

Globalization  
through Oil and  
Gas: Central Asia's  
Predicament  
/ Globalización  
a través del petróleo  
y el gas: el  
predicamento  
de Asia Central

\* Artículo de investigación. Recibido: 6 de febrero de 2019. Aceptado: 6 de marzo de 2019. TLA-MELAU, Revista de Ciencias Sociales. Facultad de Derecho y Ciencias Sociales. Benemérita Universidad Autónoma de Puebla, México / E-ISSN: 2594-0716 / Nueva Época, año 13, núm. 47, octubre 2019-marzo 2020, pp. 368-392.

ABSTRACT

Ever since Central Asian republics became independent after the collapse of the Soviet Union, oil and gas resources have been instrumental in helping them take part in the process of globalization. This article provides an overview of the way this has created both opportunities for and obstacles to political change in the region. The first part investigates the relationship between oil, gas, and state-building in the new geopolitical context that emerged in the 1990s. The second part examines the geo-economic opportunities created in the 2000s to unlock the area through regional energy cooperation. The third and last part assesses the impact of oil and gas revenues on domestic policy and transition to democracy in the 2010s. In short, with agreements on oil and gas extraction, production and export, Central Asian republics have succeeded in gaining political visibility on the international stage, and in improving their position in the global economy. But at the same time, Central Asian leaders have resisted political reforms and strengthened their authoritarian regimes, thereby creating the risks of growing political dissent and instability in the region.

KEYWORDS

Central Asia, oil, gas, globalization, cooperation, democratization, risks.

RESUMEN

Desde que las repúblicas de Asia Central se independizaron ante el colapso de la Unión Soviética, los recursos de petróleo y gas han sido fundamentales para integrarse a la globalización. Este artículo proporciona una visión general de la forma en que esto ha creado oportunidades y obstáculos para el cambio político en la región. La primera parte investiga la relación entre el petróleo, el gas y la construcción del estado en el nuevo contexto geopolítico que surgió en la década de 1990. La segunda parte examina las oportunidades geoeconómicas creadas en la década de 2000-2010 para desbloquear el área a través de la cooperación energética regional. La tercera y última parte evalúa el impacto de los ingresos del petróleo y el gas en la política interna y la transición a la democracia después de 2010. En resumen, con acuerdos sobre extracción, producción y exportación de petróleo y gas, las repúblicas de Asia Central han logrado ganar presencia política en el escenario internacional y mejorar su posición en la economía global. Pero al mismo tiempo, los líderes de Asia Central se han resistido a las reformas políticas y han fortalecido sus regímenes autoritarios, creando así los riesgos de una creciente disidencia política e inestabilidad en la región.

PALABRAS CLAVE

Asia Central, petróleo, gas, globalización, cooperación, democratización, riesgos.

\* Université de Lyon, Francia. (annie.jafalian@univ-lyon3.fr) orcid.org/0000-0002-3342-0226

1. Introduction / 2. Oil, gas, and state-building in a new geopolitical area / 3. Regional cooperation: geo-economic opportunities to unlock the area / 4. Energy, power and democratization: the growing risks / 5. Conclusions

## 1. INTRODUCTION

Ever since Central Asian republics became independent after the collapse of the Soviet Union in 1991, energy resources have become critical to take part in the process of globalization.<sup>1</sup> In the late 1990s, observers believed that globalization could offer Central Asia “numerous benefits” in terms of economic, social, and political development.<sup>2</sup> The assumption was made that economic liberalization may have spillover effects and favor political liberalization. But at the same time, and as they examined foreign investments in the region, the same observers pointed out the various “risks” associated with the “enormous emphasis on raw energy extraction” and “unbalanced reliance on energy resources”.<sup>3</sup> Almost two decades later, the controversial question had clearly been settled: in Central Asia, “globalization only enriched and empowered autocrats [...] allowing some of the most brutal dictators to cement their rule”.<sup>4</sup> Globalization is defined as a “process of increasing economic, cultural, and political interdependence and integration”.<sup>5</sup> Our aim here is to distinguish the economic and political dimensions of globalization and to study whether and how growing economic exchanges have influenced political developments in Central Asia.

---

<sup>1</sup> By energy resources, we will refer to oil and gas exclusively, and by Central Asia, we will essentially mean the three major producing and exporting countries, i.e. Azerbaijan, Kazakhstan, and Turkmenistan (which border the Caspian Sea). Uzbekistan’s oil production is low and declining, and its gas export capacities are limited by domestic demand. The other two post-Soviet Central Asian republics, Tajikistan and Kyrgyzstan, have water instead of oil or gas.

<sup>2</sup> This was the case of Douglas Blum. See Blum, D., “Globalization and the Caspian Region,” Caspian Studies Program, “Caspian Conference Report: Succession and Long-term Stability in the Caspian Region”, Estados Unidos, Belfer Center for Science and International Affairs - Harvard University, 2000.

<sup>3</sup> *Ibidem*.

<sup>4</sup> Cooley, A., “Globalization Only Enriched and Empowered Autocrats”, Foreign Policy Symposium on 25th Anniversary of Soviet Collapse, 22 de diciembre, 2016.

<sup>5</sup> Atkinson, D., “Globalization”, en P. James, *International Relations*, Estados Unidos, Oxford Bibliographies, 2011. Disponible en: <http://www.oxfordbibliographies.com/page/international-relations>

This paper provides an overview of the way oil and gas resources have been instrumental in helping Central Asian republics take part in the process of globalization, creating both opportunities for, and obstacles to political change in the region. Three processes —state-building, regional integration, and democratization— have been at stake. In this way, three distinct periods can be identified to assess the political impacts of energy strategies around the Caspian Sea. First, and throughout the 1990s, oil and gas generated hope for successful independence and state-building in a new geopolitical area. Second, and with the new geo-economic realities of the 2000s, energy was used to transform landlocked countries into strategic partners. Finally, and beginning in the 2010s, Central Asian oil and gas have become ways of retaining power in autocratic regimes, thereby shifting attention away from the expected benefits and to the proven risks of globalization. In this sense, one of the contributions of this paper is to offer an updated study of interactions between economic and political developments in Central Asia, and to explain two opposite trends in the region: the opening up of economic markets on the one hand, and the maintaining of closed political systems on the other hand.

## 2. OIL, GAS, AND STATE-BUILDING IN A NEW GEOPOLITICAL AREA

Emerging from the break-up of the USSR, the republics of Central Asia have been involved in a wide range of state-building efforts aimed at creating new institutions during the 1990s. Among those efforts was an attempt to recover from economic collapse, to cope with security challenges, and to strengthen national independence. Extraction of natural resources like oil and gas, based on different models of development and calls for foreign investments, was also part of these efforts.<sup>6</sup> Even though estimates of regional hydrocarbons reserves were uncertain at the time,<sup>7</sup> international organizations, powers, industries, as well as local leaders, were soon ready to capitalize on the “potential” of Central Asian energy reserves, whether “exceptional,” “vast” “promising,” “substantial,” or “rich”.<sup>8</sup>

For outside investors and consumers, Central Asia’s untapped oil and gas reserves, though limited, have been welcomed as a valuable contribution to

<sup>6</sup> Turkmenistan was expected to follow the “Kuwaiti model”, Uzbekistan the “Turkish model”, whereas Kazakhstan courted Western nations. See Kangas, R., “Problems of State-Building in the Central Asian Republics”, *World Affairs*, vol. 157, núm. 1, pp. 32-33.

<sup>7</sup> For instance, data about Central Asian Republics was “not available” in the British Petroleum Statistical Review until 1998.

<sup>8</sup> These were words of the World Bank. See World Bank, *Trends in developing economies extracts, Volume 1, Eastern Europe and Central Asia*, Washington D.C., World Bank, 1993, pp. 36, 38, 80 & 89.

global energy markets and the diversification of supplies. On the whole, they account for more than 2% of the world's oil reserves, and over 10% of gas reserves – relatively small numbers when compared to neighboring or Middle Eastern countries.<sup>9</sup> Kazakhstan, and its 30 000 million barrels of proven reserves, is a major player in the oil sector (it ranks eleventh in the world). These reserves are partly located in the Western parts of the country, most notably in three super giant fields: Tengiz, Kashagan, and Karachaganak. As for Turkmenistan, it is the location of the world's fourth largest gas reserves: an estimated at 688 trillion cubic feet that are spread across the Dauletabad and Yolotan-Osman fields in the East. Like Uzbekistan, Azerbaijan lags far behind. With less than 1% of the global oil and gas reserves, it has nonetheless opened its Caspian Sea fields – the Azeri-Chirag-Guneshli oil field and the Shah Deniz gas field – to foreign investments.

