilgin, *Avrasya Enerji Savaşları*, 2005: 50.

Put differently, while high oil prices give Russia a chance to strengthen its dominant role in the Caspian region, a decline in prices jeopardizes this role. Thus, its monopoly over the transport infrastructure remains as a security valve for Moscow. There are other obstacles that can delimit the Russian policy choices towards the region, too. On the one hand is the increasing activities of the Western oil firms and access of oil and gas directly to the global markets bypassing Russia. On the other hand, in case of persistence of the current trends Russia will probably face a serious gas shortfall by 2010. The reason behind the expected shortfall is the lack of investment technology to explore and develop new fields to replace the depleting resources.<sup>133</sup>

### 1.2.3.2. Azerbaijan

On the eve of its independence, oil implied more than an energy source for Azerbaijan. The increasing interest of the Western companies for the Caspian oil encouraged Baku to resist to Russian influence. Especially, the Baku-Tbilisi-Ceyhan Pipeline Agreement in 1994 promised that country considerable amounts of foreign capital inflow. While old-fashioned, its oil industry has also been a strong motive for Azerbaijan to strengthen its role in the region.

Baku has regarded oil as a tool that can enable the young republic to maintain its independence and sustain its protracted fight against Armenia. For Azeris, oil signifies as “a panacea to all problems”.<sup>134</sup> However, the first two years of the republic (1991-1993) witnessed the collapse of the geopolitical balance that had hitherto dominated the region and its hydrocarbon reserves.<sup>135</sup> In addition, among eighteen oil and gas production projects, only five of them began to work between 1994 and 1998. Of the given 42 billion US Dollars, Washington invested only 8.3 billion US Dollars to oil sector in Azerbaijan, until 2000.<sup>136</sup> Contrarily, in the same period, Hungary, which has been an energy-poor country, has achieved to attract 20

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<sup>133</sup> Ndefo, E. O., P. Geng, S. Laskar, L. Tawofaing, and Michael J. Economides, “Russia: A Critical Evaluation of its Natural Gas Resources”, **Energy Tribune**, 13 February 2007, <[www.energytribune.com/articles.cfm?aid=379](http://www.energytribune.com/articles.cfm?aid=379)> (26 December 2009).

<sup>134</sup> Spatharou, 2001: 24.

<sup>135</sup> Ibid: 25.

<sup>136</sup> Alec Rasizade, “Azerbaijan after a Decade of Independence: Less Oil, More Graft and Poverty”, **Central Asian Survey**, 21.4, 2002: 360.

billion US Dollars in foreign investment.<sup>137</sup> This showed the failure of Azerbaijan to attract foreign investment on its oil sector. After the declaration of independence, Ayaz Mutallibov became the first president of Azerbaijan in 1990 and was then elected as the president in 1991.<sup>138</sup> Due to his authoritarian and inefficient administration, however, Mutallibov was forced to resign from presidency in February 1992, following the occupation of Khojali in Karabakh by Armenian separatists.<sup>139</sup> The strongest political opposition against Mutallibov was the Azerbaijan Popular Front<sup>140</sup> (AzPF). In 1992, new elections were held for presidency, and the leader of the Azerbaijan Popular Front, Abulfaz Elchibey was elected as the first non-communist president of the country.

During the presidency of Elchibey, Azerbaijan pursued nationalist policies and had close relations with Turkey. However, Elchibey's presidency did not last long and following a chaotic period laced with riots and rebellions, finally ended in 1993.<sup>141</sup> The Azeri parliament then elected Heydar Aliyev, an ex-secretary general of the Communist Party and ex-general of KGB, as the new president. Aliyev reinforced his legitimacy in the next elections, which was held in 1993, by getting nearly a hundred percent of the total votes. During Aliyev's presidency, Azerbaijan became a member of the Commonwealth of Independent States (CIS).<sup>142</sup> This indicated that the new president of Azerbaijan, Aliyev had begun to pursue a balanced and cautiously active foreign policy. The failures of the former presidents of the country to achieve a more independent foreign policy through using their oil as a tool obliged Aliyev to formulate a moderate policy towards Russia.

#### **1.2.3.2.1. Initial Efforts to Use Energy as a Foreign Policy Tool**

Since independence, the oil issue as well as national sovereignty, domestic

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<sup>137</sup> Ibid: 360-61.

<sup>138</sup> Şen, Yunus, 2009: 32.

<sup>139</sup> Rasizade, 2002: 61.

<sup>140</sup> The AzPF was created in 1989 by intellectuals initially to support Mikhail Gorbachev's newly introduced policies and promote the political and economic sovereignty of Azerbaijan within the framework of the Soviet Union. Soon after, it was transformed into a radical nationalistic political group, particularly after Abulfaz Elchibey became the leader. Elisabeth Fuller, **Azerbaijan at the Crossroads**, PBSF Paper, London RIIA, March 1994: 3.

<sup>141</sup> Ibid: 61.

<sup>142</sup> Armaoğlu, 2004: 938-939.

politics and Karabakh conflict, became inextricably intertwined with the foreign policy of Azerbaijan.<sup>143</sup> Spatharou examines the role of oil in the regional affairs of Azerbaijan through four phases.<sup>144</sup> During the first phase, which includes the late 1980s, Azerbaijan was in an economic crisis and oil production was in decline. In 1989, the first representative of a Western oil company came to Baku, which was an indicator of the rising Western interests in the Caspian oil development.<sup>145</sup> Azerbaijan began to consider using oil as a tool to maintain national sovereignty and independence, decrease Russian influence over the country and sustain economic development.

The second phase starts with the declaration of independence in 1991. During the Mutallibov government, despite their rising interest, the Western firms were reluctant to invest in Azerbaijan due to the political instability in whole former Soviet Union area. For a long period following the declaration of the independence of new states, the Russian Federation abstained from recognizing these new states' right to exploit their resources unilaterally.<sup>146</sup> Oil, when Mutallibov tried to use it as a foreign policy tool, did not give the expected results. During Mutallibov government, Baku tried to use oil not only as a diplomatic and political weapon in international relations, but also as "a tactical weapon in its war against Armenia over the Nagorno-Karabakh region".<sup>147</sup> For instance, it cut off gas to Armenia in 1991, which was severely affected Armenia, who used to obtain 90 percent of its energy needs from Azerbaijan.

While Azerbaijan expected to gain leverage in its war over Karabakh by using its energy card over Armenia, however, this condition ultimately benefited Yerevan rather than Baku. Yerevan, by the help of the Armenian diaspora in the West, achieved to show itself aggrieved, since the Baku government was accused for imposing sanctions that cause severe damages. As a result, using oil as a foreign policy tool hardened the attitudes of the Armenian nationalist groups and pro-Armenian lobbyists in the West. In the US, where these groups and the Armenian

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<sup>143</sup> Spatharou, 2001: 27.

<sup>144</sup> Angeliki Spatharou, "The Political Role of Oil in Azerbaijan, 1989-1994", **Journal of Southern Europe and Balkans**, 4.1, 2002: 31.

<sup>145</sup> Ibid: 32.

<sup>146</sup> Spatharou, 2001: 28.

<sup>147</sup> Spatharou, 2002: 32.



diaspora were very effective, Armenian president Levon Ter-Petrosyan met with the US President George Bush for bilateral talks in Washington, in 1991.<sup>148</sup> Following the negotiations, the US decided not to recognize Azerbaijan and to freeze diplomatic relations with the country, until it improved its human rights record in Nagorno-Karabakh. As a result, president Mutallibov was found responsible for the failure of the Azeri foreign policy to attract international support over the Nagorno-Karabakh conflict.

In 1992, Elchibey government signed five Memoranda of Understandings (MOU) with foreign companies to develop its Azeri, Chirag and Guneshli fields. Despite the opposition of Russia against the rights of the riparian states to exploit resources unilaterally, Elchibey government never concealed its nationalist approach and advocated their sovereignty rights over the hydrocarbon reserves.<sup>149</sup> Meanwhile, Azerbaijan pursued a pro-Turkish and pro-Western foreign policy to exclude Moscow from energy projects. These projects were keys to gain diplomatic and political support in the war against Armenia. In 1993, for instance, Azerbaijan State Oil Company (SOCAR) and Turkey signed an agreement of a pipeline project that would pass through Turkey. This was the first project that would carry oil from the Caspian reserves to Europe, free from the Russian influence.

By signing this agreement with Turkey, Azerbaijan indicated that it saw Turkey as a new ally to support itself in the Karabakh conflict. This optimism in Azerbaijan also increased when the UN Security Council passed a resolution that accepted the Armenian occupation of the Azeri province, Karabakh. However, similar to the Mutallibov government, Elchibey government also failed to use oil as a strategic weapon in its fight against Armenia.<sup>150</sup> In 1992, the US Congress accepted the 'Freedom Support Act', which involved assistance to the newly independent former-Soviet republics in their transition to democracy and market economy. As a result of intense lobbying efforts of the Armenian Diasporas in the US, the only country that did not receive such assistance was Azerbaijan. Elchibey, in return, tried to reciprocate by precipitating oil contracts with the US firms.<sup>151</sup>

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<sup>148</sup> Ibid: 32.

<sup>149</sup> Spatharou, 2002: 33.

<sup>150</sup> Ibid: 33-34.

<sup>151</sup> Spatharou, 2001: 36.

Another major power, which stood against Baku to use its energy reserves as a leverage in foreign policy-making was Russia. Kremlin supported Colonel Surat Huseyinov, a commander who intended to gain the control of Baku. While withdrawing its military forces from Azerbaijan, Russia delivered its military equipment to Colonel Huseyinov.<sup>152</sup> Russia intended to oblige Azerbaijan to reshape its foreign policy agenda in favor of the Russian interests.

In 1993, President Elchibey was overthrown in a *coup* led by Huseyinov. In the final phase, the new president was Heydar Aliyev, who preferred to follow a cautious policy towards Russia and temporarily suspended the oil agreements with Western companies. During his presidency, Azerbaijan pursued a moderate policy towards Russia and became a member of CIS.<sup>153</sup> As an alternative to the CIS, he also formed a sub-regional security organization with Georgia, Ukraine and Moldova, GUAM, in 1997.<sup>154</sup>

Regarding the Nagorno-Karabakh problem, Aliyev's rationale was to convince Western countries to invest in the Azeri oil sector, and to use their support to guarantee a diplomatic victory in Azerbaijan's fight against Armenia.<sup>155</sup> However, he first needed to eliminate the Russian opposition against the Western involvement in Azeri oil development. Thus the Russian oil company Lukoil got a 10 per cent stake in the contract agreement with the Western companies, which was signed in 1994. In retrospect, it is possible to argue that the cautious stance of Aliyev towards the West and Russia paid off as President Yeltsin and Bill Clinton made several efforts to maintain a cease-fire in Nagorno-Karabakh in September 1994.<sup>156</sup> However, this result was far from satisfying Azeri demands on the issue, since these external actors has abstained from supporting only one of the conflicting parties at the expense of others. They have tried to support the attitudes of both Armenia and Azerbaijan.<sup>157</sup>

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<sup>152</sup> Araz Aslanlı and İlham Hesenov, **Haydar Aliyev Dönemi Dış Politikası**, Ankara: Platin, 2005: 37.

<sup>153</sup> Spatharou, 2002: 34.

<sup>154</sup> Svante Cornell, "Strategic Security Dilemmas in the Caucasus and Central Asia" **National Bureau of Asian Research Analysis**, 14.3, 2003: 45.

<sup>155</sup> Rosenkvist, 2005: 37.

<sup>156</sup> Spatharou, 2002: 34.

<sup>157</sup> The study takes the Nagorno-Karabakh issue into consideration in the final chapter.

### 1.2.3.3. Kazakhstan

Like many former Soviet republics, Kazakhstan was unprepared for independence. As a former-secretary general of the Communist Party of Kazakhstan, Nursultan Nazarbayev collaborated with Gorbachev to sustain the integrity of the Soviet Union. In fact, Kazakhstan was the last republic to declare its independence in December 1991. In the aftermath of the collapse of the Soviet Union, however, Nazarbayev strengthened his presidency through an election following the declaration of independence, in which he won 98 percent of the votes.

Preventing an ethnic tension and partition occupied the political agenda of Kazakhstan during the early years of its independence. Therefore, one of the priorities of Nazarbayev was the “Kazakhization” of Kazakhstan.<sup>158</sup> In his ‘Kazakhization’ policy, Nazarbayev aimed at strengthening the position of the native Kazakhs within the political, economic and demographic structures of the country. It included encouraging the Kazakh minorities in China and Mongolia to migrate to the country, as well as the replacement of the Russian officials with Kazakhs, and the requirement of knowing ‘Qazac’ language to gain access to higher education and employment.<sup>159</sup>

There are two main factors that make Kazakh post-independence experience different from other ex-Soviet republics, which are its **geographic location and demographic composition**. Sharing a long border with Russia and its large ethnic Russian population exerts a considerable pressure on Kazakhstan to keep close relations with Russia. The economic crisis that occurred following its independence also impelled the country to pursue a natural resource-based economic recovery by attracting foreign capital and investment in the energy sector. Due to a number of reasons Nazarbayev therefore was reluctant to leave the Russian sphere of influence.<sup>160</sup> The first one has been the vulnerability of Kazakhstan regarding its ability to export oil and gas to the European markets. The shortest and cheapest route from Kazakhstan to global energy markets is the Russian territory. This was mainly the result of the Soviet policy to keep its near abroad dependent on its own

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<sup>158</sup> Dekmejian and Simonian, 2003: 52-55.

<sup>159</sup> Ibid: 55-59.

<sup>160</sup> Pınar İpek “The Role of Oil and Gas in Kazakhstan’s Foreign Policy: Looking east or West?” **Europe-Asia Studies**, 59.7, November 2007: 1180.

infrastructure.<sup>161</sup> Second, ethnic Russians that make up nearly half of the population have posed a potential threat to the country's territorial integrity in case of a confrontation with Moscow. Third and the final factor was the lack of trained military personnel: Kazakhstan was dependent on Russia for the protection of its long border with China.<sup>162</sup>

#### 1.2.3.3.1. Initial Efforts to Use Energy as a Foreign Policy Tool

The historical background of the early activities of the Western oil companies in Kazakhstan goes back to 1980s. The first Western oil company, which invested in Kazakh oil sector, was the American Chevron. Due to the privileged position of the company in the Kazakh oil projects, Chevron achieved to gain the first oil concession in Kazakhstan's Tengiz oil field. This field was discovered and exploited in 1993 after negotiations with the American Chevron and the Soviet Union in 1990. The negotiations on the Tengiz oil field showed that the control of the pipeline infrastructure is no less important than the oil development industry. Chevron led the consortium that set up a joint venture called, TengizChevrOil (TCO). The makeup of shares of American firms, Kazakhstan and Russia-England partnership were respectively; 75 per cent, 25 per cent and 5 per cent.<sup>163</sup> Huge oil reserves of Kazakhstan also attracted the European firms. Before the extraction of oil, discussions started about transport routes of the oil from Tengiz oil field to the international markets. French Total was the first company that brought a pipeline proposal to Kazakh officials in 1992.<sup>164</sup>

Russia also had a considerable influence on the Kazakh oil development. It had a particular interest in Kazakh pipeline infrastructure, which became the new main key element of the geopolitical rivalry over the Caspian region.<sup>165</sup> Due to the historical background, the pipeline infrastructure that Kazakhstan used to deliver its

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<sup>161</sup> Ibid: 1181.

<sup>162</sup> Ibid: 1182.

<sup>163</sup> American companies Chevron Texaco and Exxon Mobil share 50% and 20 % respectively, the national energy company KazMunaiGaz of Kazakhstan holds 20%, and 5% belongs to the joint venture LukArco composed of Lukoil of Russia and Arco of England. Forsythe, Rosemarie, **The Politics of Oil in the Caucasus and Central Asia**, Adelphi Papers, 300, 1996: 17.

<sup>164</sup> Şen, 2009: 190.

<sup>165</sup> Gregory Perey, "Kazakhstan: The New 'Great Game' in Central Asia", **Neftegaz**, 25 March 2010. <<http://www.neftegaz.ru/en/analisis/view/7485>> (1 May 2010)

oil has been under Russian control. Almost all Kazakh oil has been delivered to global markets via the two Russian pipelines: The Caspian Pipeline Consortium (CPC) and Uzen-Atyrau-Samara pipeline.<sup>166</sup> In short, Kazakhstan has simply been unable to bypass Russia while exporting its oil. While the production level volume of oil in Kazakhstan was 90,000 barrels a day, the transport volume through the Russian route remained at 65,000 barrels a day.<sup>167</sup> Thus, foreign oil firms, especially the American Chevron reduced its investments in Kazakhstan due to the lack of transport infrastructure.

To lessen the influence of Moscow, Kazakhstan has made several attempts to secure close and stable relations with its neighbors.<sup>168</sup> One of these neighbours is Iran. Although they do not have common borders, Kazakhstan and Iran are connected by the Caspian Sea. At first, the relations between these two countries remained cautious, due to Kazakhstan's concerns not to antagonize the US. Iran has offered Kazakhstan the most economic route to deliver its oil to the global markets. However, Washington excludes Iran from pipeline projects because of the ideological and political hostility between the two countries. The traditional approach of the US towards Iran has been to prevent it from maintaining a strong position in the Caspian region. The U.S. Secretary of State, James Baker approved this approach in his declarations during his visit to Central Asia in January 1992.<sup>169</sup> During the Clinton administration, this approach became a part of "the broader U.S. strategy of containing and isolating Iran in the context of the policy of "Dual Containment".<sup>170</sup> Several oil 'swap'<sup>171</sup> agreements were signed between the two countries, but the process was later interrupted several times due to the high sulfur rates in Kazakh oil and the increasing diplomatic tension with the United States. The relations later deepened, when Kazakhstan guaranteed that the ties were purely economic rather than political.

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<sup>166</sup> Ibid.

<sup>167</sup> Kim, Younkyoo and Gu-Ho Eom, 2003: 98.

<sup>168</sup> Dekmejian and Simonian, 2003: 74–75.

<sup>169</sup> Shireen Hunter, "Iran's Pragmatic Regional Policy", *Journal of International Affairs*, 56.2, 2003: 133-135.

<sup>170</sup> Ibid: 135-136.

<sup>171</sup> Anoushiravan Ehteshami, "Geopolitics of hydrocarbons in Central Western Asia", Shirin Akiner (ed.), *The Caspian: Politics, energy and security*, NY: Routledge Curzon, 2005: 59.

In 1996, despite American opposition to the participation of Iran in the transport of Caspian oil, Tehran and Almaty signed a swap agreement. Accordingly Kazakhstan would deliver 2 million tons of oil to Neka, and in exchange Iran would allocate an equivalent amount of its own oil world markets to Kazakhstan. The deal foundered in 1997, when the refineries in northern Iran refused to accept Kazakh oil on account of its high sulfur content. However, the agreement was revived in 2002 and, by the beginning of 2003; Iran was importing about 50,000 barrels per day from Kazakhstan.<sup>172</sup>

To conclude, ability of the Caspian states to use their hydrocarbon reserves as a foreign policy tool has been affected by two set of factors; the network of relations among these actors and their relations with the western Countries. Ongoing, but lessening historical and economical influence of Russia over Azerbaijan and Kazakhstan has been one of the major vulnerabilities of these states in foreign policy making. This chapter overviewed that each of these three actors, namely Russia, Azerbaijan and Kazakhstan has different set of interests and policies. Especially in the post-independence period, energy policies of Baku and Astana began to differentiate due to their different priorities in foreign policy agendas. However, both countries had several difficulties in their initial efforts to use their oil as a foreign policy tool.

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<sup>172</sup> Ibid: 59-60.

## CHAPTER TWO

### CASPIAN SEA HYDROCARBON RESERVES: ESTIMATION OF THE POTENTIAL

This chapter deals with the hydrocarbon potential of the Caspian Sea region. As the previous chapter has underlined, the Caspian region is one of the oldest oil and gas producing areas in the world. Since the end of the Cold War, the region has attracted the attention of IR scholars due to its geopolitical and geostrategic significance. A significant motive behind this rising interest has been driven by the hydrocarbon potential of the region. Therefore, dependable estimates on oil and gas potential of the region deserves a particular attention. This chapter focuses on this issue since the ability of Azerbaijan and Kazakhstan to use their energy reserves efficiently by and large depends on their hydrocarbon potential.

#### 2.1. A CRITICAL ISSUE: TRUSTWORTHY ESTIMATIONS

For at least two reasons, obtaining certain estimations is critical for the future of the Caspian region. First of all, clarifying the proven hydrocarbon potential would help to better assess the role of the Caspian fields in the global energy market. Second, the distribution of these reserves among Azerbaijan and Kazakhstan would define the capacity and geography of the pipeline projects.

