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# U.S. POLICY IN THE CAUCASUS AND CENTRAL ASIA: BUILDING A NEW “SILK ROAD” TO ECONOMIC PROSPERITY

## INTRODUCTION

Of the many foreign policy challenges the United States faces during this post-Cold War era, one in particular is gaining importance with the passage of time: how best to secure adequate access to oil and natural gas reserves in the first half of the 21st century.<sup>1</sup> The oil and gas reserves of Eurasia’s Caspian Sea region could provide the United States with a solution to this challenge: They are an abundant resource, second in size only to those in the unstable Middle East. The Caspian Sea reserves have been estimated to hold 100 billion to 200 billion barrels of oil worth between \$2 trillion and \$4 trillion at current market prices.<sup>2</sup> The region’s reserves of natural gas are similarly enormous—larger than those in all of North America.

But the issue of access to the oil and natural gas of the Caspian Sea region is not an isolated one; it is linked to other important U.S. geostrategic interests in Eurasia. For example, U.S. policymakers are becoming increasingly concerned about the possible re-emergence of a new Russian empire, and they realize that ready access to the rich oil and gas resources of this region could fuel such an expansion. A new Russian empire conceivably might seek to gain exclusive control over the region’s pipelines and limit U.S. access. Furthermore, the radical Islamic regime in Iran could move to turn Central Asia into its

- 1 For an earlier discussion of this subject, see Ariel Cohen, “The New Great Game: Oil Politics in the Caucasus and Central Asia,” Heritage Foundation *Background* No. 1065, January 25, 1996. See also “Major Setbacks Looming for American Interests in the Caucasus Region,” Staff Report, Committee on International Relations, U.S. House of Representatives, September 6, 1996, p. 7.
- 2 Hugh Pope, “U.S. Report Says Caspian Oil Deposits Might Be Twice as Large as Expected,” *The Wall Street Journal*, April 30, 1997, p. A10. See also U.S. Department of State, *Caspian Region Energy Development Report (As Required by HR 3610)*, undated report attached to letter from Barbara Larkin, Assistant Secretary for Legislative Affairs, to Senator Robert Byrd (D-WV), April 15, 1997, p. 3.

strategic rear, viewing the Islamic states of Central Asia as a potential sphere of influence. Even China has the potential to become involved.

The United States has an overarching interest in encouraging the economic prosperity of the southern Caucasus and Central Asia. Economic growth would secure the sovereignty of the New Independent States (NIS); it would be effective in countering the radical Iranian influence; and it would provide lucrative markets for U.S. goods and services. Without broad-based economic development, the NIS will remain susceptible to political instability. A large number of policymaking elites in the NIS look to the United States not only for examples of economic success, but also for leadership—despite ideological and political competition from Asia and Iran.

The United States therefore has many reasons to contribute to the revival of this region by participating in the development of an extensive network of pipelines, railroads, highways, ports, airports, and telecommunications that can serve as a “Silk Road” to link the East and West in the third millennium. Historically, the Silk Road was a network of caravan routes running from China and India through Central Asia to Western Europe. Commerce along the Silk Road brought economic prosperity and a resulting cultural renaissance to Central Asian cities like Samarkand and Bukhara. When Islamic fanatics finally blocked the Silk Road in the 16th century, the entire region fell into decline.

The valuable oil and natural gas reserves of the Caucasus and Central Asia are likely to make the new Silk Road a trade and investment engine to power unprecedented economic growth. The Silk Road would connect China, Russia, Eurasia, and Western Europe, providing business opportunities for American companies and, ultimately, jobs for American workers. The future of the Silk Road is, therefore, an important national interest.

The Clinton Administration—intent on placating Moscow—has hesitated to take advantage of the strategic opportunity to secure U.S. interests in the Caucasus. During the first term of the Clinton Administration, the Department of State and the National Security Council neglected the Central Asian and Caucasian capitals, creating a policy vacuum for the region. This approach must change. U.S. involvement in this region—and the economic growth, prosperity, and tolerance that would accompany it—can ensure access to oil and natural gas, as well as economic opportunity, for American businesses in coming decades.

To ensure the economic and strategic interests of the United States in Eurasia, U.S. policymakers should:

- **Recognize that the Caucasus and Central Asia ceased to be in the Russian sphere of influence with the collapse of the Soviet Union.** An unprecedented geostrategic sea change occurred after the collapse of the Soviet Union: Four centuries of Russian expansion to the South ended. Post-communist Russia lacks the popular will and military resources to regain the empire through outright military conquest. The United States has much greater freedom to maneuver in Eurasia than ever before, and—for the first time in history—the United States and its allies have access to the Eurasian hinterland and its bountiful economic resources.
- **Internationalize conflict resolution in the region.** Ethnic wars, often spurred by the Russian military as in Abkhazia and Nagorno-Karabakh, have taken a tremendous toll on the nascent states in this region. The only products of these

conflicts have been over 1 million refugees and over 200,000 casualties. Peace is important for future economic development, which in turn depends on the transport of oil and natural gas to international markets. Russian “peacemaking” has failed to achieve peaceful conflict resolution, however, and Russia has yet to acquire the “honest broker” status necessary for success. As the only remaining superpower, the United States has been asked by countries in the region to mediate, bring the warring factions to the negotiating table, and suggest appropriate principles for equitable settlements.<sup>3</sup> The United States should respond to such requests with support for further peacekeeping efforts—for example, assistance in monitoring peace agreements, refugee resettlement, and attracting foreign investment. The United States also could assist the members of the Organization for Security and Cooperation in Europe (OSCE) that have deployed peacekeeping troops, such as those in Abkhazia and Nagorno-Karabakh, with diplomatic support and logistics.

- **Maintain a balanced approach to Armenia and Azerbaijan.** Armenia and Azerbaijan became involved in a bloody war over the enclave of Nagorno-Karabakh in 1988. Even though a cease-fire has been observed since 1994, the conflict must be settled to allow economic development to benefit both countries. The United States co-chairs the OSCE-sponsored Minsk Group, a committee of countries working on a peace settlement in Nagorno-Karabakh. As a leading mediator, the United States must balance its relations with Baku, the capital of Azerbaijan, and Erevan, the capital of Armenia. This balance should include equalizing the levels of assistance to both countries, encouraging the opening of the Turkish–Armenian border as part of a final settlement, and cooperating militarily with Azerbaijan to offset the Russian military support of Armenia.
- **Rescind sanctions that prevent U.S. assistance to Azerbaijan.** Sanctions passed in 1992 (Section 907 of the Freedom Support Act) bar U.S. assistance to the government of Azerbaijan until the U.S. President can report to Congress that the government of Azerbaijan is taking steps to stop the offensive use of force against Armenia and Nagorno-Karabakh.<sup>4</sup> These sanctions have failed to achieve a peaceful solution to the conflict. Meanwhile, Armenia has received over \$600 million in U.S. assistance since 1992. For the United States to present a balanced policy toward both countries and be perceived as an honest broker in the peace talks, the sanctions against Azerbaijan must end. Many prominent Americans, including former secretaries of defense and members of the Senate, have called for the repeal of Section 907 to encourage a lasting peace in the Caucasus.
- **Approve most favored nation (MFN) trading status for Azerbaijan.** Most of the NIS have full or conditional MFN status. Despite the fact that Azerbaijan is importing equipment and machinery worth hundreds of millions of dollars from the United States to develop the resources of the Caspian Sea, and despite the fact that the United States may begin importing large quantities of oil from

3 “Armenia, Azerbaijan Greet Denver Summit Statement on Karabakh,” *RFE/RL Newswire*, June 26, 1997, Part I.