Former Kazakh President Nursultan Nazarbayev headed a state with a “large potential” for economic development, and has naturally come to look for “a diversified set of investors”.<sup>10</sup> Kazakhstan was indeed the first post-Soviet republic to reach a far-ranging agreement with the world's leading oil and gas companies. Thanks to a fairly liberal legislation, the country quickly opened up to a massive inflow of American capital. Hence Chevron has become the largest private oil producer in the country. In April 1993, Kazakhstan set up Tengizchevroil (TCO), a joint venture with Chevron, in order to develop the Tengiz oilfield. Three years later, and in a move to secure new financial inputs, Kazakhstan sold part of its shares to a new partner: Mobil. In this regard, Nursultan Nazarbayev has taken stock of 25 years of TCO presence in the country, and has recently welcomed “[TCO's] significant contribution to the development of [Kazakhstan's] economy”.<sup>11</sup> Later, in November 1997, Texaco (which merged with Chevron in 2001) concluded a Production Sharing Agreement (PSA) with Kazakhstan, thereby joining Italy's Agip and British Gas to develop the Karachaganak gas field (KPO). At the same time, Mobil (whose merger with Exxon was announced in 1998) signed with Kazakhstan the North Caspian Production Sharing Agreement. Then it formed together with Agip, BG, BP, Shell, and Total an international consortium (the NCOC) to explore the northern shores of the Caspian Sea. It is here that the giant Kashagan field was discovered in

<sup>9</sup> Russia and Iran have 6% and 9% of world oil respectively, plus 18% and 17% of gas reserves. As for the Middle East, it controls 47% of world oil and 40% of its gas reserves. See British Petroleum Statistical Review of World Energy, July 2018. Disponible en: <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review/bp-stats-review-2018-full-report.pdf>

<sup>10</sup> Nursultan Nazarbayev in April 1998, quoted by Ipek, P., “The Role of Oil and Gas in Kazakhstan's Foreign Policy: Looking East or West?”, *Europe-Asia Studies*, vol. 39, núm. 7, p. 1184.

<sup>11</sup> “Nursulan Nazarbayev speech at the 25 years anniversary of TCO in Kazakhstan,” *TCO News*, 10 de mayo, 2018. Disponible en: <http://www.tengizchevroil.com/>

2000. For Nursultan Nazarbayev, it has since become “one of the major projects of independent Kazakhstan”.<sup>12</sup>

Though Kazakhstan has provided the energy sector with access to American technology and finance, it has also led a pragmatic multivector foreign policy aimed at building a partnership with neighboring powers, particularly Russia and China. Maintaining cooperation with Russia was essential for ex-Communist leader Nursultan Nazabayev. The newly independent state of Kazakhstan was highly integrated into the former Soviet economic system, and the transport networks of bordering Russia have been vital to its future export needs. Then Kazakhstan has brought in Russian companies in order to guarantee national development through regional stability. That is why privately-owned Lukoil entered the Tengiz and Karachaganak projects in December 1997.<sup>13</sup> As for China, its rising energy demand and common border with Kazakhstan could only favor a growing interaction between complementary economies. Chinese penetration in the Kazakh oil and gas sector dates back to June 1997, at a time when China National Petroleum Corporation (CNPC) was given a 60% share in the AktobeMunaiGas Company and a production license for onshore fields in the Aktobe region.<sup>14</sup> The CNPC has significantly strengthened its position since,<sup>15</sup> in particular by moving toward the offshore resources of the Caspian Sea, where it finally acquired a stake in the Kashagan field in September 2013.<sup>16</sup> As a result of these foreign investments, Kazakhstan’s economic development has been mainly based on the expansion of the oil and gas sector in the country.<sup>17</sup>

From the 2000s onward, oil and gas-rich Kazakhstan has led a more assertive policy at the national and international levels. Domestically, the republic has sought to regain control over national resources in order to restore a balance between state and multinational interests.<sup>18</sup> In August 2000,

<sup>12</sup> “President extends 25th-anniversary greetings to Kashagan oilfield project participants”, *Kazinform*, 28 de agosto, 2018.

<sup>13</sup> TCO consortium partners in 2018 are Chevron (50%), ExxonMobil (25%), KMG (20%), LukArco (5%). KPO Partners are: RoyalDutchShell (29.25%), Eni (29.25%. Eni incorporated Agip in 1998), KMG (10%), Chevron (18%), and Lukoil (13.5%). In the 2000s, state-owned Russian companies Rosneft and Gazprom also got involved in joint exploration projects with Kazakhstan in fields located in the Caspian Sea.

<sup>14</sup> In 2003, CNPC shares in AktobeMunaiGas were increased to 85%. In the Aktobe region, it has been particularly involved in the extraction of the Zhanazhol and Kenkiyak fields.

<sup>15</sup> In 2005, CNPC took over one of the largest foreign oil producers in Kazakhstan, Canadia’s PetroKazakhstan, which owned the Shymkent refinery —the most important one in the country. CNPC later sold to KMG 33% of its share in PetroKazakhstan. See Peyrouse, S., “Chinese Economic Presence in Kazakhstan”, *China Perspectives*, núm. 3, pp. 43-45.

<sup>16</sup> Kashagan Partners in 2018 are: KMG (16.88%), CNPC (8.33%), Eni (16.81%), RoyalDutchShell (16.81%), ExxonMobil (16.81%), Total (16.81%), Inpex (7.56%).

<sup>17</sup> After reaching double-digit figures in the early 2000s, Kazakhstan’s GDP rate hovered around 4% in 2017. See World Bank, “The Economy is Rising: It is Still all About Oil”, Kazakhstan, Country Economic Update, 2017.

<sup>18</sup> Orazgaliyev, S., “State intervention in Kazakhstan’s energy sector: Nationalisation or participation?”, *Journal of Eurasian Studies*, vol. 9, núm. 2, pp. 143-151.

the President of Kazakhstan established a National Fund in an attempt to stabilize and save oil revenues, with assets running around 60 billion in early 2018.<sup>19</sup> In February 2002, the state consolidated its holding on the energy sector through the merger of dispersed state-owned companies into a single company: KazMunaiGas (KMG), the national operator for extraction, production, refining, and transportation of hydrocarbons.<sup>20</sup> And between 2010 and 2018, it amended the Subsoil Law and Code, as well as PSA laws, in order to tighten its grip on resources and revenues. In the international arena, energy has been one of the factors contributing to Kazakhstan's greater visibility and involvement in international organizations.<sup>21</sup> "Energy security" has been one of the top priorities of Kazakhstan's foreign policy for 2014-2020, and a basis for intensified cooperation with members of the Shanghai Cooperation Organization, the Eurasian Economic Union, the European Union, and even one of the arguments put forward to constitute "the core of Kazakhstan's election campaign" for the position of a non-permanent member at the United Nations Security Council for 2017-2018.

In Azerbaijan, both economic and political objectives have shaped oil and gas negotiations with foreign investors. As former Azerbaijani state advisor and head of Azerbaijani oil company Sabit Bagirov put it, "Azerbaijan was fully aware of the importance of oil contracts for the economic and political independence of the country" in the early 1990s.<sup>22</sup> At the time, Azerbaijan was headed by then pro-Turkish and anti-Russian leader Abulfaz Elchibey and was mainly concerned about the Nagorno-Karabakh conflict threatening its territorial integrity. Azerbaijani authorities have soon used the "oil card" to build relations with the West and counterbalance Russian influence in the region, which they deemed was one of the main causes of their defeat against local Armenians.<sup>23</sup> Among Western companies, the American Oil Company, Amoco, first won a tender in 1991 to explore the Azeri oil field, followed by BP-Statoil and Pennzoil-Ramco in 1992, which formed consortia to develop the Chirag and Guneshli fields respectively. Though they "pursued political objectives," these preliminary agreements were also considered as "promis[ing] obvious economic benefits" and demonstrating Azerbaijan's "preparedness for integration into the world economic system".<sup>24</sup>

<sup>19</sup> "Official Internet-resource, International Reserves and Assets of the National Oil Fund", National Bank of Kazakhstan. Disponible en: <http://www.nationalbank.kz/>

<sup>20</sup> In 2017, KMG accounted for almost one third (28%) of Kazakhstan crude oil and gas production.

<sup>21</sup> Cornell, S., *Asserting Statehood: Kazakhstan Role in International Organizations*, Washington D.C., Central Asia-Caucasus Institute - Silk Road Studies Program, 2015.

<sup>22</sup> Bagirov, S., "Azerbaijan Strategic Choice in the Caspian region", en G. Chufirin (ed.), *The Security in the Caspian Sea Region*, Oxford Oxford University Press, 2001, p. 180.

<sup>23</sup> *Idem*, p. 179.

<sup>24</sup> *Idem*, p. 180.

