Gulf Research Center
Knowledge for All

RUSSIAN & CIS RELATIONS WITH THE GULF REGION

CURRENT TRENDS IN POLITICAL AND ECONOMIC DYNAMICS

Edited by
DR. MARAT TERTEROV

RUSSIAN & CIS RELATIONS WITH THE GULF REGION

CURRENT TRENDS IN POLITICAL AND ECONOMIC DYNAMICS

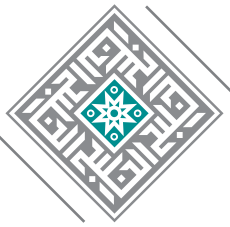
Gulf Research Center
Knowledge for All

RUSSIAN & CIS RELATIONS WITH THE GULF REGION

CURRENT TRENDS IN POLITICAL AND ECONOMIC DYNAMICS

Edited by
DR. MARAT TERTEROV

Gulf Research Center
187 Oud Metha Tower, 11th Floor,
303 Sheikh Rashid Road,
P. O. Box 80758,
Dubai, United Arab Emirates.
Tel.: +971 4 324 7770
Fax: +971 3 324 7771
E-mail: info@grc.ae
Website: www.grc.ae



First published
Gulf Research Center
Dubai, United Arab Emirates

© Gulf Research Center 2009
All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the Gulf Research Center.

ISBN: 9948-434-41-2
The opinions expressed in this publication are those of the author(s) alone and do not state or reflect the opinions or position of the Gulf Research Center.

“

By publishing this volume, the Gulf Research Center (GRC) seeks to contribute to the enrichment of the reader’s knowledge out of the Center’s strong conviction that ‘knowledge is for all.’

”

Abdulaziz O. Sager
Chairman
Gulf Research Center

About the Gulf Research Center

The Gulf Research Center (GRC) is an independent research institute located in Dubai, United Arab Emirates (UAE). The GRC was founded in July 2000 by Mr. Abdulaziz Sager, a Saudi businessman, who realized, in a world of rapid political, social and economic change, the importance of pursuing politically neutral and academically sound research about the Gulf region and disseminating the knowledge obtained as widely as possible. The Center is a non-partisan think-tank, education service provider and consultancy specializing in the Gulf region. The GRC seeks to provide a better understanding of the challenges and prospects of the Gulf region.

Contents

Acknowledgments **11**

Introduction **13**

Dr. Marat Terterov

Section I: Bilateral Relations

Bilateral Relations between Russia and the Gulf Monarchies: Past and Present 31

Dr. Andrej Kreutz

Russian Relations with Iran and Iraq 63

Dr. Andrej Kreutz

Russian Relations with Yemen 95

Ruslan Aliev

Armenia and the Gulf States: Foreign Policy Fundamentals and Choices 113

Dr. Joseph A. Kéchichian

Active Diplomatic Engagements and Energy Politics: The Caspian, Azerbaijan, and the Gulf Region 147

Dr. Suhnaz Yilmaz

Georgia's Relations with the States of the Gulf.....163

Professor Tornike Sharashenidze

Kazakhstan's Relations with the Gulf.....183

Professor G.M. Mendikulova and T.N. Kasabayev

Hidden Linkages: The Republic of Uzbekistan and the Gulf Region in a Changing World Order 211
Prajakti Kalra
Dr. Siddharth S. Saxena

Section II: Security Relations

The Foundations of Russian (Foreign) Policy in the Gulf 229
Professor Stephen Blank

Changing Geopolitics of Eurasia and the Gulf Region: Aspects of Continuity and Change 259
Professor Mustafa Aydin

Russian-Iranian Security Links 283
Ingmar Oldberg

The Islamic Vector in Russia's Foreign Policy 299
Professor Alexei Malashenko

Central Asian Sunni Islamic Extremism and Its Links to the Gulf 327
Professor Michael Fredholm

Gulf States and Chechen Resistance: Between Pragmatic Love and Sincere Hate 349
Dr. Dmitry Shlapentokh

Russian Arms Trade with the Gulf Monarchies 371
Mikhayil Barabanov

Section III: Economic Relations and Energy Issues

Comparative Economic Policies and Development Strategies between Russia, the CIS and the Gulf States 393
Dr. Vladimir Kukushkin

The Changing Geopolitics of Energy: Growing Oil and Gas Links between China, Russia, Central Asia and the Gulf 433
Mehmet Öğütçü and Xin Ma

Emerging State Centralism in the Russian Energy Sector: Precedents from the Gulf 481
Justin Dargin

Consideration of Russia's Oil Supplies as an Alternative to OPEC 513
Professor Eugene Khartukov
Dr. Ellen Starostina

Investing Russia's Oil Wealth: Sharing the GCC Experience 543
Andrew Rozanov

Conclusion 573
Dr. Marat Terterov

About the Authors.....589

Acknowledgments

This study emerged out of the GRC calls for paper series in the Russian and CIS Foreign Policy Research Program in late 2006. The suggested topics in the calls for papers provided the basic structure for a more ambitious project and I would like to thank the Gulf Research Center for having the vision to allow me to develop a simple idea into something slightly more solid. I would also like to particularly thank Professor Vasiliy Vassilivich Vysokov, President of Bank Centre-Invest in Rostov-on-Don, the Russian South, for his wealth of supporting ideas in the early stages of the development of this project. I must admit that many of the chapters in the book would not have been commissioned and written, had it not been for his far-seeing input. Finally, I would like to thank the many fascinating scholars and experts who have provided their time and expertise in preparing the mainstream chapters of this book. I apologize if we have tested your patience at times, as ultimately without you, the publication of this book would not have been possible.