4 Freedom Support Act, P.L. 102–511, Sec. 907, “Restriction on Assistance to Azerbaijan,” 102nd Cong., 2nd Sess., 1992.

Azerbaijan, the lack of MFN status hinders other trade and investment in the region and forces the United States to discriminate against an important country and potential ally. A trade agreement with Azerbaijan should be signed, and MFN status granted, as quickly as possible.

- **Increase coordination between governments and American companies involved in the oil and natural gas industry and pipeline routes in the region.** Congress and the executive branch need to formulate a well-defined Silk Road strategy that integrates their energy, trade, geopolitical, and security concerns for the region. The President should nominate a coordinator at the National Security Council staff level with experience in energy and international security matters to ensure security cooperation and to facilitate U.S. investment in the region.
- **Restructure U.S. and multilateral assistance to countries in Central Asia and the southern Caucasus.** The United States should focus on providing assistance for implementing market reforms, encouraging industrial and agricultural privatization, developing the rule of law, creating functioning legal systems, boosting educational exchanges, and strengthening civic society. Its Silk Road strategy should include diplomatic cooperation as well as military, security, and political support for the NIS in the southern tier, especially countries like Azerbaijan and Georgia. This would allow American companies to help develop the region's natural resources. It also could help secure the sovereignty of the NIS and foster pro-American, pro-Western orientations in Georgia, Azerbaijan, Armenia, and other countries in the region.

Congress should consider establishing a nonprofit foundation to coordinate and focus such efforts. Such a foundation should be staffed by regional specialists from the private sector with linguistic and professional skills in law, business, economics, finance, and management. Modeled on the Board of International Broadcasting that ran Radio Liberty/Radio Free Europe during the Cold War, such an organization could help boost economic reform in Central Asia and make the region more receptive to oil-driven investment from the West. Its staff should focus on advising and educating officials in these countries on how to develop market institutions, the rule of law, and a system for the protection of private property rights and enforcement of contracts. These reforms are necessary if these countries are to attract foreign investment in the oil, natural gas, and mining industries. Funding for this foundation should be derived and transferred from existing economic aid programs for the NIS; such a foundation would be better able than the Agency for International Development (AID) to advise countries on free-market reforms. There is, however, no need to increase funding to pay for the programs established and administered by it.

## **OIL RICHES, SOVEREIGNTY, AND ECONOMIC GROWTH**

The energy reserves of the Caspian Sea continental shelf have provided the largest oil find for the end of this millennium. Along the shores belonging to Azerbaijan, Kazakhstan, Turkmenistan, and possibly Russia and Iran, are oil and natural gas reserves exceeding those of Iran or Iraq. Caspian Sea hydrocarbon resources are equal to those of Kuwait and

represent two-thirds of Saudi Arabia's energy riches. The Central Asian supply is second only to the entire supply of the Middle East and larger than those of either Alaska or the North Sea. At the current price of \$20 per barrel, this 200 billion-barrel potential ultimately could yield revenues of up to \$4 trillion.<sup>5</sup> Natural gas reserves are estimated at 7.9 trillion cubic meters, which places the region third behind Russia and the Middle East, and are greater than the reserves of the United States and Mexico combined.<sup>6</sup> Table 1 demonstrates the distribution of reserves in the Caspian region.<sup>7</sup>

Table 1

### Estimates of Recoverable Oil and Gas Resources in the Caspian Region

	Proven Oil (Billion Barrels)	Possible Oil (Billion Barrels)	Total	Proven Gas (Trillion Cubic Meters)	Possible Gas (Trillion Cubic Meters)
Azerbaijan	3.6	27.0	31.0	0.3	1.0
Kazakstan	10.0	85.0	95.0	1.5	2.5
Turkmenistan	1.5	32.0	33.5	4.4	4.5
Uzbekistan	0.2	1.0	1.2	2.1	1.0
Russia	0.2	5.0	5.0	NA	NA
Iran	NA	12.0	12.0	0	0.3
<b>Total</b>	<b>15.6</b>	<b>163.0</b>	<b>178.0</b>	<b>8.3</b>	<b>9.3</b>

Note: Totals may not add up due to rounding.

Source: U.S. Department of State, *Caspian Region Energy Development Report*, (As Required by HR 3610), undated report attached to letter from Barbara Larkin, Assistant Secretary for Legislative Affairs, to Senator Robert Byrd, April 15, 1997, p. 3.

The United States has major economic and strategic interests in this region. First, it wants access to the oil resources of the Caspian Sea and their secure transportation to Western markets. Western companies like Amoco and British Petroleum lead the Azerbaijan International Operating Company (AIOC) consortium, the main Caspian Sea drilling contractor; Chevron is developing a giant field in Tengiz in western Kazakstan; and the Atlantic Richfield Company is a shareholder in the Russian oil giant Lukoil, another major player in the region. The people of the Caucasus and Central Asia, as well as American companies, understand that they will benefit from the growth of pipeline, port, airport, railroad, and telecommunications facilities in the region.

Other factors, however, may impede this growth. Russia and Iran historically have dominated the Caspian Sea region. Preventing the resurgence of aggressive Russian imperialism, especially in what used to be Russia's backyard in the 19th and 20th centuries, is strategically important to the United States. Russia may remain reasonably friendly and cooperative as a democracy, but this is unlikely to be the case if Russia chooses to

5 Department of State, *Caspian Region Energy Development Report*, p. 3.

6 *Ibid.*

7 *Ibid.* Only regions in the Russian and Iranian sectors of the Caspian Sea and coastal regions near the Caspian Sea have been considered for this chart. Undiscovered recoverable gas resources are extremely difficult to estimate, and few sources are available. More accurate estimates will be published after seismic surveys currently being conducted in the region are completed.

reoccupy the southern Caucasus and Central Asia and coerce their peoples. Moscow, not Tbilisi or Baku, would gain from control of the area's impressive energy resources. Tehran appears interested in turning Uzbekistan, Kazakstan, and other countries in the region into a market for both its goods and its ideology. Iranian domination would be likely to prevent the successful flow of oil to the West as well as the involvement of American companies in the economic development of the new Silk Road. An Iranian presence, like a Russian presence, would hinder the development of democracy and free markets throughout the Caucasus and Central Asia.

Therefore, it is in the U.S. national interest to see that Kazakstan, Azerbaijan, Georgia, and other states maintain their sovereignty and territorial integrity. These countries stand to benefit from the development of oil and natural gas on their soil, which would make their peoples richer and their governments solvent. The United States should make every effort to support the sovereignty of the Eurasian states over their resources.

### **Where Should the Pipelines Go?**

Russia, Iran, Turkey, and the United States compete over exploration, drilling rights, and the directions of pipelines in Central Asian and the Caucasus. These states understand the importance of controlling both the development and the transport of the region's resources. Their companies, however, face competition from the oil and gas companies of China, Japan, Pakistan, India, and Korea; this competition is certain to increase as the scope of the resources available becomes clearer. (See Map 1.)

