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The Globe's Potentially Most Explosive Dispute

The "One China" Issue in U.S.-China Relations

Zhiqun Zhu

Auspicious Times for the Middle Corridor

Greater U.S. Strategic Interaction with the Middle Corridor's Lynchpin State

Anthony Kim

The Rising Significance of
the Middle Corridor

Vusal Guliyev

Strategic Opportunity for
the Middle Corridor?

Selçuk Çolakoğlu

Great Gains in the Silk Road Region

The Need for Regionalism in Central Asia

Omar Sadr & Akram Umarov

Beyond State-Centricity

Agha Bayramov

Strategic Rail Connectivity

Vali Kaleji

The Caspian's New Energy Role

Marika Karagianni

On the Cusp of Peace?

Peace Has Never Been Closer...But Is It Close Enough?

Damjan Krnjević Mišković

Two Years of Non-War: Can Armenia and Azerbaijan Make Peace?

Ruslan Suleymanov

Exclusive *Baku Dialogues* Interview

The Silk Road Region's Financial Center and Investment Hub:

The Story of the Astana International Financial Centre

Kairat Kelimbetov

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Beyond State-Centricity

The Changing Geopolitics of the Caspian Sea Region

Agha Bayramov

Over the past three decades, the Caspian Sea region has undergone remarkable changes: several new transnational energy pipelines have been constructed and new treaties have been signed—examples of the former include Baku-Tbilisi-Ceyhan (BTC) and the Southern Gas Corridor (SGC); of the latter, we can mention the Convention on the Legal Status of the Caspian Sea (2018). However, since 1990 almost any development or energy project has been described by most academics and analysts as a part of an ongoing rivalry between great powers. Drawing mainly from insights related to Great Game thinking that revolve around the balance of power, the perception of (in)security, and the attainment and maintenance of sovereignty and the influence of the state, those writing such texts have argued that the growing involvement

of the Western actors (the U.S. and the EU) and other powers (Türkiye and China) increases tension and rivalry in the region by pushing against Russia and offering alternative economic, geographical, and political choices for the littoral states.

This, in turn, has captured the imagination of the public, as is evidenced by the Caspian Sea being featured as a setting in the James Bond movie *The World Is Not Enough* (1999), which was partly filmed in the Azerbaijani capital Baku. In this film, Bond is assigned to the Caspian Sea region to help Electra, daughter of British billionaire Sir Robert King, achieve the family dream of constructing a 1,300-kilometer pipeline from Azerbaijan to the Mediterranean. In Baku, Electra shows Bond a map revealing how this proposed

pipeline would provide the West with an opportunity to import oil from the Caspian Sea region while circumventing existing Russian pipelines. Both Electra and Bond's superior at MI6 note that the Russians will do anything to stop the construction of this pipeline. In the movie, the bad

guys are Russians and Arabic speaking characters, whereas Western, English-speaking good guys try to save the world—or at least certain parts of it—from these people. In this regard, the film briefly touches upon the geopolitical significance of infrastructure construction as well as Russia's perceived dominance of the region and its rivalry with Western actors, represented by the UK, in this part of the world.

In light of this, the relevant academic and analytic literature—most of it written by Westerners—has searched for answers to questions like: Who is the winner of the New Great Game? Can the West save the newly independent states' sovereignty from

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Russia, Iran, and China—and if so, how? In what way can the Caspian's natural resources decrease the West's energy dependency on Russia? Why and how do Russia and Iran seek to reestablish their dominance over the Caspian Sea region? Such and similar questions conjure up the image of a desperate

place, full of rivalry and conflict. The resulting body of academic and analytic literature sees little room for intra-regional cooperation, intra-regional integration, and intra-regional exchange.

How the Caspian Sea region is seen by scholars and experts has consequences in terms of the expectations and perceived potential of the region as well as possible political action and suggestions for regional stability. However, it is worth asking whether what emerges from such writings is the full and true picture of the region and its recent history. Was the Caspian Sea region harmonious, conflict-free, and cooperative under the Soviet Union before

suddenly plunging into disarray with the dissolution of the Soviet Union? Is this a shift in reality or merely a shift of perception?