Dr. Marat Terterov
Project Editor

Brussels
Belgium
May 2009

Introduction

New Partnerships and Realignments in the Evolving International System: Contemporary Relations between Russia, the CIS and the Gulf

Dr. Marat Terterov

Associate Fellow, Gulf Research Center, Dubai

A Basis for Russia-CIS Relations with the Gulf Region

Academic disciplines such as comparative or regional studies are inundated with efforts to compare and contrast different parts of the world. Scholars of most academic disciplines across the social sciences have a fondness for comparing different regions in order to evaluate why one may be developing more rapidly than another, why democracy may be stalled in one region or flourishing in another, or why the benefits foreseen by economic reform have proven less conclusive in some regions when compared to others. Despite the wide-ranging array of comparative works, a close examination of relations between Russia, the former Soviet republics and the monarchies of the Arabian Gulf is a topic which has seldom received in-depth coverage in the comparative social studies discipline. This is predominantly due to the fact that the study of their relations would not have been possible in any meaningful manner until quite recently given that relations between the former Soviet Union and the Gulf practically did not exist until the end of the Cold War. This is, to some

degree, a paradox given that the Eurasian states of the CIS have a well established record of political, economic and cultural links with the broader Middle East.

We should note from the outset that relations between the former Soviet republics (now often referred to as the Commonwealth of Independent States, or CIS) and the Middle East have evolved on the basis of two differing sets of factors: internal and external. From an internal perspective, it is evident that Muslims numbering millions, from predominantly Turkic, Farsi, Tatar nationality categories (as well as many smaller ethnic Muslim nationality categories) have settled in the CIS over a period of no less than five centuries. The Muslims of the present-day CIS countries, whose presence in these states has come about both as a result of conquest and voluntary incorporation into tsarist Russia and the Soviet Union, are inextricably linked due to their faith to the mainstream *Ummah*, or pan-Islamic community of Muslims. Islam's most important holy sites are found in the Middle East and provide notable spiritual significance for Muslims worldwide. Moreover, Muslims from the present-day CIS have historically viewed the region as a source of cultural inspiration.

From an external perspective, Russia has for the past three centuries been a leading European and later global power in the international political arena. Given the historically significant political-geography of the Middle Eastern region, its vital importance for international trade routes and linkages to some of the world's major waterways, it is only natural that the region would have figured centrally in Russian imperial and Soviet geopolitical planning.[1] However, it was the Soviet Union's Marxist-Leninist ideology-driven foreign policy of the Cold War period that brought Middle Eastern-USSR relations to what arguably became their historical apex. The Soviet Union's support of 'progressive' socialist Arab regimes during the Cold War –including Nasserite Egypt, Baathist Syria and Iraq, Libya and the (Democratic People's Republic of) Yemen – led to an enormous level of political and economic cooperation between the USSR and Middle Eastern region.

Despite these established links, concerted relations between Russia-CIS and the states of the Gulf Cooperation Council (GCC) – a political-economic bloc of countries established in 1981 which includes Saudi Arabia, Bahrain, the United Arab Emirates (UAE), Qatar, Kuwait and Oman – are a relatively new phenomenon. Formal political relations between Russia and the majority of the Gulf monarchies

1. For a more elaborate discussion of the significance of the political geography of the Middle East in Russian and Soviet geopolitical planning, the reader is referred to a number of articles by Andrej Kreutz, including "The Geopolitics of post-Soviet Russia and the Middle East," *Arab Studies Quarterly* (Winter 2002); and "Russia and the Arabian Peninsula," *Journal of Military and Strategic Studies,* (2004).

were only established during the late 1980s and start of the 1990s, when Moscow was still the capital of the Soviet Union. Although the Soviet Union was an active player in the politics of the Arabian Peninsula as early as the 1920s, and Moscow even welcomed an official visit from then Crown Prince Faisal bin Abdul Aziz of Saudi Arabia in 1932, the onset of war in Europe brought an end to Soviet-Gulf relations of the period.

During the Cold War, while some positive diplomatic exchanges took place between Moscow and Riyadh during the 1950s, conflicting ideologies (Communism and Wahhabi Islam) and the closure of ranks among rival Arab camps (pro-Western and Soviet-backed) during the height of the Cold War created a gulf in the Soviet Union's diplomatic relations with Saudi Arabia and the newly independent monarchies of the Arabian Gulf. The Soviet Union became even further distanced from the GCC states during the 1980s, primarily as a result of Moscow's war in Afghanistan and Saudi Arabia's financing of Afghan insurgents fighting against the Soviet occupation of their country.

The Impact of a Changing Global Political Environment

The changing international environment of post-Cold War international relations, however, is bringing the GCC bloc, Russia and the successor states of the Soviet Union closer together. Contemporary international relations are no longer dominated by the Cold War-era bipolar rivalries of two superpowers and their client states in the developing world. Although the US has retained the status of a superpower, new centers of economic and political power are emerging, and in some cases re-emerging. In the old world, Europe, the expanded European Union (EU) now includes 27 member countries and further enlargement of the bloc is likely in the medium term future. The EU bloc, which is increasingly based on a single currency, unified legislation for an internal market and a common approach to external relations, is one of the world's largest economies and – by its own convictions – 'smart powers' seeking to exert influence on the global arena.[2]

One of EU's main partners – as well as competitors – in the international arena is Russia, which has been recovering rather remarkably since its early post-

2. The idea of the EU as a 'smart power' (as opposed to a 'great' or 'super' power) was developed by European Commissioner for External Relations and European Neighborhood Policy, Benita Ferrero-Waldner, in a lecture entitled "Global Europe: What Next for EU Foreign Policy," in Brussels, July 11, 2008. The concept aims to provide a more definitive reflection of the EU bloc's current standing in the international arena with respect to other prominent powers.