Currently, existing pipelines run to the north, to Russia, and give Moscow exclusive and strategic control over related exports and a vast amount of revenue that it fails to share with the host countries that own the oil. Russia's pipeline system is overflowing with oil, but its reliability, security, transparency, tariff structure, and access do not satisfy either the needs of Western companies or those of NIS governments.<sup>8</sup> For example, Russia delayed access to its system for Kazak oil produced by Chevron for four years<sup>9</sup> and currently is unable to provide for the transport of Azerbaijani oil through Chechnya to its oil terminal in the port of Novorossiisk on the Black Sea despite contracts signed with the AIOC, the main producer of oil in Azerbaijan.

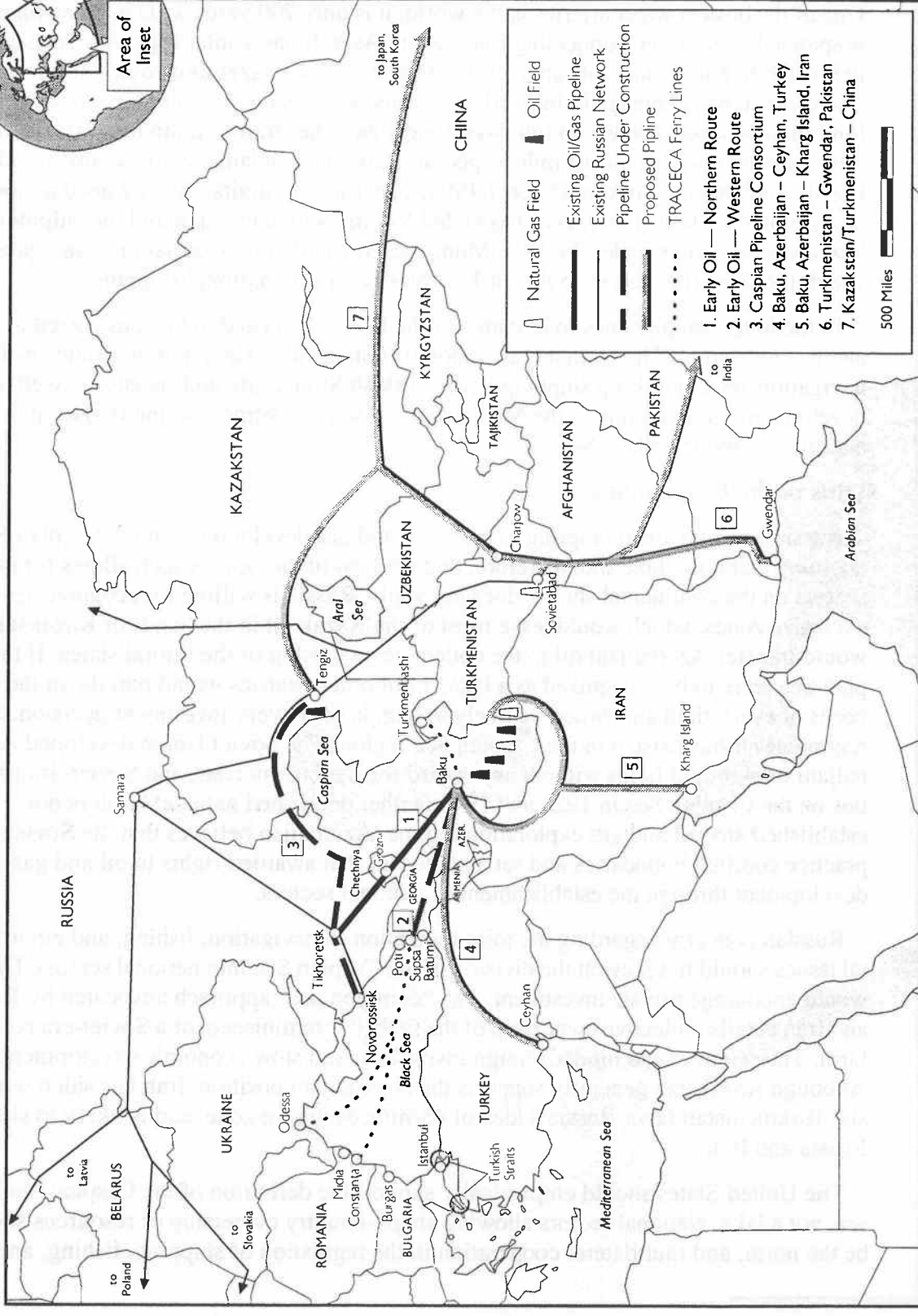
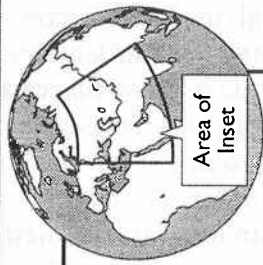
Western companies therefore will need to overcome formidable challenges in order to transport the oil to markets in the West. These challenges include limits to navigation in the Black Sea and Turkish Straits and the conflict surrounding the legal status of the Caspian Sea. Currently, the Black Sea ports do not have the capacity to handle additional volume from the Caspian Sea. Navigation to Novorossiisk is restricted during winter months by inclement weather. The oil terminal in Supsa, Georgia, which will be important in transporting early shipments of Caspian Sea oil, is unfinished. Even when the terminals are constructed, the flow of oil coming across the Black Sea is likely to be limited because of a bottleneck at the Turkish Straits. Clearly, alternative distribution points, processing facilities, and petrochemical industry plants must be developed around the Black Sea in Ukraine, Turkey, Bulgaria, and Romania. Ukraine's only oil terminal in the port of Odessa has yet to be completed, and the large Romanian refinery at Midia near the port of Constanta needs to be made fully operational.

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8 Department of State, *Caspian Region Energy Development Report*, p. 4.

9 At present, the Caspian Pipeline Consortium (CPC) seems to be proceeding successfully with the pipeline from the giant Tengiz field in Kazakstan to the Black Sea port of Novorossiisk in Russia.

Map 1



# Oil and Natural Gas Export Infrastructure in Central Asia and the Caucasus

Sources: U.S. Department of State.

## Problems in the Turkish Straits

Caspian Sea oil from terminals in the Black Sea must pass through the narrow, congested, and ecologically sensitive Turkish Straits—the Bosphorus and the Dardanelles. One of the busiest water arteries in the world, it is only 700 yards wide in some places and is spanned by a bridge connecting Europe and Asia. In the winter fog, with crosscurrents that reach five to eight knots an hour, the Bosphorus is a hazardous route for oil tankers. Therefore, tanker tonnage in the Turkish Straits is limited to 150,000 tons. Even with this limitation, a tanker needs two full days to negotiate the straits. Along the way, the metropolis of Istanbul—home to 14 million people—could be endangered by a tanker collision like the one that occurred in October 1994. The Turkish Straits urgently need a modern navigational system, and Turkey has called for limits to navigation and the shipment of hazardous materials under the 1936 Montreux convention on international navigation, which provides free access to the Turkish Straits for international shipping.