Attempts to achieve a dependable estimation of the potential reserves hitherto have been mostly driven by political and economic motives. The history of the controversy over the hydrocarbon potential of the region, in fact, dates back to the Soviet era. There has been an enormous volatility in the results of surveys. The difference between two estimates in 1970s and 1980s is 165 billion barrels.<sup>173</sup> In the post-Cold War era, the rise in the interest of the Western oil firms in the Caspian has been accompanied by the controversies and harsh debates over the hydrocarbon potential of the region.

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<sup>173</sup> Mert Bilgin, *Avrasya Enerji Savaşları*, 2005: 176.

One of the most dependable sources of the estimates over the hydrocarbon reserves in the region has been the International Energy Agency (IEA).<sup>174</sup> The IEA regularly publishes working papers and reports titled “The World Energy Outlook”. One of the regions on which the organization has put a special emphasis is the Caspian region. The IEA cooperates with the Energy Charter Secretariat<sup>175</sup> and both organizations have published a survey on the oil and gas reserves of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan.<sup>176</sup> The IEA has also published a recent working paper about the region’s potential in December 2008. The report evaluates the three major producer countries of the Caspian basin, Azerbaijan, Kazakhstan and Turkmenistan and future implications for their production, pipeline networks and access to the global markets.<sup>177</sup>

According to the estimates of the BP, the Energy Information Agency (EIA), and the US Department of Energy, the Caspian region is a significant, but not a major oil producer. The production levels have been higher earlier, but decreased following the dissolution of the Soviet Union. Surveys of the BP have shown that the Caspian region possesses proven reserves of 48 bn barrels. This accounts for the four percent of world’s total proven reserves.<sup>178</sup>

According to the International Energy Agency’s (IEA) survey, the Caspian is expected to increase its oil production by over 800 kb/d by 2013, representing some 70% of the net increase in non-OPEC oil supply growth. Similarly, for natural gas, the region is expected to make a significant contribution to the global gas supply with Azerbaijan, Kazakhstan, and Turkmenistan.<sup>179</sup> In a report by the UN, published

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<sup>174</sup> For a detailed definition and functions of IEA see < <http://www.iea.org/about/index.asp>> (April 8, 2009).

<sup>175</sup> Energy Charter is a legally-binding multilateral institution, which dates back to a political initiative launched in Europe in early 1990s. The main task of the institution is to provide a legal framework to provide energy security of the members. The Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency was signed in December 1994 and entered into legal force in April 1998. To date, the Treaty has been signed to by fifty-one states, the European Community and Euratom. The major aims are “to strengthen the rule of law on energy issues, by creating a level playing field of rules to be observed by all participating governments, thereby mitigating risks associated with energy-related investment and trade.” The Official website of Energy Charter, <<http://www.encharter.org/index.php?id=7&L=1%252>> (2 April 2010).

<sup>176</sup> **Caspian Oil and Gas: The Supply Potential of Central Asia and Transcaucasia**, IEA, 1998: 32. Since Uzbekistan is not a part of the Caspian riparian states, it is excluded from this study.

<sup>177</sup> **The Perspectives on Caspian Oil and Gas Development**, International Energy Agency Working Paper Series, Directorate of Global Energy Dialogue/2008/1, December 2008:5.

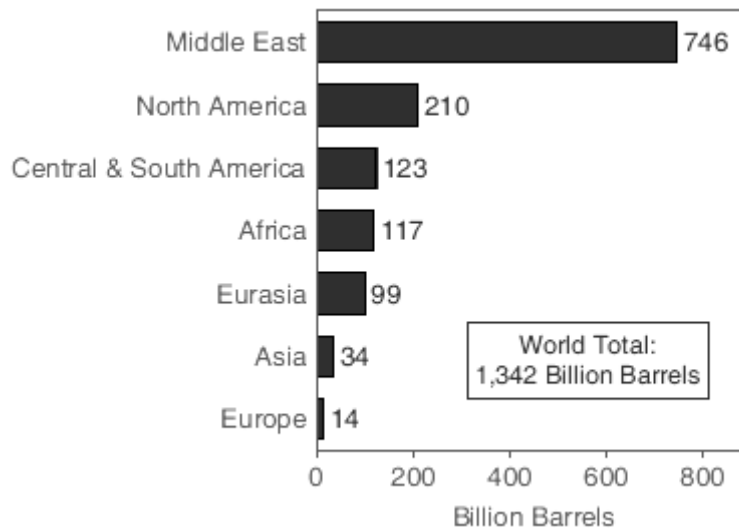
<sup>178</sup> Gelb, Alan 2006: 2.

<sup>179</sup> “Perspectives on Caspian Oil and Gas Development”, **International Energy Agency Working**



in 1997, the US Ministry of Foreign Affairs declared that the Caspian reserves could exceed 178 billion (bn) barrels.

Figure 1: World Proven Oil Reserves by Geographic Regions, January 2009.



Source: International Energy Outlook 2009, Energy Information Administration, May 2009, <[www.eia.doe.gov/oiaf/ieo/index.html](http://www.eia.doe.gov/oiaf/ieo/index.html)>

The Caspian Sea oil reserves are heavily concentrated on two countries: Iran and Russia. Iran, as earlier stated, is the third largest owner of proven energy reserves in the world.<sup>180</sup> It also has the largest proven natural gas reserves after Russia and ranks second in the proven oil reserves. Russia also ranks second in oil production after Saudi Arabia. Russia is also currently the world's largest gas producer. These two major producers are followed by Azerbaijan, which has been a significant oil exporter for more than a century.<sup>181</sup> Although Azerbaijan experienced a decrease in its production since its independence, this trend was reversed by foreign investment in recent years. Meanwhile, relative to oil, gas production is low in Azerbaijan due to that country's lack of transport infrastructure to export its gas to the international markets. The country has also been regarded as the second richest in oil resources

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**Paper Series**, December 2008: 5.

<sup>180</sup> Mehdi P. Amineh and Henk Houweling, "Caspian Energy: Oil and Gas Resources and the Global Market", M. P. Amineh and Henk Houweling (eds.), **Central Eurasia in Global Politics: Conflict, Security, and Development**, Leiden Boston: Brill, 2005: 86.

<sup>181</sup> Ibid: 87-88.

among the former Soviet republics after Russia. Finally, similar to Azerbaijan, Kazakhstan's gas infrastructure remains under-developed and lacks infrastructure.<sup>182</sup>

Table 1: World Oil Reserves by Country as of January 1, 2009 (billion barrels)

Country	Oil Reserves
Saudi Arabia	266.7
Canada	178.1
Iran	136.2
Iraq	115.0
Kuwait	104.0
Venezuela	99.4
United Arab Emirates	97.8
Russia	60.0
Libya	43.7
Nigeria	36.2
Kazakhstan	30.0
United States	21.3
China	16.0
Qatar	15.2
Brazil	12.6
Algeria	12.2
Mexico	10.5
Angola	9.0
Azerbaijan	7.0
Norway	6.7
Rest of the World	64.6
<b>World Total</b>	<b>1,342.2</b>

Source: "Worldwide Look at Reserves and Production," *Oil & Gas Journal*, Vol. 106.48, 2008: 23-24.

These estimations indicate that the Caspian reserves, even at the highest estimate, can only supply three percent of the world's total energy consumption. As such, the proven reserves of the Caspian basin are far from offering a new OPEC-like status to the region in the global energy politics. Thus, it would be difficult to challenge the dominant position of the neighboring Middle East, which holds sixty percent of the world's total energy reserves.

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<sup>182</sup> Ibid: 89.

## 2.2. OIL

In the first half of 1990s, several factors prompted the interest of the oil MNCs in the Caspian region. First was the decline in the North Sea production. The second was the proximity of the Persian Gulf to foreign investment. Third, Western oil firms had difficulties to sign oil contracts in Russia. As a result, oil companies shifted their attention to the Caspian basin.<sup>183</sup>

Table 2: Oil Exports from the Caspian Basin, 2007 estimates

Route	Export		Sources of Oil (in mt)
	kb/d	mt/y	
Tengiz-Novorossiysk (CPC Pipeline) Kazakhstan- Russia	652	32.6	Kazakhstan (25.6) Russia (7.0)
Baku-Tbilisi-Ceyhan (BTC Pipeline) Azerbaijan-Georgia-Turkey	570	28.5	Azerbaijan
Atyrau-Samara Pipeline Kazakhstan-Russia	320	16.0	Kazakhstan
Baku-Batumi Azerbaijan-Georgia (by train)	136	6.8	Azerbaijan (4.4) Kazakhstan (2.4)
Baku-Novorossiysk Pipeline Azerbaijan-Russia	134	6.7	Azerbaijan (2.3) Kazakhstan (4.4)
<b>Total</b>	<b>1812</b>	<b>90.6</b>	

Source: Perspectives on Caspian Oil and Gas Development, IEA Working Paper Series, December 2008.

As earlier stated, there are two chronic problems about the oil production in the Caspian region: production costs and transport. Although the region is likely to increase its oil potential by attracting new foreign investment that enables new production techniques and more efficiency, the Caspian oil and gas costs more than the Gulf oil. In the Middle East, production of a ton of oil costs 2-5 US dollars and 10 US dollars in the North Sea. It is 7 USD in Kazakhstan and 17-20 USD in Azerbaijan. In order to make the Caspian oil economic and worthy to produce, the oil

<sup>183</sup> Dekmejian and Simonian, 2003: 28.

prices should be ruled high, above 18 USD level. This is why during the last few years, due to the considerable rise in oil and gas prices, the Caspian oil producer states have been able to quadruple their expected profits from energy exports.

Table 3: Oil and Gas Production in the Caspian Sea

Country	Crude Oil (thousands of barrels per day)				Natural Gas (trillions cubic feet per year)		
	1992	2005	2010		1992	2005	2010
			Low	High			
Azerbaijan	222	440	900	1,290	0,28	0,18	0,70
Kazakhstan	529	1,293	1,900	2,400	0,29	0,84	1,24
Russia			200				
Turkmenistan	110	196	165	450	2,02	1,97	3,50
Total Caspian	861	1,929	2,965	4,140	2,59	2,99	5,44
WORLD	73,935	81,088	91,600		72,195	97,534	116,50

Source: Gelb, Bernard A. "Caspian Oil and Gas: Production and Prospects", CRS Report for Congress, 2007. <[www.wikileaks.org/wiki/CRS-RS21190](http://www.wikileaks.org/wiki/CRS-RS21190)>, BP Amoco. BP Statistical Review of World Energy 2001, June 2001; BP Statistical Review of World Energy June 2006; Energy Information Administration. Energy Information Administration. Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts, July 2006; EIA. International Energy Outlook 2006, June 2006, <<http://www.eia.doe.gov/oiaf/ieo/index.html>> (29 January 2009).

### 2.3. NATURAL GAS

The contribution of the Caspian gas reserves to the world gas outlet has become larger than the oil market. In late 2005, the BP estimated proven natural gas reserves in the Caspian region as 257 trillion cubic feet, which represent four percent of the world total.<sup>184</sup> The IEA estimates the proven gas reserves of Azerbaijan as 1.3 trillion cubic meters. By 2013, the development of the Shah Deniz Pipeline Project - Phase II could provide additional gas supply possibly 12-15 bcm per year.<sup>185</sup> Kazakhstan has 1.9 trillion cubic meters of natural gas. Total gas production is expected to increase gradually until 2030, with the start of production in Kashagan field.<sup>186</sup>

<sup>184</sup> Bernard A. Gelb, "Caspian Oil and Gas: Production and Prospects", 2006: 4.

<sup>185</sup> **The Perspectives on Caspian Oil and Gas Development**, IEA, 2008: 12.

<sup>186</sup> In the gas sector, the major producer in the Caspian region is Turkmenistan. However, there has been great uncertainty about the estimates of Turkmen gas reserves. Turkmen representatives

Table 4: 2007 Natural Gas Production in the Caspian Sea

	Production	Consumption	Net Export
Azerbaijan	11.0	9.3	1.7
Kazakhstan	12.9	10.6	2.3
Turkmenistan	72.3	18.0	54.3
Total	96.2	37.9	58.3

*Source:* Perspectives on Caspian Oil and Gas Development, IEA Working Paper Series, December 2008.

To conclude, providing dependable estimates about oil and gas potential of the region remains a controversial task. Most of the existing studies include estimates, which represent oil and gas potential of the region as unrealistically high. By this way, they try to support their arguments to claim that the Caspian states can use their so-called huge amounts of energy reserves as an effective foreign policy tool, without considering other factors. However, these facts help IR scholars to reach a conclusion that the Caspian region is far from offering a dependable source of oil and gas alternative to the Middle East or North Sea suppliers. The hydrocarbon reserves of the Caspian remains limited when compared to these two regions. Azeri and Kazakh resources can only play an alternative supplementary role in the global energy market. Thus, the argument that Azerbaijan and Kazakhstan would utilize their huge energy reserves in order to achieve their foreign policy goals remains weak, since the other factors, including security and geographical facts, are not considered.

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claimed that their reserves were more than 20 trillion cubic meters. This amount is approximately as much as the proven reserves in Iran and Qatar. It is also more than the BP's statistical review in 2008, which estimated the total reserves as 2.7 trillion cubic meters. In 2006 and 2008, Turkmenistan declared that new gas fields were discovered in the South Yolotan, Osman and South Gutlyayak. The IEA argues that these new fields alone could make Turkmenistan the top of the world elite of gas reserve holders. **The Perspectives on Caspian Oil and Gas Development**, IEA, 2008:13.

## **CHAPTER THREE**

### **THE CASPIAN ENERGY POLITICS THROUGH THE MAINSTREAM INTERNATIONAL RELATIONS THEORIES: AN OVERVIEW**

This chapter overviews the theoretical arguments over the Caspian oil politics. It tries to assess their ability to explain the post-Cold War foreign policy-making in that region. By doing so, it aims to provide a useful insight to the assumptions of these mainstream theories on foreign policy-making of Azerbaijan and Kazakhstan. Contrary to some arguments in the literature on the region, this chapter uses a blend of outstanding IR theories to explain why Azerbaijan and Kazakhstan have not been able to use their energy card as an efficient foreign policy tool.

The existing studies gives these countries' foreign policy experiences by only describing their foreign policy agendas without a theoretical infrastructure. However, this study tries to explain why these countries have not been able to achieve independent foreign policy making despite their rich energy resources through a theoretical infrastructure. Using such an approach enables to identify similarities and differences between foreign policy practices of these countries and other resource-rich countries in other regions of the world.

Prior to discussing this argument through the lens of the International Relations theories, the chapter reviews some of the main assumptions of these theories to offer its own view on using oil as a foreign policy tool in the Caspian region. The chapter starts with the relevant arguments of mainstream International Relations theories about energy politics. First, it attempts to explain the dynamics of struggle for power and welfare over the Caspian hydrocarbon reserves through the classical realism (Morgenthau 1948) and neorealist approaches (Waltz 1979). Then the chapter considers complex interdependence, geopolitical theories and constructivism and their arguments over foreign policy making and oil politics.

As a result, the chapter concludes that, when it is considered through a theoretical framework, it is obvious that using energy resources as a foreign policy tool is not an easy task for Azerbaijan and Kazakhstan. These countries have not

been able to achieve an independent foreign policy-making due to their natural resources. While trying to lessen their traditional dependence on Russia, Baku and Astana have had new dependencies on the American and European firms to develop their resources efficiently. When considered through a theoretical perspective, it is obvious that natural resources do not give Azerbaijan and Kazakhstan a leverage in foreign policy-making.

### 3.1. CLASSICAL REALISM

Realism dominated modern international relations theories, especially between 1940s and 1970s. Hans Morgenthau, the classical realist, who has extensively discussed the power concept in his works, singles out the six principles of realism<sup>187</sup> as (1) Politics is governed by objective laws that take their root in human nature. (2) Interest defined in terms of power is the key concept to understand international politics. (3) The concept of interest remains the same, while forms and nature of state of power changes over time and context. (4) State behavior is not shaped by universal moral principles. Only individuals are influenced by moral codes, but states are not moral agents. (5) There is a lack of universally accepted set of moral principles. (6) The political sphere is autonomous from legal, moral or economic spheres.<sup>188</sup>

According to Morgenthau, political realism defines the state as the principal actor of international relations and views international politics as a struggle for power among actors. States are regarded as primary actors because they possess power, which can be defined as the ability not only to influence others, but also to control outcomes that would not naturally occur. Realists claim that “the first move of state is to organize power domestically, and the second is to accumulate power internationally”.<sup>189</sup>

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<sup>187</sup> Hans J., Morgenthau, “A Realist Theory of International Politics”, H. J. Morgenthau and Kenneth A. Thompson, **Politics Among Nations: The Struggle for Power and Peace**, NY: Alfred A. Knopf, 1985: 4-14.

<sup>188</sup> Scott Burchill, “Realism and Neo-realism”, Scott Burchill and Andrew Linklater (eds.), **Theories of International Relations**, London: Macmillan Press, 1996: 74-76.

<sup>189</sup> Tim Dunne and Brian C. Schmidt, “Realism”, John Baylis and Steve Smith (eds.), **The Globalization of World Politics: An Introduction to International Relations**, NY: Oxford University Press, 2001: 150.

However, it is necessary to examine what realists mean by power. There are two dimensions of power that the realists argue. First, it is a relational concept. States exercise power in relation to other states, not in a vacuum. Second, it is a relative concept. States need to calculate not only about their own capabilities, but also about other states' power.<sup>190</sup>

Realists do not accept multinational companies and international organizations as primary actors, as they do not have sovereignty or a distinct identity, which distinguishes them from sovereign states.<sup>191</sup> They regard state as a single and unitary actor; thus ignore domestic politics. Realism also assumes that there is a hierarchy among subjects. Realists pay most attention to the military and security issues, which are defined as 'high politics'. In addition, they also make separation between 'high politics' and 'low politics'. High politics consists of conflict and security issues, whereas low politics includes economic, social and cultural relations.<sup>192</sup> Most of the realist critiques evolve around this distinction. The 1973 oil crisis, the collapse of the Bretton Woods system, and the current global problems taking roots from the international trade were the most critical issues that occupied the international political agenda. In the previous century, these developments blurred the distinction between high political and low political issues.<sup>193</sup> Thus, states had to revise their priorities on foreign policy-making. They began to focus on their economic situation and other social issues more than they do before.

However, in terms of the Caspian oil politics; the supremacy of high politics remains valid since the riparian states still pay the most attention on security concerns in foreign policy-making. In Azerbaijan case, the most significant issue in the foreign-policy agenda is the Karabakh conflict. The primary purpose of the country is to retake its territories, which are under the Armenian occupation. In Kazakhstan case, demographic composition and the geographic location of the country exacerbates its security concerns. On the one hand, long borders with Russia and China; on the other hand large ethnic Russian population pose threat against its

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<sup>190</sup> Ibid: 151.

<sup>191</sup> Paul R. Viotti and Mark V. Kauppi, **International Relations Theory: Realism, Pluralism, Globalism**, 2<sup>nd</sup> ed., NY: Macmillan Publishing Co., 1993: 36.

<sup>192</sup> Ibid: 37.

<sup>193</sup> Michael Cox, "International History Since 1989", John Baylis and Steve Smith (eds.), **The Globalization of World Politics: An Introduction to International Relations**, NY: Oxford University Press, 2001: 118.



territorial integrity. Due to these security concerns, these two states still give priority to the high politics and the state concept remains the major actor in foreign-policy making. Therefore, the study briefly examines the state concept in the IR literature to provide useful insight to the supremacy of states in the Caspian oil politics.

### **3.1.1. State Concept in Contemporary International Relations**

The post-Cold War era witnessed radical changes in the international structure. The influence of the non-state actors have risen to such an extent that they began to shape the foreign policy making process of the countries they operate in. The title of state as the only and the most powerful actor of the international politics – as realist-neorealist approaches argued – have been increasingly challenged, but it has preserved its role as the major actor of international politics. In the global system based on neoliberal values, the sole decision-maker status of the state, has also changed, but has not totally disappeared.<sup>194</sup> These developments have led the IR theorists to review the state concept in international politics.

States are regarded as the central actors in international relations since the Peace of Westphalia (1648). Following up on this tradition, realism views the state as the primary actor in international politics. However, its view of state differs from other approaches, such as liberalism. In the liberal view of the state, while it enjoys sovereignty it is not an autonomous actor. Liberals see state as an actor, whose role is to maintain the functioning of the international system. Accordingly, there is no single national interest.<sup>195</sup> National interests of states change according to the relative power positions of both domestic and foreign interests groups. The more powerful group has the ability to alter the policy choices of state in favor of its interests.<sup>196</sup> According to the realist view, however, the state is an autonomous actor, whose preferences are only constrained by the anarchic structure of the international system. It is sovereign and has a national interest that is defined in terms of power.<sup>197</sup>

This study tries to compare these two conceptualizations of the state by using

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<sup>194</sup> Bilgin, Mert, *Avrasya Enerji Savaşları*, 2005: 9.

