

USAWC STRATEGY RESEARCH PROJECT

OUTLETS FOR OIL AND GAS FROM THE CENTRAL ASIAN REPUBLICS – GEO-POLITICAL AND
GEO-ECONOMIC IMPLICATIONS FOR THE REGIONAL AND NON REGIONAL STATES

by

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U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

REPORT DOCUMENTATION PAGE

Form Approved OMB No.
0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.

1. REPORT DATE (DD-MM-YYYY) 07-04-2003		2. REPORT TYPE		3. DATES COVERED (FROM - TO) xx-xx-2002 to xx-xx-2003	
4. TITLE AND SUBTITLE Outlets for Oil and Gas from the Central Asian Republics Geo-Political and Geo-Economic Implications for Regional and Non-Regional States Unclassified			5a. CONTRACT NUMBER		
			5b. GRANT NUMBER		
			5c. PROGRAM ELEMENT NUMBER		
6. AUTHOR(S) Islam, Muhammad Z. ; Author			5d. PROJECT NUMBER		
			5e. TASK NUMBER		
			5f. WORK UNIT NUMBER		
7. PERFORMING ORGANIZATION NAME AND ADDRESS U.S. Army War College Carlisle Barracks Carlisle, PA17013-5050			8. PERFORMING ORGANIZATION REPORT NUMBER		
9. SPONSORING/MONITORING AGENCY NAME AND ADDRESS .			10. SPONSOR/MONITOR'S ACRONYM(S)		
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)		
12. DISTRIBUTION/AVAILABILITY STATEMENT APUBLIC RELEASE .					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT See attached file.					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:		17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19. NAME OF RESPONSIBLE PERSON	
a. REPORT Unclassified		b. ABSTRACT Unclassified	c. THIS PAGE Unclassified	Same as Report (SAR)	42
				Rife, Dave RifeD@awc.carlisle.army.mil	
			19b. TELEPHONE NUMBER International Area Code Area Code Telephone Number DSN		
				Standard Form 298 (Rev. 8-98) Prescribed by ANSI Std Z39.18	

ABSTRACT

AUTHOR: Brigadier Muhammad Zahir ul Islam
TITLE: Outlets for Oil and Gas from the Central Asian Republics - Geo-Political and Geo-Economic Implications for Regional and Non Regional States
FORMAT: Strategy Research Project
DATE: 07 April 2003 PAGES: 42 CLASSIFICATION: Unclassified

Central Asia today offers opportunities for investment in the discovery, production, transportation, and refining of enormous quantities of oil and gas. Central Asia is home to more than 70 million people in an area 45 percent the size of the U.S. Its resources, including 10 billion barrels (bbl) of undeveloped oil reserves and 6.6 trillion cubic meter (cum) of natural gas await investment and development. In today's geo-economic environment where the economies of developed and developing states are driven by consumption of enormous amount of finite energy, this unexploited abundance of energy resources cannot remain unnoticed, especially after the demise of former Soviet Union. However, even after 10 years, development efforts have not borne dramatic fruit. This paper will:

- Trace a brief history of the Central Asian Republics(CARs) and the reasons why the potential of these states still remains largely underdeveloped, even after gaining independence.
- Analyze the factors, besides the Afghan war, impinging on development of viable routes and port facilities for the export of oil and gas out of these land locked states.
- Appraise the future courses of development, especially after the resolution of the Afghanistan problem.
- Focus on analyzing the implications of such a development on the CARs, and other countries like USA, Russia, Turkey and Pakistan.
- The paper will conclude with specific recommendations for Pakistan in developing a strategy to gain the maximum benefit out of this New Great Game (the struggle for exercising influence on exploitation of energy resources in Central Asia).

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OUTLETS FOR OIL AND GAS FROM THE CENTRAL ASIAN REPUBLICS– GEO-POLITICAL AND GEO-ECONOMIC IMPLICATIONS FOR REGIONAL AND NON REGIONAL STATES

Central Asia today represents one of the world's last great frontiers for geological survey and analysis. It offers opportunities for investment in the discovery, production, transportation, and refining of enormous quantities of oil and gas. Potential energy reserves are concentrated in Azerbaijan, Kazakhstan, Uzbekistan, and Turkmenistan. Potential pipelines routes include lines through Russia, Georgia, Afghanistan, Iran and Turkey.¹ Turkmenistan and Uzbekistan are rich in gas resources, while Kazakhstan is the primary oil producer. Home to more than 70 million people, the area is 45 percent of the size of the US. Central Asian resources, approximately 28 billion barrels (bbl) of undeveloped oil reserves and 6.6 trillion cubic meters (cum) of natural gas, are ready for investment and development.²

In today's geo-economic environment where the economies of developed and developing states are driven by the consumption of enormous amounts of finite energy, this unexploited abundance of energy cannot remain untapped. The Central Asian Republics (CARs) under their current leaders are looking outwards to find importers for their energy resource in order to improve the living conditions of their people. However, after 10 years their efforts have made little progress. This paper will analyze those impediments that impinge on the desired development of energy resources from these states, while appraising the historical and current geo-strategic factors. The paper will conclude with recommendations for Pakistan as a recipient market of these energy resources and also as a future transit route for the rest of South and South East Asia.

HISTORICAL PERSPECTIVE AND THE DIVISION OF CENTRAL ASIA

GEOGRAPHICAL EXTENT AND ETHNIC MAKE UP

For centuries people from different parts of the world have ruled over Central Asia; among them, the Greeks under Alexander the Great (356-326 BC), the Persian-Achaemenids (539-330 BC) and Sassanids (224-642), Gengiz Khan in the 13th century, Tamarlane in 15th century and the Russians/Soviets during the 19th and 20th century. It is important to recognize Central Asia's historic, political, socio-cultural and economic role in world history as the intermediary between East and West. All Eurasian empires and their civilizations, China, Persia, India and Islam, have interacted with and through Central Asia. However, most analyses of Eurasian history simply neglect Central Asia's role. Central Asia truly is the "missing link" in Eurasian and the world history.³



FIGURE 1. CENTRAL ASIA, CAUCASUS AND THEIR NEIGHBOURS

Scholars also disagree in their definitions on the geographical extent of Central Asia. Gavin Hambly, for example, considers “Central Asia as an arid and land locked area”.⁴ Its boundaries to the south are marked by thousands of miles of mountain ranges between China and the Black Sea. In the East, Iran and Tibet have always been closely linked to Central Asia, as have the Ukrainian-Romanian-Hungarian plains in the west. To the north, its boundaries lie in the Siberian tundra.⁵ Some scholars say that “Central Asia spreads from the Urals to the Pamir mountains. It was always recognized as an entity even though it had different names (Turan, Maverannahr, Desht-I-Kipchak, Turkistan)”.⁶ According to Adshead, Central Asia stretches “at its greatest extent from the Carpathians to the Korean Peninsula along its East-West Axis, from the Arctic Ocean to the Himalayas. It is a region unified by its distance from the sea, continental climate and shortage of rain fall, but diversified by distance from the pole and Geography”.⁷ Central Asian people identify themselves more by a certain ethnicity than by geographic boundaries. However, even these claims to ethnic roots have changed over time and people have adopted their present identity relatively recently.⁸ In the historical analysis of

Central Asia, Andre G. Frank calls for an analytical framework that embraces all Eurasia, with Central Asia as its center.⁹