In the long run, pipelines to circumvent the Bosphorus need to be constructed to alleviate the congestion. The United States should support the installation of a state-of-the-art navigation system to keep shipping in the Turkish Straits safe and speedy, as well as the development of a pipeline to the Mediterranean Sea, oil refineries, and transshipping facilities around the Black Sea.

## Status of the Caspian Sea

Russia and Iran are attempting to block oil and gas development in the Caspian Sea by claiming that it is a lake and, therefore, that the Law of the Sea—which allows for national sectors on the continental shelf—does not apply. Russia is willing to recognize 45-mile exclusive zones, which would leave most of the Kazak oil in the hands of Kazakstan but would transfer Azerbaijani oil to the collective ownership of the littoral states. If the Caspian Sea were to be recognized as a lake, all littoral countries would partake in the proceeds of every field and would be likely to haggle over every investment decision. Such a regime never has existed in the Caspian Sea region. The Soviet Union developed Azerbaijani offshore oil fields without any regard for Iranian interests, and Soviet–Iranian treaties on the Caspian Sea in 1921 and 1940 neither delineated national borders nor established any oil and gas exploration regime. Azerbaijan believes that the Soviet practice codified boundaries and set a precedent that awarded rights to oil and gas development through the establishment of national sectors.

Russian concerns regarding the joint regulation of navigation, fishing, and environmental issues should not prevent the division of the Caspian Sea into national sectors. Division would encourage private investment. The “common use” approach advocated by Russia and Iran entails collective ownership of the seabed—reminiscent of a Soviet-era collective farm. This setup would hinder foreign investment and slow economic development.<sup>10</sup> Although Kazakstan generally supports the Azerbaijani position, Iran has sided with Russia. Turkmenistan favor Russia’s idea of 45-mile exclusive zone, and is likely to side with Russia and Iran.

The United States should emphatically support the definition of the Caspian Sea as a sea, not a lake. National sectors allowing single-country ownership of resources should be the norm, and multilateral cooperation in the regulation of shipping, fishing, and

10 Department of State, *Caspian Region Energy Development Report*, p. 9.



Table 2

## Current and Future Pipelines in the Greater Caspian Region

Name	Type	Route	Capacity (Barrels/Day)	Length	Status
AIOC* Early oil (South-North)	Oil	Baku-Novorossiisk via Groznyi	120,000+	1000 mi.	Russian side inoperative
AIOC Early oil (East-West)	Oil	Baku-Supsa via Tbilisi	120,000+	550 mi.	Under construction
AIOC Main export pipeline (MEP)	Oil	Undecided; preferable via Turkey	1,000,000	2,000+ mi.	Decision pending
Caspian Pipeline Consortium (CPC)	Oil	Kazakstan/Tengiz- Novorossiisk	1,340,000	1,500 mi.	Contracts signed
Turkmenistan- Afghanistan- Pakistan pipelines	Gas	Dauletabad gas field to central Pakistan	2 billion cubic feet/day	872 mi.	The civil war in Afghanistan is stalling construction
	Oil	Chardzhou, Turkmenistan to Gwadar, Pakistan	1,000,000	800+ mi.	
Kazakstan-China	Oil	Western Kazakstan to China	TBA	Approx. 3,700 mi.	Feasibility study pending
Turkmenistan-China	Oil	Chardzhou to China	TBA	Approx. 3,700 mi.	Feasibility study pending
Central Asia- Turkey	Gas	Kazakstan, Turkmenistan, Azerbaijan	TBA	Approx. 1,300 mi.	Pending decision on the status of the Caspian Sea
Iran-Turkey	Gas	Northern Iran to eastern Turkey	10 bcm/yr.** over 23 years	600 mi.	Contract signed; financing unclear

Notes: \*AIOC = Azerbaijan International Operating Company. \*\*bcm/yr. = Billions of cubic meters per year.

Source: U.S. Department of State, *Caspian Region Energy Development Report*, (As Required by HR 3610), undated report attached to letter from Barbara Larkin, Assistant Secretary for Legislative Affairs, to Senator Robert Byrd, April 15, 1997, p. 3.

environmental matters should be implemented to address Russian and Iranian concerns.

### Need for an East-West Trade Route

Because of such roadblocks, a major pipeline for Caspian Sea oil has not been constructed. Kazakstan and Azerbaijan are using such intermediate solutions as transportation by barge and rail to Iran,<sup>11</sup> the Black Sea ports, Finland, and Ukraine. In the long term, the volume of oil transported will require the construction of up to four high-capacity (1 million barrels per day) pipelines from the Caspian Sea region via Turkey to the Mediterranean Sea.

11 Under this arrangement, Kazak oil (40,000 barrels per day) is shipped by barge to Northern Iran, while an equal amount is delivered on behalf of Kazakstan from the oil terminal on Kharg Island in the Persian Gulf. No American companies are involved. Turkmenistan has utilized similar arrangements.

Several pipelines in a north-south direction are feasible. Ultimately, pipelines may be built from Turkmenistan and Uzbekistan to Pakistan. Unocal (U.S.) and the Delta Oil Corporation (Saudi Arabia) were named as consortium leaders for a gas pipeline by the government of Turkmenistan in October 1996. Russia's natural gas monopoly (Gazprom) and a Turkmen-Russian government oil company (TurkmenRosGaz) also are part of the consortium. A natural gas pipeline running from the Dauletabad field in southern Turkmenistan to central Pakistan was proposed by the Turkmen government. An oil pipeline running the same route also was suggested. These pipelines would benefit the people of Afghanistan, bringing jobs and infrastructure development like roads to that long-suffering country. Because of the ongoing war, however, prospects for both pipelines are grim.

The most ambitious project under consideration is a gas pipeline in the eastern direction, from Chardzhou in eastern Turkmenistan to the Pacific coast of China (see Table 2). If built, this would be the world's longest pipeline at 3,700 miles. It is being considered by a consortium that includes Esso China (Exxon), Mitsubishi (Japan), and the China National Petroleum Company. An oil pipeline from western Kazakstan along the same route is also being considered.

Turkey is desperate to diversify its sources of natural gas away from Russia, which currently supplies 85 percent of its fast-growing needs, and would like to import 10 billion cubic meters of natural gas per year over 23 years from Iran. The pipeline for this project is not being constructed or financed, however. As a part of its multi-route strategy, the United States supports Turkey in providing its territory with a pipeline that would terminate at the existing oil port of Ceyhan.<sup>12</sup> Turkmenistan could have been an alternative for Iranian gas. In general, the difficulties in building a pipeline under the Caspian Sea are considerable because of the ongoing conflicts over the legal status of that body of water.

## THE SILK ROAD BLUEPRINT

The oil and natural gas resources of the Caucasus and Central Asia may well become the engine of economic development for the southern New Independent States of the former Soviet Union. The people of Georgia, Armenia, Azerbaijan, Kazakstan, Turkmenistan, and Uzbekistan desperately need the revenues from such oil transit and "downstream industries" as petrochemical refineries. Oil-driven development provides them with opportunities to propel their poor societies toward prosperity in the 21st century. Development of these resources also offers innumerable business opportunities for American companies, currently at the cutting edge of the process in the region. Behind them are construction companies that would build the pipelines, compressor stations, and petrochemical plants. Many jobs would become available in port, railroad, and airport operations, in telecommunications, and in other sectors.