<sup>195</sup> Mingst, 1999: 109.

<sup>196</sup> Ibid: 110.

<sup>197</sup> Ibid: 111-112.

oil as a primary commodity. Liberals argue that various national interests can affect state actions. There exist different interests groups, such as consumers who demand low prices, industrial groups that depend on oil supply to maintain production and oil producers who prefer high prices. According to liberals, states do not have a definite stance about oil. In fact, there is an absence of a single state policy about energy trade. Therefore, it is difficult to talk about unitary and certain national interests about state's oil politics. In other words, transactions and cooperation among consumers and producer states shape national interests.<sup>198</sup>

Pluralists, contrary to the state-centric approaches, posit that interactions among nations that are out of state control require attention. The agenda of international relations are not limited to the military and security issues. Economic, social and environmental issues have also gained importance in the global era.<sup>199</sup> States now have more limited agenda for foreign policy making independently, since international politics is no more “the sum of foreign policies of all states”.<sup>200</sup> States are no longer the sole decision-makers of the international politics. Non-state actors, such as interest groups, religious groups and multinational oil companies, can influence the global political agenda.

It is possible to briefly explain the mainstream assumptions of pluralists as follows.<sup>201</sup>

1- Non-state actors deserve particular attention while studying international relations. Complex interdependence occurs not only between states; but also between states and non-state actors.

2- States are not unitary actors. Yet, both governments and non-governmental organizations can transcend the state borders. Thus, the structure of state has become polyphonic.

3- Different bodies have differentiating rationalities, thus states cannot have a single rational.

4- International relations that only include military power and security is not an acceptable agenda.

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<sup>198</sup> Ibid: 113.

<sup>199</sup> Knutsen, 1992: 235-236.

<sup>200</sup> Deniz Ü. Arıboğan, **Uluslararası İlişkiler Düşüncesi**, İstanbul: Bahçeşehir Üniversitesi Yayınları, 2007: 253.

<sup>201</sup> Viotti and Kauppi, 1993: 7-9.

Realists have different assumptions over national interests of a state. Contrary to the liberals, they assume that there is a single and a constant national interest that is formulated by the state itself. In Azerbaijan and Kazakhstan, state authorities do not allow domestic groups to shape state policies in strategic sectors, such as oil industry.<sup>202</sup>

As a result, rather than liberalism, realism is the most suitable approach explain the state concept in Azerbaijan and Kazakhstan, since interests groups cannot get into act in strategically significant foreign policy issues. Realism, especially structural realism, can provide useful insight on global powers' effects on Azerbaijan and Kazakhstan. However, structural realism cannot explain non-state actors, such as oil MNCs, since it claims that the state is the single and the main actor in international politics.

### **3.1.2. Critiques of Applying (Neo)realist Theories on Caspian Oil Politics**

Kenneth Waltz's neorealism or 'structural realism' is a critique of traditional realism and emerged in the 1970s, as a response to the criticisms and challenges posed by the theories on interdependence. It tries to remedy realism's neglect of economic forces. The research question that Waltz poses is: "Why do states exhibit similar foreign policy behaviour despite their different political systems and contrasting ideologies?"<sup>203</sup> The answer, according to Waltz, lies in the systemic constraints on states rather than their domestic structures. These systemic forces homogenize foreign policy agendas.<sup>204</sup>

According to Waltz, understanding the structure of the international system helps to understand the behavior pattern of states. The structure, since it determines the system-level outcomes, affects state policies by limiting some choices and promoting others.<sup>205</sup> Waltz criticized the reductionism of classical realists, who reduced foreign policy solely on human nature and state capacity. Their basic fault, according to Waltz, was the lack of separation between foreign policy and the

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<sup>202</sup> Mingst, 1999: 114.

<sup>203</sup> Burchill, Scott, 1996: 83.

<sup>204</sup> Ibid: 84-85.

<sup>205</sup> Kenneth Waltz, **Theory of International Politics**, Reading, Addison-Wesley, 1979: 93, 104, 111.

international system that is composed of nation states. Realists regard international politics as an interaction process among states, while neorealists consider system-level structural causes and unit level causes separately. Thus, structure holds a particular position in neorealism.<sup>206</sup>

Neorealism assumes that the international system is anarchic, in which there is no central political authority. Similar to classical realists, it states that the global system is dominated by great powers, who possess considerable military and economic capabilities. Thus, the distribution of material power among the actors defines the system. According to Waltz, the security of states depends on providing the balance of power in the system.<sup>207</sup> The stability of the system is ensured by balancing and counter balancing that occur regularly. In this regard, the oil production and pipeline projects can be considered as a matter of two major powers, the US and Russia. These two states have tried to balance and counterbalance each other in the Caspian region through these multinational projects, where a power vacuum occurred after the collapse of the Soviet Union.<sup>208</sup> Within such a context, Azerbaijan and Kazakhstan become subordinated to the outcomes of the struggle between two major powers. Thus, the system level is suitable to study the competition between Russia and the US to control transport routes and production projects.<sup>209</sup>

Both realism and neorealism define the state as a unitary actor regarding rational behaviour. The current IR literature shows that in terms of the Caspian oil politics, this assumption has still validity. For instance, the biggest actors of the oil sector in Kazakhstan and Azerbaijan are state-owned energy companies, such as State Oil Company of Azerbaijan (SOCAR) and KazMunaiGaz of Kazakhstan.<sup>210</sup> In the oil sector states remain as the main actors. There is no place for private

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<sup>206</sup> Tayyar Arı, *Uluslararası İlişkiler Teorileri – Çatışma, Hegemonya, İşbirliği*, İstanbul: ALFA, 2004: 192-194.

<sup>207</sup> Waltz, 1979: 132.

<sup>208</sup> Rosenkvist, 2005: 17.

<sup>209</sup> Ibid: 17-18.

<sup>210</sup> Anja Franke, Andrea Gawrich and Gurban Alakbarov, "Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double Curse in Post-Soviet Regimes", *Europe-Asia Studies*, 61.1, 2009: 110.

entrepreneurship in Azerbaijan and Kazakhstan, especially in what is regarded as strategic sectors, namely oil and gas.<sup>211</sup>

According to the realists, one would expect oil and gas resources to have become significant policy tools for Azerbaijan and Kazakhstan. They claim that there are several sources of state power. A state's capabilities depend on its natural sources of power. There are three significant natural sources of state power: geographic size and position, natural sources and population.<sup>212</sup> However, these newly independent actors have faced several limitations to use these policy tools effectively. Put differently, they have not been able to utilize their hydrocarbon resources to implement their foreign policy objectives. This is because Azerbaijan and Kazakhstan have faced several security concerns, which enabled global powers to abuse these vulnerabilities of Baku and Astana in favor of their interests in energy projects.

Azerbaijan and Kazakhstan have paid more attention to security issues than other issues in their foreign policy agendas. In a realist manner, they have distinguished between 'high-politics' and 'low-politics'. For instance, the acute issues on Kazakhstan foreign policy agenda are listed as: counteracting global threats and challenges, the legal status of the Caspian Sea, delimitation and demarcation of state border, and Kazakhstan's stand on global and regional issues.<sup>213</sup>

Similarly, the conceptual basis of the Azeri foreign policy has been to preserve and strengthen the national independence and territorial integrity, to develop equal mutually beneficiary relations, and to establish friendly links with all countries of the world.<sup>214</sup> Azerbaijan's primary foreign policy goals include: keeping close relations with Caspian neighbors including CIS countries, bordering states, traditional European energy trade partners as well as leading world states, members of Security Council, countries of Islamic and Turkic world.<sup>215</sup> The major purpose of

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<sup>211</sup> Ibid: 111.

<sup>212</sup> Karen Mingst, *Essentials of International Relations*, NY: Norton, 1999: 115.

<sup>213</sup> The official website of the Ministry of Foreign Affairs of the Republic of Kazakhstan, <<http://portal.mfa.kz/portal/page/portal/mfa/en/content/news/nws2010>> (20 February 2010).

<sup>214</sup> Kjarnet, Heidi, 2009: 4.

<sup>215</sup> H. E. Elmar Mamedyarov, and Martha Brill Olcott, "Azerbaijan's Foreign Policy Agenda", *Carnegie Endowment for International Peace*, 4 August 2005, <<http://www.carnegieendowment.org/events/?fa=eventDetail&id=805>> (4 January 2010).

that country is to resolve the Nagorno-Karabakh conflict.<sup>216</sup> While signing the agreement for the "Partnership for Peace" program of NATO in Brussels, Heydar Aliyev explained the concept of Azerbaijan diplomacy as

“Having taken the decision to sign the treaty we hope not only to acquire peace and stability in this region but also to bring our people in contact with values of western democracy, to create new conditions for active collaboration with all countries of world countries”.<sup>217</sup>

When Russia’s hegemonic position in the region is regarded, relations between Russia and ex-Soviet republics should offer a suitable case for neorealism due to the considerable difference in their relative power. On the one hand, the Russian support for secessionist movements within Georgia, and its intention to regain its dominance over the transport infrastructure and the use of gas-cut as leverage against Ukraine have damaged the Caspian states’ trust of Russia.<sup>218</sup> On the other hand, the Karabakh conflict has further enabled Russian military presence in the Caspian region. Its military alliance with Armenia guarantees a balance of power between Baku and Yerevan.<sup>219</sup>

According to another view, however, the imbalance of power among states cannot provide an understanding of the existing regional dynamics. In the Caspian basin, it argues, power imbalances do not automatically generate conflicts. Neorealism assumes that an asymmetric balance of power is a systemic precondition for conflict, but domestic variables are also important in explaining why conflict occurs.<sup>220</sup>

According to Westphal,

“The more energy producing or consuming countries follow such a geopolitical path pursuing a neorealist, state security centered approach, the more difficult it is to set up institutions for multilateral co-operation grounded on legal institutions and market mechanisms. This is significant

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<sup>216</sup> **Azerbaijan in the International Arena**, Administrative Department of the President of the Republic of Azerbaijan, Presidential Library.  
<<http://www.elibrary.az/docs/azerbaijan/eng/gl8.pdf>> (15 January 2010).

<sup>217</sup> Ibid.

<sup>218</sup> Kabus Abushov, “Policing the Near Abroad: Russian Foreign Policy in the Near Abroad”, **Australian Journal of International Affairs**, 63.2, 2009: 187.

<sup>219</sup> Ibid: 210.

<sup>220</sup> Rajan Menon and Hendrik Spruyt, “The Limits of Neorealism: Understanding Security in Central Asia”, **Review of International Studies**, 25, 1999: 87.

due to the fact that international energy politics depends a lot on the roles played by states, as they are the ones keeping issues of sovereignty, political authority and territorially defined power on the agenda. For them energy resources are a power resource both on the national and international level”.<sup>221</sup>

As a result, the study uses realist and neorealist approaches to explain foreign policy behavior of the countries. It applies these approaches on particular cases. In Azerbaijan case, the study applies them on the Nagorno-Karabakh issue to explain the prevailing effect of security and territorial sovereignty on the foreign policy of an oil-producing country. Despite its policy of using natural resources as a foreign policy tool, these issues prevail energy politics. In Kazakhstan case, these approaches are used to explain the geography and demography factors in Kazakh politics. Astana have not been able to use its resources due to some geographical and demographical reasons.

### 3.2. GEOPOLITICAL THEORIES

The term “geopolitics”, is briefly defined as the political interpretation of geography. Although the political interpretation of geography and its application under an academic discipline owes to the studies of Halford J. Mackinder, definition of such an academic branch as “geopolitics” first took place in an article Rudolf Kjellen about the borders of Sweden.<sup>222</sup> Having several definitions, today, geopolitics describes lands and ability to affect people living on these lands and everything about struggle for power over these lands. Struggle for political power, not only among states, but also between political movements and paramilitary groups, and conflicts over territories and natural resources constitute the subjects of geopolitics.<sup>223</sup>

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<sup>221</sup> Kirsten Westphal, “Germany and the EU-Russian Energy Dialogue”, Pami Aolto (ed.), **The EU–Russian Energy Dialogue: Europe’s Future Energy Security**, Aldershot and Burlington: Ashgate, 2008: 112.

<sup>222</sup> Yüce, 2006: 29.

<sup>223</sup> Yves Lacoste, **Büyük Oyunu Anlamak**, İstanbul: NTV Yayınları, 2008: 8.

Classical geopolitical theories in IR study world orders. Geopolitical studies of the world order explore the potential capabilities of states and non-state actors in various geographies and explain the redistribution of capabilities through conquest and through cross-border market forces. Spykman, Mahan and Mackinder, the classical geopolitical theorists, constructed a geopolitical theory of change in world orders. Mackinder argues that in the future the spread of industrialization into Eurasia would cause a transport revolution. He, therefore, recommends great powers to focus their power on Eurasia. Mahan on the other hand, emphasizes the influence of sea power on recent world orders.<sup>224</sup>

After the disintegration of the Soviet Union, the attention of the Russian and the American decision makers towards the region called “Eurasia” has increased and geopolitical theories have become popular again. These studies have underlined the influential role of environmental factors on political behavior.<sup>225</sup> They emphasize that different geographies and climates affect policy choices of states. Variables, such as natural resources and territory, can affect states’ political structures, as well as their efficiency in domestic and foreign policies.<sup>226</sup>

Realism has had a significant impact on the development of the geopolitical approach. Both theories put special emphasis on territory and geography, which constitute the main pillars of state power.<sup>227</sup> For classical realists, national power is the principal element in international politics. It makes up the basis of the international politics both as a means and as an end. Therefore, there are several analogies between realists and geopolitical theorists.<sup>228</sup> These are not limited to the emphasis on power and national power concepts. They are similar in determining the elements of national power. Like Morgenthau, Mahan refers to a similar list of elements of national power, which are geographical position, topographical features, and size of territory, population, military power, national characteristics and the

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<sup>224</sup> Mehdi P. Amineh and Henk Houweling, “Introduction: The Crisis in IR-Theory: Towards a Critical Geopolitics Approach”, Amineh and Houweling (eds.), **Central Eurasia in Global Politics**, Leiden-Boston: Brill, 2005: 12-13.

<sup>225</sup> See James N. Rosenau, **Analysis of International Politics**, Simon & Schuster, 1972.

<sup>226</sup> Ari, 2004: 214-215.

<sup>227</sup> Virginie Mamadouh and Gertjan Dijkink, “Geopolitics, International Relations and Political Geography: The Politics of Geopolitical Discourse”, **Geopolitics**, 11.3, 2006: 349-350.

<sup>228</sup> Ari: 2004: 215-216.



regime type of a country.<sup>229</sup> Above all, however, both theories regard power as the basic concept. Since both approaches accept that geography is one of the most influential factors in foreign policy-making, realism in this sense dominates geopolitical theories.<sup>230</sup> Studying Azerbaijan and Kazakhstan foreign policies through realism and geopolitics is likely to offer useful insight to the argument of the study. Therefore, the following section of the study examines how geopolitics can explain foreign policy decisions of Azerbaijan and Kazakhstan.

### **3.2.1. The Caspian Geopolitics**

The geopolitical approach has at least four strong assumptions about the Caspian region. First, it is the gateway to Central Asia. Second, from the viewpoint of Central Asia, the region is a gateway to the Western markets. Third, together with Central Asia, it has significant hydrocarbon deposits. Finally, for Russia, the region is a connecting line to the Mediterranean and the Persian Gulf.<sup>231</sup>

Geography has been an effective variable in energy affairs of Azerbaijan and Kazakhstan. Since hydrocarbons are delivered through multiple pipelines, geography has been the principal factor that shapes these transportation routes. Both countries lack access to the open seas. This is also another geographical factor that affects the foreign policy options of these two states. In addition, geopolitics of the region has not been stable for centuries. Ethnic tensions, civil wars, terrorism pose serious threat against secure energy delivery through pipelines. This increases the cost of foreign investment and transportation. The recent civil war in Egypt has shown that an unrest in an energy rich region or a transit country immediately decrease the ability of these key countries to use energy card efficiently.<sup>232</sup> Egypt recently controls the two per cent of the flow of total world oil through the Suez Canal, and world oil prices increased to a considerable level following the civil unrest in the country.

Nevertheless, taking solely the theories that focus on the relationship between geography, international politics and foreign policy can prove misleading. For

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<sup>229</sup> Ibid: 216-217.

<sup>230</sup> Ibid: 218-219.

<sup>231</sup> Yüce, 2006: 41.

<sup>232</sup> “Mısır Süveyş Kanalında Endişe Yarattı. Petrol 101 Doları Gördü”, **Hürriyet**, 2 February 2011.

instance, some scholars consider geography and environmental factors as one of the inputs in foreign-policy making, while others establish a causal relationship between geography and foreign policy. Those in the second group, in a reductionist and deterministic approach, argue that geopolitics alone itself shapes the foreign policy. In this respect, lies another strong similarity between classical realism and geopolitical determinism. Similar to geopolitics, the reductionist approach of realism often degrades international politics to power rivalry and establishes a causal link between power and foreign policy.<sup>233</sup> They cannot provide a full understanding of the role of energy in Azerbaijan and Kazakhstan foreign policy considerations, but they can be component of an eclectic approach, which explains foreign policy-making of these states. This makes two theories relevant to the argument of the study.

Despite the strengths of Geopolitical studies, they alone are insufficient to observe the transformation of the relationship among these states and also between them and the Russian Federation. Their dependence on Moscow has decreased since the collapse of the Soviet Union. Russia is no more the sole major power in the region. The Caspian states no longer depend solely on Russia for foreign investment or capital. Nevertheless, Russia has become dependent on these states to supply the increasing energy demand of the EU, as it is unable to supply the energy need of the EU on its own. As a result, geopolitical studies fall short of providing a full understanding of Caspian oil politics.

### **3.3. TRANSNATIONALISM AND INTERDEPENDENCY THEORIES**

This part of the study examines how transnationalism and interdependency theories can explain oil politics in the Caspian region through their emphasis on the increasing role of non-state actors in the region. Transnationalism and complex interdependence theories led by Keohane and Nye have challenged the traditional state-centric approaches. State-centric approaches, such as the system theory and realism, regard states as the major and the only actor of international relations. However, these theories take non-state actors, which have challenged the

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<sup>233</sup> Ari, 2004: 220.

monopolistic role of the state in world politics, into consideration.<sup>234</sup>

While realism identifies power through capacity, Keohane and Nye's interdependence theory assume that power does not depend only on capacity. Dependence refers to a unilateral interaction in which a state's foreign policy is shaped by another state; while interdependence means mutual interaction between different states.<sup>235</sup> Keohane and Nye define main the assumptions of interdependence with three points: multiplicity of communication channels; absence of hierarchy in the agenda of international politics; and decrease in the significance of military power.<sup>236</sup> Interdependence is usually used for the pairs of states that have similar economic size, level of economic development and modernization. Interdependence occurs when a considerable amount of trade passes between countries and where the importance of this trade prevails political concerns for both partners. Cooperation between partners is essential for interdependence.

In terms of oil politics, a state with more resources than another is not always able to exert pressure on the other due to its huge resources because of interdependence. Thus, Keohane and Nye, define complex interdependence as a source of power.<sup>237</sup> However, defining power only in terms of capacity becomes problematic when the capacity of a state changes. For example, the replacement of oil with gas or uranium as a source of energy decreases the capacity of those states with considerable reserves of oil. Others with gas and uranium reserves become more capable than those producing oil.<sup>238</sup>

Regarding Caspian oil politics, this argument seems to hold. Azerbaijan and Kazakhstan depend on Russia and other transit countries for oil and gas transport. They need to cooperate with these transit countries in order to export their hydrocarbon reserves. They also depend on oil MNCs for foreign investment to increase production levels. As stated in the previous chapter, oil and gas production in Azerbaijan and Kazakhstan have still been done by old-fashioned methods. To increase production levels, these countries need to replace their old production

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<sup>234</sup> Arı, 2004: 405.

<sup>235</sup> Ibid: 422.

<sup>236</sup> Keohane and Nye, 1977: 24-29.

<sup>237</sup> Robert O. Keohane and Joseph S. Nye, **Power and Interdependence: World Politics in Transition**, Boston: Little Brown Company, 1977: 11-13, Tayyar Arı, **Uluslararası İlişkiler Teorileri – Çatışma, Hegemonya, İşbirliği**, İstanbul: ALFA, 2004: 175.