Soviet crisis-stricken economic downturn in the 1990s. Although present-day Russia has yet to recapture the international standing it held under the Soviet umbrella, its recent economic and political recovery makes it an actor that cannot be ignored. Russia joins a number of non-Organization of Economic Cooperation and Development (OECD) countries which have been emerging as new centers of economic power since the end of the Cold War. Included in this category of countries now referred to as BRICS are the likes of Brazil, (Russia), India and China, and it is being widely suggested that the BRICS economies are likely to outgrow OECD economies in GDP size during the medium term. As is the case with Russia, these countries can no longer be ignored as newly arrived protagonists in the international arena, which is reflected in their being invited to participate in recent G-8 summits of the world's most advanced industrial powers.[3]

The GCC is another power center brimming with new-found confidence. Needless to say, with the oil price fluctuating between $130-$140 per barrel at the time of writing and with energy demand continuing to rise fuelled by the dynamic growth of BRIC economies, the Gulf States are consolidating into an enormous source of economic and financial power. This is unlikely to change in the short-to-medium term, even in the event of a sharp cyclical decline in the oil price which could impact upon global demand and fuel a broader economic downturn. Furthermore, it should be noted that although the Gulf will continue to maintain its strategic alliance with the West, the GCC is increasingly turning to the countries of the BRICS as well as to Japan and the East Asian tiger economies as it seeks to diversify its economic and political relations.

The rapid pace of development which many of the new centers of power are undergoing, and which is taking place within the framework of increased globalization of the international economy, is ensuring greater connectivity and emergence of new partnerships for which there was very little scope until recently. Competition for influence, market share and access to finite resources in many of the world's emerging regions is fostering geopolitical rivalries of a very different type to that which existed during the Cold War. Further, amidst the new alliances, countries are forced to work together when facing universal challenges such as the threat of global recession, increasing prices for food and other key commodities, the soaring oil price and concerns over global energy security, climate change, international terrorism or nuclear safety.

3. India and China were both active participants in the G-8 Hokkaido Summit in Japan in July 2008. Russia was invited to hold the rotational presidency of the G-8 in 2006 and hosted the St.Petersburg G-8 Summit in July of that year.

Within this fundamentally restructured international political order which continues to evolve, a number of key political, cultural and economic developments have taken place since the end of the Cold War. This, in turn, has resulted in the emergence of a new set of dynamics that are driving global players such as Russia, the CIS and the GCC states towards new levels of international engagement.

Political Dynamics

From a political angle, salient international crises have altered the dynamics of international relations and provided substantial scope for Russia and the GCC states to construct new political ties. These events include: the war to liberate Kuwait from Iraqi occupation during 1990-1991; Russia's wars in Chechnya during the 1990s; the September 11, 2001 terrorist attacks in the US; and the US-led invasion of Iraq in 2003. Moscow's firm stance against Iraqi aggression towards Kuwait in 1990, for example, and its decision to join the allied coalition to liberate Kuwait – despite the Soviet Union's longstanding alliance with Baghdad – were warmly greeted by the GCC and facilitated the establishment of formal relations between the USSR and Saudi Arabia. Such moves also won Moscow voluminous financial aid from the Gulf monarchies and brought with it substantial expectation of further capital inflow to the Soviet Union from the Gulf.

The rapprochement between Moscow and the Gulf States that ensued after the Gulf War did not, however, facilitate the degree of constructive economic and political cooperation that Moscow would have liked. Furthermore, while the war in Afghanistan had ended and Saudi Arabia was no longer sponsoring Islamic insurgents against Russia, Moscow remained suspicious of non-governmental Gulf-based charities and other forms of support from the region extended to Chechen separatists resisting Moscow's authority. However, as US-Saudi relations reached an all-time low following the 9/11 acts of terrorism, and much of the Arab world became increasingly disenchanted with Anglo-American aggression towards Iraq during 2003, further rapprochement between Russia and the Gulf took place.

The official visit of Saudi Arabia's then Crown Prince Abdullah bin Abdul Aziz al-Saud to Moscow in September 2003 convinced some analysts that Russia's strategic interests were becoming closer with those of the Saudi Kingdom and other GCC states.[4] A new round of constructive diplomatic and commercial relations between Russia and the Gulf has emerged since. Closer ties between Russia and the

4. Marat Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States* (Dubai: Gulf Research Center, 2005), 13.

GCC are now evident and were recently underscored by former Russian President Vladimir Putin's inaugural tour of Saudi Arabia, Qatar and Jordan in February 2007, and King Abdullah's first visit to Moscow as the Saudi monarch in November of the same year.[5]

Cultural Trends

From a cultural angle, there has been a major revival of Islam in many territories of the former Soviet Union, a trend which started to emerge as greater political liberalization and freedom of expression took root during the Gorbachev reforms in the second half of the 1980s. The Islamic revival accelerated rapidly in the nominally Muslim regions of the Russian Federation and the newly established titular Muslim republics of Central Asia and the Caspian during the 1990s. It was marked by the establishment of thousands of new mosques, which opened their doors to those ex-Soviet Muslims who wanted to rediscover Islam now that comparative religious freedoms were introduced by the authorities. Equally important was the opening of Islamic schools and extensive distribution of various types of Islamic literature in order to make knowledge of Islam more widespread in the CIS's Muslim regions.

From the outset, the Gulf had backed the ex-Soviet Islamic revival by providing both finance and moral support to assist the spread of Islam in the previously atheist territories of the former USSR, be it through the donation of hundreds of thousands of copies of the Qur'an, funding Islamic missionaries who came to the region to propagate Islam or sponsoring CIS-Muslim pilgrims for their once-in-a-lifetime *Hajj* to Mecca. During the 1990s, largely cash strapped CIS governments welcomed the influx of financial aid from the wealthy patrons in the Gulf as a form of spiritual support in the name of Islamic solidarity. However, funding from the Gulf for the CIS Islamic revival has also been met with skepticism given the links that some claim have emerged between Islamic foreign aid of this nature and the spread of Islamic fundamentalism in the former Soviet Union.