Hence, the new Silk Road is an important connection between the West and the southern Caucasus and Central Asia. It must cross the Black and Caspian Seas, and its corridor of pipelines, transportation, and communications networks must stretch from Kazakstan to Georgia and into Europe. To ensure Europe's linkage by rail to this region, the ports of Poti and Batumi (Georgia) and Novorossiisk (Russia) on the eastern shore of the Black Sea, and the ports of Odessa (Ukraine), Constanta (Romania), and Burgas (Bulgaria) on its western shore, need railway-capable ferries. Similar ferries also may connect

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12 Department of State, *Caspian Region Energy Development Report*, p. 8.

Turkmenistan's port of Turkmenbashi with the Caucasus side of the Caspian Sea to allow railway cars to travel all the way to Central Asia and eventually to China. The area also needs a network of modern highways. Airports are antiquated and would require major capital investment for improvements. Finally, fiber optic cables are needed to ensure high-quality voice and data communication capabilities.

This massive commercial undertaking cannot occur without a multibillion-dollar investment from the private sector. The European Union is promoting its Transportation Central Europe–Central Asia railway, highway, port, and ferry project, which could give an edge to European companies interested in the region's commercial potential. American companies have a competitive advantage in infrastructure development, however, and therefore are capable of contributing significantly to regional economic growth.

### **Conditions for Economic Growth**

Without the rule of law, extensive legal reform, and growth in market institutions, Central Asia and the southern Caucasus will remain economic backwaters. Companies in the region must upgrade their facilities and improve local manpower, and governments must ensure basic individual rights for workers. Without these preconditions, economic growth in the southern NIS will be limited to the foreign-managed energy sector. In this case, the trickle-down effect of the energy boom will be minimized and ultimately will benefit only a small circle of businessmen and the highest-ranking officials and their families.

The region itself already has a high rate of endemic crime and corruption, along with inefficient law enforcement. To ensure economic growth, governments in the area must implement anti-corruption campaigns and upgrade and train their law enforcement units while at the same time simplifying regulations to deter corruption and deny opportunities for bribery. An independent judiciary and legal profession must be developed to ensure equitable dispute resolution and the legal protection of individual rights. Both local governments and Western countries should encourage the development of free and open media as well as nongovernmental organizations that promote individual rights. Western investors and local governments should support the education and training of the local labor force with the skills needed to function in the global marketplace.

## **AFTER THE EMPIRE'S COLLAPSE: THE STRUGGLE FOR POWER**

When Soviet Union collapsed in at the end of 1991, 15 countries emerged from the rubble. Russia, the largest, began moving to recapture a dominant position in its southern tier—the Caucasus and Central Asia—by exploiting control of pipeline networks, manipulating ethnic conflicts, and supplying arms. Due to internal weakness, both Armenia and Georgia agreed to allow Russian military bases on their soil. Nevertheless, Russia today finds itself burdened by inflated ambitions and declining capabilities.<sup>13</sup> The tremendous resources once commanded by the Soviet Union are now in the hands of private citizens and interests. Redistribution and privatization of Soviet wealth, plummeting military budgets, internal turmoil, and competing visions of the future among its political elites all work against the country's ability to restore its former empire by force.<sup>14</sup> At the same time, however, Russia remains a large regional power, capable of wreaking great havoc.

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13 Ariel Cohen, "A New Paradigm for U.S.–Russian Relations: Facing the Post–Cold War Reality," Heritage Foundation *Backgrounder* No. 1105, March 6, 1997.

14 Sherman Garnett, "Russia's Illusory Ambitions," *Foreign Policy*, March–April 1997, p. 61.

In the Caucasus, Russia played a key role in fanning the flames of war in Abkhazia and Nagorno-Karabakh as well as in the Georgian breakaway republic of South Ossetia. The Russian peacekeeping operation in Abkhazia (in place since 1992) and efforts in Nagorno-Karabakh have done little to bring peace. Instead, these situations have been turned into frozen conflicts that allow Russia to play one side against the other while threatening the oil export routes. Russia's debacle in Chechnya and the expensive and prolonged involvement in Tajikistan clearly indicate that the lofty rhetoric about integrating the Commonwealth of Independent States (CIS) will remain just that. The human and economic resources and the willingness to sacrifice that would be needed to cobble an empire back together again are simply lacking.

Thus, despite the rhetoric of Russian Foreign Minister Evgenii Primakov about Russia's "multi-vectored and multi-faceted policy," its great power status, and the "objective processes of integration,"<sup>15</sup> the southern NIS increasingly are looking toward the West (and East and South) to break the mold of post-imperial dependency. Russia would like to prevent the NIS from exporting energy resources and deny these countries the ensuing cash flow the local people so desperately need. In the event Russia cannot prevent these exports, Russian politicians and oil companies will try to direct all the routes and pipelines north to establish control over the lifelines of Western economies. Russian oil and gas companies certainly can play a role in developing the hydrocarbon resources and economies of the Caucasus and Central Asia, but the governments of both the West and the NIS share an interest in warding off any Russian attempts to impose hegemony. The policy-making elites of the NIS have tasted independence and the prestige of their own flags, seats at the United Nations, and ministerial and ambassadorial titles. They are not interested in reverting to the status of provincial overseers for the Kremlin. With oil wealth so near, they will fight to preserve their independence and access to the natural resources of their lands.

### **Iran's Challenge**

Other powers covet the southern Caucasus and Central Asia region and its resources as well. Iran perceives the Muslim Central Asian states and Azerbaijan as a potential sphere of influence in its strategic rear—a market for its goods and ideology. Iran would like to profit from transit fees from energy resources exported to the Persian Gulf via Iranian territory. But the mullahs are treading carefully. Thus far, Iran, with its militant Islamic Shi'ite ideology, has contributed money to rebuild the mosques and religious educational institutions neglected during the Soviet era. There is little evidence, however, of Iranian political sedition or terrorism in the region. The secular governments of the southern NIS, aware of the explosive potential of religious extremism, are keeping a tight leash on Iranian activities. The elites of the NIS, aware of the popular discontent in Iranian society, do not wish to follow the example of a corrupt and bureaucratic theocracy.

Geographically, Iran is an attractive outlet for Caspian Sea oil and gas. Small amounts of Kazakstani oil, brought by barge across the Caspian Sea, already are entering the Iranian pipeline system in the north of the country, while an equivalent quantity ("offset sales") is sold from the Iranian oil terminal at Kharg Island in the Persian Gulf. Turkmenistan is actively exploring its gas exporting options via Iran. In 1996, energy-starved Turkey—an important U.S. ally—negotiated a \$20 billion gas pipeline project under the

government of former Islamic Prime Minister Necmettin Erbakan to bring Iranian and Turkmeni gas to its fast-growing economy, and further to the European market. The shortest (and therefore cheapest) pipelines would extend south from the Caspian Sea. This direction is undesirable from the U.S. point of view, however, because of Iran's continuing support for terrorist organizations in the Middle East and export of Islamic revolution to neighboring states. Sanctions were imposed by the 1995 Iran Foreign Oil Sanctions Act (S. 1228) and by the 1996 Iran and Libya Sanctions Act (P.L. 104-172), co-sponsored by Senator Alfonse D'Amato (R-NY) and Representative Benjamin Gilman (R-NY), which forbids investments of over \$40 million in projects that enhance the Iranian oil and gas system or benefit the current regime. It is in the best interests of the United States and other Western countries to continue to deny Iran markets, revenues, and freedom of maneuver in Central Asia.