This essay explains who are the key actors—besides states—that are involved in shaping the Caspian energy and environmental projects, and how both their preferences (political and economic) and influence networks affect the capacity, opportunity, and will of governments (e.g., ministries, parliaments, presidents, etc.) to cooperate.

Geopolitical View

If one were only to consider the geopolitical literature, then one would assume that the Caspian Sea region is a hopeless place that is wholly preoccupied with geopolitics, rivalries, and competition between regional and great powers. One would also then assume that due to the rivalry between great powers, countries like Azerbaijan, Kazakhstan, and Turkmenistan have to choose to pledge allegiance to either Russia, China and Iran, or the West. Thus, one would come to the conclusion that intra-regional cooperation, intra-regional integration, and intra-regional exchange for joint gains are extremely rare. It would, in turn, lead one to conclude

that there is no hope for a bright future because the Caspian Sea region is rife with political tension, ready to blow up and be destroyed sooner or later.

The relevant literature does not explain why, when, and how technical challenges lead to unanticipated economic, political, and social consequences. Instead, these writings investigate every challenge exclusively along the lines of rivalries between great powers, and they do so from a (neo)realist perspective. In such texts, great powers are identified as the driving force behind every development and setback in the planning and construction phases of transnational infrastructure projects—be these political, economic, technical, social, or environmental. In the same vein, this category of academic and analytical literature expects transnational infrastructure projects like the BTC and the Southern Gas Corridor always to trigger rivalries or even wars in the region following their construction or even in their planning phase (as was predicted for the energy pipelines).

When addressing the impact of infrastructure projects on the region, the existing writings focus mainly on conflict between states and/or companies while neglecting the material power of

infrastructure. This is because, despite the diversity of the existent literature, scant research has explained how transnational infrastructure influences the interaction between different actors, or what kind of changes infrastructure brings and how, say, the BTC influenced the relationship between the Caspian littoral states after its construction—i.e., whether the BTC has led to cooperation or to enhanced regional rivalry since its construction. It is necessary to consider such and similar questions, for they address the problems that arise when trying to think about the importance of transnational infrastructure. However, the relevant literature moves on to other issues or projects without answering these questions.

Such works also neglect the increasing role of other actors, such as companies (e.g., BP and Lukoil), NGOs, and financial IGOs and banks by putting them into a state-centric analysis. In the 1990s, the classical geopolitical literature viewed the great powers as the only players in the Caspian Sea. Admittedly, since the turn of the

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century, the newly independent states of the region have also been recognized as players in the New Great Game, due to their economic and political positions. Nevertheless, this advancement of the debate has not

moved further forward. By using a purely state-centric model, it has become increasingly difficult to understand new developments, changes, disagreements, and conditions in the Caspian Sea region.

To remedy this, I will continue developing the debate without emphasizing the geopolitical game. Until relatively recently, scant scholarly attention was paid to the significance of non-governmental actors as an explanatory paradigm to assist in understanding the geopolitics of the Caspian Sea region. For example, few bothered to inquire into the role of transnational energy cooperation within the Caspian littoral states. Or to ask how private actors promote or undermine strategies of regional cooperation. It is important to answer these and similar questions because transnational infrastructure projects involve other actors besides governments. To see the complete

picture, it is important to explain the role of these actors and their preferences.

One reason this has not been done is that state-centric academic and analytic works perceive attitudes as constant or fixed—irrespective of the potential positive outcomes of cooperation processes. Another is that the literature wears the same black glasses and assumes that everything is dark, which makes its authors miss any light and or different colors and hues.

This is not, however, the complete picture of the situation in the Caspian Sea region, because viewing the Caspian Sea first and foremost as a geopolitical battleground obscures important layers of a more complex reality. Because they describe every development from a black and white perspective, the authors of the geopolitical literature ignore the cooperation that takes place in areas such as environmental policy, energy politics, renewable energy, and the legal status of the Caspian Sea. In the early 1990s, it was understandable to work with uncertain assumptions or misleading perceptions because

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of uncertainty in the region. It was difficult for (Western) scholars to gain access to the region in the 1990s. However, continuing to work with the same exaggerated and the oversimplified assumptions now, without detailed research or critical attitudes, would produce inaccurate results unnecessarily: the region is now open to the outside world and it is possible to work with more accurate information.