The same combination of economic and political factors has applied for the conclusion of final oil and gas production sharing agreements in Azerbaijan. In the aftermath of more military defeats in Nagorno-Karabakh and the overthrow of President Elchibey, former KGB-leader Heydar Aliyev seized power in June 1993. Rather than antagonizing Russia, he endeavored to ease tensions and restore cooperation. In the field of energy, he has allowed Lukoil – along with Western majors – to take part in the country’s two major projects. In September 1994, the Russian company was —along with British, American, Turkish, Norwegian, and Saudi partners— among the ten foreign investors to sign the “Contract of the Century” to develop the Azeri-Chirag-Guneshli oil field.<sup>25</sup> And in June 1996, Lukoil acquired a stake in the consortium in charge of the Shah Deniz gas field similar to that of the French, Iranian, and Turkish companies. The stakes of British and Norwegian companies were much higher.<sup>26</sup> These contracts have enabled Azerbaijan to establish close political contacts with foreign countries. They also have also prompted, from an economic point of view, “a sense of optimism and hope [...] palpable at the highest echelons of government”.<sup>27</sup>

Economically and politically, Azerbaijan has fully benefited from international oil and gas agreements. When taking office, President Heydar Aliyev quickly realized the key role of the State Oil Company of the Azerbaijan Republic (SOCAR) in the country’s economy and politics.<sup>28</sup> In September 1993 he appointed the geologist Natig Aliyev as President of SOCAR and in May 1994 his son Ilham Aliyev as first vice-President of SOCAR. This position he held until his election as President of the Republic of Azerbaijan in 2005. Oil revenues, which have been managed by the State Oil Fund of the Republic of Azerbaijan (Sofaz) since December 1999, have strongly increased. Sofaz assets, which were estimated at \$0.5 billion in 2001, rose to \$33 billion in 2016.<sup>29</sup> In September 2017, taking stock of 25 years of oil and gas exploitation, President Ilham Aliyev pointed out the political impact of energy developments in the country and underscored a direct link between the “Contract of the Century” and Azerbaijan’s “ability to conduct an independent policy,”

<sup>25</sup> In November 2002, however, Lukoil sold its 10% share in the consortium. See Blum, D., “Why Did Lukoil Really Pull Out of the Azeri-Chirag-Guneshli Oilfield?”, *Ponars Policy Memo 286*, enero, 2003. ACG Partners in 2018 are: British Petroleum (30.37%), SOCAR (25%), Chevron (9.57%), Inpex (9.31%), Equinor (7.27%, formerly Statoil), ExxonMobil (6.79%), Turkish Petroleum (5.73%), Itochu (3.65%) and ONGV (2.31%).

<sup>26</sup> Shah Deniz co-venturers in 2018 are: British Petroleum (28.8%), Turkish Petroleum (19%) Petronas (15.5%); LUKoil (10%); National Oil Company Iran (10%), SOCAR (9%), and SGC (6.7%).

<sup>27</sup> Kamrava, M., “State-Building in Azerbaijan: The Search for Consolidation”, *Middle East Journal*, vol. 55, núm. 2, p. 226. As a matter of fact, the annual GDP growth rate in Azerbaijan averaged 10% at the end of the 1990s. It reached 33% —its record level— in 2006 before falling down to zero in 2017.

<sup>28</sup> SOCAR was created in September 1992 as a state company responsible for all aspects of oil and gas fields, their exploration and production, the pipeline system, imports and exports, processing, refining and sales.

<sup>29</sup> *State Oil Fund of the Republic of Azerbaijan*, Annual Report, 2016, p. 4.



its “positive reputation in the international arena,” and even its “election as a non-permanent member of the UN Security Council”.<sup>30</sup>

Unlike Kazakhstan and Azerbaijan, the early years of Saparmurad Niyazov’s dictatorial regime were largely responsible for Turkmenistan’s global isolation. Turkmenistan depended on Russian territory and infrastructures to export its gas to Ukraine and has long accommodated Russia despite the “Ups and downs” of their relations.<sup>31</sup> Though the role of foreign companies was rather downplayed initially, some of them were enlisted to develop Turkmen oil and gas resources.<sup>32</sup> As early as 1991, Argentinian company Bridas reached an agreement to explore Turkmen onshore gas reserves, before its wells were seized by the government in 1996. The Emirates Company Dragon Oil and the Malaysian Petronas, involved in Turkmen offshore oil since 1993 and 1996 respectively, have been more successful. The British companies Monument Oil and Burren (acquired by ENI in 2008) were also able to secure their positions in 1996, when they signed a PSA to develop the onshore Nebit Dag area. But America’s ExxonMobil, which attempted to make inroads into the markets in 1998 and 2010, finally pulled out of Turkmenistan in 2014.

Niyazov’s death in December 2006 and *Gurbanguly* Berdimuhamedov’s election as President have created new opportunities for foreign investment in Turkmenistan. European corporations like German RWE and Wintershall-BASF slowly entered Turkmen offshore oil market in 2008-2009. But the opening-up of the country has mostly benefited the Chinese national oil company.<sup>33</sup> In July 2007, the CNPC was granted a permit to extract the deposit of Bagtyyarlyk in the valley of the Amu Darya River in the northeast of the country, thereby becoming the first foreign company to get involved in the onshore gas sector in Turkmenistan. Above all, the CNPC won a tender<sup>34</sup> in December 2009 in order to operate the South Yolotan / Galkynysh gas field—the second largest in the world—.<sup>35</sup> As a result, the Chinese gas company has become the leading player in Turkmenistan.

---

<sup>30</sup> “Twenty-three years have passed since that day [when the Contract of the Century was signed]. Over these years, Azerbaijan has rapidly developed. Azerbaijan is known in the world as a country firmly standing on its feet. Our international relations are very broad. Azerbaijan is a country with a very good and positive reputation in the international arena. It is no coincidence that a few years ago, 155 countries elected Azerbaijan as a non-permanent member of the UN Security Council”.

<sup>31</sup> Milov, V., “Ups and downs of the Russia-Turkmenistan relationship”, en A. Dellecker & T. Gomart (eds.), *Russian Energy Security and Foreign Policy*, Abingdon, Routledge, 2011, p. 92.

<sup>32</sup> Burghart, D., Sabonis-Helf, T., *Central Asia in the Era of Sovereignty: The Return of Tamerlane?*, London, Lexington Books, 2018, pp. 463-465.

<sup>33</sup> As follows-up of the April 2006 agreements on gas cooperation signed between Turkmenistan’s President Nyazov and China’s President Hu Jintao.

<sup>34</sup> With Abu Dhabi’s Petrofac, Dubai’s Gulf Oil and Gas, and South Korea’s LG and Hyundai.

<sup>35</sup> It is second to the North Dome/South Pars field in the Persian Gulf, which is shared by Qatar and Iran.

Beyond the signing of oil and gas agreements with foreign investors, Central Asian republics have sought to fully exercise their sovereign rights regarding Caspian Sea resources and to make sure they are acknowledged in spite of regional disputes. With the breakup of the Soviet Union, the number of Caspian Sea riparian states rose from two (i.e. the USSR and Iran) to five, including Azerbaijan, Kazakhstan, and Turkmenistan. Upon reaching independence, these republics contested the legitimacy of the 1921 and 1940 treaties binding Russia and Iran, which considered the Caspian Sea as an inland lake and its natural resources as a common commodity to be shared equally among littoral states. Instead they defined the area as an enclosed sea to be divided into national sectors granting coastal states exclusive economic rights in accordance with the 1982 UN Convention of the Law of the Sea. Conflicting interests between Caspian Sea bordering republics were partly settled on a bilateral basis from 1998 to 2014.<sup>36</sup> But after two decades of fraught negotiations, the five stakeholders signed a landmark agreement in August 2018 which formalized the parties' sovereign and exclusive rights, and collective uses and responsibilities.<sup>37</sup> This agreement is paving the way for the construction of sub-sea pipelines and may contribute to the strengthening of the importance of the Caspian Sea —then presented by Turkmen President as “one of the key centers of geopolitical and geo-economics processes”—.<sup>38</sup>

### 3. REGIONAL COOPERATION: GEO-ECONOMIC OPPORTUNITIES TO UNLOCK THE AREA

Throughout the 2000s, landlocked Central Asian republics have gradually come to be considered as strategic partners for energy-consuming powers. Europe and Asia have expressed growing interest in Caspian oil and gas to address their need to diversify sources of energy supply whether from Russia or from the Middle East. In its 2000 Green Paper, the European Commission called for alternative sources of imports from countries further afield, like those of the Caspian region, where both production and transportation costs were assessed as “economically viable”, and which

<sup>36</sup> Kazakhstan reached an agreement on the delimitation of its seabed with Russia in July 1998, and with Azerbaijan in November 2001, leading up to a trilateral agreement in May 2003. In December 2014, it also negotiated the terms of an agreement with Turkmenistan. There were, however, persisting tensions in Azerbaijan's relations with neighboring Turkmenistan and Iran.

<sup>37</sup> The parties laid down the principle of a division of the Caspian seabed into national sectors up to 25 nautical miles from their shoreline and to be delimited through further bilateral negotiations in accordance with international law. They also agreed upon a common code of conduct preventing the military deployment of any foreign vessels in the sea—a provision viewed as a victory for Russia and Iran. See Kubiak, M., “Caspian Summit: Consequences for the Region”, *Warsaw Institute*, Special Report, 14 de septiembre, 2018.

<sup>38</sup> “President Gurbanguly Berdimuhamedov takes part in the V Summit of the Heads of Caspian States”, *Turkmenistan Today*, 12 de agosto, 2018.

were deemed as “extremely important” for Europe. As a result, the EU urged member states to “step-up interconnections” with Caspian Sea republics.<sup>39</sup> This objective has led to the implementation of a Southern Gas Corridor integrated in European energy security strategy.<sup>40</sup> In Asia, China’s dramatic increase in energy demand, its geographic proximity with Central Asia and its capacity to mobilize adequate finance helped build a range of energy transportation routes that have been part of its “new Silk road” strategy.<sup>41</sup> Based on economic profitability, the construction of a new generation of oil and gas export pipelines has enabled Central Asian republics not only to unlock their territories but also to reinforce their geopolitical positions with regards to regional and international powers.