During the 1990s and the first years of the present decade, this issue complicated relations between Russia, Saudi Arabia and some of the GCC states, particularly with respect to the ongoing separatist conflict in Chechnya. It was widely perceived by the Russian authorities that Chechen Islamist militants were being financed by Gulf-based sources, while many in the Gulf resented the brutal manner in which the Russian military dealt with the Chechen guerrillas. Diplomatic relations

5. Mark Smith, *Russia and the Persian Gulf: The Deepening of Moscow's Middle East Policy* (Conflict Studies Research Centre, Defence Academy of the United Kingdom, August 2007).

between Russia and the Gulf States improved more recently, when the latter largely recognized the Chechen crisis as an internal Russian affair to be settled by the domestic legislation of the Russian Federation.

Economic Developments

During the Cold War period, the Soviet Union's economic relations were oriented primarily – although by no means exclusively – towards trade with its satellites in Eastern Europe and client states in the developing world. The situation is quite different today as the CIS states are highly integrated into the global economy. Governments in the CIS states encourage trade and investment linkages with all relevant international partners and actively participate in many international economic institutions. A number of CIS states have entered the World Trade Organization, and are members of multilateral agreements regulating trade and investment in particular economic sectors, and observe numerous key bilateral economic partnerships. Russian and CIS foreign policies are increasingly driven by economic objectives, supporting their national corporations in winning market share and developing new business opportunities. Furthermore, Russia and virtually all CIS economies have largely overcome their economic crises of the 1990s, and their economies have been growing impressively for close to a decade.

As a result, Russia and other CIS countries are increasingly seen as attractive emerging markets in which to invest, particularly due to their huge potential in bringing an abundance of raw materials to the international markets. In terms of CIS-GCC relations, while these developments have not brought with them an influx of new trade turnover and investment flows between the CIS and GCC regions, Russia-CIS and the Gulf are now established as the world's primary energy-producing regions. While Saudi Arabia remains the world's largest oil producer and exporter, Russia is arguably an even more significant energy producer if oil and gas production are taken together.

In the wake of the September 11 terrorist attacks in the US, the ensuing low point in US-Saudi relations, and the anti-regime terrorist attacks in Saudi Arabia, some voices questioned the political viability of Saudi-Middle East oil supplies. Arguments were made in favor of Russian-CIS oil supplies as a possible, politically viable alternative. These arguments have since receded and most industry experts now would agree that Russian-CIS oil supplies will work to complement Middle East (OPEC) oil supplies in meeting increasing global demand into the foreseeable future. Cooperation in the sphere of energy between Russia and the Gulf has expanded notably against the backdrop of these events.

There are two primary reasons underpinning closer energy ties between Saudi Arabia and Russia in particular, and the CIS and the Gulf broadly speaking. The first is at the business level, where National Oil Companies (NOCs) from the BRIC countries, largely motivated by commercial factors, have been forging closer alliances with one another. Spectacularly high oil prices have led to unprecedented revenues being generated by the Saudi and Russian governments, which has, in turn, led to several Russo-Saudi joint venture energy projects. An example is LUKSAR, a joint venture between Saudi ARAMCO and Russia's Lukoil, an entity formed to develop a concession for the exploration and development of hydrocarbons in the Rub Al-Khali desert in Saudi Arabia.[6] The Russian and Saudi partners have also discussed the possibility of channeling joint investments into new downstream projects in third countries.

The second area of increased Russia-Gulf cooperation is at the level of market stabilization, particularly in the area of greater initiatives aimed at coordinating the price of energy. Russia, a number of the CIS states in the Caspian and Central Asia, most of the countries of the broader Gulf (including Iran and Iraq) are all major producers and exporters of energy. In the present phase of high oil prices, securing an affordable and reliable source of energy has become a strategic priority for many countries dependent on imported energy supplies. Furthermore, the need to balance out the interests of energy producers and consumers is vital if energy security is to be attained on both supply and demand sides.

This has led to closer relations between Russia-CIS and the Gulf and initiatives are being taken to work closer together under the umbrella of international energy organizations, where producer interests can be taken into account on the one hand, and consumer-producer interests can be balanced out on the other. Russia has, for example, been in closer contact with Qatar (together with other Middle Eastern gas producers such as Iran, Libya and Algeria) in an effort to coordinate the price for natural gas. It has used the Gas Exporting Countries Forum (GECF) as a means of discussing natural gas prices with other gas-producing states. This has sparked a debate about whether Russia is seeking to lead a cartel of gas-producing countries. We should note that Russia has also suggested that the Gulf States and other OPEC members join the Energy Charter Treaty, a multilateral agreement governing trade and investment in the energy sector, which Russia feels is balanced towards the interests of consumer countries.[7]

6. Marat Terterov, "Commonwealth of Independent States Relations with the Gulf Region," in *Gulf Yearbook 2005-06* (Dubai: GRC 2006), 326.

7. Statements made by the Russian delegation at a working group meeting of the Energy Charter

Can Geopolitical Power Shifts and the Rise of New Actors be Ignored?

Clearly, within this evolving post-Cold War geopolitical order, there is greater scope for its new protagonists to cooperate more closely in a number of inter-related areas. These protagonists in the international arena, including a rejuvenated Russia and a GCC bloc awash with petrodollars, are clearly starting to notice the benefits of such cooperation, of which increased volumes of trade and investment, coordination of energy pricing, or collaboration in the fight against international terrorism are just a few possibilities. Furthermore, their new partnerships are underscored by the reassurance which has come from geo-political power shifts, which, for the most part, have been moving in their favor. Some of the key trends reflecting shifting geo-political power in contemporary international relations will be briefly introduced below.