Overall, relying solely on the geopolitical paradigm to analyze the Caspian Sea region leaves several important questions unanswered. Therefore, the authors of this kind of literature miss several complex dynamics and processes that are taking place in the Caspian Sea region.

Network of Actors

Political agreement is only one condition for the realization of complex (infrastructure) projects. Thus, it is too simple to assume that just because the strategic rationale for a certain energy infrastructure project is strong, oil or gas will flow. Because

of the scope and complexities of challenges (technical, economic, and social), it can be argued that infrastructure projects are beyond the capacities of any single state to solve. Therefore, the BTC and the SGC projects have required the involvement and coordination of multiple actors, namely IGOs, NGOs, financial institutions, and transnational corporations (TNCs).

The reason for this is that, taken together, these non-state actors offer the required resources that most state actors lack: professional personnel, technology, organizational capacity, access to the world market, support from their home countries, and financial power. Because of this, there had to be a transnational energy company or consortium of transnational energy companies willing to commit to leading the BTC and the SGC projects. Such actors are likely to offer the required economic, technical, and political services because they are looking to make a profit, diversify their energy sources, and address human needs. These motives induce international technical and political cooperation because multiple actors have to pool their sources for the common goal, namely transporting gas through the BTC and the SGC projects.

In the context of BTC, a key category of actors in terms of coordination were the multinational oil companies, such as BP, SOCAR, Inpex, and Total. Between them, they were able to offer a number of the required resources to transport landlocked oil to international markets. The first important point that needs to be highlighted is the economic leverage that multinational energy companies have. For example, the BTC is owned and operated by a consortium of 11 international oil companies, being managed overall by BP.

By using their access to global donor networks, the consortium companies—particularly BP—facilitated relations between Azerbaijan and financial institutions: the World Bank, EBRD, ECGD, EXIM Bank, and the IFC. BP has played a key role in all phases of the BTC project since the 1990s. It is a strong and popular European energy company, and its involvement attracted other Western financial institutions and gave them more security and reliability.

Similarly, a key category of actors in the SGC project were multinational energy companies, such as BP, SNAM, Enagas, Lukoil, and Petronas. They offered a number of the required resources to transport landlocked natural gas to

European markets, as was the case with the BTC pipeline project. These resources include financial investment, political influence, security personnel and material, and advanced technology. Another important point that needs to be mentioned is the internal and external political power of BP, SNAM, Enagas, and SOCAR. These international energy companies have strong relationships with their home governments, who provide them with the ability to strongly influence the decisions of local governments.

Despite the heavy investment of BP and other energy companies, covering all of the costs for this massive project still required funding by international banks and financial IGOs like the World Bank, the IFC, the ECGD, and the EBRD. Ensuring sound coordination between them was decisive to securing sustainable funding and reducing attendant political risks. Although quite a number of TNCs and states were already involved, the realization of the SGC project required the involvement of more actors, as the currently involved TNCs and states could not cover all the cost of the project. To construct the 3,500-kilometer SGC pipeline, which crosses seven countries and represents a total investment of approximately \$40 billion, systematic

financial support from a number of financial institutions, such as the EBRD, ADB, BSTDB, ING Bank, and the World Bank, was necessary. Because of this, both companies and states used their strong lobbying and networking power to gain support from these financial institutions.

This means that the \$40 billion economic cost of the SGC project was divided among these companies. The strong financial contribution of the consortium companies increased the feasibility of the SGC project because these companies divided the economic risks. They also applied for loans from private and public lenders in order to finance the project. For example, according to Enagas's annual report for 2016, the company invested €84.8 million in the TAP project in the first half of 2017 (TAP, or Trans-Adriatic Pipeline, is the third and final leg of SGC whose terminus is in southern Italy). In the same vein, Lukoil received a \$1 billion credit from the EBRD to finance its participation in the SGC project.

The exploitation and transportation of natural gas from the Caspian Sea would never have been possible without advanced technology, which the states in this region lacked. This led the

consortium companies to revitalize the technical capacities of the states in this region by offering modern gas processing plants and fabrication facilities. They also supported local experts by offering several educational and capacity-building training programs. These and similar examples show that the companies that operate in the Caspian Sea region do many of the things traditionally, sometimes exclusively, associated with the state.