Central Asian republics were initially landlocked and isolated; so they first exported oil and gas through existing infrastructures that date back to the Soviet period and link their territory to the Russian Federation. Since October 1996, Azerbaijan has been transporting part of its oil from Baku to the Russian port of Novorossiysk, on the Black Sea.<sup>42</sup> Since 2010, it has also been reversing the flows and exporting its own gas to Russia through the Baku-Novo Filya pipeline.<sup>43</sup> Outside its extensive rail network Kazakhstan has been able to use the pipeline from Uzen and Atyrau to Samara, its first and main outlet in Russia until 2001. Since then a second line, the CPC pipeline, has been operating from Tengiz and Atyrau to Novorossiysk and has become the country’s major export route, with transport capacities initially twice higher than the former line.<sup>44</sup> As for Turkmenistan, it is connected to Russia through Uzbekistan and Kazakhstan by the Central Asia-Center (CAC) gas pipeline. Hence almost 90% of Turkmen gas was sent to Ukraine via Russia until the mid-2000s. For both economic and political reasons, the Russian Northern routes have long remained essential to Caspian states’ export capacities.<sup>45</sup>

Even though its dominant position has been challenged over the years, Russia is still enjoying “a lasting influence” on Central Asian oil and gas exports.<sup>46</sup>

<sup>39</sup> European Commission, *Green Paper, Toward a European Strategy for the Security of Energy Supply*, Brussels, European Commission, 2000.

<sup>40</sup> European Commission, *European Energy Security Strategy*, Brussels, European Commission, 2014.

<sup>41</sup> Niquet, V., “China and Central Asia”, *China Perspectives*, núm. 67, p. 2.

<sup>42</sup> SOCAR is using only a small part of the transport capacity of this line, limited to 105 thousand barrels a day. See “SOCAR, Transneft Agree on oil pumping this year,” *Azernews*, 9 de enero, 2018.

<sup>43</sup> Azerbaijan was formerly importing Russian gas through this pipeline.

<sup>44</sup> The Atyrau-Samara pipeline had the capacity to transport 280 000 barrels a day (b/d), whereas the CPC pipeline could handle 560 000 b/d.

<sup>45</sup> See Bohr, A., “Regionalism in Central Asia: new geopolitics, old regional order”, *International affairs*, vol. 80, núm. 3, p. 498.

<sup>46</sup> Skalamera, M., “Russia’s Lasting Influence in Central Asia”, *Survival*, vol. 59, núm. 6, p. 132. According to the author, energy politics has put a “further dent in Russia’s regional economic clout”, but “Russian firms still have a stake in much of the transportation infrastructure for Central Asia’s oil and gas.”

Admittedly, its presence has been on the decline in Turkmenistan because of continuing disputes over gas prices and volumes to be sold at the border and then exported to Ukraine. In January 2016, Gazprom chose to stop buying Turkmen gas as a consequence of increased bilateral tensions, which were further exacerbated by the Ukrainian crisis. But in October 2018, the two “traditional partners” discussed the possibility of resuming energy flows.<sup>47</sup> Russia’s cooperation with Azerbaijan might be limited and stable, but its involvement with Kazakhstan has strengthened over the last decade. In June 2011, the two partners decided to expand the CPC pipeline transport capacity in order to accommodate future oil production, including volumes from the Kashagan field. The expansion work on this line was fully completed in October 2017, thereby doubling the volumes of oil piped from Kazakhstan to Russia. On the whole, Russia can still use its role as a transit country to reinforce the regional integration of the post-Soviet space and in particular the Eurasian Economic Union (EEU) which was established in May 2014.<sup>48</sup>

At the same time, Central Asian republics have embarked on a multi-vector pipeline strategy aimed at “soft-balancing” Russia’s influence with Turkey, Europe, and China<sup>49</sup>. This strategy was shaped by long-term economic and political developments in the region. On the one hand, Russian-controlled pipeline infrastructures were delivering Kazakh oil and Turkmen gas to customers, the newly independent states which were “frequently unable to meet payments, thereby falling deeply into arrears.”<sup>50</sup> On the other hand, and as a major producer and exporter of oil and gas, Russia is competing against Caspian Sea states on the energy markets, with conflicting interests opposing these neighboring countries. And, finally, exclusive dependence on the Russian pipeline system has reduced the bargaining power of Central Asian leaders — in particular when it came to negotiating sales prices —. For all these reasons, the diversification of oil and gas export routes designed to by-pass Russia has become a pillar of Central Asian countries’ security and pipeline diplomacy.

Azerbaijan has primarily turned to Turkey — its historical, cultural, and strategic partner — in order to create an East-West energy transport corridor and to diversify its outlets. In the mid-1990s, the country started looking for “a very suitable route to export oil to international markets” and it “did not need to think long” about a pipeline project that would ship oil from the

<sup>47</sup> “Gazprom: Turkmenistan is traditional partner of Russia in gas sphere”, *Turkmenistan Today*, 9 de octubre, 2018.

<sup>48</sup> The idea of a Eurasian Union was initially sponsored by Kazakhstan and Russia, included Belarus, and was later extended to Armenia and to the Kyrgyz Republic.

<sup>49</sup> Nurgaliyeva, L., “Kazakhstan economic soft-balancing policy vis-à-vis Russia: From the Eurasian Union to economic cooperation with Turkey”, *Journal of Eurasian Studies*, vol. 7, núm. 1, pp. 92-105.

<sup>50</sup> Akiner, S., “Turkmenistan’s Pipeline Strategy: Building a Diversified Export Infrastructure”, *The Astana Times*, 17 de noviembre, 2015.

Caspian Sea to the Turkish Mediterranean coast.<sup>51</sup> In July 2006, and after more than ten years of intensive negotiations, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline was officially inaugurated. Despite high construction costs and political pressures, this second-longest pipeline in the world turned the myth into a reality.<sup>52</sup> One year later, a parallel line called the South Caucasus Pipeline (SCP) was also commissioned to carry gas from Baku to Erzurum in Eastern Turkey. For Azerbaijan, the achievement of an East-West energy corridor with Turkey has been a major milestone in the development of its partnership with Europe.

The construction of oil and gas pipelines through Turkey has enabled Azerbaijan to become “an important energy partner for the EU.”<sup>53</sup> In November 2006, Azerbaijan signed a Strategic Partnership with the EU in the field of energy, making this sector a “shared priority” in their cooperation. On this occasion, the BTC pipeline was cited as “an economically attractive route” for large volumes of Caspian oil to reach European markets. In 2017, Azerbaijan thus covered more than 4% of EU’s oil import needs.<sup>54</sup> In addition, the production of Azerbaijani gas and its transit into EU markets was placed “high on the agenda.”<sup>55</sup> In January 2011, both parties supported the development of a Southern Gas Corridor as a “strategic objective” and a “stepping stone in increasing European energy security.”<sup>56</sup> As a consequence, the SCP pipeline was extended to the Turkish-Greek border in June 2012, with the construction of the Trans-Anatolian Natural Gas Pipeline (TANAP), which was inaugurated in June 2018.<sup>57</sup> The Trans-Adriatic Pipeline (TAP) project is aimed at creating the last link with Europe by connecting Azerbaijan to Italy across Turkey, Greece, Albania, and the Adriatic Sea. Construction works began in April 2014 and should be completed in 2020. Thanks to its location and infrastructures, Azerbaijan could further raise its profile by becoming a transit hub for oil and gas exports from Kazakhstan and Turkmenistan to Europe.<sup>58</sup>

---

<sup>51</sup> Heydar, A., “Speech... on the occasion of the founding ceremony of the BTC main oil pipeline, 18 September 2002”, *Azerbaijan*, 19 de septiembre, 2002. Disponible en: <http://lib.aliyevheritage.org/en/>

<sup>52</sup> In the words of Ilham Aliyev at the ceremony commissioning the Azerbaijani part of the BTC in Baku in May 2005. The BTC pipeline was designed to yield a throughput capacity of one million barrels per day.

<sup>53</sup> European External Action Service, “EU-Azerbaijan Relations”, *Energy cooperation*. Disponible en: [https://ccas.europa.eu/headquarters/headquarters-homepage\\_lt/4013/EU-Azerbaijan%20relations](https://ccas.europa.eu/headquarters/headquarters-homepage_lt/4013/EU-Azerbaijan%20relations)

<sup>54</sup> “Main origin of primary energy imports, EU-28, 2006-2016”, *Eurostat*, Agosto, 2018.

<sup>55</sup> “Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan”, Bruselas, 7 de noviembre, 2006, p. 4.

<sup>56</sup> “Joint EU-Azerbaijan Declaration on the Southern Corridor”, Baku, 13 de enero, 2011, p. 2.

<sup>57</sup> With an initial transport capacity of 16 billion cubic meters per year (bcm/y), this new pipeline will supply 10 bcm/y to Europe and 6 bcm/y to Turkey.

<sup>58</sup> Kuchins, A., Mankoff, J., and Barkes, O., *Azerbaijan in a Reconnecting Eurasia, Foreign Economic and Security Interests*, CSIS Report, Rowman and Littlefield, 2016, p. 32 & 35. In May 2018, Ilham Aliyev noted that Azerbaijan offered “opportunities as a reliable transit country to its neighbors”. See President of the Republic of Azerbaijan, “Ilham Aliyev attended official opening ceremony of Southern Gas Corridor”, *News, Events*, 29 de mayo, 2018.