POLITICAL HISTORY

Historically, Central Asia has played a significant role in melding the settled and nomadic Turkic peoples with the Great Asian Empires and the Islamic world. The political history of Central Asia has been driven by two factors: the migration of Central Asian steppe pastoral nomads spreading in all directions but mainly westward, and by invasions from outside. These two combined to create a true melting pot of societies, not only linguistically and ethnically but also in political and economic terms.¹⁰

When the first Arab invasion took place in the second half of the 7th century the lands of K'arazam and Transoxiana were strongly connected to the Eurasian steppes (from eastern Europe to China) in cultural, religious and trading terms. The Muslim conquest of Central Asia started with Qotayba bin Moslem. In 705 he became the Umayyad governor of Khorasan, establishing Arab rule north of the Oxus (today's Syr Darya). In the early Islamic times the land to the north of Khorasan and beyond the Oxus was identified with the region of Turan. The peoples of Turan were held to include the Turks although all through Islamic times the regions beyond the Oxus and along its lower reaches were not inhabited by Turks but by Persians. Following its conversion to Islam, Central Asia became a great Islamic cultural center and other religions gradually died out. Central Asia became important in the development of Islamic civilization, art, architecture, literature, and thought.¹¹ In 751 A.D. Arab rule in Transoxiana was established. The Abbasid Arabs created a vast world empire (750-1258 A.D.) unifying themselves economically for the first time and extending their power as far as Transoxiana. It introduced the institution of the Sultanate and the Turkic military based state structure. The Abbasids empire ended in 1258 A.D. when the Mongols conquered Baghdad.¹²

In the 16th and 17th century Central Asia witnessed the revival of a neo-Gingizid state established by Mohammad Saybani Khan and the center of power became the Khanate. In the 18th century Central Asia experienced a political and economic crisis. This crisis arose because of the decline of the power of the ruling dynasties in the Uzbek Khanates of Bukhara and K'arazam, the resurgence of tribal forces, the disruption of economic life, and nomadic incursions into the settled areas. The decline of the international caravan trade through Central Asia, the granting of tax exemptions to powerful landlords, and the declining power of the central government in the provinces led to a decrease in state revenues. By the end of the 18th century, three new Uzbek Khanates had been established. Among them, the Khanate of

Bukhara was the richest and most populous. All three Khanates remained highly heterogeneous. In Transoxiana, Tajiks intermingled with Uzbeks and Turkic speaking groups. In the cities most people were bilingual and identified themselves locally rather than with specific ethnic groups. Turkic ethnic groups lived mainly in the south while the Uzbeks retained their tribal heritage and lived mostly in the north of the Khanate.¹³

THE ERA OF THE "GREAT GAME"

The first contacts between Russia and Central Asia were established in the 16th century with the conquest of the Khanates of Kazan and Astrakhan by Ivan the Terrible. From that time onwards Russia gradually became Central Asia's main trading partner. Economic relations between Russia and the Khanates were quite peaceful. In 1715 A.D. Peter the Great became interested in Central Asia having heard of gold deposits. He also wanted to find river routes from Central Asia to India. In 1847 A.D. the Russian conquered the Syr Darya and in 1853 A.D. Semirech'e. These two conquests can be considered as the starting point of direct military confrontation between Russia and Central Asia. It was also the beginning of Anglo-Russian rivalry in the region.¹⁴

In the late 19th century, British India and Tsarist Russia fought an undeclared war in Central Asia and Afghanistan. Lord Curzon, the British Viceroy of India, first coined the phrase "The Great Game" in 1898 when he wrote, "*Turkmenistan, Afghanistan, Transcaspia, Persia – to many these words breathe only a sense of utter remoteness or a memory of vicissitudes and of moribund romance. To me, I confess they are pieces of a chess board upon which is being played out a game for domination of the world.*"¹⁵ The territory comprising modern day Tajikistan, southern Uzbekistan and northern Afghanistan was one contiguous land for centuries, ruled intermittently by emirs or kings in Bukhara or Kabul. Persecuted tribal chiefs, bandits and mullahs sought sanctuary in each other's territories, crossing ill-defined borders. Along the Pamir mountains Tajikistan's five million people share a rugged 640 mile border with Afghanistan, which is divided by the Amu Darya river. A quarter of Afghanistan's population is Tajik. More Tajiks are scattered throughout Central Asia and another 200,000 live in China's Xinjiang province.¹⁶

As the Great Game intensified, Russia annexed northern Turkestan and southern Tajikistan. In 1884 the British and the Russians demarcated the border between Afghanistan and Central Asia. Afghanistan's links with Central Asia came to an end after the 1917 Russian Revolution when the Soviet Union sealed its borders with its southern Muslim neighbors. The reopening of these borders in 1991 heralded the start of a "new Great Game".¹⁷

CREATION OF THE CARs

Stalin created the five CARs in 1924-25 by arbitrarily drawing lines on a map. He gave Bukhara and Samarkand, the two major centers of Tajik culture and history, to Uzbekistan, creating a rivalry between the two Republics which continues to this day. Modern day Tajikistan contains none of the ancient centers of Tajik population or economic glory. Stalin also created the autonomous region of Gorno-Badakhshan in the Pamir mountains, which contains 44 percent of the land area of Tajikistan but only 3 percent of the population. While the Tajiks are Sunni Muslims, Gorno-Badakhshan contains various Pamiri ethnic groups many of whom are Shia Muslims.¹⁸ This pattern of division was a deliberate effort to break the integrity of various ethnic groups and to forestall any anti-Bolshevik or anti-Communist movement amongst the Muslims of this region. Table 1 illustrates the mix created by the Soviets to suit their own goals of controlling these republics, which has now become a source of instability for these independent states.¹⁹

OVERVIEW OF THE INDEPENDENT CARs

Tajikistan. Tajikistan was an under-developed, poverty stricken republic on the Soviet Union's periphery and its budget depended on subsidies from Moscow. In 1991, immediately after gaining independence, tension between the Uzbeks and Tajiks and intra-clan rivalries within the Tajiks erupted. The resulting civil war (1992-1997) between the neo-communist government and different Islamicist forces devastated the country. Thousand of Tajik rebels and refugees found refuge in northern Afghanistan while Tajik government forces were backed by Russian troops. Russian president Boris Yeltsin declared in 1993 that the Tajik-Afghan border was, in effect, Russia's border. It was a reassertion of Moscow's traditional primacy in Central Asia.²⁰ Ethnic issues have been resolved to a great extent, a cease fire was negotiated in 1997 and a power sharing arrangement is in place but the resurgence of ultra-Islamic groups and Russian control over the policies of Tajikistan are still the lingering problems.

REPUBLIC	POPULATION IN MILLIONS	RUSSIAN POPULATION WITHIN THE REPUBLIC (%)	OTHER NATIONALITIES WITHIN THE REPUBLIC (%)
Turkmenistan	5	13	8 Uzbeks, 3 Kazakhs, and 8 other
Uzbekistan	23	11	4 Tartars, 4 Kazakhs, 4 Tajiks, and 2 Karakalops
Tajikistan	6	3.5	25 Uzbeks and 6.6 (Tartars, Kyrgyz, Jews, Germans)
Kazakhstan	17	37	5.2 Ukrainians, 2 Tartars, 4.7 Germans and others
Azerbaijan	8	2.5	3.2 Dagestani, 2.3 Armenians and 2 others
Total	63		

TABLE 1. CENTRAL ASIAN REPUBLICS' POPULATION 1996

Uzbekistan. In Uzbekistan, Islamic militancy, partly fuelled by the Taliban of Afghanistan, is the most serious challenge to president Islam Karimov. The Uzbeks, the most numerous, aggressive, and influential race in the region occupy today's Islamic heartland and the political nerve center of Central Asia. Uzbekistan has borders with all CARs and Afghanistan. Its principal cities, Samarkand and Bukhara, have played host to countless civilizations over 25,000 years and became the second center of Islamic learning after Arabia. Medieval Bukhara had 360 mosques and 113 madrasas and even in 1900, there were 10,000 students studying in 100 madrasas. The 250 mile long Ferghana valley, with its long associations with learning and militancy, is the richest agricultural region in Central Asia and the center of Islamic opposition to Islam Karimov.²¹ For the time being, these elements have been ruthlessly suppressed, but a long term solution demands the integration of these groups into the mainstream political process. The current authoritarian government will have to adopt a more liberal, democratic path, allowing free market trade and foreign investment to exploit its abundant natural resources.