<sup>238</sup> Arı, 2004: 176.

methods by modern techniques. Thus, foreign investment has been a vital issue for the development of Azeri and Kazakh energy sectors.

In an economic interdependent relationship, the bargaining capabilities of one side on the another depends on the latter's *sensitivity* and *vulnerability*.<sup>239</sup> According to some scholars, in the IR literature, economic interdependence has two meanings.<sup>240</sup> First, states are interdependent when economic situation in one becomes dependent on other's economic situation. Second, they become interdependent if it is too costly for them to suspend their relations. The relationship between OPEC and major industrial powers, which heavily depend on oil, can be a case for this condition. The first one refers to sensitivity interdependence and the second is vulnerability interdependence. Mansfield and Pollins argue that "the key difference between sensitivity and vulnerability interdependence hinges on the costs that countries would bear should relations between them be disrupted".<sup>241</sup>

For instance, sensitivity levels of oil consumers such as the US, the European countries and Japan to the Gulf oil are the same; but their vulnerabilities are different. Although these states are sensitive to the policies of Gulf States, their policies affect them separately. Thus, bargaining power of the Middle Eastern states differ for each of these consumers, since European states supply 60%, Japan 75% and US 25% of its energy demand from the region.<sup>242</sup> From this perspective, dependency of the Caspian region on the US and Russia is greater than others, since the region is still in the nation-building process and faces security threats.

Along with the interactions between governments, transnational interaction process includes non-governmental interactions. Both governmental and non-governmental interactions are transnational relations, since the interaction transcends

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<sup>239</sup> According to Mary Ann Tetreault, Robert O. Keohane and Joseph S. Nye describe interdependence in two ways. "Sensitivity" refers to the mutual responsiveness of one nation to events occurring in another. "Vulnerability" refers to the measure of a government's inability to insulate itself from effects of the transmission of events originating elsewhere". Mary Ann Tetreault, "Measuring Interdependence", **International Organization**, 34.3, 1980: 430.

<sup>240</sup> Edward D. Mansfield and Brian M. Pollins, "Interdependence and Conflict: An Introduction", Edward D. Mansfield and Brian M. Pollins (eds.), **Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate**, Michigan: The University of Michigan Press, 2006: 11.

<sup>241</sup> Ibid: 12.

<sup>242</sup> Steve Chan, **International Relations in Perspective**, NY: Macmillan Publishing Co., 1984: 235. Tayyar Arı, **Uluslararası İlişkiler Teorileri – Çatışma, Hegemonya, İşbirliği**, İstanbul: ALFA, 2004: 424.

national borders.<sup>243</sup> In this regard, oil politics is usually a transnational interaction process as one of the actors is usually multinational oil companies operating across borders.

Thus, Nye and Keohane's approach has useful assumptions to understand the dynamics of the Caspian oil politics. The biggest MNCs in the world are usually energy firms that produce and transport oil and natural gas. Gross revenues of these biggest MNCs can exceed many states' gross national product (GDP). On the one hand, partners of the Caspian states in energy production and pipeline projects are usually the Western oil MNCs, which seek interests of their home governments. On the other hand, powerful national oil and gas companies have become the strongest institutions in the administration of Azerbaijan and Kazakhstan. For instance, in Azerbaijan, SOCAR is the second largest industrial enterprise of the country. In the last few years SOCAR have tried to transnationalize its activities and transcend the borders of Azerbaijan. According to these theories, as a non-state actor, the interests of SOCAR represent national interests of Azerbaijan. It is employed as a foreign policy tool to pursue that country's goals.<sup>244</sup> These theories emphasize the roles of these companies in foreign policy considerations of Azerbaijan and Kazakhstan. They help to better explain the interactions between state and non-state actors in the Caspian oil politics.

### 3.4. SOCIAL CONSTRUCTIVISM

Since the end of the Cold War, an increasing number of scholars have criticized traditional IR theories for their weakness to explain the change in world politics. Instead, critics advise looking at for approaches that take into consideration dynamism and change.<sup>245</sup> One of these approaches is social constructivism.

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<sup>243</sup> Nye, Jr. J. and Robert O. Keohane, "Transnational Relations and World Politics: An Introduction", Joseph S. Nye, and R. O. Keohane, (eds.), **Transnational Relations and World Politics**, Cambridge, Massachusetts: Harvard University Press, 1972, Tayyar Arı, **Uluslararası İlişkiler Teorileri – Çatışma, Hegemonya, İşbirliği**, İstanbul: ALFA, 2004: 408-409.

<sup>244</sup> Samuel Lussac, "The Role of SOCAR in Azerbaijan's Foreign Policy: A Company Dedicated to its Country?", Research Proposal Garnet Mobility Program 2009-2010: 1-2. Samuel Lussac, "The State as a (Oil) Company? The Political Economy of Azerbaijan", **GARNET Working Paper**, 74.10, February 2010: 2-3.

<sup>245</sup> Matthew J. Hoffman, "Constructing a Complex World: The Frontiers of International Relations Theory and Foreign Policy Making", **Asian Journal of Political Science**, 11:2, 2003: 37-39.

According to Shimko, social constructivism is a perspective that underlines the role of identities and shared understandings in shaping the social actors' behavior.<sup>246</sup> Generally put, it provides a framework for studying world politics that enables to understand change, since it has become a vital concept in contemporary international relations.

According to Hoffman, if change is defined as “alterations in the state of affairs, the world is always changing”.<sup>247</sup> Every theory can explain change to a certain extent. However, the ability of a theory to explain change depends on what a theory holds as constant. Taken as such, social constructivism is likely to be a complementary approach that holds change as a major variable for studying world politics.<sup>248</sup> Constructivists believe that interstate relations are shaped, by and large, by subjective factors, beliefs and ideas. The most important of these are grouped into three categories: identities, strategic cultures and norms. These are mostly affected by a nation's shared historical experiences. Then they are transmitted to later generations through education and social ties. However, they are not permanent, and can change over time and changing contexts.

Thus, constructivists tend to be optimists since they believe in change. They argue that beliefs shape the relations between nations, rather than objective material factors; so there is always an opportunity that “people can change the world by changing how they think”.<sup>249</sup>

Kegley and Wittkopf argue that

“A liberal-realist theoretical approach advocated by Alexander Wendt that sees self-interested states as the key actors in world politics; their actions are determined not by anarchy but the ways states socially “construct” and then respond to the meanings they give to power politics, so that as their definitions change, cooperative practices can evolve.”<sup>250</sup>

Constructivism tries to offer alternative understandings of a number of central

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<sup>246</sup> Keith L. Shimko, **International Relations: Perspectives and Controversies**, Boston: Houghton Mifflin, 2005: 63.

<sup>247</sup> Ibid: 42.

<sup>248</sup> Ibid: 43.

<sup>249</sup> Friedberg, 2005: 35.

<sup>250</sup> Charles W. Jr Kegley, and Eugene R. Wittkopf, **World Politics: Trend and Transformations**, NY: St. Martin's, 2004: 52.

themes in international relations theory; including the meaning of anarchy, the relationship between state identity and interest, power, and foreign policy making.<sup>251</sup> The following section first gives the main assumptions of constructivism briefly and then explains the Caspian oil politics through its alternative views on three concepts: national interests, national identity and foreign policy.

### 3.4.1. Main Assumptions of Constructivism

Challenging the mainstream approaches of IR, constructivism rejects their assumptions on “the nature of the international system, actors and the social and political interaction”.<sup>252</sup> The approach considers ideas, identities and norms as efficient variables, which the classical approaches generally ignore.<sup>253</sup> Instead, constructivists focus on ideas, norms, knowledge and culture in politics and emphasize the role of collectively held – intersubjective ideas. There are three main assumptions that make up the core of constructivism. First, not only material factors but also ideational factors shape human interaction. Second, intersubjective beliefs are the most significant ideational factors and are not reducible to individuals. Finally, interests and identities of actors are constructed by these shared beliefs.<sup>254</sup>

Constructivists examine the realist logic of anarchy and neorealist view of international organizations. According to Wendt, self-help and power politics do not emerge from anarchy. This is due to “process”, not “structure”. There is no logic of anarchy apart from the practices, which create the structure of identities. Structure has no existence apart from the process. Self-help and power politics are therefore institutions, not essential features of anarchy. Wendt therefore argues that “anarchy is what states make of it.”<sup>255</sup>

Constructivists claim that, since actors are dynamic, state identity and

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<sup>251</sup> Alice BA and Matthew J. Hoffman, “Making and Remaking the World for IR 101: A Resource for Teaching Social Constructivism in Introductory Classes”. **International Studies Perspectives**, 4, 2003: 15.

<sup>252</sup> Ibid: 15-16.

<sup>253</sup> Ibid: 16.

<sup>254</sup> Martha Finnemore and Kathryn Sikkink, “Taking Stock: The Constructivist Research Program in International Relations and Comparative Politics”, **Annual Review of Political Science**, 4, 2001: 391.

<sup>255</sup> Alexander Wendt, “Anarchy is What States Make of it: The Social Construction of International Relations”, **International Organization**, 46:2, 1992: 394-395.

interests change over time and according to context.<sup>256</sup> This assumption of the constructivist approach strongly contrasts with the mainstream IR approaches, which take state interests and identity are taken as accordingly to social constructivism, fixed.<sup>257</sup> Second alternative explanation of constructivism is about context. On the one hand, similar to the traditional approaches in IR, constructivism holds the view that the international context is anarchic. On the other hand, they give the term 'anarchy' a different meaning. In an anarchical context, there is no superior authority that makes and enforces rules. According to constructivists, the international context has also no "inherent logic of suspicion and competition".<sup>258</sup> The third point concerns actions and interactions of actors. Different from the mainstream approaches, constructivism argues that there is a constant dynamism and change in the nature of actors and international context. This constant dynamism and change draws a cycle that build up the core of the constructivism. In this cycle, actors shape their own social and political contexts and these contexts in turn shape their preferences.<sup>259</sup>

### **3.4.2. Social Constructivism, National Interest, National Identity, Foreign Policy and the Caspian Oil Politics**

#### **3.4.2.1. National Interest and National Identity**

Social constructivism provides a useful perspective for the analysis of regionalist aspirations of the Caspian states. According to Molchanov, these regional affiliations shape the foreign policies of the states.<sup>260</sup> They also affect their identities to a certain extent. Molchanov claims that "identity construction in the region has emphasized the irreconcilably dualistic nature of such categories as 'European' versus 'Eurasian' thus driving European countries of the former Soviet Union to break their ties to Russia."<sup>261</sup> Along with its efforts to integrate with the EU, Ukraine has initiated an openly anti-Russian GUAM (Georgia, Ukraine, Azerbaijan and

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<sup>256</sup> BA and Hoffman, 2003: 20.

<sup>257</sup> Ibid: 20-21.

<sup>258</sup> Ibid: 21.

<sup>259</sup> Ibid: 21-22.

<sup>260</sup> Mikhail A. Molchanov, "Regionalist Promises in State Social Identity Construction: The Rhetoric of a Single Economic Space", Prepared for 6th Pan-European International Relations Conference, Torino, Italy, September 2007: 1.

<sup>261</sup> Ibid: 1-2.



Moldova) alliance. As a response, the ‘Eurasian’ Russia, acting together with Kazakhstan, has accelerated the institutionalization of a Single Economic Space (SES). Such an institution intends to serve as an ‘anchor of identity’ for its members and a platform for pragmatic foreign policy, economic relations and institution building.<sup>262</sup> Molchanov posits that these efforts deserve a constructivist reading because of the attempts to build, modify, or rebuild an objectively understood international structure. Put differently, decision-makers in Azerbaijan and Kazakhstan create intersubjective meanings (culture, norms, and common understandings) through interaction in a community; thus they socially construct regional integration.<sup>263</sup> Azerbaijan and Kazakhstan are obliged to establish political and economic relations with other states, and form regional and international alliances. However, on the one hand Russia has been the major energy supplier, military superpower and biggest economy of the region. On the other hand, collaborating with NATO and the EU offers stability, security and identification with the Western community. States face with rewards or penalties as a result of choosing one of these identities.<sup>264</sup>

As a result, social constructivism posits that Azerbaijan and Kazakhstan has faced several limitations in their foreign policy decisions, despite their considerable reserves. Preferring one of these identities at the expense of other in foreign policy-making causes considerable pressure of the other side in order to preserve their interests in the region. For instance, Russia increased its support for Armenian forces in Karabakh, when Azerbaijan provided investor-friendly environment for the American oil companies. Kazakhstan also faced similar responses when the country deepened its cooperation with its eastern neighbour, China in the energy sector.

Along with the national identity, national interest has also long been central to the theories of international politics due to its role in explaining state actions. Some constructivists argue that this concept should be reconceptualized through the lens of constructivism.<sup>265</sup> Before state officials act for the state, they engage in a process of interpretation in order to comprehend the situation and respond accordingly. This

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<sup>262</sup> Ibid: 2.

<sup>263</sup> Ibid: 4-5.

<sup>264</sup> Ibid: 5-9.

<sup>265</sup> Jutta Weldes, “Constructing National Interests”, *European Journal of International Relations*, 2.3, 1996: 275.

process of interpretation in turn creates a shared language among decision-makers, and it becomes a national interest. Meanwhile, the content of national interest, Weldes argues, is produced. In other words, it is 'socially' constructed.<sup>266</sup>

Regarding Azerbaijan and Kazakhstan, how are their national interests socially constructed? First, in these states, the state officials create representations, including the self and others. "Others" here include other states, neighbours, and non-state actors, including oil MNCs or social movements. Thus they give an identity to each object, such as aggressive, hostile, friend, peaceful or foe.<sup>267</sup> Second, these representation or identities define their national interests. In short, these representations, which are socially constructed by the state officials, clarify who they are, who their enemies are, how they threaten them and how they can best deal with them.<sup>268</sup>

Azerbaijan and Kazakhstan also identify the American and the European oil firms either as friend, or foe, and shape their foreign policies accordingly. Russia is another significant actor, whose identity is socially constructed by politicians. Then these constructed identities altogether shape the national interests of Azerbaijan and Kazakhstan. For instance, when we consider the different leaderships in Azerbaijan and Kazakhstan, the first can ignore Russia in its foreign policy orientations and interstate relations with other state more easily; while the second cannot ignore Russia, a state which it perceives as a threat to its integrity. Different perceptions of Russia of the two leaders differentiate the foreign policy constructions of these states.

Since the collapse of the Soviet Union, the US has been identified as the "other" in the ex-Soviet republics.<sup>269</sup> During the Cold War, "America" was the "other", which was constructed by Moscow due to oil interests of the American firms and also ideological opposition between two countries. Since their independence, Azerbaijan and Kazakhstan have begun to shape their own image of the US. They have seen it as a new "big brother", who can offer security guarantees and economic

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<sup>266</sup> Ibid: 276.

<sup>267</sup> Ibid: 282.

<sup>268</sup> Ibid: 283.

<sup>269</sup> John Vanderlippe & Pinar Batur-Vanderlippe, "Construction of Identity In The Post-Soviet Caucasus And Central Asia: "Self" And "Other" And "America", **The National Council for Soviet and East European Research**, 1995: 1-2.

aid.<sup>270</sup> For instance, Azerbaijan has regarded the US as an actor, who can guarantee its independence against Russia and in this aspect the interests of the American oil firms in Azeri oil has been the key motive for American presence in the country.

### 3.4.2.2. Foreign Policy

This part of the study focuses on the assumptions of social constructivism on foreign policy-making. As regards Azerbaijan and Kazakhstan, constructivists generally emphasize the possibility that increasing participation of these states in international institutions, organizations and cooperation will probably cause some shifts in their strategic cultures, in the international norms of international behavior and foreign policy-making of their leaders, as well as their conceptions of national identity.<sup>271</sup> Constructivists believe that repeated interactions can alter the beliefs and interests of actors. For instance, it was these types of interactions between the Soviet and Western scientists and arms control experts that altered the Soviet foreign policy-making in the 1980s.<sup>272</sup> The strategic culture Azerbaijan and Kazakhstan has also shifted, since their leaders have embraced the liberal economic norms.

Regarding the problem of the legal status of the Caspian Sea Azerbaijani President Aliyev pointed out that the five leaders should “consolidate understanding for providing peace and security in the Caspian.”<sup>273</sup> While emphasizing the growing importance of the Caspian Sea, Kazakh President Nazarbayev underlined the need for revising the current situation and said that “these agreements should go down to history”.<sup>274</sup> The development of relations between the riparian states of the Caspian has enabled a peaceful inter-subjective context and a common understanding, which are favorable for a more stable region. Since their independence, Azerbaijan and

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<sup>270</sup> Ibid: 3-4.

<sup>271</sup> See Friedberg's study in which the author applied these assumptions to the of US-China relations.

<sup>272</sup> For the details of the Soviet foreign policy, see Roberts, Geoffrey, **The Soviet Union in World Politics: Coexistence, Revolution and Cold War: 1945-1991**, NY: Routledge, 2005: 63-80. Olga Oliker, Keith Crane, Lowell H. Schwartz, Catherine Yusupov (eds.), **Russian Foreign Policy: Sources and Implications**, CA: Rand, 2009.

<sup>273</sup> Jahangir Karami, “Peace and Cooperation in Central Eurasia: An Iranian Outlook”, **Russia in Global Affairs**, 6, April-June, 2009. < [http://eng.globalaffairs.ru/number/n\\_13032](http://eng.globalaffairs.ru/number/n_13032)> (13 September 2009).

<sup>274</sup> Ibid.

Kazakhstan have learned to understand each other's policies. This new environment has provided a new context, in which they can redefine their identities and national interests.<sup>275</sup>

According to Jahangir Karami, the deepening relations between the Caspian states has shown that states, who have different identities can encounter other states in a new context and they can develop a new common understanding through interaction.<sup>276</sup> Azerbaijan and Kazakhstan have developed new identities since their independence. This new environment has paved the way for infrastructure for establishing economic, political and social cooperation initiatives, which can foster behavioral norms, rules and regimes. However, still there is an absence of efficient regional cooperation initiatives. These arrangements should be established in the Caspian region. Karami argues that,

“The experience of Europe, East Asia and North America in establishing such arrangements and forming behavioral, economic, and political and security norms and rules indicates that the newly-formed structures represent common interests in a way that all the countries have to behave within the framework of agreed regimes. Such regimes prevent the aggravation of problems to a critical level and help resolve them to the benefit of the engaged parties, minimizing the possibility of interference by an external power. In the absence of such regional organizations smaller countries tend to invite greater powers in order to challenge regional powers. The latest research on regional institutions and regional regimes shows that these mechanisms are critical for providing a favorable environment in which the countries may develop a common understanding of each other's policies.”<sup>277</sup>

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<sup>275</sup> Ibid.

<sup>276</sup> Ibid.

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## **CHAPTER FOUR**

### **EXPLAINING THE FOREIGN POLICIES OF AZERBAIJAN AND KAZAKHSTAN WITH IR THEORIES**

This chapter applies some of the outstanding theories of International Relations to the Caspian region. As aforementioned, the Caspian region in general, and Azerbaijan and Kazakhstan in particular, do not suit the confines of a single approach or a theoretical model. This part therefore overviews these two countries through the lens of a blend of theoretical models that can help to provide a comprehensive understanding of the role of hydrocarbons in the foreign policies of Baku and Astana.<sup>278</sup>

The chapter first deals with the foreign policy of Azerbaijan regarding energy politics at three levels of analysis and a particular issue, the occupation of Nagorno-Karabakh. Then, it considers the foreign policy of Kazakhstan regarding energy politics at three levels of analysis, the state, individual and the system levels. Finally, it focuses on key constraints to use energy reserves as an efficient foreign policy tool with a particular emphasis on two tasks: the legal status of the Caspian Sea; and transportation of the Caspian oil and gas and geographical factors. As a result the chapter offers that, when considered through a theoretical perspective, Azerbaijan and Kazakhstan, due to these particular issues, face some limitations while using their hydrocarbons as foreign policy leverage.

#### **4.1. THE FOREIGN POLICY OF AZERBAIJAN REGARDING ENERGY POLITICS**

As a response to the global and regional dynamics and the developments mentioned earlier in previous chapter, Azerbaijan has some indispensable issues for

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<sup>278</sup> Ibid: 5.

its foreign policy agenda.<sup>279</sup> The most prominent of these issues has been to maintain its political and economic independence, elimination of threats and risks to the security, sovereignty and territorial integrity of Azerbaijan. It tries to pursue an independent foreign policy that aims at restoration of sovereignty and territorial integrity of Azerbaijan over its territory. It also aims at a peaceful settlement of the conflict with Armenia over Nagorno-Karabakh region of Azerbaijan.