By transiting through Russia and Azerbaijan, Kazakhstan's energy exports have mainly been channeled to European markets. In December 2006, Kazakhstan and the EU committed to promoting a closer cooperation in the field of energy and to enhance regional connections and maritime transportation in particular.<sup>59</sup> A decade later, trade had substantially increased in the oil sector. About 75% of Kazakh oil exports were travelling around or across the Caspian Sea to Europe, primarily to Germany, France, Italy, Greece, and Austria.<sup>60</sup> By using the CPC pipeline via Russia, the BTC, and the Baku-Novorossiysk pipelines through Azerbaijan, Kazakhstan provided almost 7% of EU's oil import needs in 2016.<sup>61</sup> Due to the lack of adequate infrastructures, gas has been lagging behind and it has failed to integrate the Kazakh-EU global trade up until this point. Kazakhstan could potentially benefit from the project of a Trans-Caspian gas pipeline that would ship Turkmen and possibly Kazakh gas to Europe. But compared with China, Europe has been slow to negotiate and seal gas agreements with Central Asian republics.

Outside the EU (its top energy partner), Kazakhstan has to a lesser extent diversified its exports toward the closest and fastest growing market: China." From 2005 to 2009, Chinese and Kazakh companies worked toward the construction an oil pipeline stretching from the city of Atyrau on the Caspian Sea to Alashankou in China's western Xinjiang province, which laid the ground for China's long-term expansion in Central Asia. The export capacity of this line doubled in April 2013 to accommodate the upcoming production from the Kashagan field, but also to pump volumes of Russian oil to China via Kazakhstan.<sup>62</sup> So even though Chinese imports accounted for only 5% of Kazakhstan's global oil exports in 2016,<sup>63</sup> this share has been growing over the past years and will continue to do so in the future. As well, Kazakhstan started delivering small amounts of gas to China in October 2017. These exports are expected to increase twofold over the coming years.<sup>64</sup> As noted by President Nazarbayev during his state visit to Beijing in June 2018, China's New Belt and Road Initiative can only strengthen "Kazakhstan's strategic location," connections and opportunities.<sup>65</sup>

<sup>59</sup> "Memorandum of Understanding...", *op. cit.*, p. 4.

<sup>60</sup> "Country Analysis Brief: Kazakhstan", *U.S. Energy Information Administration*, mayo, 2017.

<sup>61</sup> "Main origin of primary energy imports, EU-28, 2006-2016", *op. cit.*

<sup>62</sup> The Atyrau-Alashankou oil pipeline, which was initially pumping 200 000 barrels oil a day (10 million tons per year), has capacity to carry up to 400 000 barrels oil a day (20 million tons per year). It has been transporting volumes of Russian oil to China since 2014.

<sup>63</sup> "Country Analysis Brief: Kazakhstan", *op. cit.*

<sup>64</sup> In 2019, gas exports to China are planned to increase from 5 to 10 billion cubic meters. See "Special energy Issue on Kazakhstan", *Embassy of the Netherlands in Kazakhstan*, agosto, 2018, p. 5.

<sup>65</sup> "Nazarbayev Meets with Chinese President, Businesses in Beijing", *Astana Calling*, 15 de junio, 2018. Disponible en: <http://mfa.gov.kz/files/5b233cd2957be.pdf>

China's growing energy demand has also offered Turkmenistan opportunities to diversify its gas exports. In April 2006, China and Turkmenistan signed a framework agreement defining their cooperation in terms of gas supplies and export routes.<sup>66</sup> This agreement paved the way for the construction of the Central Asia-China gas pipeline from Turkmenistan to China through Uzbekistan and Kazakhstan. Construction works started in July 2007 and were completed in record time, with the inauguration ceremony of the pipeline taking place in December 2009. In June 2012, Presidents Gurbanguly Berdymukhamedov and Hu Jintao decided to further increase volumes of gas exported through this line. This included gas production originating mostly from Turkmenistan along with Uzbek and Kazakh gas.<sup>67</sup> This agreement enhanced Chinese penetration deep into Central Asia, particularly into Turkmenistan. Since 2015, Turkmenistan has directed 80% of its gas exports towards China,<sup>68</sup> thereby facing the risk of replacing Russia with China's domination of its gas market.<sup>69</sup>

But at the same time, Turkmenistan has made substantial progress in promoting gas trade and networks with India, the third largest energy consumer in the world behind the United States and China. In the early 1990s, Argentina's Bidas initiated a pipeline project which would transport gas from Turkmenistan to India through Afghanistan and Pakistan – the Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI). Security and political unrest have long prevented the development of this project, which received renewed interest in the new post-2001 regional context. In December 2002, Turkmenistan, Afghanistan, and Pakistan signed a framework agreement to revive the construction of the pipeline, with India's approval in May 2006. The conclusion of an intergovernmental agreement between the four participating states followed in December 2010.<sup>70</sup> However, ongoing security challenges in the transit countries, political tensions between Pakistan and India, and economic concerns related to the cost and viability of the project have delayed its implementation. In December 2015, and with the support of the Asian and Islamic development banks, Turkmenistan finally began the construction works on its territory and completed its section in February 2018. Depending on future extensions in Afghanistan and Pakistan, Turkmenistan's

<sup>66</sup> According to this agreement, Turkmenistan has agreed to export 30 billion cubic meters of gas to China annually over a 30-year period.

<sup>67</sup> Initially limited to 30 billion cubic meters per year (bcm/y), the Central Asia-China pipeline's transport capacities were increased to 65 bcm/y: 55 bcm from Turkmenistan, 10 bcm from Uzbekistan, and 5 bcm from Kazakhstan. Uzbekistan and Kazakhstan have delivered gas to China starting since 2012 and 2017 respectively.

<sup>68</sup> Batsaikhan, U. & Dabrowski, M., "Central Asia at 25", *Bruegel Policy Paper*, núm. 13, p. 8.

<sup>69</sup> Lee, Y., "Opportunities and risks in Turkmenistan's quest for diversification of its gas export routes", *Energy Policy*, vol. 74.

<sup>70</sup> The TAPI pipeline will transport 33 billion cubic meters per year. Construction cost is estimated to be between USD 9.9 billion. See "TAPI Project", *Afghanistan's Ministry of Mines and Petroleum*. Disponible en: <http://mom.gov.af/en/page/1378/shiberghan-gas-project>

access to the Indian market could open a new North-South corridor fully in line with India's 2012 "Connect Central Asia policy."<sup>71</sup>

Finally, Turkmenistan has sought to diversify its gas export routes and markets toward Iran, as the final construction of the gas pipeline to India and the future level of the Chinese gas demand remain uncertain. In this context, Iran has emerged as a neighboring power whose location could also unlock Central Asian republics despite its international isolation. Since the 1990s, Turkmenistan has built three gas pipelines with Iran. The first one was inaugurated in December 1997 and has been supplying gas to Iran's northern areas which are densely-population but far-away from Iranian producing regions. The second one started operating in December 2000 and the third opened in January 2010, transporting Turkmen gas from the Dauletabad field to the Khangiran gas refinery in Iran.<sup>72</sup> Like Turkmenistan, Azerbaijan is connected to Iran through a pipeline built in Soviet times. Based on these infrastructures and on the lifting of nuclear-related sanctions against Iran since July 2015, Central Asian republics could move closer to Iran, in particular with a view to developing oil and gas swaps in the region.<sup>73</sup>

#### 4. ENERGY, POWER AND DEMOCRATIZATION: THE GROWING RISKS

Even though oil and gas resources have been useful foreign policy tools for Central Asian republics to increase their political visibility and economic cooperation, they have negatively affected domestic policy and the transition to democracy. On a global scale and based on statistical data, most political scientists argue that "oil and minerals have strong anti-democratic effects". Three mechanisms explain the oil-impede-democracy claim. First, the "rentier states" can use abundant flows of oil revenues to reduce taxes and increase spending, making it possible for them to relieve demand for accountability, buy off potential challengers, and reduce pressure for political rights. Second, oil rents may allow governments to finance larger security forces, and repress political opposition. Third, economic wealth and development cannot result in democratization without social and cultural changes, including education. As a consequence, "there is now considerable evidence that... petroleum

<sup>71</sup> By contrast, negotiations between Turkmenistan and Europe for the development of a Trans-Caspian pipeline have not yielded any tangible outcome. See Pirani, S., "Let's not exaggerate: Southern Gas Corridor prospects to 2030", *Oxford Institute for Energy Studies*, julio, 2018, pp. 11-14.

<sup>72</sup> Taken together, these three pipelines could deliver up to 20 bcm of Turkmen gas annually to Iran. See Heinrich, A. & Pleines, H., *Export Pipelines from the CIS Region, Geopolitics, Securitization, and Political Decision-Making*, Stuttgart, Verlag Press, 2014, p. 55.