The first is a near decade of high GDP growth in non-OECD economies. While OECD economies continue to grow steadily, much of the cumulative growth being experienced by the global economy has, in recent years, been contributed by the countries of the BRICS and other similar emerging markets. In Russia, while the 1990s will forever be remembered as the decade of economic downturn and for the hard years of transition from state to market, the recent turnaround in Russia's economic fortunes has been remarkable. Russian GDP has grown by an average of 7 percent annually since the time of the country's financial crisis in August 1998.[8] Russian GDP represented around 80 percent of Germany's GDP in purchasing power parity in 2007.[9] Many of the other CIS states have been growing no less impressively than Russia, and although the region's relations with the OECD are still plagued by the psychological burden of a considerable 'catch up syndrome,' the CIS has clearly turned around from its economic malaise of the 1990s.

Russia, for its part, is now once again one of the world's 10 largest economies and although it lags behind other BRIC countries such as China and India (the world's second and fourth largest economies, respectively), Russia today is arguably a different country.[10]

Process in Brussels, June 12, 2008.

8. CIA World Factbook, Internet Pages on Russia, last updated October 2008. See https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html

9. Lucio Vinhas de Souza, *A Different Country: Russia's Economic Resurgence* (Brussels: Centre for European Policy Studies, 2007), i.

10. Ibid. Vinhas de Souza's referral to Russia as a 'different country' is, as the author himself states, a play on the words contained in the titles of other academic papers on Russia, including Shleifer and Treisman (2005), "A Normal Country: Russia after Communism" or Rosefielde (2005),

In parallel to CIS GDP growth, the economies of the GCC countries have also been growing impressively. While the current boom is not an altogether new experience in the Gulf, capital is not moving out of the GCC to the extent that it did in previous booms.[11] Although the GCC states are traditionally a net exporter of capital due to the inability of the domestic economy to absorb the sheer volume of capital being generated by export revenues, more money is now being retained within the region. Preference for domestic and regional investment is evident, and GCC governments are advocating a more prudent approach to their spending than during previous booms.[12]

There is little doubt that the main driver for the improved economic performance of non-OECD regions such as the CIS and the GCC is the high oil price, together with high world prices for other commodities. Both regions include countries ranking among the world's primary producers of oil and gas. During the 1990s, oil hit a record low price of $9 p/b.[13] In May 2008, it fluctuated between $130-$140 p/b. In 2005, the GCC countries collectively earned approximately $270 billion in oil sales.[14] In 2007, they earned $381 billion from sales (exports) of oil and a further $26 billion from gas.[15] Russia has earned hundreds of billions of dollars in oil and gas sales in the present decade. An overly substantial part of the revenues generated by energy producers in the CIS and GCC countries has been accrued by the state, where governments have chosen to set up a dedicated fund to manage persistently high oil revenues.

Russia established an Oil Stabilization Fund (OSF) in 2004, and other CIS energy producers such as Kazakhstan and Azerbaijan also established their own funds. Russia's OSF is reported to have accumulated $157 billion in oil proceeds, with other CIS funds capitalized at substantially smaller levels.[16] The CIS oil funds are comparatively new vehicles for the recycling of petrodollars, as there are 40 or so sovereign wealth funds worldwide with a total of $2.5 trillion under management,

"Russia: An Abnormal Country." On India and China as some of the world's leading economies, see: International Energy Agency, *World Energy Outlook 2007: China and India Insights*, IEA, Paris, 243 and 425.

11. Emilie Rutledge, "GCC Economic Performance in 2005," (Dubai: GRC, 2006), 109.
12. Ibid.
13. "The Rise of the Gulf," in *The Economist*, April 26-May 2, 2008, 15.
14. Emilie Rutledge, op.cit, 112.
15. "Briefing: Gulf Economies," in *The Economist*, April 26-May 2, 2008, 35.
16. Andrew Kramer, "Awash in Oil Income, Russia Forms Wealth Fund," *New York Times News Service*, February 1, 2008.

the most prominent of which have long been operational in the Gulf. Given the peak levels which CIS and GCC sovereign wealth funds are reaching, it is now apparent that these countries have accumulated sufficient public revenues allowing them to more adequately respond to domestic defaults or global economic shocks than was the case in the 1990s. In contrast to that period, when Russia and the CIS were in debt to a variety of international creditors, their financial ministries are now posed with the problem of how to adequately manage excessive public wealth.[17] This is a major turnaround from the CIS region's defaulting economies of the 1990s.

Another key trend reflecting the geopolitical power shifts in favor of new protagonists in the international arena is the recovery in Russian oil output since the 1990s and the extra production capacity this has been providing to the international oil markets.[18] Russian oil companies have increased production from some 6 million barrels per day (mp/d) in 1998 to some 9.7 mp/d at present. Russia's oil exports have increased from 2.5 mp/d to 4.5 mp/d during the same period. Although the Saudi-led OPEC structure is set to remain the 'central bank' of the world oil market into the future, Russian and CIS oil producers have asserted their position as a key source of supply. At the same time, Russia has elevated itself to the position of the primary supplier of energy to the European Union, providing the EU with 25 percent of its natural gas consumption.[19] Demand for gas within the import-dependent EU is rising, and Europe is continuously seeking to diversify its sources of supply in order to enhance its energy security. Russia, however, is supporting the establishment of new oil and gas export pipeline routes aimed to ensure that it maintains a dominant position in the EU natural gas market.