This indicates that, in a realist manner, Baku gives top priority to its security, territorial integrity and independence. Second it intends to lessen its dependence on Moscow. In order to implement the other foreign policy goals, Azerbaijan needs a strong economy. For this purpose, it has sought to establish good economic and diplomatic relations with the US and the EU and has signed a number of Production Sharing Agreements (PSAs) to improve its economic and political gains. It also intends to develop good-neighbourly and mutually advantageous relations with neighbouring countries. In this aspect, Azerbaijan is likely to exchange its traditional dependency on Russia with a new dependency on the Western states.<sup>280</sup> Therefore, integration into European and Transatlantic security and cooperation structures, including NATO, EU, WEU and CE has become a vital task for the country. Finally, Azerbaijan intends to become a regional power in both economic and political means, so that it can develop its military power and regain the territories in Nagorno-Karabakh occupied by Armenia.

#### **4.1.1. Three Levels of Analysis**

While taking the major trends in Azerbaijan foreign policy into account, Sadri uses the three levels used by neorealism, namely: the state level, the individual level and the system level of analyses. In the state level of analysis, geopolitical factors put its weight on the agenda, according to Sadri. The major issues that are examined in this chapter are the Nagorno-Karabakh conflict and the legal status of the Caspian Sea. Other significant issues are economic, such as poverty, unemployment, dependence on foreign oil firms and Production Sharing Agreements (PSA). Finally,

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<sup>279</sup> **Azerbaijan in the International Arena**, Administrative Department of the President of the Republic of Azerbaijan, Presidential Library, <<http://www.elibrary.az/docs/azerbaijan/eng/gl8.pdf>> (15 January 2010).

<sup>280</sup> Hومان Sadri, "Elements of Azerbaijan Foreign Policy", **Journal of Third World Studies**, 20.1, 2003: 188.

on the individual level, the leadership factor is examined. During Aliyev's administration, Azerbaijan has pursued a balanced foreign policy, which is directly shaped by the political leadership of the Aliyev family. This was the most prominent feature of Aliyev government.<sup>281</sup> On the one hand, he avoided from antagonizing Russia by developing relations with the Euro-Atlantic community; on the other hand he tried to lessen the influence of Moscow over Baku through a Western oriented foreign policy agenda.

Meanwhile, on the system level of analysis, two external factors are listed: which are the global and the regional factors. The global variables have been the policies of two global players, namely the US and Russia; whereas regional variables are the policies of Georgia, Armenia, Turkey, Iran and Kazakhstan. In addition to these factors, regional cooperation initiatives are also taken as regional variables into account.<sup>282</sup>

State level-of-analysis involves two issues. First, geographic condition limits Azerbaijan's foreign policy choices since it is a land-locked country. Second, economic factors constrain the foreign policy considerations of the country, because following the occupation of Nagorno-Karabakh; about one million refugees caused a serious economic burden on the Baku government. Besides, volatility in the oil prices has been a problem. Long term pipeline projects depend on the stability in the oil prices.<sup>283</sup> Despite some legal reforms, lack of an investor-friendly climate in Azerbaijan prevents country to attract foreign investment into to the oil sector. As a result, due to these political and economic situations, energy reserves remain as a weak policy tool for the Baku government.

Individual level-of-analysis deals with the leadership factor. As a young democratic republic, Azerbaijan still suffers from predominant role of leadership in the formulation and implementation of its foreign policy. Within this context, Azerbaijan foreign policy has gone into considerable changes since Heydar Aliyev became the president in 1993. Aliyev tried to institutionalize the Azeri foreign

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<sup>281</sup> Ibid: 182-183.

<sup>282</sup> Ibid: 179-180.

<sup>283</sup> Ibid: 180-181.

policy, to form close relations with the European states while having neighbourly relations with the regional states.<sup>284</sup>

System level-of-analysis includes two sublevels: global players, namely the US and Russia; and regional players, which are Iran and Turkey. Iran has been a significant factor for Azerbaijan, due to three issues; a considerable Azeri population in the country, sharing border as littoral states of the Caspian Sea and geographical proximity which offers the cheapest and the shortest route to deliver Azeri oil exports. While studying the factors that constrain the Azeri foreign policy, the role of Russia is significant. It intends to regain its former status of regional dominant power and increase its influence over the region. Baku has been a focus of interest for Moscow, especially regarding oil. Moscow tries to increase the share of its national oil companies, Gazprom and Lukoil, in the oil production projects in Azerbaijan. It also seeks to influence the routes of the pipelines to increase revenues from transit fees. The ultimate goal of Russia is to achieve absolute control over the global energy market.<sup>285</sup>

The other global player, the US, has some major interests in Azerbaijan, too. First, it aims to lessen dependence on the OPEC countries through diversification of its oil supplies from alternative producers, such as Azerbaijan. Furthermore, Washington intends to increase its control over the global energy market, where it is the largest consumer. It also tries to feed its domestic economy by increasing the profits of the American oil companies that operate in the Caspian region.<sup>286</sup> Beside economic interests, the US has been making several efforts to contain Russian influence over its 'Near Abroad'. For instance, Washington encourages American oil companies to invest in states in the Near Abroad of Russia, in order to lessen their dependence on Russia for foreign capital. Azerbaijan has been one of the pivotal states in Moscow's 'Near Abroad'.

Another regional power that Washington tries to contain is Iran. The demise of the Soviet Union has left Iran in an undesirable condition, where newly

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<sup>284</sup> Aslanlı and Hesenov, 2005: 263.

<sup>285</sup> Ibid: 185.

<sup>286</sup> Ibid: 184.



independent states became its new neighbors. It has faced new threats rising from ethno-political conflicts near its northern border. In its relations with Azerbaijan, Iran realized the fact that the primary concern of Baku was the Nagorno-Karabakh conflict. Therefore, Iran has sought to maintain a balance of power in the Caspian region. It aims to prevent Azerbaijan from fully exploiting its resources and keeping the Nagorno-Karabakh conflict unresolved. In this aspect, Iran's strategic goals have been in a great harmony with those of Russia.<sup>287</sup> Iran tries to resist and counter respond American policy that aims to sustain its influence over the region. Iran perceived developments in Azerbaijan with anxiety, due to the large Azeri population on its territory near that country's border. Iran considers this condition as a threat against its national security and territorial integrity.<sup>288</sup>

#### **4.1.2. The Occupation of Nagorno-Karabakh: Security Concerns and the Oil Card**

This part of the study examines the argument of İpek that there has been “interplay between the oil-led development process and post-independence regional conflicts that enforced a Western orientation in Azerbaijan's foreign policy”.<sup>289</sup> According to İpek, a particular focus on these conflicts can help “to demonstrate the interplay between the foreign policy-making of Azerbaijan and its hydrocarbon reserves that enforce a Western-orientated foreign policy”.<sup>290</sup> This part takes only the Nagorno-Karabakh issue into consideration, since this has been the major task for the Baku government to maintain the national security and the territorial integrity of the country.

As indicated in earlier chapters, in the post-independence period, Azerbaijan economy has become fairly weak and faced several economic crises, due to its traditional dependence on the central economy of the former Soviet Union. As explained previously, in the Soviet system, Azeri economy depended on the extraction and production of natural resources, in particular the hydrocarbons. The

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<sup>287</sup> Emil Souleimanov and Ondrej Ditrych, “Iran and Azerbaijan: A Contested Neighborhood”, *Middle East Policy*, 14.2, 2007: 112-113.

<sup>288</sup> Sadri, 2003: 187.

<sup>289</sup> İpek, 2009: 227.

<sup>290</sup> Ibid: 228.

collapse of the Soviet Union has left Azerbaijan with an economy, which is based primarily on oil production. For economic progress, the country therefore depends on foreign direct investment and constant flow of foreign capital. Besides, security concerns have continued to have critical importance for Azeri foreign policy.<sup>291</sup> Together with geopolitical rivalries with Iran and Russia, security threats have become a chief concern for Azeri foreign policy.

The Nagorno-Karabakh conflict began in 1988, in a province of Azerbaijan, which is mostly populated by Armenians. Armenians claimed that Karabakh remained underdeveloped due to the inefficiency of Azeri administration. In 1989, Karabakh was thus taken from Azerbaijan's jurisdiction and subordinated directly to the Soviet Union. The ongoing conflict ultimately escalated into war in 1991, when the Armenian people living in the region began demanding their independence. Then, Nagorno-Karabakh was subsequently declared as an independent republic by Armenians on 2 September 1991. In February 1992, Armenian troops, which were backed by the Russian army, invaded the Khojali settlement of Azerbaijan. The Khojali carnage was one of the most tragic outcomes of the Armenian occupation. After taking the strategically significant city of Shusha, Armenians proceeded to seize six more provinces of Azerbaijan. As a result, the country lost one fifth of its territory and approximately one million people were internally displaced.<sup>292</sup>

Following these events, the involvement of Russia, Conference on Security and Co-operation in Europe (CSCE) and the UN have internationalized the conflict. Both of the conflicting parties became members of the CSCE and the UN in 1992. After the Khojali carnage, the CSCE organized a conference on the Karabakh issue in Minsk and the "Minsk Group" was then formed by nine countries.<sup>293</sup> Meanwhile, the UN has also taken some decisions over the issue, including "the UN Security Council published Resolution number 822" on 30 April 1993.<sup>294</sup> The document

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<sup>291</sup> Ibid: 228-229.

<sup>292</sup> Nasib Nassibli, "Azerbaijan: Policy Priorities towards the Caspian Sea", Shirin Akiner (ed.), **The Caspian: Politics, Energy and Security**, London: RoutledgeCurzon: 144-145.

<sup>293</sup> The members of the OSCE (The conference was later renamed Organization for Security and Co-operation in Europe) Minsk Group are France, Russia, the US (co-chairmanship) and also Belarus, Germany, Italy, Portugal, Netherlands, Sweden, Finland and Turkey, as well as Azerbaijan and Armenia. See, <<http://www.osce.org/item/21979.html>> 10 August 2009.

<sup>294</sup> For the original document, see, <<http://www.un.int/azerbaijan/documents/scresolutions/822.pdf>> 4

required Armenia to immediately withdraw from the Azeri territory and officially recognized the territorial integrity of Azerbaijan. Notwithstanding the UN decision, however, Karabakh declared its sovereignty after a referendum. The key point of the conflict is the uncompromising attitudes of the parties. On the one hand, Karabakh Armenians do not want to reunite with Azerbaijan, on the other hand Azeri people are unwilling to consent to the establishment of an independent Karabakh, which they consider as a step towards its integration with Armenia.<sup>295</sup>

Karabakh has become the most significant problem for Azerbaijan. Since its independence although Azeri foreign policy has experienced some changes under four presidents, it has a permanent core, which is to strengthen the independence and the national security of the country. The hydrocarbon reserves and relations with the West have become effective instruments to achieve these purposes.<sup>296</sup> Azeri foreign policy has changed dramatically when Elchibey came to the presidency in 1992. During the presidency of Elchibey, the country abandoned its priority towards Russia and Turkey became the major strategic ally of the country. Reducing the influence of Russia on the country was one of the main purposes of the Elchibey government.<sup>297</sup> Elchibey rejected the Russian proposal, including military assistance in return for allowing Russian military bases on Azeri soil and a pro-Russian foreign policy.<sup>298</sup> Thus, Russia decided to support Armenia.<sup>299</sup> While pursuing pan-Turkic policies, such as delivering Azeri oil from Baku to Ceyhan, Elchibey government also gave importance to develop economic and political relations with the West.<sup>300</sup> This orientation was considered as vital for maintaining the country's independence. Rich oil reserves of the country have become significant foreign policy leverage in this process. Elchibey government also explicitly courted the Western oil MNCs in the hopes of establishing long term contracts with them.<sup>301</sup>

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July 2009.

<sup>295</sup> "Karabağ Sorununun Perde Arkası", *Milliyet*, 3 September 2009.

<sup>296</sup> İpek, 2009: 233.

<sup>297</sup> Aslanlı, Araz and İlham Həsənov, 2005: 25.

<sup>298</sup> Ibid: 26.

<sup>299</sup> Ibid: 57.

<sup>300</sup> Şen, 2009: 56.

<sup>301</sup> Ibid: 57.

The leading idea behind these steps was that Azerbaijan could sustain its economic development and political independence by using its oil card. Despite this, however, denied of Western support and unable to tap its economic resources effectively, Azerbaijan could not provide its security through using its oil card in probably the most important threat against its survival since its brief independence.

Following the defeat of the Azeri army by Karabakh forces in 1993, Colonel Surat Huseyinov launched an anti-government insurgency.<sup>302</sup> The opposition groups accused the government for its military defeats. While taking a stance against Armenia and Russia, Elchibey government anticipated the support of the Euro – Atlantic community due to their earlier agreements on oil extraction with the Western companies; but it never took shape.<sup>303</sup> A reason for this failure can be traced in the efficient campaigns of the Armenian lobby in the US. The Armenian lobbyists achieved to exclude Azerbaijan from the “Freedom Support Act”<sup>304</sup>, which the US Congress passed in 1992 to give assistance to the former Soviet republics in their transition to democracy and market economy.<sup>305</sup>

Beside the US, involvement of Russia into this conflict requires particular attention, due to its explicit support to Armenia. In order to reveal the motives behind the Russian involvement, its national interests in the region bears examination.<sup>306</sup> First, Russia has economic interests in the region that it cannot afford to abandon. The most significant of them is maintaining control over the pipeline infrastructure. Besides economic interests, the Caspian region is crucial for the security of Russia, since Moscow has considered the geography as its political backyard and sphere of influence. Putin made a change in the Caspian policy of Russia. After a National Security Council meeting in 2000, he has declared that their rivals in the region have become so active that they have to display such activities in the region for security concerns.<sup>307</sup> Second, Moscow feels itself responsible for the ethnic Russian

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<sup>302</sup> İpek, 2009: 231.

<sup>303</sup> Ibid: 232.

<sup>304</sup> For the details of the Freedom Support Act, See, <<http://www.fas.org/nuke/control/ctr/docs/s2532.html>> 3 September 2009.

<sup>305</sup> İpek, 2009: 232.

<sup>306</sup> Kamer Kasim, “The Nagorno – Karabakh Conflict, Caspian Oil and Regional Powers”, Bülent Gökay (ed.), **The Politics of the Caspian**, NY: Palgrave Macmillan, 2001: 187.

<sup>307</sup> Fırat Karabayram, **Rusya Federasyonu’nun Güney Kafkasya Politikası**, Ankara: Lalezar

population living in the new republics. This factor adds an ethnic dimension to the Russian foreign policy over the region.<sup>308</sup> As a result, Azeri policy of using its oil as a weapon against Armenia in the Karabakh conflict, served better to Armenian interests rather than the Azeris, since oil cuts and threats of Baku using its oil reserves put Armenia in an aggrieved position and made Azerbaijan an aggressor country. Both Russia and the United States, thus preferred to support Armenia, a reserve-poor country rather than Azerbaijan, country with considerable energy reserves, which can enable it become stronger and challenge their influence over the region. Azerbaijan, due to its oil, has become a threat for Moscow and Washington, if it can achieve to use its oil independently.

The traditional Russian approach over the region has been to abuse regional conflicts for its own interests. Previously, Russia always opposed improvements in the bilateral relationships in the region, since it intends to maintain dominance over Armenia and to secure old Cold War border.<sup>309</sup> The main motive behind the revision in Russian policy towards the crisis is to keep the US and the EU and other extra-regional actors away from the Caspian region.<sup>310</sup> Soon after the news about Turkey's considerations to open the Armenian border in April 2009, Aliyev therefore, has made several visits to Moscow as retaliation.

However, the recent crisis between Turkey, Armenia and Azerbaijan, which occurred in the first half of 2010, about opening borders between Turkey and Armenia has shown that the Russian interests in the regional conflicts have begun to change. The border crisis between the three countries dates back to 2008, when Ankara and Yerevan took initial steps towards a compromise, which may help to establish diplomatic relations, and open borders.<sup>311</sup> Bilateral relations between two countries have been strained.<sup>312</sup> According to Kasım, negotiations in order to normalize relations between Turkey and Armenia resulted in a "Road Map", which brought with discussions also about Turkey-Azerbaijan relations, especially the

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Kitabevi, 2007: 312.

<sup>308</sup> Kasım, 2001: 187.

<sup>309</sup> "Turkey And Armenia: Opening Minds, Opening Borders", International Crisis Group, **Europe Report No: 199**, 14 April 2009: 21.

<sup>310</sup> Ibid: 22.

<sup>311</sup> Ibid: 1.

<sup>312</sup> Ibid: 2.

security and energy dimension of it. Although Turkey recognized Armenia as an independent and sovereign state, normal diplomatic ties have not been established between the two countries and the territorial borders of the two neighbours remained close. Armenian genocide allegations and the Armenian policy towards the allegations and Armenian administrations' hesitance to accept inviolability of borders prevented the normal diplomatic relations to be established between Turkey and Armenia. The Nagorno-Karabakh conflict also caused the closure of Turkish-Armenian land border.<sup>313</sup>

Despite Turkey's guarantees not to open the border until Armenia withdrew from Azeri territories it occupied; Azerbaijan officials are not satisfied. On 16 April 2009, Ilham Aliyev made his first visit to Moscow and the main topics of the agenda were energy and the Nagorno-Karabakh.<sup>314</sup> At the end of the negotiations, Azerbaijan President Aliyev stated that he does not see any restriction on possible gas sales to Russia.<sup>315</sup> President Medvedev, as a response, said that the chance for signing an agreement on gas sales between the two state companies, namely Gazprom and SOCAR, is very high.<sup>316</sup>

Based on these factors, Nassibli tries to draw out some of the pros and cons of Azeri oil diplomacy during the conflict resolution process.<sup>317</sup> In the early years of its independence, by virtue of the developing relations with the Western oil firms and its oil reserves, Azeris held great hopes for the resolution of the Karabakh conflict.<sup>318</sup> However, the oil card has not worked as expected in the security field. In fact, it has worsened the situation and led to insecurity, since Azerbaijan has been perceived as a threat by Russia, the US and the European states against their interests over the energy resources of the region. The *de facto* alliance between Russia, Armenia and

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<sup>313</sup> Kamer Kasım, "Turkey-Azerbaijan-Armenia Triangle", International Strategic Research Organization, June 2009. <<http://www.usak.org.tr/EN/makale.asp?id=982>> (15 March 2010).

<sup>314</sup> "Aliyev: Rusya Stratejik Ortağımız", **VOA News**, 17 April 2009. <<http://www1.voanews.com/turkish/news/a-17-2009-04-17-voa18-88168297.html>> (12 December 2009).

<sup>315</sup> Shahin Abbasov, "Azerbaijan: Is Baku Offering a Natural Gas Carrot to Moscow for Help with Karabakh?", **Eurasia Insight**, 20 April 2009. <<http://www.eurasianet.org/departments/insightb/articles/eav042009a.shtml>>

<sup>316</sup> Ibid.

<sup>317</sup> Nassibli, 2004: 153.

<sup>318</sup> Ibid: 153-154.

Iran also posed a serious threat to Azerbaijan's security. When these situations have been taken into consideration, the hopes for a resolution of the conflict in favor of Baku through the support of the Western countries came to naught.<sup>319</sup>

## **4.2. THE FOREIGN POLICY OF KAZAKHSTAN REGARDING ENERGY POLITICS**

Kazakhstan's foreign policy has been affected by a wide range of factors. These factors include the nature of the regime in the early state-building process, demography and national identity, domestic interest groups, landlocked geography of the country, regional powers and the role of multinational oil corporations.<sup>320</sup> To what extent the role of oil and gas has been limited by the demography and national identity of the country in foreign policy making is the subject of this section. Like Azerbaijan, this section deals with Kazakh foreign policy in three levels-of-analysis: state level, individual level and system level-of-analysis. The state level-of-analysis involves geographical and demographic factors; individual level deals with the leadership factor in Kazakhstan; and finally the system level focuses on the relations between Kazakhstan and major players in the region, including the US, Russia and China.

### **4.2.1. State Level: Role of the Russian Population and Geography**

Since its independence, Kazakhstan's foreign policy has been predominantly influenced by two factors: geography and the ethnic Russian population in the country. As a country sharing a long border with Russia and having a large ethnic Russian population makes Kazakhstan dependent on Russia. Besides these two factors, the Kazakh dependence on Russia also stems from economic reasons. Although Kazakhstan has considerable amount of hydrocarbon reserves, the oil and gas extracted in Kazakhstan is delivered to Russia for processing.<sup>321</sup>

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<sup>319</sup> Ibid: 154.

<sup>320</sup> İpek, Pinar, 2007: 1179.

<sup>321</sup> Ibid: 1180-81.