<sup>73</sup> Under swap agreements, Azerbaijan, Kazakhstan and Turkmenistan have supplied oil to Northern Iran since 1997. Iran has delivered equivalent volumes of its own oil to its Central Asian partners in the Persian Gulf in exchange. Similar arrangements for gas exchanges are under discussion.



tends to produce a “political resource curse”. More precisely, “it tends to make authoritarian regime more durable,” hence less likely to transit to democracy.<sup>74</sup> For some others, however, oil can also become a “comparative advantage” to invest in human capital, fight against poverty, and sponsor industrialization, thereby favoring the emergence of new social actors who may push for political reforms.<sup>75</sup>

At the official and rhetorical levels, Central Asian leaders have taken pride in using oil and gas revenues to improve the economic, social, and political situation of their republics. In November 2017, Ilham Aliyev clearly stated that Azerbaijan had “managed to convert black gold into human capital”.<sup>76</sup> More than ten years earlier, the Azerbaijani President had defined reduction of poverty and development of human capital as major objectives of the country’s long-term strategy on the management of the oil rent.<sup>77</sup> By the same token, he underlined SOFAZ’s contribution to the 2008 state program on poverty reduction.<sup>78</sup> SOFAZ’s expenditure is explicitly intended to improve the social conditions of refugees and education of the Azerbaijani youth abroad.<sup>79</sup> More generally, Azerbaijan has presented the Contract of the Century, its energy policy and economic growth as key elements of the country’s development, “for the benefit of the people”, of the health care system, education, and social assistance. At the same time, it has led a policy aimed at the “formation of a democratic society and transparent public relations”.<sup>80</sup> In Kazakhstan, President Nazarbayev has also largely used the rhetoric of reform and democratization to appease the West. In May 2018, he praised at length TCO partners for paying “special attention to the social projects of the region,” including the creation of thousands of businesses and jobs in several areas of the economy, the construction of hospitals, schools, water supply systems, and electrical networks which contributed to the development of the republic.<sup>81</sup> And finally, Turkmenistan’s

---

<sup>74</sup> Ross, M., “What Have We Learned about the Resource Curse”, *Annual Review of Political Science*, vol. 18, núm. 1, p. 240.

<sup>75</sup> Gurses, M., “State-sponsored development, oil and democratization”, *Democratization*, vol. 16, núm. 3, pp. 508-529.

<sup>76</sup> President of the Republic of Azerbaijan, “Ilham Aliyev attends...”, *op. cit.*

<sup>77</sup> See the decree of the President of Azerbaijan dated September 27, 2004 on the Long-term Strategy on the Management of Oil and Gas Revenues.

<sup>78</sup> See the decree of the President of Azerbaijan dated September 15, 2008 on the state Program on Poverty Reduction and Sustainable Development 2008-2015.

<sup>79</sup> See *SOFAZ Annual Report 2016*. From 2007 to 2015, SOFAZ has financed the education of 3302 Azerbaijani students abroad, who were enrolled in academic institutions —mainly in the UK (29%), Turkey (22%), and Germany (12%).

<sup>80</sup> See the decree of the President of Azerbaijan dated December 29, 2012 on “Azerbaijan 2020: Look into the Future, Development concept.”

<sup>81</sup> “Nursulan Nazarbayev speech at the 25 years anniversary of TCO in Kazakhstan”, *op. cit.*

President reiterated the role of energy and natural resources in the country's sustainable development goals in September 2018.<sup>82</sup>

But the strong negative correlation between oil wealth and democratic transition has in fact characterized the rentier and corrupt states of Central Asia. As such, the budget of Central Asian republics has been mainly financed by oil export revenues and highly depending on it. In Azerbaijan, the share of SOFAZ transfers in state budget revenues has increased threefold from 2006 to 2016, reaching its highest level (58%) in 2013.<sup>83</sup> In Kazakhstan, guaranteed transfers from the National Fund to the republican budget accounted for one third of state budget revenues in 2016.<sup>84</sup> And in Turkmenistan, gas exports have reportedly provided 70% of state revenues.<sup>85</sup> As early as 2005, scholars stressed “the role of foreign capital in the endurance of authoritarian regimes” in Central Asia,<sup>86</sup> in particular when it directly flows to the public sector, or even to “the pockets of government officials”.<sup>87</sup> In this regard, the oil and gas sector is one of greatest source of corruption in the area. Hence, the coalition called Extractive Industries Transparency Initiative (EITI) decided in March 2017 to suspend Azerbaijan for not fully meeting “corrective actions related to civil society space”, despite earlier progress in that respect.<sup>88</sup> Even though Kazakhstan made “meaningful progress” in 2017 by implementing standards of transparency according to the EITI, Turkmenistan has not joined the coalition yet. Overall, Central Asian republics rank among the worst performing states as far as transparency rules are concerned.<sup>89</sup>

Oil and gas wealth have strengthened the oligarchic regimes of Central Asia, marked by neopatrimonialism and patronage networks.<sup>90</sup> Hydrocarbon export revenues have provided vital resources to Central Asian leaders to finance patron-clients relations, secure loyalty and hold on to power. Even if it is difficult to identify such informal mechanisms, many experts and

<sup>82</sup> “Presentation of the book of President Gurbanguly Berdimuhamedov ‘On the Way to Achievement of the Sustainable Development Goals in Turkmenistan’”, *Turkmenistan Today*, 21 de septiembre, 2018.

<sup>83</sup> SOFAZ transfers to the Azerbaijani state budget increased from 15% in 2006 to 43% in 2016. See *SOFAZ Annual Report 2016*, p. 39.

<sup>84</sup> See *Report of the National Bank of the Republic of Kazakhstan for 2016*, Almaty, 2017, p. 12.

<sup>85</sup> Bruce, P., “Turkmenistan Bogus Budget”, *RFE/RL*, 2 de diciembre, 2017.

<sup>86</sup> Bayulgen, O., “Foreign Capital in Central Asia and the Caucasus: Curse of Blessing?”, *Communist and Post-communist Studies*, vol. 38, núm. 1, p. 50.

<sup>87</sup> *Idem*, p. 63.

<sup>88</sup> See EITI Board decision dated March 9, 2017. EITI, a coalition of governments, companies, civil society groups and organizations, was created in June 2003 in response to the expansion of literature about the resource curse detailing how oil and gas benefits were associated with increased poverty and corruption. EITI centers on transparency and dialogue as a starting point to address the curse.

<sup>89</sup> Accord to the NGO *Transparency International*, Turkmenistan ranked 167<sup>th</sup>, Azerbaijan and Kazakhstan 122<sup>nd</sup> out of 187 states and territories surveyed in the world in 2017. By comparison, neighboring Georgia ranked 46<sup>th</sup>, Armenia 107<sup>th</sup>, Kyrgyzstan 135<sup>th</sup>, Tajikistan 161<sup>st</sup>, and Uzbekistan 167<sup>th</sup>.

<sup>90</sup> Franke, A., Gawrich A. & Alakbarov, G., “Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a ‘Double Curse’ in Post-Soviet Regimes”, *Europe-Asia Studies*, vol. 61, núm. 1, pp. 109-140.

non-governmental organizations have raised the issue and alerted decision-makers. In Azerbaijan, “it has become a common belief that the dividing lines between politics and economics and between the public and private spheres are blurred”.<sup>91</sup> In particular, since Ilham Aliyev became president in 2003, “the inflow of oil has fueled presidential patronage”.<sup>92</sup> Members of Parliament are often protégés and relatives of oligarchs, whereas the administration is staffed by deeply-rooted clientelism.<sup>93</sup> As a result, “patronage networks permeate all spheres of public life and hamper the long-term economic and social development prospects” of Azerbaijan.<sup>94</sup> In the same way, “abundant oil maintains the gears of the Kazakh patronage machine”.<sup>95</sup> As a matter of fact, Nazarbayev’s widespread patronage has made political institutions “increasingly irrelevant” in Kazakhstan.<sup>96</sup> In Turkmenistan too, the leadership has widely used hydrocarbons export revenues to secure political support. Here, “gas dollars are used by the elite to pay off the patronage networks that, in turn, strive to perpetuate the status quo”.<sup>97</sup>

Oil and gas revenues have also reinforced authoritarian regimes in Central Asia by helping finance security forces and increase political repression. The political records of regional republics have indeed been a source of growing concerns for human rights organizations. According to Freedom House, Turkmenistan —even under President Berdimuhamedov— is still “a police state” and “a country of personality cult” where political rights and civil liberties are almost completely denied.<sup>98</sup> Religious groups are persecuted, and political dissent is not tolerated. For Human Rights Watch, Turkmenistan “remains one of the world’s most closed and oppressively governed countries”.<sup>99</sup> In 2017, authoritarianism has become “more deeply entrenched than ever” in Azerbaijan, as the state took “unprecedented steps” to reduce freedom of expression, and intensify crackdown against criticism and opposition.<sup>100</sup> This also applies to Kazakhstan, where human rights records have further deteriorated, in particular in the media and civil society sectors. In 2017, labor rights have been significantly undermined when a court closed the

<sup>91</sup> Guliyev, F., “Political Elites in Azerbaijan”, en A. Heinrich & H. Pleines (eds.), *Challenges of the Caspian Resource Boom. Domestic Elites and Policy-Making*, Houndmills, Palgrave Macmillan, 2012, p. 124.

<sup>92</sup> *Freedom House*, Nations in Transit 2013: Azerbaijan, p. 90.

<sup>93</sup> *Bertelsmann Foundation*, BTI 2018 Country Report, Azerbaijan, Gütersloh, Bertelsmann Stiftung, 2018, p. 20.

<sup>94</sup> Kukutschka, R., “Azerbaijan: Overview of corruption and anti-corruption”, *Anti-Corruption Help Desk, Transparency International*, 1 de septiembre, 2017.