A by-product of the high energy price environment has been the rise of

17. Russia repaid its last tranche of debt to the Paris Club in 2006, has accumulated the world's third largest hard currency reserves nearing $300 billion, and has itself now become a creditor to many international organizations. See "Oil Income Helps Russia Pay off Entire Debt to Paris Club" in the *International Herald Tribune*, August 22, 2006.

18. See the article by Edward L Morse and James Richard, "The Battle for Energy Dominance" in *Foreign Affairs* 81 (March-April 2002) which helped bring to attention the sharp rise in output of Russian oil production from 1998-2002. The authors argued at the time that "the threat of a northern oil boom which Middle Eastern producers first feared in the 1990s had become a reality" and that if the plans of Russian and CIS oil companies come to reality, total CIS oil exports could equal to those of Saudi Arabia within four years (i.e., by 2006). During 2008, the battle for energy dominance which the authors described has been left in the shadow of spiraling oil prices which neither additional Russian/CIS or Saudi production capacity has been able to prevent.

19. Commission of the European Communities, "Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy," Brussels, March 2006, Annex to the Green Paper (What is at Stake: Background Document), 24.

national energy champions in non-OECD countries, which have attained positions of market dominance with respect to key indicators such as market capital, volume of production and access to reserves. Incumbent national champions in the Gulf, including Saudi ARAMCO and the Abu Dhabi National Oil Company (ADNOC), have in recent years been joined by Russia's Gazprom, Lukoil and Rosneft as market leaders in terms of oil output and access to scarce global hydrocarbon deposits. Although Saudi ARAMCO is the world's largest energy company by market capital, in 2006, Gazprom overtook Royal Dutch Shell to become the world's second largest public energy company if measured by the same indicator. Other national champions are emerging in the CIS, including Kazakhstan's KazMunaiGas and Azerbaijan's SOCAR. The strengthened market position of the state-controlled energy companies from non-OECD states is closely linked to the high growth rates in these countries and reflects one of the most evident shifts in geopolitical power in favor of the new protagonists.

A recent study measuring the shift in power in global energy markets revealed that seven major state-controlled energy corporations from non-OECD countries (Saudi Aramco, Gazprom, Venezuela's PDVSA, China's CNPC, Iran's NIOC, Petrobras of Brazil and Petronas of Malaysia) presently control over 30 percent of global oil and gas production and over 30 percent of reserves.[20] This is in contrast to the original seven (now four) sisters, or OECD-based international oil companies (IOCs) which have dominated global energy markets since World War II (i.e., Exxonmobil, BP, Chevron, Shell), which now control just 10 percent of global production and 3 percent of reserves.[21] Recent reciprocal visits by heads of states from Russia and the Gulf signal each side's recognition of their leading position in the international energy markets, while contemplation of further price collusion between energy suppliers (particularly in the gas industry) is heightening energy security concerns in OECD consumer countries, especially within the EU bloc.

Russia's unfolding energy strategy has drawn considerable international attention in parallel to these trends. Some of its more alarming components have included vigorous policies of "energy nationalism," where the Russian state has expropriated both foreign and domestic private sector investments in the Russian energy sector, or implemented occasional disruptions of energy supplies to key transit states such as Ukraine, with corresponding knock-on effects for European

20. See the article, "The New Seven Sisters: Oil and Gas Giants that Dwarf the West's Top Producers," *Financial Times*, March 12, 2007

21. Ibid.

consumers.[22] Russia, for its part, has sought to portray itself as the guardian of European energy security – despite the reservations such strategies have caused over Russia's reliability as an energy supplier. Although the concept of energy security has traditionally applied to the prospect of disruption in oil supplies from the Middle East, the situation has now changed drastically and European consumers of natural gas have, in particular, become highly sensitive to the actions of Russia's Gazprom, as these have notable bearing on their security of supply.

Furthermore, the fact that the majority of the world's recoverable energy reserves are now controlled by national champions outside of OECD jurisdiction further underscores a shift in power in global energy markets to countries where governance issues, policy priorities and national strategies are not always in accordance with the expectations of consumers. Despite the fact that non-OECD national champions publicly endorse internationally recognized standards of corporate governance, the rise to market dominance of new national champions such as Gazprom has come in parallel to EU-Russia energy relations shifting from a factor of cooperation to a factor of tension.[23]

Finally, discussions of geopolitical power shifts should also take into account that much of the Russian strategy of enhancing its role as a guarantor of energy security is premised on Moscow's priority of re-asserting its political influence in CIS space. This includes concerted efforts to maintain pressure over the CIS countries now often referred to as energy transit states (such as Ukraine and Belarus), as well as CIS energy producers in Central Asia and the Caspian (notably Turkmenistan, Kazakhstan, Uzbekistan and Azerbaijan). Russia's policy towards these countries has included seeking to acquire controlling stakes in energy transit infrastructure in Belarus, commissioning transit-avoidance gas pipeline projects, raising the price for gas supplied to CIS neighbors to market levels and snapping up all available gas

22. The most flagrant examples of what some analysts refer to as energy nationalism, in the Russian case applies to the Russian state expropriating the main production assets of YUKOS, Russia's largest private sector oil company, and redistributing these to state oil companies during 2003-05; and the Russian national champion, Gazprom, taking a controlling stake in the giant Sakhalin-II gas project from a consortium of foreign investors led by Royal Dutch Shell in late 2006. Russia has, on two recent occasions, disrupted its gas supplies to Ukraine: in January 2006 and March 2008. Although Russia resumed its gas supplies to Ukraine within a matter of days on each occasion, this led to some reservations over Russia's reliability as a source of the gas supply within European policy making circles since the great majority of Russian gas exports to Europe transit through Ukraine.

23. Thomas Gomart, "EU-Russia Relations: Towards a Way Out of Depression," Center for Strategic and International Studies, Washington D.C., July 2008, 10.

production in Central Asia and the Caspian to ensure that it feeds into the Russian energy transport network and is then re-exported to international markets.

