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## **Black Gold after the Cold War and 9/11: Reshaping the Political Economy of Oil in the Caspian Basin**

### **Topic of Research and Countries Visited**

This STG supported research of the evolution of control over oil, drilling rights, and distribution capacity in the Caspian Basin after the fall of the Soviet Union in 1991. I spend approximately three weeks in Russia and a week in Kazakhstan investigating the topic.

### **Relevance and Contribution to Field**

The importance of oil to the international order and the American political economy seems to grow clearer each day, and a fundamental part of US energy and security policy since at least the end of the Cold War has been to develop a more diverse group of oil sources around the world in order to maintain a stable supply of oil during times of unrest. Many of those efforts to develop oil deposits and distribute their resources have focused on the Caspian Basin. The fanfare surrounding the May 2005 opening of the Baku-Tbilisi-Ceyhan (BTC) pipeline, the first significant pipeline out of the region that does *not* go through Russia, suggests how important the Caspian basin and its hydrocarbon resources are to governments in the US and elsewhere.

In addition to its direct political implications, untangling the conflict over Caspian oil and its distribution can shed light on a range of theoretical puzzles in political science. One recurring question in the literature on economic development is whether the discovery of oil (or other easily exportable natural resource) is a blessing or a curse. Less frequently studied, however, is how the physical control over oil and its distribution in the Caspian Basin has developed since 1991 and with what consequences. The range of competitors for those resources is huge, and because of Soviet development policy and its aftermath the race to control the oil is more wide open than any we have seen since conflicts among private oil companies and newly independent states in the Middle East decades ago. This study asks how some outside companies were able to secure rights to oil deposits or pipeline contracts while others were not; how the American, Russian, and Chinese governments were able to achieve some of their goals in the region while being forced to make concessions on others; and how some local oil companies and their governments were able to cope with the array of international forces better than others. Answers to those questions will help clarify connections between natural resources and economic development, the role of domestic and foreign companies in the state-building process, and the likely future of control over oil in the Caspian Basin.

### **Summary of Approach and Research Methodology**

My exploratory research focused on gathering materials from the major libraries in the two countries that were unavailable or hard to obtain in the US. The Russian State Library, along with bookstores in the capital, produced analyses of several different parts of the Caspian basin question—from Russian and American foreign policy to the competition over pipeline routes to the fortunes of individual companies—which I was

able to bring home for further analysis. Likewise, the National Library in Almaty and the faculty at KIMEP (Kazakhstan Institute for Management, Economics, and Strategic Research) yielded raw data and analytical interpretations from the perspective of Kazakhstan.

In addition, I conducted about 15 open-ended interviews during the trip, speaking with scholars, policymakers, lobbyists, and officials from oil firms. Their understandings of the major milestones in the evolution of the Caspian region and the forces that helped create them shaped my interpretations and will guide future research.

### **Summary of Research Findings and Preliminary Conclusions**

- Russian and American perceptions of developments in the region are often diametrically opposed. Where the American interpretation sees the expansion of US oil interests in the Caspian basin as the straightforward expression of market factors and US military presence as an integral part of the war against terrorism, a number of Russian scholars, journalists, and officials—regardless of ideological predilection—see US diplomatic, commercial, and military activities in the region as part of a coordinated effort to dominate the hydrocarbon supply in the Caspian basin. My research offers no clear statement yet regarding which interpretation is more accurate, but it is important to recognize that what is “common knowledge” in the US is dismissed as political rhetoric in Russia, and what is common knowledge in Russia is dismissed as conspiracy theory in the US.
- The development of the oil sectors in Russia and Kazakhstan has affected the countries differently. Both sectors are politicized and corrupt in various ways, but the system in Kazakhstan seems to more closely resemble a traditional “rentier state” as the term was developed in the resource-curse literature. Other scholars have noted similar differences between Russia and Kazakhstan and have argued that the style of privatization (to domestic interests in Russia and foreign interests in Kazakhstan) affected later political development, helping Russia avoid a “resource curse,” at least for the time being. My preliminary results do not dispute that claim, but two other factors may also help explain the varied outcomes:

First, the greater role of family ties in governance in Kazakhstan may make the state even more prone to a resource curse. In Russia, networks of elites try to exploit the system to their advantage, but different networks also compete with each other and change membership over time. In a clan system, it is much harder to cut a member of the network out of the loop, and stagnation and degeneration into simple rent-seeking may be even more likely than elsewhere.

Second, the Russian economy is far more diversified than the Kazakh economy. Despite the fact that oil (and gas) is driving the recent Russian recovery and provides a large share of state revenue, the economy also has several other significant sectors, which help shape the political and economic development of the country.

- The rise of China, and the American reaction to it, will be key factors in the evolution of the political economy of Caspian oil. Chinese demand for imported oil is large and growing rapidly. Part of the Chinese government’s response has been to acquire oil fields in Kazakhstan and begin work on a major pipeline from those fields. The fields themselves are old and relatively unattractive, but they are real, and the pipeline investment represents a huge commitment to extracting hydrocarbons from the region. The American government would generally prefer that the oil flow West,

rather than East, so the goals of Washington and Beijing will conflict on this question for the foreseeable future.

### **Suggestions for Future Research**

This round of research has suggested a number of different potential paths for future investigations. On the question of domestic political economies, and extended comparison of the effects of the oil sector on the Russian and Kazakh economies could explore the competing (and perhaps complementary) hypotheses mentioned in the previous section. In the realm of geopolitics, while many of the production resources in the region have been divided up, major conflicts still loom over pipeline use rights for companies, tariff and other flow rights for governments, and the overarching issue of distributing the oil and gas lifted out of the Caspian region and the major Russian fields. Finally, the region and the nature of its resources make it an ideal environment for a comparative study of the foreign policy of Russia, China, and the United States.

### **Recommendations for US Policy Community**

Two main recommendations emerged from this research. First, recognize and understand the perceptions in Russia and other countries involved in the Caspian basin. Those perceptions may be wrong, but they are real. To the extent they are incorrect and/or obstacles to American interests, think seriously about how to change them. Do not attribute them to “hurt pride” or “jealousy” or some other emotion. They derive fairly easily from observable actions of the US—filtered, of course, through a domestic media—such as the growing number of US bases and troops in the area, the explicit statement that “energy security” is a high priority in US policy, and the fact that American companies often do very well when governments play by what we consider fair and impartial rules. Ignoring or belittling perceptions of our actions abroad is likely to produce unnecessary conflict down the road.

Second, think about how to avoid some of the mistakes made in relations with Middle Eastern governments in the decades after the Second World War. The way the US deals with governments presiding over large oil deposits affects political developments in those countries as well as the international system as a whole. Instead of (or perhaps in addition to) providing weapons or training local troops to guard pipelines, the US would do well to insist on frequent competitive elections, along with transparent bookkeeping regarding oil revenues. Studies in East-Central Europe have shown that the states that most successfully democratize and perform best economically are not those where pro-Western leaders stay in power longest, but where competitive elections create governmental turnover, even if that includes electing former communists. Political openness and economic transparency in Russia and the Caspian basin will eventually bring in a variety of leaders, some more hostile to US interests than others, but the overall trend is likely to be positive for the US and the countries in the region. It will not, of course, guarantee that the bulk of Caspian oil flows West, but even that may benefit the American economy and society in the long run.