### **Geopolitical Pluralism?**

Still other international players pursue their own economic and geopolitical agendas in the region. Due to its proximity, size, and strength, China is likely to loom increasingly large in Central Asia. For now, it has chosen to treat the region as its strategic rear while focusing on the Pacific Ocean, absorbing Hong Kong, and challenging Taiwan. China is therefore interested, at least temporarily, in maintaining the status quo. It also wants to keep its restless Islamic Turkic Uygur minority (located in northwestern China) under control. To accomplish this, China is pursuing good relations with the Turkic Central Asian countries. In April 1997, China signed a troop reduction agreement with its Central Asian neighbors and Russia that will allow it to concentrate greater military power in the south. China's economy already has inspired tentative plans to build the longest gas pipeline in the world, from western Kazakstan to the Xinjiang province in China. The Chinese National Gas company has acquired gas fields in western Kazakstan. If constructed, this pipeline could well prove attractive for consumers further east, in South Korea and Japan. Doubts remain, however, with regard to the technical feasibility and financing of such an ambitious project.

Another emerging market, Pakistan, is trying to gain access to Central Asia's energy resources. Through its support of the Taliban radical Islamic movement, Pakistan hoped to gain control of Afghanistan. Even before the war's end, plans were laid to build an oil and gas pipeline to Pakistan, and possibly further to India. A consortium led by Unocal (U.S.) and the Delta Oil Corporation (Saudi Arabia) was granted a license by Turkmenistan's government in October 1996 to explore the possibility of constructing this pipeline. The recent defeat of the ethnically Pushtu Taliban in the Afghani northern provinces populated by Uzbeks and Tajiks, however, may render this less likely. Afghanistan's inherent instability and history of conflict continue to make it a hostile and difficult area for development.

### **North-South or East-West Routes?**

Central Asia faces a key decision: It can work to develop the more economically promising and geopolitically feasible trade flows going from east to west through the Caucasus to Western Europe and the Mediterranean, or it can rely on Iran and Russia—both traditionally hegemonic powers in the region—and further trade in the north-south direction. East-west is the preferable route for the southern NIS, because the United States and other Western countries will not pursue the heavy-handed tactics of either Moscow or Iran. The West is interested in the independence and economic development of Azerbaijan, Georgia,

Kazakstan, and Uzbekistan because this scenario best suits its foreign policy and security interests. Furthermore, east–west trade flows will ensure access by the southern NIS to Western capital markets and technological prowess while allowing Western companies to develop local markets in goods and services for the benefit of local consumers and to educate indigenous manpower in Western know-how. If this scenario is to succeed, Westerners must appreciate the Turkic and Islamic roots of most of the region’s countries, as well as the unique Christian cultures and rich history of Georgia and Armenia, as they engage Caucasians and Eurasians in trade and cooperation.

If north–south trade prevails, local elites may find themselves becoming more sharply divided, with some preferring the Islamic orientation of Iran while others look to Moscow’s blend of lawlessness and robber-baron capitalism. The potential clash of civilizations could exacerbate existing fault lines in these multi-religious and ethnically diverse countries. For example, the educated Russian minorities in Kazakstan, Uzbekistan, and Kyrgyzstan, and the Armenian diasporas throughout the Caucasus, play an important role in the region’s economic development and governance. They very well could suffer from the ascendancy of militant Islam.

While east–west trade flows guarantee a win–win situation for the southern NIS, north–south trade could turn the region into a Russian–Iranian condominium, exacerbate religious conflicts, suppress the independence of the new states, stem the growth of secular civic societies, and hinder economic development. The United States needs to act quickly to help influence the outcome of this crucial struggle by facilitating the settlement of regional conflicts, making the area safe for foreign trade and investment, and offering attractive training and cooperative development programs to the region’s elites. Failure to do so will leave the region prey to Russian and Iranian power games.

### **Roadblocks on the Pipeline Routes**

Several local regional conflicts need to be resolved in order to secure the flow of oil from the Caspian Sea to the Black Sea coasts and further to the Mediterranean. Without peace, pipeline construction cannot commence. The United States therefore has a vital national security interest in terminating hostilities in Nagorno-Karabakh, in Abkhazia, and eventually in Tajikistan. Most important are the wars in the Armenian-populated enclave of Nagorno-Karabakh and in Chechnya, and the secession of the republic of Abkhazia from Georgia. Even though cease-fires are in effect in these areas, peace is not secure and hostilities might resume.

The civil war in Tajikistan has a less immediate impact on oil and gas transportation concerns, but it is important because it provides justification for Russia to station a 30,000-strong, CIS-sponsored expeditionary force there. It also has caused over 500,000 refugees to spill over into Central Asia and beyond. The war in Afghanistan that was started by the Soviets in 1979 has left millions dead and wounded. It stymied the possibility of constructing oil and gas pipelines from Central Asia through Afghanistan to Pakistan and India.

Local conflicts commenced with the collapse of the Soviet empire and flared up because of the weak power of the NIS. These wars were exacerbated by elements of the Russian military who saw bloodshed in the Caucasus as a way to ensure Russian dominance in the region and Russian control over the pipeline routes. Even more tragic, some of the generals and politicians in Russia may have benefited personally from arms sales to

these volatile spots. General Lev Rokhlin, chairman of the State Duma's Defense Committee, recently made public a clandestine \$1 billion program of arms shipments to Armenia. The State Duma, the presidency, and the military confirmed these allegations. This highly destabilizing program, capable of derailing peace efforts to settle the Nagorno-Karabakh conflict, was authorized by former Minister of Defense Pavel Grachev. The investigation to find out whether Grachev and other top military leaders benefited from this traffic remains classified.<sup>16</sup>

Ongoing local ethnic conflicts, without adequate political intervention from the United States and other Western countries, keep the Russians involved in the region without bringing peace. They justify the involvement of Russian military and foreign intelligence services, which destabilize governments in the region through such tactics as staging coups,<sup>17</sup> launching separatist movements,<sup>18</sup> and attempting to assassinate heads of state like Eduard Shevardnadze of Georgia and Heydar Aliyev of Azerbaijan.<sup>19</sup> Such conflicts weakened the Caucasus countries and allowed Russia to obtain agreements to build four military bases in Georgia and two in Armenia and put the borders of Armenia and Georgia under the partial control of Russian guards. Azerbaijan also is under continuous pressure to permit the stationing of Russian troops and border guards.

Such conflicts exact a high toll from the affected countries. Hundreds of thousands of people have been killed—100,000 in Chechnya alone—and even more have been wounded and made refugees. Georgia, in particular, staggers under the burden of 400,000 refugees from the wars in Abkhazia and South Ossetia. In addition, the railroad north to Russia is blocked by Abkhazians, there are 900,000 refugees in Azerbaijan, and Armenia's infrastructure has been destroyed by the struggle over Nagorno-Karabakh and the ensuing blockade. The settlement of these conflicts must be achieved before stability can return and economic development can proceed. Without peaceful and final resolution of these conflicts, the development of and access to resources cannot be secured.