Kazakhstan is the second largest country of the former Soviet republics, after Russia. Its 2,717,300 sq km territory includes the northern and north-eastern shores of the Caspian Sea. Despite possessing such a large territory, however, Kazakhstan has an approximate population of 16 millions (January 2010 EST.). According to the last Soviet population census in 1989, 39.5% of the Kazakhstan population was composed of Kazakhs, while the ethnic Russians make up 37 %. When the Russians were combined with Ukrainians (5.4 %), Belorussians (1.1%), the Slav population swelled up to 44 % percent of the population.<sup>322</sup> On the other hand, according to the results of the 1999 census published by CIA World Factbook, ethnic Kazakhs constitute 53.4% and Russians compose 30 % of the population.<sup>323</sup> The chairman of the Agency for Statistics Alikhan Smailov said that in accordance with the national census of 2009, as of January 2010, the population of the country is up to 16.196.800 people.<sup>324</sup> He also added that for the beginning of 2010, the ethnic Kazakh people was up to 63.6%, Russians 23.3%, Uzbeks 2.9%, Ukrainians 2%, Uigurs 1.4%, Tatars 1.2%, Germans 1.1%, other ethnicities 4.5%.<sup>325</sup> Most of the Kazakh population has concentrated in the northern part of the country along the Russian border, and in the south close to Uzbekistan and Kyrgyzstan.<sup>326</sup>

Geography and demographics are two interrelated factors in Kazakh foreign policy making. Priorities of Kazakh foreign policy are thus driven by its broad territorial limits, its geographical proximity to Russia and the demographic balance between its ethnic Kazakh and Slavic citizens. The country's hydrocarbon potential has been coupled with its unique geographic position as it has borders both with Russia and China; the two major global powers. Situated on such geography and having vast potential wealth, Kazakhstan thus gains a high rank within the system of

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<sup>322</sup> S. N. Cummings, "Eurasian Bridges or Murky Waters between East and West? Ideas, Identity and Output in Kazakhstan's Foreign Policy", *Journal of Communist Studies and Transition Politics*, 19.3, 2003: 145.

<sup>323</sup> **CIA - The World Factbook**: Kazakhstan, 2 August 2009, <<https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html>>

<sup>324</sup> Kanat Kulshmanov, "Population of Kazakhstan Counts 16 mln 196 thousand 800 as of Jan 1, 2010", *Kazinform*, 4 February 2010. < <http://www.inform.kz/eng/article/2235276>> (10 April 2010).

<sup>325</sup> Ibid.

<sup>326</sup> Kazakhstan Country Profiles, BBC News and CIA-The World Factbook, 16 April 2009, <[http://news.bbc.co.uk/1/hi/world/asia-pacific/country\\_profiles/1298071.stm](http://news.bbc.co.uk/1/hi/world/asia-pacific/country_profiles/1298071.stm)>, <<https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html>>



international relations as a 'centre-most regional power'.<sup>327</sup> The landlocked position of the country between Russia and China constrains Kazakhstan's pipeline options and this causes a vulnerability and dependence on neighbors for the delivery of oil and gas.

Some observers argue that the relationship between Kazakh foreign policy and national identity is 'symbiotic'.<sup>328</sup> Geographical proximity to Russia poses a separatism threat against the territorial integrity of Kazakhstan. As a result of this proximity, the country has neither a strong national identity nor a multinational identity. Rather, regional kinship networks and clan politics, named 'oblast' in the Soviet era, have been effective in domestic politics.<sup>329</sup>

Due to such measures, the demographics and the national identity seems to have a dual-effect on the foreign policy making of the country. First, geographical proximity and the ethnic Russian population pose a separatist threat against the Kazakh state's integrity. Thus, Kazakhstan cannot attempt to ignore Russia in its foreign policy agenda. Second, the lack of effective domestic interest groups in foreign policy making process grants leaders a large room for maneuver in foreign affairs. The primary objective of Nazarbayev has been to eliminate the risk of partition through an alliance policy with Russia and also to maintain bilateral and multilateral integration initiatives.<sup>330</sup> Nevertheless, Nazarbayev's policy of "Kazakhization"<sup>331</sup> has strengthened the status of the native Kazakhs within the political, economic, and social and the demographic structure of the country.<sup>332</sup> As a result, geographic and demographic factors have been two of the major elements in Kazakh foreign policy-making. These factors have prevailing effects on the role of hydrocarbons in foreign affairs of Kazakhstan. The leadership of Nazarbayev has been another factor that shapes the foreign policy orientation of the country.

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<sup>327</sup> Majid Jafar, "Kazakhstan: Oil, Politics and the New 'Great Game'", Shirin Akiner (ed.), *The Caspian: Politics, Energy and Security*, NY: RoutledgeCurzon, 2005: 180.

<sup>328</sup> Cummings, 2003: 149-151.

<sup>329</sup> Ibid: 151.

<sup>330</sup> Dekmejian and Simonian, 2003: 83-85.

<sup>331</sup> This policy includes encouraging the immigration of ethnic Kazakhs from China and Mongolia, replacing Russian officials with Kazakhs, and making Kazakh language an obligation for higher education and employment. Dekmejian and Simonian, 2007: 53.

<sup>332</sup> Ibid: 85.

#### 4.2.2. Individual Level: Leadership Factor

According to İpek, Nazarbayev has used foreign policy to legitimize its rule and reshape the national identity.<sup>333</sup> İpek argues that the geopolitical context of oil and gas, has not given a chance for an alternative foreign policy discourse other than the pragmatism of the president.<sup>334</sup> President Nazarbayev has developed a geopolitical approach in his pragmatic foreign policy. He refers his country as a Eurasian state, having origins in both West and East. Nazarbayev often underlines Turkic roots of the Kazakh nation and their blood-ties with Russia. He generally uses symbols such as the ‘snow leopard’, an animal that only lives at the Kazakh Mountains that combines ‘Western Elegance’ and ‘oriental wisdom’.<sup>335</sup>

The use of ‘oil fund’ by Nazarbayev offers a suitable case for this policy. All oil-rich states face the risk of corruption.<sup>336</sup> Oil increases the tension in struggles for political power. Norway eliminated this risk by transferring revenues from oil to the finance of hospitals and universities.<sup>337</sup> The other developing oil-rich states took this policy as a model. Kazakhstan, by the encouragement of its Western counterparts, established oil funds. Nazarbayev saw this fund as a means of strengthening the position of Kazakhs against ethnic Russian population. This oil fund in Kazakhstan has usually been referred as the ‘Kazakh fund’.<sup>338</sup> According to Kleveman, nepotism in Kazakhstan is not seen as corruption, rather as a responsibility towards the Kazakh nation.<sup>339</sup>

This has significant effects on the foreign policy of Kazakhstan. Due to positive discrimination towards ethnic Kazakhs in domestic politics, the Russian influence over the Kazakh politics has remained limited to certain level. This provides Nazarbayev ability to formulate the foreign policy agenda of the country individually and to be relieved from the pressure of domestic interests groups.

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<sup>333</sup> İpek, 2007: 1192.

<sup>334</sup> Ibid: 1193.

<sup>335</sup> “Kazakhstan: Multi-Vector Foreign Policy under Pressure”, **Oxford Analytica Daily Brief Service**, 10 December 2003.

<sup>336</sup> Franke, Anja, Andrea Gawrich and Gurban Alakbarov, 2009: 109-114.

<sup>337</sup> Lutz Kleveman, **Yeni Büyük Oyun: Orta Asya’da Kan ve Petrol**, İstanbul: Everest, 2004: 100.

<sup>338</sup> Ibid: 101.

<sup>339</sup> Ibid: 101-102.

### 4.2.3. System Level: Relations with the US, Russia, Iran and China

Since the early years of independence, Kazakhstan has intended to pursue a multi-vector foreign policy. While, it aims to decrease dependence on Russia by cooperating with the American and the European allies; it also tries to keep the role of Russia as the primary counterpart. Putin's proactive policy in the Caspian region, however, aggravates this foreign policy strategy of Kazakhstan.<sup>340</sup>

Nevertheless, Astana tries to achieve its multi-vector foreign policy in the pipeline projects. Today, Kazakhstan is still dependent on Russia for its oil and gas exports, due to the dominance of Russia over the pipeline infrastructure in the region. Together with the Russian minority, it has been another motive behind the Russian-centered security perception in Kazakhstan. However, Kazakhstan have also begun to support the construction of multiple pipelines in the region that bypass Russian territory and provide alternative routes.<sup>341</sup>

Russia focuses on relative gains rather than absolute gains; thus avoids cooperation with the Western firms for a better technology and more efficiency to develop oil production in the region. Russian companies lack high technology and financial resources to produce oil and gas more efficiently. The European and the American companies offer modern and cheaper methods. However, Russia have been against oil producing activities of these extra-regional actors in Kazakhstan. According to İşeri, oil and gas production in Kazakhstan would not provide the country an efficient foreign policy tool, until Russia considers absolute gains rather than relative gains.<sup>342</sup>

A non-OPEC oil development in Kazakhstan would maintain the stability in the energy market, which best serves to the interests of another major power, the US.<sup>343</sup> In this aspect, the Kazakh oil and gas attracts a considerable attention. Since the balance of power in the Caspian region has changed after the demise of the Soviet Union, objectives of the US towards Kazakhstan have also changed. They are:

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<sup>340</sup> "Kazakhstan: Multi-Vector Foreign Policy Under Pressure", 2003:1

<sup>341</sup> Ibid.

<sup>342</sup> İşeri, 2007: 148.

<sup>343</sup> Robert A. Manning, "The Myth of the Caspian Great Game and the New Persian Gulf", **The Brown Journal of World Affairs**, 7.2, 2000: 29-30.

political stability, nuclear non-proliferation, the containment of Islamic fundamentalism, and secure access to energy supplies, promotion of democracy and protection of alliance against enemies.<sup>344</sup> In response, Kazakhstan aims to develop its economic interests through investment and to counterbalance the Russian influence. However, while doing this Kazakhstan prefers a more moderate way than Azerbaijan and tries to avoid antagonizing Russia.

Nuclear non-proliferation issue is a good indicator of this policy. When Kazakhstan established independence, it had to deal with hundreds of Soviet nuclear weapons on its territory. On 13 December 1993, Kazakhstan signed an agreement with the US on the dismantling of its missiles. It also ratified the Nuclear Non-proliferation Treaty.<sup>345</sup> This move disturbed Russia and showed that Kazakhstan was no more purely dependent on Moscow. As a result, Kazakhstan have preferred to diversify its dependence on Russia with new dependencies on the western powers. Even as an oil-rich country, Kazakhstan have not achieved to pursue an independent foreign policy.-

According to Oliker, Kazakhstan differs from the other Caspian states in its relations with the United States.<sup>346</sup> The difference stems from its relative wealth and the long-term relations with Washington. Along with the nuclear issue, the hydrocarbon reserves of the country made Kazakhstan an indispensable ally of the US in the region. Kazakhstan also accepted the US military training, assistance for economic reform, regional stability, law enforcement and implementation of such institutional reforms.<sup>347</sup> When compared to Azerbaijan, Kazakhstan has preferred a more hospitable policy towards the American existence on its territory.

Washington favors an alternative to Russian route for the transportation of oil and gas to the markets. The Iran route has been the easiest, cheapest and the most secure route to deliver the Kazakh oil.<sup>348</sup> However, Iran has not been one of the alternative routes, due to antagonism between Tehran and Washington rising from

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<sup>344</sup> Majid Jafar, "Kazakhstan: Oil, Politics and the New Great Game", 2005: 191.

<sup>345</sup> Ibid: 191.

<sup>346</sup> Olga Oliker, "Kazakhstan's Security Interests and Their Implications for the US-Kazakh Relationship", *China and Eurasia Forum Quarterly*, 5.2, 2007: 64.

<sup>347</sup> Ibid: 65.

<sup>348</sup> Dekmejian and Simonian, 2003: 80.

Islamic fundamentalism and nuclear proliferation. Kazakhs have undertaken serious lobbying activities in favor of the Iran route, where they have significant economic interests.<sup>349</sup> September 11 terrorist events worsened the situation. One month later in 2001, the US President Bush declared Iran as a part of the ‘axis of devil’. According to Kleveman, this was an obvious warning for Kazakhstan.<sup>350</sup> This was an important case, in which Kazakhstan checked the limits of its independent foreign policy and was totally disappointed due to its failure. Bush administration began to seek to achieve “a commitment to a deeper, more sustained and better-coordinated engagement in the region”, thus focused on relations with Kazakhstan in the axis of energy.<sup>351</sup>

Then, two countries signed Energy Partnership, on 21 December 2001.<sup>352</sup> On the one hand, this agreement has strengthened the energy cooperation between the two sides. On the other hand, it has increased the American influence over Kazakh foreign policy agenda. This was best indicated when Nazarbayev and Ilham Aliyev signed a pipeline agreement which posited that Kazakh oil would be delivered by the BTC pipeline. The agreement perfectly complied with the US interests in the regional pipeline projects, and improved its position as a counterbalance to Russia in the region.<sup>353</sup>

However, developing relations with the US should not be defined as a zero-sum game with Russia or China. Similar with Azerbaijan, Kazakhstan, as a primary purpose, aims to achieve a situation where neither of them could influence the Kazakhstan more than the other.<sup>354</sup>

China is another candidate for Kazakhstan to counterbalance against Russia. It is likely to remain an ally of Kazakhstan in the energy field. It would like to see Kazakhstan as the major energy supplier of the country, which will not only contribute to its energy security, but also improve the geopolitical position of China

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<sup>349</sup> Ibid: 81.

<sup>350</sup> Kleveman, 2004: 107.

<sup>351</sup> İşeri, Emre, 2007: 143.

<sup>352</sup> Ibid: 144.

<sup>353</sup> Ibid: 144.

<sup>354</sup> Olikier, 2007: 68.

in Central Asia.<sup>355</sup> Chinese interests in the region are to guarantee secure supply of hydrocarbon reserves through pipelines and railroads; and to suppress the secessionist movements of ethnic minorities, especially the Uighurs in the western city, Xinjiang.<sup>356</sup> After 11 September 2001, China have begun to use the American ‘War on Terror’ as a pretext to suppress the Uighur separatists, as Russia did in the Chechnya case.<sup>357</sup> Ethnic tension between the China and Uighur people continues to have influence over international affairs in the region, beside energy politics. Recent developments have indicated that the political unrest is likely to continue. In July 2009, more than 140 people were killed in Uighur riots in China.<sup>358</sup>

In December 2009, Nazarbayev, in his speech, said that Russia, China and the United States will continue to occupy a special place in their foreign policy agenda.<sup>359</sup> According to the president, regional security, energy, trade, transport and communication would be the main topics of the cooperation. “Further strengthening of the partnership relations with the European countries holds key place in our foreign policy, while the agreements on strategic partnership with Spain, France and Italy raise our relations to a brand new level”, the President said.<sup>360</sup> Nazarbayev has further added that apart from these major powers, Kazakhstan would also seek to develop “active cooperation” with the Caspian states. He also declared that his government has been working to improve relations with the Middle East, Gulf and Pacific regions, and Latin America.<sup>361</sup>

This multi-vector policy of Kazakhstan has been an obligatory result of the country’s geopolitics, which includes exporting oil out of its landlocked geography. For instance, China has been a potential energy partner of Kazakhstan in the name of multi-vector foreign policy of the country. President Nazarbayev has considered the Kazakh – China pipeline as an extra export route in order to reduce its dependence on Moscow. On 12 September 2009, China President Hu Jintao and Kazakhstan

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<sup>355</sup> İşeri, 2007: 151.

<sup>356</sup> Jafar, 2005: 192.

<sup>357</sup> Ibid: 193.

<sup>358</sup> “At Least 140 Killed in Uighur Riots in China”, ABC News International, <<http://abcnews.go.com/International/story?id=8010018&page=1>> (6 July 2009).

<sup>359</sup> “Russia, China, US Occupy Special Place in Kazakh Foreign Policy: Nazarbayev”, **Asian News International-ANI**. < <http://www.aniin.com/>> (28 December 2009).

<sup>360</sup> Ibid.

<sup>361</sup> Ibid.

President Nursultan Nazarbayev opened the Kazakh section of a 7,000km natural gas pipeline linking Kazakhstan to China. The whole pipeline is expected to be finished by 2013.<sup>362</sup>

Due its weakness in military capabilities and technological development, Kazakhstan also needs the support of international organizations. It is a member of both the Shanghai Cooperation Organization<sup>363</sup> (SCO) and the Collective Security Treaty Organization<sup>364</sup> (CSTO). It also participates in NATO programs, such as Partnership for Peace, since 1994.<sup>365</sup> Along with the major global powers, Nazarbayev maintains his multilateral foreign policy through intense interaction with these international security organizations. Kanat Saudabayev, the Minister of Foreign Affairs of Kazakhstan, made a visit to NATO and met with Anders Fogh Rasmussen, the Secretary General, on 27 January 2010.<sup>366</sup> They discussed about the priorities of Kazakhstan for this year as the Chairman of the OSCE. They also talked about the cooperation between two parties in the framework of the IPAP – the Individual Partnership Action Plan.<sup>367</sup> Another visit was to Brussels Chairman-in-Office of the OSCE in Belgium, where Saudabayev met with the Minister of Foreign Affairs of

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<sup>362</sup> “China President Hu Jintao Opens Kazakh Gas Pipeline”, *BBC News*, 13 December 2009. <<http://news.bbc.co.uk/2/hi/8410369.stm>> (7 May 2010).

<sup>363</sup> The Shanghai Cooperation Organization (SCO) is defined as “a permanent intergovernmental international organization creation of which was proclaimed on 15 June 2001 in Shanghai (China) by the Republic of Kazakhstan, the People’s Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and the Republic of Uzbekistan.”. The main goals of the SCO are to strengthen mutual confidence and good-neighbourly relations among the member countries; promote effective cooperation in politics, trade and economy, science and technology, culture as well as education, energy, transportation, tourism, environmental protection and other fields; make joint efforts to maintain and ensure peace, security and stability in the region, move towards the establishment of a new, democratic, just and rational political and economic international order. The official website of the SCO, < <http://www.sectsco.org/EN/brief.asp>> (5 March 2010).

<sup>364</sup> The Collective Security Treaty (CST) was signed in 1992 for five-year term by the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation and the Republic of Tajikistan. According to the Protocol, which was signed at the session of the Council of Collective Security in 1999, the treaty is automatically renewed every five years. The CSTO aims “to strengthen peace and international and regional security and stability and to ensure collective protection of independence, territorial integrity and sovereignty of Member States, in the attainment of which Member States shall give priority to political means.” The official website of the CSTO < [http://www.dkb.gov.ru/start/index\\_aengl.htm](http://www.dkb.gov.ru/start/index_aengl.htm)> (5 March 2010).

<sup>365</sup> İpek, 2007: 1192.

<sup>366</sup> “Minister of Foreign Affairs of Kazakhstan Visits NATO”, Official website of NATO, 27. <[http://www.nato.int/cps/en/SID-40DE51D6-5277BF51/natolive/news\\_61025.htm](http://www.nato.int/cps/en/SID-40DE51D6-5277BF51/natolive/news_61025.htm)>(January 2010).

<sup>367</sup> Ibid.

Belgium, Steven Vanackere. Saudabayev said that "deep integration with the European Union is one of the major directions of Kazakhstan's foreign policy" and added that Kazakhstan has been ready to develop bilateral cooperation with European states as a means of strategic partnership.<sup>368</sup> This visit can be interpreted as an effort of Kazakhstan to strengthen its multilateral foreign policy. The main motive behind these multilateral talks with the European and East Asian countries has been to diversify dependence of Kazakhstan on Russia with new dependencies on the European and other major powers. This indicates that oil has not provided Kazakhstan a leverage in foreign policy making.

### **4.3. KEY CONSTRAINTS TO USE ENERGY RESERVES AS AN EFFICIENT FOREIGN POLICY TOOL**

Azerbaijan and Kazakhstan confront a number of common problems about using their hydrocarbon resources and foreign policy orientations.<sup>369</sup> Foreign policy making in Azerbaijan and Kazakhstan has been affected by a wide range of factors. Despite their huge energy reserves, there have been a number of issues that are needed to be addressed before these countries can realize their full potential. The most significant of these issues are the legal status of the Caspian Sea and the transportation of oil and gas from the Caspian basin.<sup>370</sup> These constraints are complex and interrelated. They serve both as leverage and a challenge to Azerbaijan and Kazakhstan.<sup>371</sup>

#### **4.3.1. The Legal Status of the Caspian Sea**

This part examines the role of the absence of a legal regime of the Caspian Sea that is accepted by all the littoral states in their foreign policy considerations,

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<sup>368</sup> "Belgium welcomes Kazakhstan's multi-vector foreign policy", **Kazinform**, 28 January 2010. <<http://www.inform.kz/eng/article/2232146>> (4 April 2010).