<sup>95</sup> McGlinchey, E., *Chaos, Violence, Dynasty, Politics and Islam in Central Asia*, Pittsburgh, University of Pittsburgh Press, 2011, p. 11.

<sup>96</sup> *Freedom House*, Nations in Transit 2013: Kazakhstan, p. 265.

<sup>97</sup> Bohr, A., “Turkmenistan: Power, Politics and Petro-Authoritarianism”, *Chatham House, the Royal Institute of International Affairs*, marzo, 2016, pp. 5 & 59.

<sup>98</sup> *Freedom House*, Nations in Transit 2018, Turkmenistan.

<sup>99</sup> *Human Right Watch*, Country Summary, Turkmenistan, January 2018.

<sup>100</sup> *Freedom House*, Nations in Transit 2018, Azerbaijan.

Confederation of Independent Trade Unions, the largest trade union organization in the country.<sup>101</sup> On the whole, Central Asian states are all ruled by autocratic regimes.

Lastly, the oil and gas rent has ensured the survival and stability of authoritarian regimes.<sup>102</sup> The concentration of power and increased military spending may indeed deter a coup, regime change, or collapse, thereby explaining the link between oil wealth and the durability of autocratic regimes.<sup>103</sup> In Central Asia, Nursultan Nazarbayev and his family ruled over Kazakhstan for almost three decades until March 2019. Nursultan Nazarbayev was elected First Secretary of the Communist Party in 1989 and President of the Republic in December 1991—a position he could hold for life according to the 2007 constitutional amendments—.<sup>104</sup> Over the years, he centralized power to the extent that he was re-elected President in April 2015 with 97.7% of votes at the first round. In his efforts to avoid any kind of revolution like the ones Georgia, Ukraine, and Armenia have experienced, Nursultan Nazarbayev kept a close eye on the armed forces. Since the early 2000s, Kazakhstan has allocated around 1% of its GDP and 4.5% of government spending on military expenditures, which increased almost fourfold from 2001 to 2017.<sup>105</sup> He also made regular appointments in the army to ensure that he keeps control over the armed forces.<sup>106</sup> In Turkmenistan, Gurbanguly Berdimuhamedov succeeded to the country's first “president for life,” Saparmurad Niyazov, in 2006. The country's constitution set no limit to the number of presidential terms, but requires the presidential candidate to be aged below 70. In September 2016, Gurbanguly Berdimuhamedov signed constitutional amendments to remove the age cap on presidential candidates,<sup>107</sup> thereby making it possible for him to remain indefinitely in office if re-elected. In February 2017, he was re-elected President for a third time with 97.6% of votes. But the promotion of his son Serdar to leadership positions in the administration, including in the field of

<sup>101</sup> More than six hundred Kazakh oil workers went on strike in January 2017 to protest against this decision. Three dozens were arrested. And trade union leaders were sentenced to prison for “disobedience”, See *Freedom House*, Nations in Transit 2018, Kazakhstan.

<sup>102</sup> For Benjamin Smith, “regimes in oil-rich states enjoy a boost in longevity as a result of their access to oil rents”, See Smith, B., “Oil Wealth and Regime Survival in the Developing World, 1960-1999”, *American Journal of Political Science*, vol. 48, núm. 2, p. 238.

<sup>103</sup> Wright, J., Frantz, E. and Geddes, B., “Oil and Autocratic Regime Survival”, *British Journal of Political Science*, vol. 45, núm. 2, p. 287-306.

<sup>104</sup> The 2007 amendments to the Constitution of Kazakhstan stipulated that the President could be elected for a maximum two successive five-year terms, but added that these limitations did not apply to the first President of the Republic.

<sup>105</sup> *Stockholm International Peace Research Institute*, Military Expenditure Database.

<sup>106</sup> Gurassovo, A., “Leadership Shuffle in the Kazakh Armed Forces: What is Behind these Changes?”, *Eurasia Daily Monitor*, 24 de mayo, 2018.

<sup>107</sup> Another constitutional amendment extended the length of the presidential term of office from five to seven years.

energy and foreign affairs,<sup>108</sup> could rather suggest a gradual transfer of power through a dynastic succession like in Azerbaijan. Ilham Aliyev succeeded his father as President of Azerbaijan in October 2003, after a ten-year stint as vice-President of the SOCAR. Following a second-term office he won in October 2008, he organized a referendum in March 2009 to amend the Constitution and remove the two-term limit on the presidential mandate. In 2013 and 2018, he ran and won the elections with over 80% of votes each time, centralizing further power into the hands of the ruling family.<sup>109</sup> Throughout these years, building the army has been the “most important issue, the highest priority” for the Aliyev regime.<sup>110</sup> From 2001 to 2017, military expenditure in Azerbaijan increased from over 2% to almost 4% of the country’s GDP, i.e. a share that is amounting to a tenfold increase in constant US dollars.<sup>111</sup> On this point, the Azerbaijani president has clearly stated that oil and gas revenues will serve the objective of “consolidating the defense capabilities of the country”.<sup>112</sup>

Geopolitics and geo-economics can partly explain the lack of progress in Central Asian republics’ transition to democracy.<sup>113</sup> To a certain extent, cooperation with Western oil companies and countries may have motivated the political elites in Azerbaijan and Kazakhstan to endorse some economic and political reforms, including democratic standards at least on formal terms. By contrast, Turkmenistan has had fewer incentives to promote transparency because its energy partners —basically Russia and China— have had a strictly strategic or business-oriented agenda. But over the long term, pressure from the United States or the EU on governmental policies in Central Asia has been limited to repeated appeals and encouragement for further steps toward political rights and civil liberties. Despite an ambitious dialogue to support democratization, the West has been facing substantial challenges in implementing political reforms in the region. In practice, it “is punching below its weight in a region where Russia and China are far more influential”.<sup>114</sup>

---

<sup>108</sup> Sardar Berdimuhamedov had reportedly a management position at the State Agency for Management and Use of Hydrocarbon Resources from 2013 to 2016, before he returned to the Ministry of Foreign Affairs, where he was appointed Deputy Minister in March 2018. See “The Rise of Serdar”, *Turkmenistan Chronicle*, 3 de abril, 2018.

<sup>109</sup> In September 2016, Azerbaijan held another referendum approving new constitutional changes, including the extension of the presidential term office from five to seven years, the creation of two vice-presidential posts, and the elimination of the minimum-age for presidential candidates. In February 2017, Ilham Aliyev appointed his wife Mehriban Aliyeva, deputy chairwomen of the ruling New Azerbaijan Party, first vice-president of Azerbaijan.

<sup>110</sup> “Speech by Ilham Aliyev at the official military parade on the occasion of the 100<sup>th</sup> anniversary of the armed forces”, *President of the Republic of Azerbaijan*, 26 de junio, 2018.

<sup>111</sup> See SIPRI Military Expenditure Database.

<sup>112</sup> See the decree of the President of Azerbaijan dated September 27, 2004 on the Long-term Strategy on the Management of Oil and Gas Revenues.

<sup>113</sup> See Öge, K., “Geopolitics and revenue transparency in Turkmenistan and Azerbaijan”, *Eurasian Geography and Economics*, vol. 56, núm. 1, junio, 2015, pp. 1-22.

<sup>114</sup> Bossuyt, F., “The European Union’s Political and Security Engagement with Central Asia: How to Move Forward”, *The Central Asia-Caucasus Analyst*, 6 de septiembre, 2017.

## 5. CONCLUSIONS

Within 20 years, landlocked Central Asian republics have partially entered globalization. From an economic point of view, they have opened up their economic markets, and in particular their hydrocarbon sector, thereby becoming strategic or potential partners of a wide range of consuming powers and transit countries like Turkey, Europe, Russia, China, India, and Iran. With agreements on oil and gas extraction, production, and export, regional leaders have consolidated the newly independent states on the international stage. Azerbaijan, Kazakhstan and Turkmenistan have indeed found their place on the world map, and taken on a higher profile as they reconnected with the world. And even though the building of new energy transport infrastructures reflected intensified interdependence and cooperation rather than regional integration, Central Asian republics' role in the global economy may further increase in the shape of a land corridor between Europe and Asia.

But from a political point of view, globalization has not taken root in Central Asia since the 1990s. A growing reference to common concepts and shared values like the state, democracy, development or the rule of law does not imply that converging practices have emerged throughout the world. On the contrary, the assumption that economic liberalization may lead to political liberalization has not yet been proved. Over the last two decades, Central Asian leaders have used oil and gas revenues to resist reforms for democratization and strengthen their hold on power, thereby preparing the ground for autocracy-to-autocracy transitions. On the world level, this exemplifies the general disconnection between economic markets and political systems. On the domestic level, this may create the risk of increasing political dissent and instability in Central Asia, particularly in times of declining oil prices and transition to a post-petroleum period.