Turkmenistan. During the Soviet era Turkmenistan was largely ignored by Moscow. The republic had the highest infant mortality rate and the lowest industrialization of any Soviet

Republic apart from Tajikistan. Moscow developed the oil and gas industry in Siberia and ignored Turkmenistan's potential oil and gas reserves. Nevertheless, 47 percent of Turkmenistan's revenue in 1989 came from the sale of 3.2 trillion cubic feet (tcf) of natural gas to other Soviet Republics.²² But the break-up of the Soviet Union turned Turkmenistan's erstwhile customers into impoverished, independent states who could not pay their bills. Weak and impoverished, with no military force to defend its long borders with Iran, Afghanistan, and its rival, Uzbekistan, Turkmenistan opted for a foreign policy of neutrality. This gave it the justification to keep its distance from Russia and avoid being sucked into the economic and military pacts that arose out of the break-up of the Soviet Union.²³ This policy also gave Turkmenistan the ability to pursue gas pipeline projects through Afghanistan to Pakistan under the Taliban government. It is still actively pursuing this objective.

Kazakhstan. The Kazakhs were a pastoral, nomadic people of Turko-Mongol stock who began to consolidate in the 15th century by organizing into three groups or *zhuzes*, commonly called hordes. The three hordes were loosely unified from the first quarter of the 16th century to the last quarter of the 17th century. When Kalmyk Mongol tribesmen began moving west and started taking control of Kazakh pasturelands, the Khans who ruled the Small and Middle Hordes sought protection from Russia's ruler, swearing allegiance to the Russian Tsars in 1731 and 1740, respectively. The Kazakhs took this to be a treaty of protection; Russia viewed it as a prelude to conquest which it undertook in the late 18th and early 19th centuries. Many Kazakhs maintain that from that time on their ancestors suffered at the Russians hands, continuing up to the "Alma Ata Uprising" of 1986, when Kazakh protesters were killed during the demonstrations provoked by the replacement of the long-time Kazakh party leader, Din Muhammad Kunayev, by a Russian from outside the republic. Of all the newly independent states, Kazakhstan's oil and gas reserves are likely to prove to be the most significant. Currently the country produces some 800,000 barrels of oil daily. Their leaders hold out hope that Kazakhstan will turn into another Saudi Arabia in the next two decades. Kazakhstan has 70.52 tcf of gas reserves and at least 16.4 bb of oil reserves. The latter figure is conservative and could triple or even increase six fold if the most optimistic estimates of Kazakhstan's offshore reserves are fully proved.²⁴ An authoritarian government and political instability prevent international investment in this large, potentially oil rich country.

CENTRAL ASIA AS AN ALTERNATE ENERGY RESOURCE

FACTS AND FIGURES

The Caspian Region is likely to play an important role in the global political economy of the 21st century because of its enormous oil reserves. The Caspian oil reserves will never approach the Gulf in terms of their importance for global energy needs. With proven reserves of 600 bn barrels of oil and 1600 trillion cubic feet of natural gas, the Persian Gulf is the world's largest hydrocarbon depository. The Caspian is not in the same class. However, its reserves are large enough to justify the intense interest of the international energy industry.²⁵ The accessible reserves are estimated to be roughly 28 bn barrels of oil and 243 tcf of gas, amounting to an oil equivalent of almost 70 bn barrels. This is significantly larger than Europe's proven reserves of about 50 bn barrels of oil equivalent.²⁶

Within the first decade of this century, the Caspian region might be able to produce approximately 4 million barrels per day (m b/d), with 2.5m. barrels available for export. The region will probably produce about 4 tcf of natural gas annually. Of this figure, close to 3 tcf of will probably be exported from the Caspian Sea and the adjoining littoral states.²⁷

The import of raw material throughout the world is likely to increase, as will the number of importing countries. Today, one half of the global industrial production is dependent on imported raw materials and fuel for energy. A relatively small number of states are able to meet their raw material and energy requirements from within their domestic sources. In 1990, this figure was 37 percent. Oil, as the world's primary fuel, will be challenged in the next decade and substantial change has to be expected in the structure of the energy industry. If the Middle East should move towards re-establishing its domination in the oil trade as it did in the 1970s, importing countries might try to protect their national oil industry, and non Middle Eastern exporters might look for alternative regional exports and regional oil trading blocks. "These regional blocks would include: the Western Hemisphere, Europe (including major trading areas in Russia and the Caucasus), and East Asia/Australasia (excluding China, which might not be able to join the East Asia/Australasia block in the short term for political reasons, such as disputes over oil rights in the South China Sea)".²⁸

The Caspian region will play a crucial role in this matter. Most of the Soviet Union's successor states will rely on imported fuel from Russia, Central Asian and the Caucasian republics. As shown in table 2, at the end of 1994, total proven world oil reserves stood at 1,009,300,000,000 barrels, 76.3 percent of which belong to the OPEC countries and 5.9 percent to Eastern Europe (including Russia). Although the Middle East, containing 65.4 percent of the

world's proven oil reserves, will remain crucial in the supply of oil in the coming decades, the world oil balance might be challenged by the new resources uncovered in Central Asia, especially in Azerbaijan and Kazakhstan. Optimists hope that Azerbaijan might become a second Kuwait.²⁹

Region	Barrels	Percent
North America (including Mexico)	88,300,000,000	8.7
Latin America	78,300,000,000	7.8
Western Europe	16,500,000,000	1.6
Eastern Europe (including Russia)	59,200,000,000	5.9
Middle East	660,300,000,000	65.4
Africa	62,200,000,000	6.2
Asia and Australasian	44,500,000,000	4.4

TABLE 2. OIL RESERVES BY REGION, 1994.

Almost all oil industry experts agree that world oil production is expected to continue to grow as steadily as it has over the last two decades. According to the International Energy

Agency, world oil demand is projected to increase from around 67 million b/d in 1995 to between 92 and 97 million b/d in 2010.³⁰

THE NEW GREAT GAME

Lately, considerable attention has been devoted to the energy resources of the Caspian Sea and Central Asia (which we shall now call the Caspian Region to include Kazakhstan, Turkmenistan, Azerbaijan and Uzbekistan). This is not because the reserves in the region are estimated to be greater than any other sources but because the Caspian Region represents possibly the last unexplored and unexploited oil bearing region in the world and its opening generated great excitement amongst international oil companies. In the early 1990s, the USA estimated that Caspian oil reserves were between 100 to 150 billion barrels (bb). That figure was highly inflated and possible reserves are now estimated to be less than half that or even as low as 50 bb. The Caspian region's proven oil reserves are between 16 and 32 bb, which compares to 22 bb for the USA and 17 bb for the North Sea. Western oil companies shifted their attention first to Western Siberia in 1991-92, then to Kazakhstan in 1993-94, Azerbaijan in 1995-97 and finally Turkmenistan in 1997-99.