<sup>369</sup> Dekmejian and Simonian, 2003:90.

<sup>370</sup> İpek, 2007:1179.

<sup>371</sup> Sheila N. Heslin, "Key Constraints To Caspian Pipeline Development: Status, Significance And Outlook", *Unlocking The Assets: Energy And The Future Of Central Asia And The Caucasus: Working Papers*, James A. Baker III Institute For Public Policy Rice University, April 1998: 2-3.



with a particular emphasis on Azerbaijan and Kazakhstan. According to Sinker, “the management of transboundary energy resources is extremely important to international relations. Poor or ineffective management of these resources can have damaging consequences for their share holders.”<sup>372</sup> There are some examples of this situation in different parts of the world. It was most recently seen in the Middle East in 1991.

The Middle East case<sup>373</sup> has been a good precedent, which shows how a weak management of transboundary energy resources can cause unexpected outcomes. However, transboundary energy resources can be managed in various ways. For instance, the management of the hydrocarbon resources in the Gulf of Thailand and Timor Gap proved the possibility of cooperation between the parties.<sup>374</sup> Although the outcome disputes related to transboundary energy resources do not always lead to a war or an invasion, it often leads to instability.<sup>375</sup> Since the Caspian basin is not entirely stable, management of the energy resources in the seabed and in offshore reserves have caused several problems. The ongoing controversy has been restricting Azerbaijan and Kazakhstan to achieve long-term contracts with the Western oil corporations. Without commitments of these large firms, which promise large amounts of capital and technology, these states cannot use off-shore reserves in the region as an effective foreign policy tool.

The lack of a legal framework concerning the Caspian Sea is a major obstacle for Azerbaijan and Kazakhstan to use their energy card as a foreign policy tool. Since the majority of their reserves lies in the offshore reserves in the seabed, demarcation of the seabed and determination of continental shelf borders have become crucial issues in the process.

The legal issue surrounding the Caspian is based on the treaties signed by Iran and the former Soviet Union in 1921 and 1940.<sup>376</sup> The disintegration of the Soviet

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<sup>372</sup> Sinker, 2001: 51.

<sup>373</sup> The absence of an efficient legal infrastructure to manage the oil fields located between Iraq-Kuwait border enabled Kuwait to extract more oil than Iraq, and ultimately led to its invasion by the latter one. Roland Sinker, 2001: 51-109.

<sup>374</sup> Sinker, 2001: 51-52.

<sup>375</sup> Ibid: 52-53.

<sup>376</sup> Ali Granmayeh, “Legal History of the Caspian Sea”, Shirin Akiner (ed.), **The Caspian: Politics,**

Union effectively ended the legal regime of the Caspian Sea between Tehran and Moscow. Following the disintegration, while Russia and Iran supported the claim that the Caspian is an inland lake and should be jointly governed by all the riparian states, Azerbaijan argued that the Caspian is a sea and should be divided into national sectors. Azerbaijan further stated that such an arrangement would enable each state to possess exclusive sovereignty rights over these divided sectors and joint sovereignty on the sea surface. There are only slight differences in Kazakhstan's approach, which argues that the Caspian should be given a new legal regime based on the norms of the international law. The principles of the United Nations Conference on the Law of Sea (UNCLOS 1982) should be applied according to Kazakh officials, who define the Caspian as a sea.<sup>377</sup> Azerbaijan and Kazakhstan thus have rejected the Russian arguments supporting condominium<sup>378</sup>

The territorial disputes in the Caspian Sea have become frozen between the littoral states of the Caspian Sea. Each party seeks to fulfill its own interests and keeps away from an agreement until its national interests are guaranteed. They support unilaterally producing oil or gas from their sovereign parts of the Caspian Sea.<sup>379</sup> This condition creates an obstacle to the regional cooperation and development. The controversy stems from the different perceptions of resources by the littoral states. For instance, Azerbaijan, Kazakhstan and Turkmenistan see energy resources of the Caspian as a means of development, independence from Russia, good relations with Western community, and efficient foreign policy-making. Meanwhile, for Iran, the same resources are regarded as a key to end the Iranian isolation in the region and to achieve a regional cooperation initiative lead by Tehran without involvement of the Western oil companies, in particular the US.<sup>380</sup> According to Cohen,

“The Caspian Sea basin is expected to produce and export increasing amounts of oil. This would benefit not only Azerbaijan, Kazakhstan, and

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**Energy and Security**, , New York: Routledge Curzon, 2004: 15.

<sup>377</sup> Ibid: 15-16.

<sup>378</sup> Condominium refers to “the joint control of a state’s affairs by other states”. **Oxford Online Dictionary**. 10 August 2009. <[http://www.askoxford.com/concise\\_oed/condominium?view=uk](http://www.askoxford.com/concise_oed/condominium?view=uk)>

<sup>379</sup> Sinker, 2001: 53.

<sup>380</sup> Souleimanov, Emil and Ondrej Ditrych, 2007: 103.

Turkmenistan, which depend almost exclusively on oil revenues; but also Russia and Iran, which have major oil deposits in their sectors of the seabed.”<sup>381</sup>

Similar to Iran, Russia pays more attention to the strategic promises of the hydrocarbon resources than the economic ones. For Moscow, controlling the flow of hydrocarbon reserves is an important tool to ensure Russian control over its 'near abroad'.<sup>382</sup>

There have been three phases in search of a new legal regime of the Caspian Sea.<sup>383</sup> Early approaches were initiated between 1992 and 1994, immediately following the collapse of the former Soviet Union. New littoral states have emerged, each of which had different attitudes and ambitions about the demarcation of the sea. Russia supports that the treaties signed with Iran in 1921 and 1940 makes up the legal basis of the Caspian Sea.<sup>384</sup> Elchibey government opposed the Russian-Iranian argument that the new legal status of the Caspian Sea should be based on the 1921 and 1940 treaties, however.<sup>385</sup> Although Azerbaijan and Kazakhstan did not sign these treaties, they automatically became parties to the treaties since they signed the Alma Ata Declaration of December 1991 that established the CIS. This declaration has a special provision that make the treaties signed by the USSR valid for all signatories. As a result, foreign policies of Baku and Astana have come under Russia's influence and this also limited their policy choices regarding their energy reserves.

In 1994, the sign of the agreement which involved an international consortium has been a landmark in Azerbaijan's attitude towards the issue.<sup>386</sup> Due to this agreement, which included the oilfields in 120 miles east of Baku and far beyond

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<sup>381</sup> Cohen, Ariel, "Iran's Claims over Caspian Sea Resources Threaten Energy Security", *Background*, The Heritage Foundation, 1582, September 2002.

<sup>382</sup> Sinker, 2001: 53-54.

<sup>383</sup> Granmayeh, 2004: 16.

<sup>384</sup> Rustam Mamedov, "International Legal Status of the Caspian Sea: Issues of Theory and Practice", *The Turkish Yearbook of International Relations*, Ankara Üniversitesi, 32, 2001: 219.

<sup>385</sup> Yolbars A. Kepbanov, "The New Legal Status of the Caspian Sea is the Basis of Regional Cooperation and Stability", *Perceptions: Journal of International Relations*, 2.4, December 1997-February 1998: 1-2.

<sup>386</sup> Mahmoud Ghafouri, "The Caspian Sea: Rivalry and Cooperation", *Middle East Policy*, 15.2, 2008: 87.

the median line of the sea, international community expected Azerbaijan to use these reserves efficiently in independent foreign policy-making. The country heavily depends on the production and export of the early oil in these offshore reserves. Despite the Russian opposition against division of the sea into national sectors, Azerbaijan has intensified its efforts to secure its sovereign rights over the sea.<sup>387</sup> However, the country has had no international support for this. Azerbaijan administration has also claimed that UNCLOS 1982 should be applied to the demarcation of the Caspian Sea.<sup>388</sup>

The second phase includes the years between 1995 and 1997, which starts with a noticeable change in Russia's attitude on the issue. Moscow have begun to pursue a more moderate way to reach an agreement, which best serves to its own interests. This change has stemmed from the inclusion of Russia to the 'contract of the century'.<sup>389</sup> Despite the inclusion of Moscow to the consortium, however, Baku has continued to face the Russian opposition against the demarcation of the sea.<sup>390</sup> Thus, Heydar Aliyev felt obliged to give a considerable amount of the country's share in the consortium to Russia to develop oil in Karabakh oil field.<sup>391</sup> These concessions given by the Aliyev government to its powerful neighbours, such as Iran and Russia, indicates that Azerbaijan became subordinate to the decisions of regional powers, despite its possession of considerable amount of hydrocarbon reserves. For instance, Azerbaijan government signed an agreement, which is similar to those Russia signed with Kazakhstan, with Russia in 2001.<sup>392</sup> This agreement allowed division of the seabed into national sectors; however sea surface remained open to all littoral states. In this agreement, Kazakhstan and Azerbaijan have remained subordinate to Russian demands. As earlier indicated in chapter two, Baku government also accepted to give ten per cent of its own share to Russian oil company, Lukoil, in this consortium not to antagonize the country.<sup>393</sup>

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<sup>387</sup> İpek, 2009: 234.

<sup>388</sup> Ibid: 235.

<sup>389</sup> Granmayeh, 2004: 19-30.

<sup>390</sup> Ibid: 32.

<sup>391</sup> İpek, 2009: 235.

<sup>392</sup> Sinan Ogan, "Yeni Global Oyun ve Hazar'ın Statüsü", **TURKSAM**, 14 February 2005.  
< <http://www.turksam.org/tr/a153.html>>

<sup>393</sup> Cavid Abdullayev, "Uluslararası Hukuk Çerçevesinde Hazarın Statüsü ve Doğal

The final phase has included a momentum for a Russian-made legal regime. In 1998, there was a turning point for making littoral arrangements in the Caspian Sea. Russia declared that the demarcation of the Caspian Sea should be implemented on the basis of a legal status, which was acceptable by all the riparian states.<sup>394</sup> Since Russia has put it forward, the issue was no longer whether the sea should be divided into national sectors or not; rather it was how that division should occur. In 2003, Azerbaijan, Kazakhstan and Russia signed bilateral agreements based on a principle developed by Russia, which was called the “modified median line”.<sup>395</sup> The northern part of the Caspian Sea (64 percent) was divided into three unequal parts by these three littoral states, giving Kazakhstan 27 percent, Russia 19 percent and Azerbaijan 18 percent of the seabed.<sup>396</sup> This indicates that Russia has had a prevailing effect on foreign policy options of Baku and Astana. Decisions taken between three countries usually serve to the interests of Russia rather than Azerbaijan and Kazakhstan. As a result, despite the current energy literature expects considerable energy resources of Azerbaijan and Kazakhstan to provide leverage in foreign policy-making, Russian priorities still have been prevailing the decisions of these countries in regional affairs.

Kazakhstan, due to some factors, has been in a more disadvantageous position than Azerbaijan. Kazakh officials have pursued a more moderate approach for cooperation with the other riparian states.<sup>397</sup> Astana have avoided an uncompromising attitude and been ready for some concessions. Geographical proximity to Russia was effective for Kazakhs to demonstrate such an attitude. Besides geographical position, transportation problem helps to explain the willingness of Kazakhstan to compromise with Russia. The agreement between Kazakhstan and Russia signed in 1998 has been a good case for the moderate

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Kaynaklarının İşletilmesi Sorunu”, *Ankara Üniversitesi Hukuk Fakültesi Dergisi*, 48,1,4, 1998: 277.

<sup>394</sup> Granmayeh, 2004: 28-32.

<sup>395</sup> Bahman Aghai Diba, **The Law and Politics of the Caspian Sea in the Twenty-First Century: The Positions and Views of Russia, Kazakhstan, Azerbaijan, Turkmenistan, with Special Reference to Iran**, Maryland: IBEX Publishers, 2003: 51.

<sup>396</sup> “US Department of Energy, “Country Analysis Briefs, Caspian Sea”, EIA Official Website, <<http://www.eia.doe.gov/emeu/cabs/Caspian/Background.html>>. (17 September 2009).

<sup>397</sup> Sinkler, 2001: 65.

approach of Nazarbayev.<sup>398</sup> According to this agreement, Kazakhstan have found sectoral division of only the seabed adequate, and have accepted the right of common use of the sea surface. Azerbaijan have supported sectoral division of the whole sea, however Kazakhstan have complied with only sectoral division of the seabed.

As a counterweight to Azeri-Kazakh partnership on the issue, Russian-Iranian partnership was against the expansion of NATO and any other Western organizations in the Caspian Sea region. Two countries signed the Caspian Declaration on 12 March 2001 and agreed to act together to prevent the influence of external powers on the Caspian Sea.<sup>399</sup> This declaration stated that all agreements and arrangements about the legal status of the Caspian Sea would come into force only with the consent of all the Caspian littoral states.<sup>400</sup> This shared attitude between two countries means that the use of hydrocarbon resources of the Caspian Sea by Azerbaijan and Kazakhstan as leverage in foreign policy-making mostly depends on Russia and Iran. As a result, Russia and Iran has still dominant roles in regional affairs and this restricts policy options of Baku and Astana regarding their energy reserves.

The Caspian states organized a number of conferences on the solution of the problem. The first was held in Turkmenistan in 2002 and the following was in Iran in 2007.<sup>401</sup> The recent development was the negotiations between Azerbaijan and Turkmenistan between 15- 17 July 2009, which also remained fruitless due to unwillingness of the participants to give concessions on their attitudes for a compromise.<sup>402</sup> Turkmenistan President Berdimuhamedov accused Azerbaijan for using Caspian reserves unilaterally and underlined the urgent need for a compromise between two countries.<sup>403</sup> Recently, in January 2010, deputy Foreign Minister of Azerbaijan, to explain their ongoing efforts for an agreement on the issue, declared that “Negotiations on division of the Caspian Sea shelf will continue in March, 2010”, and added that:

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<sup>398</sup> Abdullayev, 1998: 279.

<sup>399</sup> Souleimanov, Emil and Ondrej Ditrych, 2007: 111-112.

<sup>400</sup> Ibid: 114.

<sup>401</sup> Bahman Agai Diba, “National Interests of Iran in the Caspian Sea”, **Pavyand News**, 9 October 2009.

<sup>402</sup> Ibid.

<sup>403</sup> “Azerbaycan ile Türkmenistan Arasında 'Hazar' Tartışması”, **USAĞ Gündem**, 25 July 2009. <[www.usakgundem.com/azerbaycan-ile-turkmenistan-arasinda-tartismasi.html](http://www.usakgundem.com/azerbaycan-ile-turkmenistan-arasinda-tartismasi.html)> (15 May 2009).

“We’ll keep on negotiations based on five-sided format on drawing up the conventions. So, in 2007, during the Teheran summit, the heads of the states got initiated a safety issue and made decision to appeal to Azerbaijan for the purpose of establishment the security-related mechanisms with attraction of boundary, customs, law-enforcement, and other state bodies. It’s possible to conclude the corresponding treaty for establishment such mechanisms”.<sup>404</sup>

To conclude, the littoral states of the Caspian Sea region could not come to a conclusion on the legal status of the sea. Ultimately, fundamental issues have remained unresolved. The treaties signed between Russian and Iran still form the basis of the current legal regime. Despite the lack of a universally accepted agreement, Kazakhstan, Azerbaijan and Russia have abandoned their ideal solutions and gave some concessions. Even Russia abandoned its ideals and gave concessions, because it intended to reach bilateral agreements rather than multilateral initiatives.<sup>405</sup> These concessions have paved the way for a bilateral division of the seabed. Azerbaijan and Kazakhstan have recognized that they have to sacrifice from their ideal objectives to achieve a working solution for all parties. However, these littoral states did not sign any legal document that determines the legal status of the sea. The absence of a solution, on which the entire littoral states compromise, prevents Azerbaijan and Kazakhstan from using their energy card effectively.

#### **4.3.2. Transportation of the Caspian Oil and Gas and Geographical Factors**

One of the fundamental constraints for Azerbaijan to use their hydrocarbons efficiently is the transportation problem. The neighboring Central Asia is a land-locked region and needs long pipelines for an outlet to the sea. Basic transport routes pass through Russia, Turkey, Iran, Afghanistan-Pakistan and China. Each route requires long pipelines, which can only be constructed with considerable

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<sup>404</sup> “Negotiations on division of the Caspian Sea shelf will continue in March”, **NewsAZ**, 30 January 2010, <<http://www.news.az/articles/7916>>.

<sup>405</sup> Fiona Hill, “Russia’s International Integration and Caspian Sea Oil”, **Program On New Approaches to Russian Security Policy Memo**, 9, 1997: 4.  
< [http://csis.org/files/media/isis/pubs/pm\\_0009.pdf](http://csis.org/files/media/isis/pubs/pm_0009.pdf)> 15 April 2010.

international investment. Since the collapse of the Soviet Union, however, newly independent states have faced severe economic crises and limited revenues. Old-fashioned methods and backwardness in technological innovation of these countries kept production on low levels. These shortcomings have prevented the better operation of fields and the delivery of Azeri and Kazakh hydrocarbons to global markets.<sup>406</sup>

One of the most significant factors that affect the transportation of the hydrocarbons is geography.<sup>407</sup> The problem of transporting oil and gas is an outcome of the region's geopolitical position. The development of the oil and gas potential of Azerbaijan and Kazakhstan depends on their pipeline politics.<sup>408</sup> Ehteshami argues that Azerbaijan and Kazakhstan are not as lucky as the oil producers in the North Sea or the Gulf region to benefit from their energy reserves.<sup>409</sup> This has several reasons. First, despite volatility in the oil prices that reached the 140 dollars limit in the last two years, prices are likely to keep low in the foreseeable future.<sup>410</sup> This will lower commercial attractiveness of the Caspian oil relative to OPEC or North Sea oil, due to the higher production costs.

Second, high taxation of fossil fuels in the Western countries began to lower the demand for these fuels. This has also triggered the search for alternative energy sources such as renewable energy sources. Within this changing energy environment, the Caspian oil exporters may lose their significance due their relatively high production costs. Third, OPEC producers (Kuwait, Qatar, Iraq and Iran) began to open their economies to foreign investment due to the increasing competition in the energy market. This will affect the transnational oil companies to prefer those regions due to lower prices. Fourth, the increasing investments of the Western corporations in the Gulf region have decreased the production costs. Finally, as well as the Caspian region, non – OPEC producers in the Middle East, Africa and Latin

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<sup>406</sup> Ibid: 38.

<sup>407</sup> Michael T. Klare, "Oil Moves the War Machine", **The Progressive**, June 2002: 19.

<sup>408</sup> Willy Olsen, "The Role of Oil in the Development of Azerbaijan", Shirin Akiner (ed.), **The Caspian: Politics, Energy and Security**, London: RoutledgeCurzon, 2004: 120.

<sup>409</sup> Ehtesami, 2004: 64.

<sup>410</sup> See **International Energy Outlook 2009**, EIA, <[www.eia.doe.gov/oiaf/ieo/index.html](http://www.eia.doe.gov/oiaf/ieo/index.html)> (24 May 2010).



America have become alternative energy suppliers for the global markets.<sup>411</sup> This creates a serious competition in the energy market between these regions.

In a situation where the number of players has risen and the production and transport costs decreased thanks to the increasing competition of the market, geography becomes a key variable.<sup>412</sup> The landlocked geographic position of Azerbaijan and Kazakhstan becomes one of the key obstacles to use their energy card efficiently and independently. Instead, they have remained dependent on transit states in order to supply the global energy demand. The geopolitics of the region has complicated the transportation of oil and gas from the Caspian Sea basin to the markets. Determination of the routes for flow of resources has therefore become a political issue. The rivalry over the pipeline routes promises economic and political gains for the countries that can use their resources effectively, while losers would be marginalized strategically.<sup>413</sup>

Azerbaijan and Kazakhstan depends on Moscow until alternative transport routes are realized. Russia prefers northern routes in order to maintain its control over the pipeline infrastructure, which was originally constructed during the Soviet era. These routes extend from Baku to Novorossiysk and from Tengiz oil field in western Kazakhstan to Novorossiysk. Meanwhile, the US and the EU support Western routes to contain the Russian influence over the region. The primary objective of these actors is to bypass Iran and Russia. In 1997, the United States began to support the BTC (Baku-Tbilisi-Ceyhan) pipeline. There were two reasons, according to Olsen, that explain the American support for the BTC pipeline.<sup>414</sup> First, the US ignored Iran as an alternative transport route. Second, it intended to minimize the role of Russia in the transport system.