Moscow's foreign policy in its near abroad has opened the way for substantial Russian capital investment into the CIS, allowing Russian energy (and other) companies to acquire strategic assets and establish joint ventures with local partners in the region. Russia's efforts at continued re-assertion of political influence in the CIS has also been accompanied by expanding military ties between Moscow and the Central Asian states, which has been taking place at the bilateral level as well as through Russia-sponsored multilateral arrangements such as the Shanghai Cooperation Organization (SCO).

IOCs, supported by OECD governments, were active in the Caspian and Central Asia during the 1990s, when, during Russia's relative weakness both politically and institutionally, the race to control Caspian energy resources accelerated. While competition for influence in the Caucasus, the Caspian and Central Asia between the US, the EU, Russia as well as China remains high, lack of progress on political liberalization coupled with human rights concerns in a number of the regional states has provided Russia with greater scope to recapture some of the lost geopolitical ground of the 1990s. Taking into account that advancement of the country's energy economy constitutes a major objective in Russia's new foreign policy, it is unlikely that Moscow will show any signs of willingness to surrender its recent gains at any time soon.

A Comparative Study of Russia-CIS and the Gulf

The discussion in the previous pages has aimed to outline two key themes. The first is the fact that international relations have undergone significant structural changes since the disbandment of the Soviet Union and the end of the Cold War. A bipolar world characterized by the balance of power between two superpowers has been superseded by a uni-multipolar international relations environment where one remaining superpower is dominant and a number of regional centers of power are highly visible. Competition for geopolitical influence – within the framework of an increasingly interconnected global economy – in some of the world's emerging regions is increasingly becoming the norm.

The second is that new centers of political, economic and financial power are more actively establishing themselves outside the OECD bloc of industrialized countries, which is resulting in the rise to prominence of new protagonists in the international arena. It is to these new centers of power – which include the BRIC countries, the GCC states, the Russia-led CIS states and other dynamic regions

– where economies are growing most rapidly and massive volumes of capital are being generated that the incumbent powers, which have shaped the rules of the international system during the past half century, are turning their eyes most attentively in order to monitor the pace of global development. It is also in these new centers of power that scarce reserves of some of the world's most strategic and finite resoures are located, and new synergies between the governments of these countries are resulting in far more challenging terms of market access for a resources-hungry world. Furthermore, key trends faciliating shifts in geopolitical power – including rapid non-OECD economic growth, high energy prices, massive surplus capital accumulation into sovereign wealth funds, the rise of non-OECD national energy champions – have been moving largely in favor of the new protagonists on the international arena. The focus of our discussion has largely centered on the former Soviet republics, or the Russia-led CIS bloc, together with the states of the GCC – two new protagonist regions which can no longer be ignored and the development of which will have to be vigorously monitored in the years to come.

The ensuing 19 chapters of this book reflect the authors' recognition of the rise to prominence of Russia-CIS and Gulf regions. Our primary objective is to better understand the relationships between the countries of these regions, together with the implications this has for contemporary international relations. To perform this task, a wide array of scholars and practitioners of international relations, political science, history, sociology, civil-military relations and other disciplines have come together to take up the full range of themes constituting bilaterism within a multilateral framework: contemporary relations and diplomatic engagements between the states of Russia-CIS and the Gulf. The Gulf, in the context of our work, is inclusive not only of the GCC's Arab monarchies, but also Iran, Iraq and Yemen. This is due to the fact that no comprehensive discussion of comparative studies with a Gulf focus, can fail to take into account these three countries – particularly Iran and Iraq, given the significant political muscle they have traditionally exercised in the region.

The ensuing chapters are divided into three main sections. The authors in the first section attend to the topic of bilateral relations between individual CIS countries and the Gulf as a region, providing a historical background to the development of regional ties where possible. In the second section, the authors focus on security relations between CIS and Gulf countries, attending to a number of key topics linking the regions including Islamic extremism, the arms trade and Russia's collaboration with Iran in the sphere of nuclear technologies. The authors discuss regional geopolitics since the end of the Cold War, examine the foundations of contemporary Russian foreign policy towards the Gulf, look at the love-hate

relationship between Chechen militants and the Gulf elites, and search for linkages between Central Asian Islamic extremists and their patrons in the Gulf.

The third section focuses on economic relations and the energy sector. Following a general overview of comparative economic policies between Russia and each of the GCC states, the authors provide an in-depth examination of the growing oil and gas links between Russia, the Caspian, Central Asia and the Gulf. They further compare how Russian and CIS energy producers' vigorous expansion of state suzerainty over the domestic energy sectors correspond to the experience of the Gulf countries. The receding debate on whether Russian-CIS oil exports pose a threat to OPEC's dominance of the oil markets is taken up within the context of a detailed discussion of Russian oil supplies. Finally, and of increasing importance, a discussion is provided of how the relatively nascent Russian experience with the management of its newfound oil wealth can draw upon the much more profound experience accumulated in the Gulf.