## **A U.S. POLICY FOR THE SOUTHERN CAUCASUS AND CENTRAL ASIA: MAKING THE SILK ROAD SAFE AND SECURE**

The United States has the opportunity to ensure the flow of oil and gas to Western markets. To do so, however, it needs to secure the stability, development, friendship, and cooperation of the NIS. These objectives are intertwined and must be addressed simultaneously. Congress can play a key role in developing this policy. In particular, policymakers should:

- 16 General Konstantin Kobets, former inspector general of the Russian Army, is under arrest, and President Boris Yeltsin has relieved Chief of Staff General Viktor Samsonov of his duties, allegedly for corruption.
- 17 One of the most notorious coups by Russian intelligence services was against the pro-Western, pro-Turkish president of Azerbaijan, Abulfaz Elchibey, in 1993. The leader of this coup, Suret Husseinov, had strong ties to Russia's military. He later attempted to overthrow Heydar Aliyev, but failed and fled to Moscow. Russia extradited Husseinov to Azerbaijan as part of a strategy to repair relations in April 1997.
- 18 In addition to secessions in Abkhazia, South Ossetia, and Trans-Dniester Republic in Moldova, Russia has been trying to launch a Lezgin separatist movement in Azerbaijan.
- 19 According to senior Georgian sources, elements in Russia's military intelligence were behind the attempt on the life of President Shevardnadze in summer 1995. The leader of the conspiracy escaped to Moscow, where he is sheltered in a government villa. Moscow has refused extradition requests from the Georgian government. Azerbaijani diplomatic sources have voiced fears that President Aliyev may be assassinated by pro-Russian forces. Interviews by the author, Washington, D.C., May and June 1997.

- **Recognize that the southern Caucasus and Central Asia ceased to be in the Russian sphere of influence with the collapse of the Soviet Union.** Leaders from the southern Caucasus and Central Asia have complained that the Clinton Administration is pressing them “not to annoy Moscow.”<sup>20</sup> As the world’s only current superpower, the United States should focus on countering both Iranian and Russian attempts to dominate the area. The United States is capable of projecting important economic and diplomatic power and promoting peaceful solutions without committing U.S. troops on the ground. It should focus on developing strong economic ties, diplomatic cooperation, and military and security training for these countries, especially pro-Western countries like Azerbaijan and Georgia. U.S. diplomacy should function in cooperation with Turkey, an important regional ally; with Israel, which has unique agriculture and security capabilities; and with West European countries. Russia should be consulted on political issues, and its companies should be encouraged to participate in oil and gas consortia.
- **Internationalize conflict resolution in the region.** Russia’s peacekeeping efforts have failed to achieve peaceful settlements of regional conflicts, and its efforts to acquire the status of “honest broker” have failed because of its overt and clandestine involvement in these conflicts. Consequently, countries in the region are asking the United States to mediate to bring the warring factions to the negotiating table. The United States enjoys unprecedented prestige in the region, and governments in the southern NIS look to Washington to provide leadership in achieving peace and prosperity. Through diplomatic efforts, the United States stands the best chance of settling long-standing ethnic quarrels, facilitating the construction of oil and gas pipelines, and opening the door to economic development and foreign investment.
- **Maintain a balanced approach to Armenia and Azerbaijan.** Armenia is preferred over Azerbaijan as a recipient of U.S. aid. Since 1992, \$600 million in foreign aid has been allocated to Armenia,<sup>21</sup> and Congress has earmarked an additional \$95 million for FY 1998. Armenia has become the second-largest U.S. aid recipient after Israel on a per capita basis. The government in Erevan should be more cooperative with Washington on the issues of Nagorno-Karabakh and a pipeline. As a result of the Karabakh war, Armenian troops now occupy 20 percent of Azerbaijan’s territory, and Armenia continues to refuse to withdraw. Meanwhile, Erevan maintains increasingly close ties with both Moscow and Tehran because of Armenia’s historic mistrust of the Muslim Turks and because of Moscow’s skillful manipulation of the conflict through arms deliveries. Iran is seen as Turkey’s competitor and as an opponent of Azerbaijan’s secular, pro-Western path of development.

Threats by some Armenian politicians to disrupt the flow of oil through the Baku–Tbilisi–Supsa pipeline hurt Armenia’s own national interest. Armenia’s refusal to cooperate on the construction of pipelines to Turkey (as proposed by Azerbaijan’s President Aliyev in exchange for a peaceful settlement of the

20 Interviews with various visiting senior Georgian, Uzbek, and Azerbaijani leaders and foreign policy makers by the author in Washington, D.C., January 1997 through July 1997.

21 Thomas Goltz, “Catch-907 in the Caucasus,” *The National Interest*, No. 48 (Summer 1997), p. 44.



Nagorno-Karabakh conflict) prolongs the suffering and turmoil in the region. Such decisions hinder regional economic development and deny Armenia itself any oil transit fees and other business opportunities.

- **Rescind sanctions that prevent U.S. assistance to Azerbaijan.** Sanctions stipulated in Section 907 of the 1992 Freedom Support Act bar U.S. assistance to the government of Azerbaijan “until the President determines, and so reports to the Congress, that the Government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh.”<sup>22</sup> Section 907 was passed during active hostilities between the two countries. A cease-fire is now in place, and Azerbaijan actively is seeking a peaceful settlement. At the Lisbon summit, Armenia—not Azerbaijan—rejected the declaration of principles for peaceful settlement that the co-chairs of the Minsk Group (the United States, Russia, and France) as well as all the OSCE members, including Azerbaijan, had accepted. During 1995 and 1996, Armenia secretly acquired \$1 billion in modern Russian-made weapons, which it now threatens to use against Azerbaijan.

Section 907 is ineffective. It precludes the delivery of any assistance, with the exception of humanitarian aid, to nongovernmental organizations in Azerbaijan. In addition, its language is more stringent than the provision currently applied against North Korea. Assistance in such areas as privatization, rule of law, legislative reform, education, security, and even health care is barred.

Azerbaijan, which is pro-American and pro-Western in its policies, has enormous oil resources; it should not be punished any longer. Leading politicians and policymakers in the United States have expressed their opposition to Section 907, including House Speaker Newt Gingrich (R-GA); Senators Frank Murkowski (R-AK), Jon Kyl (R-AZ), and Robert Byrd (D-WV); former Secretaries of Defense Richard Cheney and Caspar Weinberger;<sup>23</sup> former National Security Advisor Zbigniew Brzezinski; and former Assistant Secretary of Defense Richard Perle.<sup>24</sup> No foreign policy or national security objective stands to benefit from the continued application of Section 907 to Azerbaijan.

- **Approve MFN status for Azerbaijan.** Only countries that support terrorism or commit blatant violations of human rights, such as Iran and Iraq, are denied MFN status. These concerns do not exist in the case of Azerbaijan. In addition, the majority of the NIS that arose out of the former Soviet Union already enjoy MFN status. This is intolerable when oil companies are importing hundreds of millions of dollars worth of U.S.-made equipment to develop the oil wealth of the Caspian Sea. Azerbaijan does not deserve to be singled out and punished because of the lobbying clout of special-interest groups.