## BIBLIOGRAPHY

- Akiner, S., "Turkmenistan's Pipeline Strategy: Building a Diversified Export Infrastructure", *The Astana Times*, 17 de noviembre, 2015.
- Atkinson, D., "Globalization", en P. James, *International Relations*, Estados Unidos, Oxford Bibliographies, 2011. Disponible en: <http://www.oxfordbibliographies.com/page/international-relations>
- Bagirov, S., "Azerbaijan Strategic Choice in the Caspian region", en G. Chufirin (ed.), *The Security in the Caspian Sea Region*, Oxford Oxford University Press, 2001.
- Batsaikhan, U. & Dabrowski, M., "Central Asia at 25", *Bruegel Policy Paper*, núm. 13.
- Bayulgen, O., "Foreign Capital in Central Asia and the Caucasus: Curse of Blessing?", *Communist and Post-communist Studies*, vol. 38, núm. 1.
- Blum, D., "Globalization and the Caspian Region," Caspian Studies Program, "Caspian Conference Report: Succession and Long-term Stability in the Caspian Region",

- Estados Unidos, Belfer Center for Science and International Affairs - Harvard University, 2000.
- Blum, D., "Why Did Lukoil Really Pull Out of the Azeri-Chirag-Guneshli Oilfield?", *Ponars Policy Memo 286*, enero, 2003.
- Bohr, A., "Regionalism in Central Asia: new geopolitics, old regional order", *International affairs*, vol. 80, núm. 3.
- Bohr, A., "Turkmenistan: Power, Politics and Petro-Authoritarianism", *Chatham House, the Royal Institute of International Affairs*, marzo, 2016.
- Bossuyt, F., "The European Union's Political and Security Engagement with Central Asia: How to Move Forward", *The Central Asia-Caucasus Analyst*, 6 de septiembre, 2017.
- British Petroleum Statistical Review of World Energy, July 2018. Disponible en: <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review/bp-stats-review-2018-full-report.pdf>
- Bruce, P., "Turkmenistan Bogus Budget", *rfe/rl*, 2 de diciembre, 2017.
- Burghart, D., Sabonis-Helf, T., *Central Asia in the Era of Sovereignty: The Return of Tamerlane?*, London, Lexington Books, 2018.
- Cornell, S., *Asserting Statehood: Kazakhstan Role in International Organizations*, Washington D.C., Central Asia-Caucasus Institute - Silk Road Studies Program, 2015.
- "Country Analysis Brief: Kazakhstan", *U.S. Energy information Administration*, mayo, 2017.
- European Commission, *Green Paper, Toward a European Strategy for the Security of Energy Supply*, Brussels, European Commission, 2000.
- European Commission, *European Energy Security Strategy*, Brussels, European Commission, 2014.
- European External Action Service, "EU-Azerbaijan Relations", *Energy cooperation*. Disponible en: [https://eeas.europa.eu/headquarters/headquarters-homepage\\_lt/4013/EU-Azerbaijan%20relations](https://eeas.europa.eu/headquarters/headquarters-homepage_lt/4013/EU-Azerbaijan%20relations)
- Franke, A., Gawrich A. & Alakbarov, G., "Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a 'Double Curse' in Post-Soviet Regimes", *Europe-Asia Studies*, vol. 61, núm. 1.
- "Gazprom: Turkmenistan is traditional partner of Russia in gas sphere", *Turkmenistan Today*, 9 de octubre, 2018.
- Guliyev, F., "Political Elites in Azerbaijan", en A. Heinrich & H. Pleines (eds.), *Challenges of the Caspian Resource Boom. Domestic Elites and Policy-Making*, Houndmills, Palgrave Macmillan, 2012.
- Gurassovo, A., "Leadership Shuffle in the Kazakh Armed Forces: What is Behind these Changes?", *Eurasia Daily Monitor*, 24 de mayo, 2018.
- Gurses, M., "State-sponsored development, oil and democratization", *Democratization*, vol. 16, núm. 3.
- Heinrich, A. & Pleines, H., *Export Pipelines from the CIS Region, Geopolitics, Securitization, and Political Decision-Making*, Stuttgart, Verlag Press, 2014.
- Heydar, A., "Speech... on the occasion of the founding ceremony of the BTC main oil pipeline, 18 September 2002", *Azerbaijan*, 19 de septiembre, 2002. Disponible en: <http://lib.aliyevheritage.org/en/>
- Ipek, P., "The Role of Oil and Gas in Kazakhstan's Foreign Policy: Looking East or West?", *Europe-Asia Studies*, vol. 39, núm. 7.
- "Joint EU-Azerbaijan Declaration on the Southern Corridor", Baku, 13 de enero, 2011.
- Kamrava, M., "State-Building in Azerbaijan: The Search for Consolidation", *Middle East Journal*, vol. 55, núm. 2.

- Kangas, R., "Problems of State-Building in the Central Asian Republics", *World Affairs*, vol. 157, núm. 1, pp. 32-33.
- Kubiak, M., "Caspian Summit: Consequences for the Region", *Warsaw Institute*, Special Report, 14 de septiembre, 2018.
- Kuchins, A., Mankoff, J., and Barkes, O., *Azerbaijan in a Reconnecting Eurasia, Foreign Economic and Security Interests*, CSIS Report, Rowman and Littlefield, 2016.
- Lee, Y., "Opportunities and risks in Turkmenistan's quest for diversification of its gas export routes", *Energy Policy*, vol. 74.
- "Main origin of primary energy imports, EU-28, 2006-2016", *Eurostat*, August 2018.
- McGlinchey, E., *Chaos, Violence, Dynasty, Politics and Islam in Central Asia*, Pittsburgh, University of Pittsburgh Press, 2011.
- "Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan", Bruselas, 7 de noviembre, 2006.
- Milov, V., "Ups and downs of the Russia-Turkmenistan relationship", en A. Dellecker & T. Gomart (eds.), *Russian Energy Security and Foreign Policy*, Abingdon, Routledge, 2011.
- "Nazarbayev Meets with Chinese President, Businesses in Beijing", *Astana Calling*, 15 de junio, 2018. Disponible en: <http://mfa.gov.kz/files/5b233cd2957be.pdf>
- "Nursulan Nazarbayev speech at the 25 years anniversary of TCO in Kazakhstan," *TCO News*, 10 de mayo, 2018. Disponible en: <http://www.tengizchevroil.com/>
- Niquet, V., "China and Central Asia", *China Perspectives*, núm. 67.
- Nurgaliyeva, L., "Kazakhstan economic soft-balancing policy vis-à-vis Russia: From the Eurasian Union to economic cooperation with Turkey", *Journal of Eurasian Studies*, vol. 7, núm. 1.
- "Official Internet-resource, International Reserves and Assets of the National Oil Fund", National Bank of Kazakhstan. Disponible en: <http://www.nationalbank.kz/>
- Öge, K., "Geopolitics and revenue transparency in Turkmenistan and Azerbaijan", *Eurasian Geography and Economics*, vol. 56, núm. 1, junio, 2015.
- Orazgaliyev, S., "State intervention in Kazakhstan's energy sector: Nationalisation or participation?", *Journal of Eurasian Studies*, vol. 9, núm. 2.
- Peyrouse, S., "Chinese Economic Presence in Kazakhstan", *China Perspectives*, núm. 3.
- Pirani, S., "Let's not exaggerate: Southern Gas Corridor prospects to 2030", *Oxford Institute for Energy Studies*, julio, 2018.
- "Presentation of the book of President Gurbanguly Berdimuhamedov 'On the Way to Achievement of the Sustainable Development Goals in Turkmenistan'", *Turkmenistan Today*, 21 de septiembre, 2018.
- "President extends 25th-anniversary greetings to Kashagan oilfield project participants", *Kazinform*, 28 de agosto, 2018.
- "President Gurbanguly Berdimuhamedov takes part in the V Summit of the Heads of Caspian States", *Turkmenistan Today*, 12 de agosto, 2018.
- President of the Republic of Azerbaijan, "Ilham Aliyev attended official opening ceremony of Southern Gas Corridor", *News, Events*, 29 de mayo, 2018.
- Ross, M., "What Have We Learned about the Resource Curse", *Annual Review of Political Science*, vol. 18, núm. 1.
- Skalamera, M., "Russia's Lasting Influence in Central Asia", *Survival*, vol. 59, núm. 6.
- Smith, B., "Oil Wealth and Regime Survival in the Developing World, 1960-1999", *American Journal of Political Science*, vol. 48, núm. 2.



- “SOCAR, Transneft Agree on oil pumping this year,” *Azernews*, 9 de enero, 2018.
- “Special energy Issue on Kazakhstan”, *Embassy of the Netherlands in Kazakhstan*, agosto, 2018.
- “Speech by Ilham Aliyev at the official military parade on the occasion of the 100<sup>th</sup> anniversary of the armed forces”, *President of the Republic of Azerbaijan*, 26 de junio, 2018.
- State Oil Fund of the Republic of Azerbaijan*, Annual Report, 2016.
- “TAPI Project”, *Afghanistan’s Ministry of Mines and Petroleum*. Disponible en: <http://mom.gov.af/en/page/1378/shiberghan-gas-project>
- “The Rise of Serdar”, *Turkmenistan Chronicle*, 3 de abril, 2018.
- World Bank, *Trends in developing economies extracts, Volume 1, Eastern Europe and Central Asia*, Washington D.C., World Bank, 1993.
- World Bank, “The Economy is Rising: It is Still all About Oil”, Kazakhstan, Country Economic Update, 2017.
- Wright, J., Frantz, E. and Geddes, B., “Oil and Autocratic Regime Survival”, *British Journal of Political Science*, vol. 45, núm. 2.