Environmental and Legal Conventions

Let us shift gears to another set of examples. According to relevant studies, the fluctuation of water levels, land degradation, depletion of biodiversity, and water pollution are important environmental issues in the Caspian Sea. To address these issues, the littoral states sought the help of a number of international organizations in the 1990s. By adopting the Almaty Declaration in 1994, the littoral states expressed their willingness to cooperate on environmental issues and sought financial and technical aid from outside actors like the Global Environmental Facility (GEF), UNEP, UNDP, and the World Bank.

To facilitate sustainable cooperation, the Caspian Environmental Program (CEP) was established as a regional umbrella program by the governments of the littoral states in 1998 with the support of the outside actors noted above as well as the EU's Technical Assistance to the Commonwealth of Independent States (TACIS) program. TACIS developed common regional and national measures to address ecological issues and promote environmental agreement among the Caspian littoral states. The similarity of problems faced by these states produced shared interests and incentives for seeking common solutions; and the CEP encouraged them to establish cooperation on other shared issues.

In 2003, the CEP was given more gravity as the Caspian Sea littoral states signed their first ecological and legally binding agreement, the Tehran Convention. This document serves as an overarching framework laying down the general requirements and the institutional mechanism for the protection of the marine environment of the Caspian Sea. The leaders of the five Caspian littoral states signed the Convention on the Legal Status of the Caspian Sea at the Fifth Caspian Summit in Aktau, Kazakhstan, on 12 August 2018. This third agreement was reached after 22 years of

negotiations and more than 50 meetings of the Ad Hoc Working Group. The other two agreements are the aforementioned Tehran Convention and the Agreement on Cooperation in the Field of Security in the Caspian Sea (2010).

The first important point that needs to be highlighted in this context is that UNEP, UNDP, GEF, and the World Bank made economic contributions to the governments because of the CEP. International organizations offered positive incentives (i.e., financial support) to the governments of these states on the condition that they accept and comply with their institutional requirements.

The takeaway is as follows: economic and technical leverage of international organizations can be used as a means of facilitating cooperation among different states. States are more likely to accept the norms and values of international organizations if they can receive economic and technical assistance in the form of grants, loans, credits, or access to other financial sources.

In the 1990s, it did not appear to be in the interest of all the littoral states to address shared environmental issues, because of the uncertain geopolitical situation and the political and economic

transitions they were undergoing. However, incentivized by the strong financial help offered by the aforementioned intergovernmental organizations, it was possible to start with solving the technical ecological problems impeding cooperation. More specifically, the economic assistance and benefits of participating in the CEP brought the governments to the bargaining table.

Additionally, thanks to their expertise, the World Bank, UNEP, UNDP, and GEF were able to assist the governments of the littoral states in improving their bureaucratic, technical, and policymaking skills, but also in establishing a new set of ecological norms and understandings—which was the point. They framed the common environmental issues as an apolitical opportunity for the Caspian littoral states' governments to work together. It seems at least plausible to argue that, at the time, the governments' main goal was not to address environmental issues per se, but to improve the interactive atmosphere and practice the habit of dialogue under an ostensibly apolitical umbrella.

One may argue that beside the littoral states themselves, it was these technocratic actors that initiated, facilitated, and funded the onset of

environmental cooperation among the governments of the Caspian littoral states. Using their technical, economic, and political leverage, these actors brought the littoral states together under the common umbrella of the CEP.

Renewable Energy Promoters

We can now come to a third set of issues. The realization of renewable energy projects also requires the involvement of private actors and intergovernmental institutions, as they offer a number of the required resources to realize and evaluate the projects at issue. These resources include financial investment, global networking, technical knowledge, and advanced technology.

Considering BP's critical economic and technical role in oil and natural gas projects, Azerbaijan has also been interested in securing BP's participation in auctions on providing the right to generate electricity on its territory through renewable energy sources. Azerbaijan has signed a memorandum of understanding on cooperation with nine international energy companies including BP (UK), Masdar (UAE), Avelar Solar

(Russia), Tekfen (Türkiye), Total Eren (France), Equinor (Norway), ACWA Power (Saudi Arabia), Mitsui & Co. (Japan), and Quadran International (France).