Between 1994-98, 24 companies from 13 countries signed contracts in the Caspian region. Kazakhstan has the largest oil reserves with an estimated 85 bb, but only 10-16 bb proven reserves. Azerbaijan has possible oil reserves of 27 bb but only 4-11 bb proven reserves, while Turkmenistan has 32 bb possible oil reserves, but only 1.5 bb proven reserves. Uzbekistan's possible reserves are estimated at 1 bb. Proven gas reserves in the Caspian region are estimated to be at 236-237 trillion cubic feet (tfc), compared to 300 tcf in the USA. Turkmenistan has the 11th largest gas reserves in the world with 159 tcf of possible gas reserves, Uzbekistan 110 tcf, and Kazakhstan 88 tcf. Azerbaijan and Uzbekistan have 35 tcf each.

In 1996 the Caspian Region produced 1 million barrels of oil per day (b/d) of which only 300,000 b/d was exported – mainly from Kazakhstan. However, only half that (140,000 b/d) was exported outside the former Soviet Union. Caspian production still represented only about 4 percent of total world oil production. The region's natural gas production in 1996 totaled 3.3 tcf, but only 0.8 tcf was exported outside the former Soviet Union – mostly from Turkmenistan. There was an urgent, almost desperate need for pipeline outlets outside Russian influence and the Central Asian leaders became obsessed with projected pipeline projects, potential routes and the geo-politics that surrounded them. The scramble for oil and influence by the big powers in the Caspian has been likened to the Middle East in the 1920s, but Central Asia today is an

even larger, more complex quagmire of competing interests. Big powers such as the USA, Russia and China; the neighbors Iran, Pakistan, Afghanistan and Turkey; the Central Asian States themselves and the most powerful players of all, the oil companies, compete in what is now called the “New Great Game”.

COMPETING STATES

After the disintegration of the Soviet Union, the Central Asian and Caucasian countries tried, for the first time in modern history, to establish themselves formally as independent nation states. Countries like Azerbaijan, Kazakhstan and Turkmenistan see the foundations of their economies in their abundant energy resources.³¹ See table 3.

Countries	Proven Oil Reserves (BBL)	Possible Oil Reserves (BBL)	Total Oil Reserves (BBL)	Proven Gas Reserves (tcf)	Possible Gas Reserves (tcf)	Total Gas Reserves (tcf)
Azerbaijan	3.6 – 11	27	31 – 39	11	35	46
Iran*	--	12	12	--	11	11
Kazakhstan	10 – 16	85	95 – 101	53 – 83	88	141 – 171
Russia*	0.2	5	5	N/A	N/A	N/A
Turkmenistan	1.4 – 1.5	32	34	98 – 155	159	257 – 314
Total	15.2 – 28.7	162	177 - 191	162 - 249	193	455 – 542

*only the regions near the Caspian Sea are included

TABLE 3. OIL AND GAS RESERVES IN THE CASPIAN REGION

One of the main problems, however, is that even if these land locked countries were able to overcome the enormous problems of exploiting oil, they would not be able to export it without the cooperation of regional, international, and trans-national powers. The effort to gain access to some of the most precious global resources could cause a complex series of confrontations and conflicts at regional and international levels. I shall now examine how each player in the

international and transnational arena might try for primacy in its influence and control of the region's oil and gas resources.

Russia. A measure of success in maintaining post-independent influence in the region notwithstanding, Russia's current policy towards oil in the region is characterized by two competing political strategies advocated by two different groups. The first is *'to protect the interest of the Russian Federation in the Caspian Sea'*. This clearly means that Russia should maintain its *"sphere of influence"* in the Central Asian and Caucasian republics. This faction of Russian policy making is based upon the realist view that oil is a key instrument in maintaining that influence. In terms of international competition for the region's oil, this faction sees development and export of oil in zero sum terms, rather than as a co-operative effort from which everyone can benefit. The second policy is supported by the transnational faction – which has tried to seek a coalition with the transnational corporations by warmly encouraging them to participate in the development of Caspian oil as a means of ensuring access to capital and advanced technology. They have worked for Russian inclusion in Western consortia in order to improve their own technology, to establish a foothold in world oil markets, and to share the profits.³²

These two factions with their nationalist and trans-nationalist political strategies towards Central Asia and the Caucasus are reflected in the often contradictory and fragmented responses by Russian policy makers regarding regional issues.³³ Thus, Moscow pursues a policy that on the one hand, views the region in terms of geopolitical struggles and opposing U.S. and Western influence. On the other hand, emerging business and financial circles favor a more pragmatic approach to the Caspian Basin, stressing potential economic gains from cooperative strategies and Russian access to the World markets.³⁴ Overall, Russia remains cautious of the regional states' military cooperation and potential regional defense alliances with outside powers and has serious concerns about the roles of Turkey and Iran as the other major powers in the Caspian Basin. But Russia also has a desire to cooperate with Iran in the transportation of energy resources. Despite the impression that relations with Turkey are strained, there is a great deal of trade, investment, and economic cooperation between Russia and Turkey, and the two have developed a good understanding on a host of political issues.³⁵

United States of America. The U.S. government began formulating a policy toward the Caspian region in 1991, immediately after the dissolution of the Soviet Union. However, it was only after 1994 that the Caspian region began to receive much more serious attention in both policy and business circles. The U.S. is considered to be the most influential post-Soviet era

Western power in Central Asia and the Caucasus. Four main objectives shape American policy toward the region: 1)strengthening the independence and viability of the new states as market democracies; 2)mitigating regional conflicts and fostering cooperation; 3)bolstering the economic security of the United States, its allies and states in the region by promoting the development and free flow of Caspian energy resources to global markets; and 4)advancing the interests of U.S. companies involved in the region: Chevron, Exxon, and Mobil, among others.³⁶ In addition to promoting commercial opportunities, another important aspect of the policy in the region is to attempt to increase energy security. At the same time, the U.S. State Department has stressed that it does not intend to push forward commercially non-viable projects or provide corporate welfare. The United States support transnational corporations as well as United States-based economic involvement in the region's oil production and export, on the basis that its domestic companies' involvement can help to further economic liberalization and to facilitate the region's entry into the world economic market. From the Russian perspective, U.S. policy toward the Caspian region involves two somewhat contradictory policy prescriptions; isolating Iran while integrating the new nations of the former Soviet Union into the global economy. Both of these run counter to the interest of Russia, which has been the dominant power in the region for the past 150 years and which has a good relationship with Iran.³⁷

Washington's chosen policy instrument towards Iran is the imposition of sanctions. The past record of the sanctions suggests that they rarely succeed in hurting the economy of the target country, especially when they are unilateral, but they have some political utility for US domestic political interests—for the Congress in particular. U.S. efforts to extend sanctions to third country companies through, for example, the Iran – Libya Sanctions Act (ILSA) have provoked serious reactions from the European Union, which threatened to protest before the World Trade Organization. As a result, President Clinton was forced to agree during the G8 summit in 1998, that ILSA sanctions would not be imposed on the three companies (Russia's Gazprom, Malaysia's Petronas, and France's Total) which had plans to invest in Iran's South Pars field. In return the European Union pledged to step up cooperation in their fight against international terrorism.³⁸ After 9/11/2001, the policy is much clearer. The Russians have now become full time partners in the war against terrorism, accepting U.S. leadership role in defining the future global order. The most significant development in this regards is the Russian tolerance of U.S. forces on their door step brought in for the attack against the Taliban. Apparently, despite Russian desires, the U.S. presence in the region is now permanent. It is

prudent to conclude that future developments in distribution of energy resources from Central Asia and Caucasus will be significantly influenced by U.S. policy and business interests.