There are some favorable conditions that make Iran a possible central actor in the transportation of Caspian reserves. First is the geostrategic position of the country between the Caucasus, the Caspian Sea, Central Asia, the Persian Gulf, the Gulf of Oman, Turkey, Afghanistan and Pakistan. It can be the gateway for Caspian reserves

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<sup>411</sup> Ibid: 64-65.

<sup>412</sup> Ibid: 65.

<sup>413</sup> Alam, 2002: 12.

<sup>414</sup> Olsen, 2004: 121.

to the open seas.<sup>415</sup> Further, Iran can deliver oil through swap agreements from Azerbaijan, Kazakhstan, and Turkmenistan to the global markets.<sup>416</sup> This would enrich options of Azerbaijan and Kazakhstan for transportation. Rather than depending solely on Russia or the US controlled pipeline projects, there will be a third option to counterbalance the influence of Russia and the United States.<sup>417</sup>

The southern routes, supported by Iran and some major oil corporations, pass through Iran territory and terminate at the Persian Gulf. These are the shortest and cheapest routes. They pass through safer territories and carry less environmental risks.<sup>418</sup> As purely economic considerations, these routes offer the best options to transport Caspian hydrocarbons to the markets. The French oil firm, Total, in its report on transporting Kazakh oil, has also advocated that the cheapest and most rational route was going through Iran. However, the drawback of Washington about the political regime of the country delimited foreign policy choices of Kazakhstan in the field of energy.<sup>419</sup> However, the US opposes these routes due to the political and ideological controversies between Washington and Iran.<sup>420</sup>

Under these circumstances, it becomes very difficult for Azerbaijan and Kazakhstan to choose the most suitable option to export their reserves and get the maximum utility. Hence, these countries depend on the Russian and Western oil firms, the latter mostly represented in the form of American oil corporations, in terms of their exploration and extraction of oil and gas. They have to consider the priorities of Russia and the US. As abovementioned, commercially, the Iran route would offer Caspian states an alternative to lower their dependence both on Russian and Western routes. The US, however would not allow Iran to increase its influence in the region. This has been the driving force behind the US policy towards the Caspian region. As a result, transportation problems prevent Baku and Astana to use their energy cards efficiently in foreign policy-making. Although they possess considerable amounts of oil and gas, they could not have delivered their resources independent of transit

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<sup>415</sup> Alam, 2002: 13

<sup>416</sup> Ibid: 14-15.

<sup>417</sup> Ibid: 16.

<sup>418</sup> Enayatollah Yazdani, "Competition Over the Caspian Oil Routes: Oilers and Gamers Perspective", **Alternatives: Turkish Journal of International Relations**, 5.1-2, 2006:51-53.

<sup>419</sup> Süha Bölükbaşı, "Jockeying for Power in the Caspian Basin", Shirin Akiner (ed.), **The Caspian: Politics, Energy and Security** NY: Routledge Curzon, 2005:203-205.

<sup>420</sup> Ibid: 57.

countries and those which control the pipeline infrastructure of the region. Thus, transportation problem has been one of the key barriers against Azerbaijan and Kazakhstan to use their reserves independently.

## CONCLUSION

This study overviewed the role of energy resources as a foreign policy tool in Azerbaijan and Kazakhstan cases. It tried to offer a new perspective, which reconciles the oil politics in these countries with the mainstream IR theories. For a better understanding, first the study gave a chronological explanation of the Caspian history, with a special emphasis on post-Cold War period. Then, it examined the hydrocarbon potential of the region to show to what extent these two states can offer a considerable alternative as energy suppliers.

In order to provide external consistency, the study explained the worldwide energy politics to indicate that the hypothesis is also valid in different cases. Then, the study explained the main assumptions of the theoretical approaches on oil politics, with a particular emphasis on the Caspian region. In this regard, the study dealt with the classical realism, geopolitical theory, neorealism, transnationalism and interdependence theories and social constructivism. It tried to examine what these theories offer to explain oil politics regarding the Caspian region. Finally, it intended to apply theoretical models to the oil politics in Baku and Astana.

Despite their common historical background, Azerbaijan and Kazakhstan have differed in their foreign policy behaviors in the post-independence period. The current literature on energy politics in the region assumes that these differences arise from their diverse energy policies and key constrains that limits their policy choices. The literature also argues that the future development of these states is likely to depend on how they will use their reserves. For instance, Foreign Affairs columnist Jan Kalicki argues that because of rising global energy demand and decreasing production levels, Azerbaijan and Kazakhstan, due to their huge reserves, have won a considerable leverage in foreign affairs.<sup>421</sup> However, this study underlines that it is far from clear that these states could use their reserves to lessen their dependence on the major powers, achieve sustainable development by allocating oil revenues to other sectors such as industry and agriculture, and independent foreign policy-making. Contrary to the implicit and explicit assumptions stated in the literature,

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<sup>421</sup> Jan H. Kalicki, "Caspian Energy at the Crossroads", *Foreign Affairs*, September/October 2001.

which equate hydrocarbon reserves with state power and ability to achieve foreign policy objectives, this study shows that both Azerbaijan and Kazakhstan have faced with a number of key constraints to use energy as an efficient foreign policy tool.

A theoretical approach, which has strong assumptions for the study, is neorealism. According to Waltz, the security of states depends on providing a balance of power in the system. The stability of the system is ensured by balancing and counter balancing that occur regularly.<sup>422</sup> In this regard, the Nagorno-Karabakh conflict can be considered as a matter of two major powers, the US and Russia. These two states try to balance and counterbalance each other in the Caspian region, where a power vacuum occurred after the collapse of the Soviet Union.<sup>423</sup> Regarding Kazakhstan, Russian policy on the country and Astana's efforts to counterbalance the Russian influence with new dependencies on the European, the American and also Chinese partners has been a case for the approach. Within this context, Azerbaijan and Kazakhstan have become subordinated to the outcomes of the rivalry between two major powers. Thus, the system level is suitable to study the frozen conflicts within the region, such as the Nagorno-Karabakh conflict.<sup>424</sup>

This study examined the role of oil and gas in foreign policies of two countries separately. First it dealt with Azerbaijan. In the post-independence period, it was not an easy task for Azerbaijan to play its energy card. The country could not achieve a quick escape from Moscow influence. The first president Mutallibov was a pro-Russian politician. The next president, Elchibey pursued a pro-Turkish strategy and demanded Russian soldiers to leave the Azerbaijan territory for an absolute independence. This resulted in a decline in relations with Russia.<sup>425</sup> Mutallibov compensated for its pro-Russian policy and Elchibey for anti-Russian policy by losing their presidencies. As a result Azerbaijan compensated for these unstable policies by losing a large part of its territory.<sup>426</sup> Heydar Aliyev pursued a pro-Russian policy. However, this strategy did not fix the relations with Moscow. Then, in 1994,

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<sup>422</sup> Waltz, 1979: 132.

<sup>423</sup> Rosenkvist, 2005: 17.

<sup>424</sup> Ibid: 17-18.

<sup>425</sup> Elnur Cemilli, **ABD'nin Güney Kafkasya Politikası**, İstanbul: IQ Kültür Sanat, 2007: 39-40.

<sup>426</sup> Arslanlı, Araz and İlham Hesenov, 2005:180.

Aliyev turned to the West and started negotiations with the Western oil MNCs.<sup>427</sup> This move has been an obligatory result of the political dynamics rather than a voluntary choice. Political concerns began to dominate the energy strategy of the country. Azerbaijan had to get closer to the West, because it had to deal with security, ethnic and territorial concerns. These concerns obliged Azerbaijan to formulate a new foreign policy agenda, which enables to maintain closer relations with the US, the EU and Turkey. This new agenda intends to deal with more oil MNCs, to export more oil and gas, and not to antagonize Russia. Nevertheless, security concerns dominate foreign policy-making in the country. Baku still suffers from a regional frozen conflict, which poses a serious threat to its national security: the Nagorno-Karabakh. As a result, energy politics has been subordinate to security problems and political conflicts.

Taking into account the particular emphasis of neorealism on security issues, for at least three reasons, the Nagorno-Karabakh issue has proved to be the most critical issue for the Azeri foreign policy.<sup>428</sup> First, Karabakh conflict has threatened the domestic stability of the country. Whilst a considerable amount of Azerbaijan territory was occupied by Armenia; the opposition groups politicized the issue, which then became a tool to accuse the incapability of the government. For instance, between the years 1991-1993, Baku had three presidents, each of whom had to resign as a consequence of the opposition groups complaining about this issue. In retrospect, it seems fair to argue that the failures in the battlefield weakened those governments.<sup>429</sup>

Second, the issue became the primary factor that shaped the Azerbaijan foreign policy in the early post-independence period.<sup>430</sup> The first two president of the country gave the first priority to the issue; however both of them lost their presidencies due their failures to achieve a solution. Third and the most important, Azerbaijan has to use its oil and gas reserves in order to achieve its foreign policy goals; but such security concerns prevent the country to focus exclusively on economic concerns. On the one hand Azerbaijan, thanks to its increasing oil revenues, can develop military

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<sup>427</sup> Ibid: 181.

<sup>428</sup> İpek, 2009: 229.

<sup>429</sup> Kasim, 2001: 188.

<sup>430</sup> Şen, 2009: 32-34.

capacities, which help to address some of these concerns. On the other hand, dependence on Russia for transporting its oil exports cancels out the first option as a viable possibility.

The recent developments on the issue showed that Azerbaijan is an inexperienced country in foreign policy making.<sup>431</sup> Contrary to the national interests of Baku, Turkey was involved in a process called “Armenian initiative”, which aimed normalization of the diplomatic relations between two countries. As a response to this accommodation, which antagonized Azerbaijan, Baku government initiated a rapprochement with Russia. This move of Azerbaijan indicated the inexperience of the country in foreign policy-making and its monotone foreign policy perceptions as a heritage from the Communist age.<sup>432</sup> This is because Baku government simply counter responded to Turkey’s move towards Armenia, rather than taking into consideration possible mutual gains and solution of the frozen conflict.<sup>433</sup> Recently, a declaration came from Deputy Minister of National Security of Azerbaijan, Sefer Abiyev, in which he stated that an armed struggle is likely to occur in the region unless Armenia withdraws from Azeri territory under occupation, and added that “Now it is time of military”.<sup>434</sup> This has indicated that Baku has had several efforts to use its energy card to resolve political conflicts; however it failed to manage its resources as leverage.

When compared with Azerbaijan, Kazakhstan has a more limited and constrained foreign policy agenda. The integration of Kazakhstan to the global economy has been limited, too. A reason for this is the Russian factor. Kazakhstan is severely restrained by Moscow in its foreign policy choices. For the most part, this pressure has been economic.<sup>435</sup> The situation stems from the maintenance of the Soviet nomenklatura, which has been influential in preserving the economic, financial, institutional and political relations between two countries. The ability of Russian government and businesspeople to manipulate Kazakh economy has been another constraint for the country to achieve independent foreign policy-making.

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<sup>431</sup> Semih İdiz, “Aliyev Haklı, Ama...”, **Milliyet**, 19 October 2009.

<sup>432</sup> Ibid.

<sup>433</sup> Cemilli, 2007: 55-56.

<sup>434</sup> İdiz, “ Bakü’nün Savaş Tamamları”, **Milliyet**, 27 February 2010.

<sup>435</sup> Michael Rywkin, “Stability and Security in Central Asia: Engaging Kazakhstan”, **American Foreign Policy Interests**, 28.6, 2006:454.

This dependence on Russia stems from several factors, which range from the control of the transport infrastructure to the existence of a considerable ethnic Russian population in Kazakhstan.<sup>436</sup> Nearly fifty percent of the Kazakh population is composed of ethnic Russians. This exerts a considerable pressure on foreign policy-making when the Russian interests at stake.

When considered through the lens of neorealist and geopolitical approaches, rather than the topic of energy, geographic location and demographic structure of Kazakhstan dominates the foreign policy of the country. The overwhelming effects of geopolitics and the pragmatism of Nazarbayev will be effective on whether Kazakhstan will move to the East or West. Geopolitical factors oblige the country to preserve its close relations with Russia, the US, the EU and China, as counterbalancing allies. Despite the efforts of Nazarbayev to make ethnic Kazakhs the dominant group within the demographic structure, Russia is likely to continue to dominate the foreign policy calculations of Astana. Although Kazakhstan has established multiple ties with the Western powers, proactive Russian policy towards the region constrains its foreign policy orientations. In addition, its relations with the US also oblige Kazakhstan to pursue such a balancing policy. For instance, although the US favored trans-Caspian oil and gas pipelines that deliver Kazakh oil and gas to the East-to-west energy corridor, plans to build a seabed pipeline to connect Kazakh oil to the BTC was suspended. Rather, Kazakhstan will carry oil from Aktau to Baku by tankers. This indicates that all strategic partnerships with Russia, the US and China are necessary and Kazakhstan would not favor interests of one of them at the expense of others'.<sup>437</sup>

In the middle-run, Kazakhstan is likely to seek to sustain close relations with the United States. It aims to benefit from cooperation in the field of security and gain support for the WTO membership.<sup>438</sup> According to neorealist approach, despite Russian influence, some factors make it inevitable for Kazakhstan to consider American strategic partnership in the Caspian region. The core of the United States' policy towards the region is: "to support Central Asian states as fully sovereign,

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<sup>436</sup> Ibid: 454-455.

<sup>437</sup> İpek, 2007: 1191.

<sup>438</sup> Olikar, 2007:71.



democratic, stable and prosperous nations, contributing to regional stability and the global war on terrorism and potentially serving as models of ethnic and religious tolerance”.<sup>439</sup> It works to enhance cooperation in several sectors, including security, energy, promotion of economic change and democratic norms.

Within this context, Kazakhstan has a growing role as the major strategic partner of the US in the region.<sup>440</sup> Especially, regarding the maintenance of the regional security, the US offers several cooperation initiatives to Kazakhstan, which it cannot ignore due to Russian factor. These include “assisting Kazakhstan to combat threats arising from narco-trafficking, terrorism, and smuggling of all contraband, including weapons of mass destruction by building up Kazakhstan’s rapid reaction capabilities”.<sup>441</sup> The ongoing rivalry between Russia, China and the US over energy projects has been “only a part of a multi-dimensional strategic game to politically control the Eurasian landmass”.<sup>442</sup> The future of the Kazakh oil and its delivery to global markets will be shaped by the competition among three powers, namely Russia, China and the US.<sup>443</sup>

There are some critical factors that undermine the role of the energy resources in foreign policy-making of both Azerbaijan and Kazakhstan. Together with the problems they face alone, there are also some common key constraints for Baku and Astana, which limit their ability to use hydrocarbons as efficient foreign policy tools. Among the factors that facilitated this outcome, the following particularly stand out. The energy politics are always subordinated to the outcomes of the ‘high politics’ in Azerbaijan and Kazakhstan. Two of these key constraints deserve particular attention: the legal status of the Caspian Sea and the lack of alternative transport routes to deliver the Caspian hydrocarbons to the global markets. Both of these security concerns far outweigh other foreign policy issues of Baku and Astana.

Regarding the first, the littoral states of the Caspian Sea region could not come to a conclusion on the issue. Fundamental issues remained unresolved. The treaties signed between Russian and Iran still form the basis of the current legal

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<sup>439</sup> Evan A. Feigenbaum, “Kazakhstan and the United States in a Changed World”, **China and Eurasia Forum Quarterly**, 4.4, 2006: 9.

<sup>440</sup> Ibid: 10.

<sup>441</sup> Ibid: 11.

<sup>442</sup> İşeri, 2007: 145.

<sup>443</sup> Ibid: 145-146.

regime. Despite the lack of a universally accepted agreement, Kazakhstan, Azerbaijan and Russia abandoned their ideal solutions and gave some concessions. These changing attitudes of the parties on the issue enabled a bilateral division of the seabed. However, they did not sign any legal document that determines the legal status of the sea. The absence of a solution, on which the entire littoral states compromise, prevents Azerbaijan and Kazakhstan to use their energy card effectively.

Second, transport routes of the oil and gas pipelines are predominated by the political facts. Although there are cheaper and an easier routes for pipeline construction, other options are preferred due to the political concerns. Azerbaijan and Kazakhstan both lack direct access to shipping lines on the high seas. To export their oil and gas resources to the global markets, they have to use the territory of at least one of the transit countries in the region. This prevents them to offer alternative energy supplies to the global markets, which will help them to achieve independent foreign policy-making.

When neorealist and geopolitical approaches are applied to the case, a number of characteristics of the current pipeline diplomacy help to better reach a conclusion on this study.<sup>444</sup> First, during the Soviet era, all the pipelines from the Caspian Sea were connected to the Russian network. Even after the independence of Azerbaijan and Kazakhstan, Russia has continued to preserve its control over the transportation routes from the region to the markets. Second, the lack of markets that Azerbaijan and Kazakhstan can directly supply their oil and gas without a mediation of another agent has substantially decreased the state revenues. Consequently, this has further complicated the regional energy politics. Russia has remained as the sole market for the Caspian hydrocarbons, due to geopolitical advantages. Third, the Russian pipeline infrastructure is no longer adequate to deliver growing amounts of oil and gas to the markets. Thus, a consensus between the regional and extra-regional actors has emerged, which underlines the need for multiple pipeline routes. Diversification of the pipeline routes has become an inevitable need for both Caspian energy producers and global consumers to decrease their dependence on Moscow for

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<sup>444</sup> Bahgat, G., "Prospects For Energy Cooperation in the Caspian Sea", 2007:165.

transport. Fourth, pipelines are not constructed only according to their financial merit or a cost-effective analysis. Geopolitical interests also play a considerable role in realization of the projects. The main reason for Azerbaijan and Kazakhstan to implement such an alternative pipeline project has been to bypass the Russian and Iranian routes, and weaken the influence of Moscow and Tehran over the regional energy politics.<sup>445</sup> Their ambition mostly depends on the US interests in the region.

Current strategy of the US towards the Caspian region is to encourage them to prefer routes that bypass Iran territories strengthen the role of Turkey as a regional power and to preserve the political and economic autonomy of Azerbaijan and Kazakhstan.<sup>446</sup> In a neorealist manner, Washington tries to form a new balance of power in the region. According to the report of the Atlantic Council of US on Iran-United States relations, “the political support that the Clinton administration gave to the Baku-Ceyhan pipeline should be examined in this context: It helped Turkey, penalized Iran, and could reduce Russian influence in the Caspian region”.<sup>447</sup>

Despite the above mentioned difficulties, however these states have nevertheless sought to lessen their dependence on Moscow and achieve economic and political independence. The construction of additional alternative do not offer purely economic gains for Baku and Astana, but rather a significant means of reducing the existing Russian control and maintain their independence. However, the deal between Russia, Turkmenistan and Kazakhstan, on 12 May 2007, significantly increased the amount of gas exports from Central Asia to Europe via the Russian infrastructure. This indicated a great success for the Russian foreign policy objectives.<sup>448</sup> As a result, Kazakhstan could not achieve to lessen its dependence on Russia for transportation of its oil; so failed to use its energy card as an efficient foreign policy tool.

In order to lessen their dependence on Russia, both Azerbaijan and Kazakhstan can conduct bilateral relations with the Western oil MNCs and international institutions, such as IMF and World Bank. However, the actors, with

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<sup>445</sup> Ibid: 166.

<sup>446</sup> “Thinking Beyond the Stalemate in US- Iranian Relations- Volume II Issues and Analysis”, **The Atlantic Council of the United States, Occasional Paper**, 2001: 8.

<sup>447</sup> Ibid: 8-9.

<sup>448</sup> Akgün, 2007: 30-31.

whom these states prefer to cooperate and trade, matters at least as much as their dependence on Russia. Activities of oil MNCs and foreign firms in Azerbaijan and Kazakhstan, enable these states to have closer relations with these international institutions. Increasing levels of interaction between these actors has resulted in economic reforms and the relative liberalization of their economic structure.

To conclude, under these conditions, it seems as too early for the generous resources of the region to serve Azerbaijan and Kazakhstan as a means of power. Azerbaijan and Kazakhstan, due to several factors in their foreign policy-making, including geography, security, demography and the involvement of the extra-regional actors in regional politics, could not use their resources in an expected way. Although they have sought to lessen their dependence on Russia by utilizing their hydrocarbons; this has led to the replacement of their dependence on Russia with a new dependence on the US, the European states and their oil MNCs for foreign investment and foreign capital to construct alternative pipelines. Contrary to the prevailing assumptions in the current literature, strategic natural resources do not guarantee independent foreign policy-making in resource-rich countries, like Azerbaijan and Kazakhstan. As well as these strategic resources, there are some other factors that shape foreign policy considerations of these states. In both countries, security concerns outweigh the energy policies. This makes them dependent on the other states for security, foreign investment, and cooperation in other fields. As a result their energy policies become subordinate to the major powers, particularly on Russia, on which they are dependent.

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