However, until recently SOCAR showed little interest in renewable energy. It does not appear that the company has formulated a clear and comprehensive renewable energy vision. For example, BP wants 50 gigawatts (GW) of renewables in its portfolio by 2030, up from just 2.5GW today. Contrastingly, it is not yet fully clear whether SOCAR is planning to transition from an oil and gas company to a broader-based energy company in the future.

One might argue that moving away from its traditional base is risky for SOCAR because of uncertainty in the speed of the transition in question. Nevertheless, a wait-and-watch strategy—i.e., the postponement of strategic investment decisions in renewables—can create a window of opportunity for competitors. There is a strong linkage between an oil company's proven reserves and its renewable energy strategies. Oil majors with less proven oil reserves to tap into seem to be moving into the renewable space faster, with the aim of developing more diverse and less volatile portfolios sooner. Those

companies with large pools of oil reserves—remarkably, this includes U.S. majors owning oil assets with especially low break-even points—are rather electing to pursue a strategy that involves embracing the renewable industry at a slower pace.

In addition, several international organizations are active in Azerbaijan's renewable energy sector, namely the Asian Development Bank (ADB), the International Energy Charter, the EBRD, the EU, and USAID. The EBRD helps Azerbaijan with developing renewable energy auctions to facilitate private investment in future renewable energy projects. Furthermore, the ADB has allocated financial and technical support for the development of floating solar panels on Boyuk Shor Lake in Baku. The project involves the creation of a 300-kilowatt solar panel network on the lake. The World Bank and Azerbaijan's Ministry of Energy have signed an agreement to increase the efficiency of small hydropower plants. Baku has also been cooperating with the International Renewable Energy Agency (IRENA) since 2009; and Azerbaijan has been a full member of the organization since 2014. In 2019, IRENA completed its Renewables Readiness Assessment (RRA) report for Azerbaijan.

However, development partners have so far contributed to the renewable energy sector mostly through technical assistance, with limited direct investment in renewable energy projects. Unlike oil and gas projects, the state budget remains the main financing source for the development of renewable energy in Azerbaijan. The main reasons for this are the current investment climate, the state monopoly of the power sector, and the fact that renewable energy legislation is not yet optimally investor friendly.

As noted above, renewable energy has many benefits for Azerbaijan, such as more diversified energy mix, less harmful greenhouse gas emissions, and job creation. However, it can be seen that the key actors promoting renewable energy in Azerbaijan are mainly Western based.

In implementing their renewable energy suggestions, Azerbaijan should ask: do these measures actually promote energy security or replicate existing technical, social, and legal problems? When are they useful and when are they counter-productive in terms of Azerbaijan's energy security?

The reason is simple: the existing measures are mainly designed to address energy importing

countries' needs, and therefore they should not simply be copy-pasted by energy exporting states like Azerbaijan.

Inclusive Playground

This essay has shown that BP, UNEP, UNDP, EBRD, GEF, AIIB, and the World Bank are the main players in the Caspian Sea region that offer technical, political, economic, social, and security assistance. They frame issues, help set agendas, and mobilize financial support. Although states are the leading actors in the Caspian Sea region, this essay has made the argument that these non-state and intergovernmental actors are indeed the drivers behind every project. More specifically, by using their leverage in international political and economic networks, these actors have contributed to transnational infrastructure projects (e.g., BTC and SGC); offered solutions for shared problems (e.g., environmental pollution);

and facilitated discussions that, in turn, created a habit of cooperation and dialogue among the governments of the Caspian littoral states.

It could thus be concluded that the collapse of the Soviet Union did not only lead to the independence of Azerbaijan, Kazakhstan, and Turkmenistan; it also facilitated the involvement and emergence of TNCs, NGOs, and IGOs in the Caspian Sea region.

If this is indeed the case, then it would follow that the Caspian Sea region is no longer the exclusive playground of states—either

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those in the region or external powers—but that serious non-state actors have also started playing significant roles. As such, those writing about cooperation in the Caspian Sea region should be mindful to place their findings in a broader, more complex analytical context. **BD**