Turkey. Historically, Turkey has strong ties with the whole region, especially with the Caucasus region. These relations were weakened during the expansion of Tsarist Russia in the 19th century and under Soviet rule. The disintegration of the Soviet Union created an opportunity for Turkey to restore its historical association with, and to increase its influence over the region. This has been established as a priority of Turkish regional policy. When the Soviet Union collapsed, Turkey was the first country to recognize the independence of the Central Asian and Caucasian states and also the first country that opened embassies there. The United States supports Turkey's involvement in the region, hoping that this might limit Iranian influence. Turkey stresses its role as an intermediary between the West and Central Asia. Turkey has a number of political, military, and economic agreements with the Caucasus and Central Asian states and commercial ties have deepened, especially after 1991. One of the most important goals of Turkey is to gain access to Caspian oil and gas in order to develop its own economy. Thus, policy makers in Turkey attempted to create good relations with their closest neighbors, mainly Azerbaijan. Turkey is particularly interested in building a pipeline to carry Caspian oil through Turkey, as it would benefit from the royalty and transportation fees that such a pipeline would bring. The problems Turkey needs to resolve before realizing their aspirations would include their review of limits on tanker traffic through the Bosphorus, the political implications of various routes that these pipelines would follow, i.e. through Iran with its effect on U.S. sensitivities, and through Armenia and Georgia with political instability in these countries. Two other factors that would impact on Turkish policy are their own political polarization and the Kurdish region through which these pipelines would pass.³⁹

Iran. While Russia is clearly the most powerful of the Caspian littoral states, Iran is a key player with a significant impact on the Caspian geopolitics and economics. How the United States and Iran resolve (or do not resolve) their issues is a significant aspect influencing the future direction of both Caspian Basin and Persian Gulf stability. Iran and Russia share many common interests in other parts of the greater Middle East. They also share a common perception that the United States is trying to minimize their influence in the region.⁴⁰ Geographically, future pipelines bound west or south out of the Caspian region must pass through Iranian territory. Turkey desires to cooperate with Iran but such a cooperation runs counter to U.S. interests. Iran has improved its relations with the Caspian States significantly and is a willing participant in various oil and gas export projects including oil and gas swaps through its port facilities. Iran's

relations with its Caspian neighbors are strongly influenced by its complicated energy situation, its unique geography, and its continuing conflict with United States. In order to develop its economy to meet the growing expectation of a large, young, and dissatisfied population, Iran must undertake a massive capital investment in its energy sector and work closely with both its energy-rich and energy-deficient neighbors to achieve a mutually beneficial economic relationship.⁴¹ This would entail opening up its oil and gas sectors to foreign investment, a step that is anathema to the more die-hard conservatives who remain opposed to foreigners and their money. Although Iran has already taken steps to involve foreign companies, so far the concessions have been restricted to offshore assets.⁴²

A few facts on Iran's energy situation help to explain why this issue commands such a priority in Iranian politics. Iran remains one of the world's largest oil producers. Revenues fell significantly in recent years along with production. Domestic consumption has increased, and the base price of oil on the world market dropped to less than \$9 a barrel in 1998. However, since 1999 oil prices have risen, providing Iran with much needed new revenue.⁴³

Iran's other great asset is natural gas, regarded globally as one of the most desirable sources of energy because of its abundance, competitive production costs, and environmental cleanliness. Yet from the perspective of the Persian Gulf countries, which all have huge proven oil reserves, such significant revenues demand a recalculation of the economic equations between these states. Although Iran contains the world's second largest gas reserves (after Russia) with nearly 16 percent of the world's total, its exports of gas are minuscule, with only 0.1 billion cubic meters sold to Azerbaijan in 1997. The remainder is used for domestic consumption and re-injection into aging oil wells.⁴⁴

Like all issues relating to the Caspian energy trade, much depends on logistical feasibility. Given the dire straits of the economies in the former Soviet republics, any short-term additional revenue will be extremely important, which makes the Iran option advantageous. It will take years to complete the trans-Caspian pipeline, the northwestern route from Tengiz to Novorossiisk, or the eastern route to Asia. If, in the meantime, the Iranians can begin to swap oil with their neighbors, it could promote investment in Iran's oil-transportation infrastructure that would eventually raise the number of barrels swapped to between 400-500 thousand per day. (Some suggest the figure could go as high as 70,000 b/d.) This is a large amount of oil and could compete with oil that would otherwise traverse different routes, including the trans-Caspian, Russian, or Chinese routes. Furthermore, the Iranians argue, the costs of this proposal are lower than the costs of the proposed east-west pipeline. However, it would add to

the traffic flowing through the already crowded Persian Gulf and Strait of Hormuz, raising for some shippers the strategic dangers of dependency on this egress route. Moreover, until the investment climate has been tested and foreign companies are assured that they will be treated fairly, the likelihood of massive investment seems slim, despite increasingly friendly overtures from the Iranian government.⁴⁵

Pakistan. Pakistan like other regional countries also views the Caspian States as providing immense economic opportunities and ingress into the Central Asia hydro carbon market. Pakistan's immediate response to the independence of the states was an offer to build a ground link for commerce and trade linking Central Asia with South Asian states and the Arabian Sea, i.e. a revival of the "Silk Route".⁴⁶ Initially Pakistan was confronted with the problem of unrest in Afghanistan, which lies between Pakistan and Central Asia and the Caucasus states. Pakistan's efforts during Taliban regime was directed towards moderating the Taliban attitude in order to push through the trans-Afghanistan gas pipelines from Turkmenistan. However, these efforts did not satisfy the U.S. based oil companies and other interested parties due to the security risks involved. The regional environments have altered ever since and with Afghanistan free of Taliban rule and the country in its reconstruction stage under the UN, opportunities have once again surfaced for the regional states to push their individual as well as collective economic agendas. One of the viable routes for the export of oil and gas to South Asia, South East Asia, and even China and Japan, lies through Afghanistan and Pakistan.

On December 26, 2002, Pakistan and China signed an agreement that would allow Islamabad to borrow \$118 million at low interest rates from the Exim bank of China in order to build new port facilities in Gawadar, a port city in western Balochistan province. A day earlier, Iranian President Mohammad Khatami completed a three day visit to Pakistan, where he discussed economic cooperation and a proposed gas line from Iran to India via Pakistan. On December 27, 2002, Pakistan's Prime Minister signed an agreement with Turkmen President Saparmurat Niyazov and Afghan President Hamid Karzai to proceed with plans for a trans-Afghanistan gas line linking the three nations. All three projects –the Gawadar port, the Iran-to-India pipeline and the trans-Afghanistan pipeline-fit into Islamabad's regional, economic, and strategic plans. Externally, Pakistan's government sees the projects as providing additional weight and leverage to regional relations, and they bring much needed energy supplies and financial benefits to Pakistan's ailing economy.⁴⁷