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22 Freedom Support Act, Sec. 907.

23 Caspar W. Weinberger and Peter Schweizer, “Russia’s Oil Grab,” *The New York Times*, May 27, 1997.

24 Senators Dianne Feinstein (D-CA) and John Kerry (D-MA) and Representatives Joseph Kennedy (D-MA), Frank Pallone (D-NJ), John Porter (R-IL), and George Radanovich (R-CA) are among the Members of Congress who most often oppose repealing Section 907 because of their large Armenian constituencies.

- **Increase coordination between governments and companies involved in the oil and natural gas issues and pipeline routes in the region.** Today, the NIS governments, oil companies, and the U.S. government usually act on their own to achieve their best interests in this region; Russia and Iran, however, have coordinated their objectives and policies.<sup>25</sup> The governments of Turkey, Azerbaijan, Georgia, Armenia, Kazakstan, Turkmenistan, and Uzbekistan need to improve channels of communication, both among themselves and with the major oil companies, to ensure the best interests of the NIS. U.S. security experts should be cognizant of their activities to ensure that U.S. geopolitical concerns are addressed. For example, oil companies might not choose to build a major pipeline through Turkish territory to the Mediterranean Sea, opting for a different route. Currently, lobbying is under way in Washington to allow pipelines to run south from Central Asia through Iran. Such an oil route might make sense economically, but it would give transit tariff revenues to Iran's militant regime and tie U.S. oil to Persian Gulf terminals, further undermining the security of the oil supply. Congress and the Clinton Administration should resist weakening sanctions against Iran to build this route and pursue a decisive east-west pipeline strategy.

U.S. policy should integrate geopolitical, security, trade, and energy concerns. The best way to ensure that this happens would be for the President to nominate a high-ranking coordinator at the National Security Council to focus on security and energy policy for this region. Such an official should have a strong background in international energy and security issues, as well as in multinational investment, and should not be a career diplomat or academic who—having been focused solely on Russia—would be likely to articulate the current “Russia-first” policy pervasive at the Department of State.

- **Restructure U.S. and multilateral assistance to countries in the Central Asia and southern Caucasus region.** Currently, most U.S. aid goes to Armenia. U.S. interests dictate, however, that such strategically important states as Kazakstan, Uzbekistan, Azerbaijan, and Georgia should be given greater consideration. The United States should focus its assistance on strengthening the private sector and market institutions in the region. It should advise officials from these countries on how to develop the rule of law with a fully functioning legal system, and on the importance of free market reforms.

As a way to enhance the U.S. role in the development of Central Asia and the southern Caucasus, the United States should be willing to provide its expertise in response to needs of the region's governments. For example, Georgian officials have requested customs assistance and training from the United States, which could be accommodated by the U.S. Customs Service. The United States is a cornucopia of knowledge and experience in such vital areas as property rights and contract law. American companies would benefit from the diplomatic and security involvement of the U.S. government as they bid for pipeline, railroad, port and airport upgrade contracts, and telecommunications facilities. Reluctance by officials in the Department of State to provide U.S. mediation in a conflict between the united Tajik opposition and the hard-line communist

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25 *Major Setbacks Looming for American Interests in the Caucasus Region*, pp. 7–9.

government in Dushanbe, on the other hand, is detrimental to the goal of achieving a leadership role for the United States in the region.

To aid in establishing a leadership role, Congress should consider establishing a nonprofit foundation to coordinate and focus efforts on this region. It should be staffed by private-sector and regional specialists with the appropriate linguistic and professional skills in law, business, economics, finance, and management. The foundation should be managed by private-sector specialists, such as economists and lawyers who have expertise in economies in transition, and not by personnel from the AID who traditionally have backgrounds in rural development. Its staff should focus on advising and educating local experts in the region on how to develop market institutions, the rule of law, and a system of protecting private property rights and enforcing contracts. These reforms are necessary if the countries in this region are to provide prosperity for their people and attract foreign investment in oil, gas, and mining. The foundation should be supervised by a board consisting of senior government officials, representatives from the private sector, prominent economists, and experts in Caucasus and Central Asian issues. The board could be modeled on the Board of International Broadcasting that successfully ran Radio Liberty/Radio Free Europe during the Cold War.

Funding for this foundation should be derived and transferred from existing economic aid programs for the NIS. Such a foundation would be better able to advise countries on free market reforms than the AID; however, there is no need to increase funding to pay for the programs established and administered by this foundation. Because of its strategic focus, the proposed foundation could attract additional private-sector resources to fund its efforts.

Educational exchanges would also enhance the U.S. presence in the region. The southern NIS desperately need government officials, lawyers, economists, business managers, financial specialists, and security and military personnel with exposure to the principles of the free market and an understanding of the rule of law. Turkey has trained about 10,000 professionals from this region since 1992. The United States Information Agency and individual universities and professional schools in the United States already have experience in such educational exchanges and could facilitate this training. Young Georgians, Azerbaijanis, and Uzbeks who have been educated in the United States in law, marketing, public administration, and accounting would be excellent ambassadors for the United States and even future employees of American companies doing business in the region. They would become a bulwark against the possible encroachment of Islamic fundamentalism in the region.

## CONCLUSION

The United States has important geopolitical and economic interests in the southern Caucasus and Central Asia. Both to ensure Western access to the rich oil and natural gas resources of this region and to lessen the dependence of the U.S. economy on the Middle East, U.S. policymakers must design a coherent and consistent policy for Central Asia and the Caucasus. The tremendous wealth of oil and natural gas, worth between \$2 trillion and \$4 trillion, presents an opportunity for the United States to facilitate economic and

political reform in this region. Many in Washington recognize the overlap between the energy requirements of the United States and the need for the New Independent States to ensure that revenues from their energy resources are used to develop their own economies and societies—and not to enrich the regimes of power-hungry elites in Russia or Iran.

Russian imperialism suffered a great setback with the defeat of the Communist Party's candidate, Gennady Zyuganov, in the 1996 presidential election; it received another blow on the battlefields of Chechnya. In addition, hard-line fundamentalism was rejected by 70 percent of Iranian voters who refused to support the Speaker of the Mejlis (parliament) Ali Akbar Nateq Nouri. Hence, both Tehran and Moscow are undergoing periods of introspection, concentrating on internal economic and political weaknesses. Such setbacks as these for hard-liners in both countries make positive U.S. involvement in the Caucasus and Central Asia possible.

To ensure its leadership role and access to the resources in Central Asia and the Caucasus, and to ensure the continued independence of the NIS, U.S. policymakers should seek to strengthen the pro-Western states of Georgia and Azerbaijan and friendly countries like Kazakhstan and Uzbekistan. The United States also should work with its allies in Turkey, Israel, and Western Europe to achieve the peaceful resolution of ethnic conflicts, to provide impetus for economic growth, and to develop flows of east-west trade and investment. The alternative—allowing Russia and Iran to encourage ethnic unrest, strengthen their own north-south trading routes, and deny American companies key roles in the exploration, drilling, and transportation of oil—would undermine U.S. economic interests, and possibly even U.S. security. A new Silk Road strategy should be implemented not only to benefit the people of the region, but also to create economic opportunities for the American people. The time to act is now.

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