COMPETING COMPANIES

Bridas. After the collapse of the Soviet Union, an Argentinean based oil exploration company, **Bridas** took the risk of setting up its projects in the Caspian Region, starting with Turkmenistan. The decision was initially called crazy and full of risks by other western companies but soon the CEO of Bridas, Carlos Bulgheroni, was not only to prove his competitors wrong but to draw them to scramble for the spoils of the Central Asian oil and gas.⁴⁸ President Niyazov of Turkmenistan was flattered by the attention Bulgheroni paid him and in January 1992/93 Bridas was awarded the Yashlar block in eastern Turkmenistan close to the Afghan border and the Keimir block in the west of the country near the Caspian sea, receiving favorable terms; a 50-50 split from Yashlar and a 75-25 split in profits in Bridas's favor from Kamier. In total Bridas invested US \$ 400 million in exploring its leases. In 1995 Bridas discovered a massive gas field at Yashlar with estimated reserves of 27 tcf. In 1994 the chairman of Bridas persuaded Niyazov to set up a working group to study the feasibility of a gas pipeline through Afghanistan to Pakistan. A little later he persuaded Benazir Bhutto, Prime Minister of Pakistan, to join Niyazov. On 16 March 1995, Pakistan and Turkmenistan signed a memorandum to prepare a pre-feasibility study of the proposed pipeline. Bulgheroni also spent considerable energy in wooing the Afghan warlords and reported to Bhutto and Niyazov that he had reached and signed an agreement with them assuring Bridas of the right of way through Afghanistan. In 1996 he signed a 30 year agreement with the Afghanistan Government, then headed by President Burhan ud Din Rabbani for the construction and operation of a gas pipeline by Bridas and an international consortium that it would create.⁴⁹

Unocal. Unocal, initially invited by Bridas as a regional expert for gas pipeline projects, carried out its own analysis and reached the conclusion that the project presented the next millennium's major hydrocarbon resource exploitation, and that those having major shares in this economic phenomenon would control this resource outside the ambit of OPEC. With Unocal expressing interest in building its own pipe line, using Turkmenistan's existing gas fields at Daultabad, the profit of which would all accrue to Turkmenistan, Niyazov saw that Unocal could become the means to engage a major US company and the Clinton Administration in Turkmenistan's development. The US government needed Niyazov to block Iranian influence and wanted a say in the export of gas to foreign markets. These converging interests resulted in the signing of another agreement for a project between Unocal and Turkmenistan for a gas pipeline and an oil pipeline to Pakistan through Afghanistan. With Bridas side-lined by Turkmenistan, Pakistan, and Unocal, the US government was now fully involved in the projects and started lobbying at all levels.⁵⁰ The Pakistan government signed a new agreement with Unocal in 1996. This raised

suspicious in Iran and Russia that the US government was involved in helping the Taliban and increasing their influence with the newly formed CARs. The project had to be closed down by the end of 1999 after the capture of Kabul by the Taliban. However, the fall of the Taliban revived opportunities for investment in a pipeline project. Pakistan, Afghanistan, and Turkmenistan have already agreed this year to implement these projects.

PIPELINES ROUTES

The choice of pipelines for transporting oil from the Caspian region to the outside has stirred controversy, with each country involved preferring one route over the other. Here the issues of volume and timing become important. According to experts, the project had to be closed by the end of 1999. The energy companies' strategies include looking at the long term perspective as well as the security of the pipelines that will carry high volumes of oil. Overall, despite a range of uncertainties regarding the actual energy reserves—as well as the state of oil prices and lower than expected volumes in the Caspian – a host of arguments still exist in favor of the potential pipeline routes.⁵¹

Politics. To assess the political risks associated with various pipeline routes from Central Asia and the Caucasus to markets in Europe, Asia and other world regions, there exist multiple, often paradoxical factors, at national, regional, and global levels. Yet the current positions held by the major players involved often ignore this complexity in favor of narrowly defined strategic and economic interests largely informed by shortsighted political animosity, rivalry, or alliances. To advocate for particular routes on the basis of a policy that excludes some players and includes others in the so-called Great Game that has ensued in the wake of the oil and gas rush in the Caspian basin is haphazard at best. The current approach is equally dangerous, for it remains oblivious to internal political and economic developments of the countries involved.⁵²

Routes and Advocates Currently, at least five pipeline routes are proposed or contemplated. They include northern routes, southern routes, western routes, eastern routes, and south-eastern routes. Some are extensions of existing pipelines while others are altogether new and have to pass through untested and contested geographies. Rough terrain, ethnic violence, bureaucratic infighting and individual ambitions need to be accounted for along the way. They are also distinguished in terms of their strategic significance, economic feasibility and technical complexity. More importantly, these routes involve uneven political and environmental risks, and are viewed within a framework of win-lose and alliance-making strategy.⁵³

Northern Routes Advocated by the Russians, both Kazakhstan and Azerbaijan could join existing Russian pipelines by building extensions or new pipelines that would take their oil to Novorossiisk on the Black Sea. The Caspian Pipeline Consortium (CPC) is already busy developing the line. For the Kazakh oil, the pipeline will be built as it encounters no rival or opposition at present. For the Azeri oil, however, the routes will have to pass through the insecure Chechnya territory or near it. Besides, both Azeris and Kazakhs remained concerned about Russia's continued dominance of their political life; for the Azeris, the concern is elevated to fear by their Turkish, Israeli and American allies. The real problem is this: Russia, as the holder of the world's largest reserves of natural gas, can hardly be excluded from the growing world gas market, thus making the northern route a real option.⁵⁴

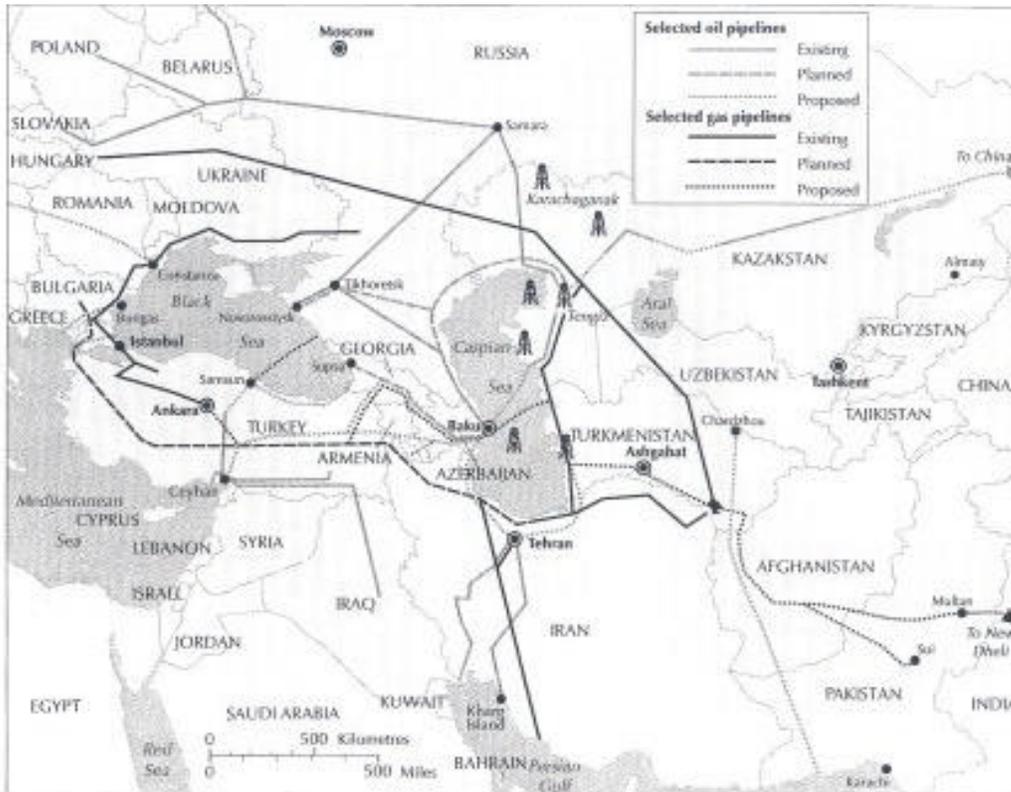


FIGURE 2. PLANNED AND EXISTING PIPELINE ROUTES FROM CARs

Western Route. Preferred by the U.S., Turkey, Azerbaijan, and Georgia, these routes are meant to bypass both Russian territory and Iran. The less expensive alternative is to build an upgraded pipeline to the Georgian port of Supsa on the Black Sea; then oil will have to be taken

by tankers through the Bosphorus to Europe. Turkey instead has pushed, with U.S. and Israeli support, for a direct pipeline from Baku to its Mediterranean port of Ceyhan. A Trans-Caspian pipeline will then feed Kazakh oil and Turkmen gas to these routes. The U.S. is currently lobbying the Kazakh and Turkmen governments to support the pipeline. The U.S.' attraction to the Ceyhan route and the Trans-Caspian line emanates from its desire to build an East-West axis of influence and commerce in the Eurasia region. But this alternative is too expensive and passes through Kurd dominated territories. The proposed Trans-Caspian pipeline poses additional environmental hazards to the Caspian Sea.⁵⁵

Southern Routes Favored by Iran and the oil companies, the southern routes make economic and commercial sense. They are cheaper to build, pass relatively safer territories, and pose no serious environmental hazard. Significant pipeline and port infrastructure also exists. Most notably, the southern routes also offer the swap option, something no other routes have offered as yet. Oil companies and governments worry that the Southern option increases the world's reliance on the Strait of Hormuz, a concern that can be addressed by linking the pipelines to the port of Jask on the Gulf of Oman. The U.S. is opposed to the southern routes for obvious political reasons and has made it a policy to prevent their realization. Opposed to the routes is also Azerbaijan which remains wary of Iran's intention, a fear largely instigated by its allies, the U.S., Israel and Turkey. Yet, the U.S. and others may find it hard to advocate the exclusion of Iran, which holds the world's second largest gas reserves and is its fourth largest oil producer.⁵⁶

Eastern Routes China is increasingly energy-hungry and needs to seek new sources. The Kazakh option is attractive because it is, comparatively speaking, the most accessible. Thus, China signed a contract with the Kazakhs in September of 1977 to build a 2000-mile long and extremely expensive pipeline from two fields in Kazakhstan that China has proposed to purchase. The plan, commercially unattractive, can only be executed if China were to continue viewing the Kazakhstan option as a new strategic necessity. This is the only route that seems to have no rival or enemy, despite the fact that it can cause China's influence to grow rapidly in the Caspian region.⁵⁷

Southeastern Routes These routes are favored by Pakistan and Afghanistan, UNOCAL, (an American oil company) along with the Saudi Arabian Delta Oil. They have been promoting a pipeline to transport oil and gas from Turkmenistan and possibly Kazakhstan, through Afghanistan, to Pakistan and eventually to India in 1997-98. The line has also had the tacit

approval of the U.S. government. Perhaps the analyses of this pipeline were best given by Mr. John J. Maresca, Vice President, International Relations, Unocol Corporation, during his testimony to the U.S. Congress' House Committee on International Relations' Subcommittee on Asia and the Pacific. In his address, Mr. Maresca opined that the oil and gas pipeline route from Central Asian Republics to the south through Afghanistan to the port cities of Pakistan is the best option with fewest technical obstacles. It is the shortest route to the sea, has relatively favorable terrain and it brings oil closest to Asian markets which would be cheapest in terms of transportation. Mr. Maresca goes on to bring out innumerable benefits to both the oil exporters and the consumers. In his view, the gas pipeline has also tremendous scope of success in terms of feasibility, economic benefits to users and exporters and very positive commercial value for the operators of the pipelines.⁵⁸ Yet, the real obstacle is a political one. As long as Afghanistan is not put on the path to stability, any attempt to build the line will prove futile. Pakistan, Turkmenistan, and Afghanistan have signed an agreement to go ahead with the pipeline and this might have the much desired stabilizing effect that is urgently needed in the region.⁵⁹

CONCLUSION: PAKISTAN'S CHOICES

It appears to be a foregone conclusion that the CARs pipeline will become a reality, but the directions that it will take out of the area and in what time frame is by no means certain. Amongst the southern routes, one of the strong contenders for the final choice, or one of the final choices, since there may be more than one line, appears to be the southeastern one through Afghanistan and Pakistan. The countries involved have already shown their resolve in this direction. If and when this happens, it will be a watershed event in the history of the region as a whole and have a profound effect on every country involved. Because of its fundamental nature from the Pakistani perspective, evaluating the project requires an examination of the basic tenets of Pakistan's Grand Strategy and worldview.

FIRST THINGS FIRST. The pipe line will invigorate the slowly recovering Pakistan economy, providing a measure of stability to the badly shaken governmental processes and reviving confidence in Pakistan internationally as a worthwhile ally in any venture by anyone in the region. It is therefore imperative for Pakistan to do everything that it can to ensure that it is not left out when the competition for the benefits of CAR oil and gas begins.

COMPETITORS. The most significant problem facing Pakistan is the fact that it can offer only tangential advantages to the CAR and any consortium that manages the project. Pakistan has

neither the resources nor the exclusivity of being the only outlet. It offers, at best, a large domestic market. If anything, Pakistan comes in a poor second in any choice of outlets because it is not contiguous to any of the CARs. Pakistan can only be approached through Afghanistan or possibly Iran. The other key players vying for the pipeline are Russia and Turkey. Having been traditionally pro-Western, Islamabad's relations with Russia have never been the best and it will not suit their aims and goals of maintaining their hegemony over Central Asia to back Pakistan's proposal. Turkey will be relatively neutral. It will not actively pull for Pakistan because the pipeline through its own borders creates more revenue for them. They will not actively campaign against Pakistan either, since a pipeline to Turkey's port of Ceyhan is already under construction.

INVESTORS. From the point of view of the consortium, the main desire is a stable, economically viable, and technically feasible project that delivers the oil and gas to the distribution point quickly and cheaply. Ostensibly, the best solution to the problem would be to use as much as possible of the existing network of lines. This means Russia and Iran. Given a politically neutral consortium, this would become a reality very quickly. But endeavors of this size and complexity are never politically neutral. Therein lies Pakistan's opportunity. If Islamabad can keep the makeup of the consortium, especially the principals, predominantly American, it can neutralize the candidacy of both Russia and Iran - Russia because of lingering East-West antipathy and Iran because of its continued estrangement from the USA. If Pakistan can ensure the security of such a project while assuring the investors about the future prospects of the pipeline linking India, a much bigger market, the prospects for the venture would be even brighter. However, Pakistan must also be aware of the fact that Russo-American trade and economic ties are growing very rapidly. Iran is fast liberalizing its policies and is on the road to being re-admitted to the good graces of a fickle American officialdom. Islamabad must therefore ensure a rapid conclusion to the ongoing negotiations for the pipeline route. Pakistan's window of opportunity is very limited, both in time and in scope.

THE AFGHANISTAN FACTOR. Currently the biggest obstacle to the Southern route is the continued instability in Afghanistan. Pakistan must use all the influence that it can muster to ensure stability and placate tribes and warlords for the smooth transitioning of the political process. After that it must play the "Help Rebuild Afghanistan" card on the premise that one of the best and longest lasting efforts to rebuild a shattered Afghanistan would be to ensure that it has a steady source of income for the foreseeable future. Such a source would be provided with

the pipeline going through it. This also happens to coincide with the vision of the President of Turkmenistan, Niazov.

EFFECTS AND RESPONSES

INTERNAL IMPACTS. Internally there will be changes in three broad areas, first economic, second, social, and third, driven by the first two, political changes.

Economic Changes These will be the first changes to be noticed and will follow the various phases of the project.

- **Phase One, Construction.** During this Phase the most noticeable change will be the presence of highly trained foreign engineers and technicians in some very remote areas of Pakistan. In addition to the intellectual exchange there will be the inevitable economic gain for these areas as local workers are hired to perform unskilled and semi-skilled jobs. As a consequence, there will be some shift in the power base as minor functionaries and traditional local notables are more and more marginalized. There will be a gradual growth and enhanced importance of some presently insignificant towns and villages as they become way stations along the pipeline route. There will be an explosion in the population and the economic activity in the vicinity of the port city of Gwadar itself as it is brought on line for major operations. Here, there will be a large number of indigenous Pakistani talents in engineering and construction. The other responsibility that Pakistan has to undertake is providing security to foreign construction firms in the area. The people of Balochistan are generally fiercely independent in their affairs and are withdrawn from mainstream national economic and political activities. Local tribal chiefs have personal and selfish agendas and generally resist developmental work. The government will have to prepare in advance to mitigate these irritants in order to attract investment in the pipeline projects. In summary, during this phase the main change will be in countryside and around the port city, and it will be explosive.
- **Phase Two, Consolidating Operational Processes.** During this phase various operational procedures for the pipeline will be put in place. At this stage, except for the very senior posts, the bulk of the workers on the Pakistan segment of the line and the port will be Pakistanis. This will be an ongoing process. Economic gains will become more visible.

- Phase Three. This is the phase of continuing operations. This phase will see the maturation of the Pakistan contingent in the port and along the line. This is the phase during which there will be continuing maturation of the ties and relationships with the other countries involved in the project, especially Afghanistan and the CARs. This phase and its success will also open opportunities for expanding the ground pipeline routes to India. It is during this phase that Pakistan will finally achieve its full potential as a serious player in regional politics and affairs.

Social Changes As prosperity expands outward from the line and the port, more and more people will rise to middle class status. An expanding middle class has two fringes where change is demanded; the bottom tier and the top. The most likely common demand from both ends will be better education for their children. Education will become more universal, widely available, and better organized. As people become more aware of their rights and begin to demand them, there will be a devolution of political power to the masses as opposed to the traditional power brokers of the past. This process is in perfect convergence with the policies of the current government of Pakistan and President Pervez Musharaf. Power will devolve and its application will become a province of the technocrat as opposed to the aristocrat. If all goes well, merit will finally begin to determine rewards. The middle class will expand. The hope is that with a broad base of education, Pakistan can emerge as a model for a moderate Islamic country with a tolerant and forward looking society.

Political Changes Politically, the most visible change will be the steady increase in democratization. The project will provide cheap energy, which as a trade off should bring prosperity to a large segment of the population. This will lead to universal education and no nation that is educated and that can generate enough wealth to sustain the vast majority, can long resist the ground swell towards democracy. Knowledge becomes a common commodity and with it, is born a healthy skepticism towards the established order. For Pakistan there is no downside in this drive provided its people can endure the initial confusion of learning how to wield power. The world at large will be more inclined to tolerate an inefficient democracy than an efficient dictatorship. Compared to Pakistan's neighbors in the north, it has the advantage of being independent for a longer period. Nevertheless, increased contact and interaction with neighbors will introduce new ideas. One note of caution, Pakistan must not fear change to the extent that it suppresses it.

EXTERNAL IMPACTS

Externally Pakistan's foremost priority will be to redefine and propagate its view of what it perceives itself to be. (Theocratic dictatorial versus moderate democratic). The newfound prosperity from the project will force Pakistan into contact with the outside world. Once the country defines what it wants to be, it must identify who amongst the nations of the world can help it further its worldview. Pakistan must define this help primarily in pragmatic terms focusing on those who can actually do something versus those who can merely provide moral support. These nations must be bound to Pakistan with treaties that are mutually beneficial. One-sided treaties where Islamabad can offer nothing are not worth the paper or effort.

Pakistan must also identify the opposite; who can and will hinder its worldview. These nations it must seek to neutralize and/or contain. Again Islamabad must be very pragmatic in its judgment, for there are countries that will ostensibly be pro-Pakistan but in reality their self-interest does not coincide.

The next big impact is the fact that the pipeline will tie Pakistan physically and economically to the north. Even though India and the south are a natural extension of Pakistan geographically, economic integration cannot occur yet. Eventually it will - perhaps in the near future. The region south of the Hindu Kush lying between the Arabian Sea and Bay of Bengal will form some sort of a common market along the lines of the EU. Despite Pakistan's current problems with India, it must begin now to position itself so that when the time comes it will not be unprepared to accept its natural role in the region. For the time being however, Pakistan must position itself to assume a leadership role in the consortium.

Pakistan must immediately set about crafting alliances that will help it to resolve the core issue of Kashmir and the headwaters of strategically vital rivers. The most influential ally it can have in this will be the USA. Islamabad must not allow itself to be distracted from its main goal by other issues. The project will grant Pakistan sufficient economic independence to take a stance where the resolution of its problems is the primary motive and not the necessity of economic constraint.

WORD COUNT = 9768

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³⁸ Peter Rutland, "Paradigms for Russian Policy in the Caspian Region," in Energy and Conflict in Central Asia and the Caucasus, eds., Robert Ebel and Rajan Menon, (Lanham, MD: Rowan & Littlefield, 2000), 184-185.

³⁹ Amineh, 102-103.

⁴⁰ Geoffrey Kemp, "U.S.-Iranian Relations: Competition or Cooperation in the Caspian Sea Basin," in Energy and Conflict in Central Asia and the Caucasus, eds., Robert Ebel and Rajan Menon, (Lanham, MD: Rowan & Littlefield, 2000), 149.

⁴¹ Ibid, 154.

⁴² Ibid, 155

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Rubin, 12-13.

⁴⁶ Shireen T. Hunter, "The Afghan Civil War: Implications for Central Asian Stability," in Energy and Conflict in Central Asia and the Caucasus, eds., Robert Ebel and Rajan Menon, (Lanham, MD: Rowan & Littlefield, 2000), 199.

⁴⁷ STRATFOR, "Bolichistan: The Chicken-and-Egg Problem of Economic Development," summary and analysis, 27 December 2002 [data on-line]; available from STRATFOR.com; Internet; accessed 16 January 2003.

⁴⁸ Rashid, 158.

⁴⁹ Ibid, 158.

⁵⁰ Ibid, 165.

⁵¹ Rubin, 15.

⁵² Hooshan Amirahmadi, "The Political Risks of Various Pipeline Routes in the Caspian Basin," in A Great Game No More: Oil and Gas in the Caspian Sea Region, ed. Dieter Dettke, (Washington, D.C.: Friedrich-Ebert-Stiftung, 1999), 36.

⁵³ Ibid, 36-37.

⁵⁴ Ibid, 37-38.

⁵⁵ Ibid, 38.

⁵⁶ Ibid, 39.

⁵⁷ Ibid, 39-40.

⁵⁸ John J. Maresca, "U.S. Interests In Afghanistan and the Central Asian Republics," testimony before the U.S. Congress, Committee on International Relations, Subcommittee on Asia and the Pacific, 12 February 1998; available from http://www.house.gov/international_relations/105th/ap/wsap212982.htm, Internet; accessed 15 February 2003.

⁵⁹ STRATFOR.

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