Section I

Bilateral Relations

Bilateral Relations between Russia and the Gulf Monarchies: Past and Present

Dr. Andrej Kreutz

University of Calgary, Canada

Introduction: Search for a Place in the American-dominated World

As former Russian Foreign Minister Igor Ivanov pointed out, "The Russian Federation that entered the global arena in December 1991 was a state qualitatively different from all its predecessors."[1] It differed from the USSR and the Russian Empire not only in its political system but also in its territorial configuration, immediate geopolitical environment and the amount of power at its disposal. As a consequence it "needed to develop a new way of looking at its foreign policy goals and priorities."[2] The new Russia did not see itself as heir to the USSR in the aspects of foreign policy goals that had been dictated by "class struggle in the international arena and that had led to conflicts with the US and other western countries."[3] In its regional relations with the Middle East and the Arab World, this meant a decisive shift from revolutionary messianism to pragmatism and a policy of national self-interest.[4] Neo-capitalist Russia is not interested in national liberation movements and support for the progressive nationalist and anti-western regimes in the area. Its primary focus is now the protection and expansion of its own strategic

1. Peter Zeihan, "The Russian Problem," www.stratfor.com, October 16, 2007.
2. Ibid.
3. Ibid.
4. Igor S. Ivanov, *The New Russian Diplomacy* (Washington D.C.: The Nixon Center and Brookings Institution Press, 2002), 21.

and economic national interests in the Middle East, including the Gulf countries, relations with which were difficult to develop in the previous period for ideological and social reasons.

During Soviet times the rulers of the Gulf States were perceived as representing the feudal and traditional state of society deemed hostile to the Marxist-Leninist ideology, and the Soviet leaders often saw them as stooges of Western imperialism. Present day Russia's foreign policy orientation, which is based on the country's national interests and not on ideological premises, provided Moscow with a fresh starting point in its relations with the Gulf countries, even though the power and the importance of the Russian Federation cannot be compared with those of its Soviet predecessor and some lasting geopolitical features of the relations still persist.

Pre-Soviet Period

Besides a few unusual exceptions such as the 1768-1774 Russian-Ottoman War, when in July 1773 the Russian navy under Captain Ivan Kozukhov captured the fortress of Beirut[5] and St. Petersburg supported an Egyptian ruler Ali Bey against Istanbul,[6] and the long lasting interest in the Christian holy places in Palestine which contributed to the Crimean War (1853-1856), the Russian Empire has been directly politically and militarily involved only in the Turkish and Persian territories adjacent to its borders. However, there has been some Russian presence in the Gulf region and the Arabian Peninsula since at least the second part of the nineteenth century. As the Russian empire was not directly involved in the colonial carve up of the area, its "moral credentials among the Arabs, both on official and popular level were considerably higher than those of the Western Powers."[7] Before the convention of 1907, which was negotiated with French help, St. Petersburg competed with Britain for influence in the region and wanted to win naval facilities in the Gulf for an outlet to the Indian Ocean. In 1901, the Emir of Kuwait, Mubarak al-Sabah asked for Russia's protection,[8] and Russians thought about building a railway linking the Mediterranean to the Gulf. In order to gain access to the Indian Ocean, St. Petersburg tried to establish a coaling station for its navy in Kuwait. Sources have indicated, however, that the Russian Empire did not want to antagonize Britain

5. www.navy.ru
6. Ibid., 22. Peter Zeihan, "The Russian Problem," www.stratfor.com, October 16, 2007.
7. Alexei Vassiliev, *Rossiya na Blizhnemi i Srednem Vostoke. Ot Messianstra k Pragmatizmu* (Moscow: Nauka, 1993), 372-88 and passim.
8. www.navy.ru.

and refused to protect Kuwait, but wished to demonstrate that the Gulf is open to the fleets of all nations, including its own navy.[9] Much to Britain's chagrin, Russian envoys were also active in Muscat and other Arab principalities, but without much tangible success and probably without much determination.[10] British fear of imperial Russia's expansion to the Indian Ocean and India, against which Lord Curzon had warned,[11] was probably unfounded, but St. Petersburg's interests in the Gulf and the Arabian Peninsula were real. These interests were rooted in three main causes:

1. The perennial Russian effort to get access to the warm seas and the world's oceans, which should not be confused with the exaggerated fears of the British politicians of the era regarding a Russian invasion of India;
2. The ongoing struggle against British domination of Southern Asia, which lasted until 1907;
3. The crucial importance of the Arabian Peninsula for Islam, which already had many followers among the subjects of the Russian Empire. Consequently, St. Petersburg had a consular agent in Jeddah who looked after the Muslim pilgrims and merchants arriving from the Russian Empire and facilitated their relations with the local authorities.[12]

Soviet Period

Russia's relations with the Arab world, including the Gulf region, underwent dramatic changes after it became the USSR in 1922, following the 1917 Bolshevik Revolution. The new rulers of the country insisted on representing the world proletarian revolution in its challenge against Western capitalist domination, and in accordance with Lenin's theory, looked for friends and allies among the colonial and semi-colonial peoples. The Fourth Congress of the Communist International in November 1922 went so far as to say "that in certain circumstances, transitory [Communist] alliances were acceptable to include the feudal aristocracy, and the

9. A. Potserbov, "On Russian-Egyptian Relations," *International Affairs* (Moscow, August 1997),112.
10. G.M. Yemelianova, "Russia and Islam: The History and Prospects of Relationship," *Asian Affairs* 26, part 3 (Oct 1995), 284.
11. Ibid.
12. Stephen Page, *The USSR and Arabia: The Development of Soviet Policies and Attitudes towards the Countries of the Arabian Peninsula* (London: Central Asian Research Centre, 1971), 9. See also George N. Curzon, *Russia in Central Asia in 1889 and the Anglo-Russian Question* (London: Frank Cass, 1967), 11-14.

pan-Islamic movement."[13] The door was thus open to search for new friends among the tribes and statelets of the Gulf region and the Arabian Peninsula which were relatively close to Soviet borders and the first efforts proved to be rather promising.

When on March 3, 1924, the office of the Ottoman caliph in Istanbul was abolished by Kemal Pasha Ataturk's regime, which was then supported by the Soviets, the Sheriff of Mecca and the king of Hedjaz, Hussein of the Hashemite family proclaimed himself as the new caliph and leader of the Muslim World.[14] While the British, concerned about the loyalty of the many million Muslim subjects in their still great empire, reacted angrily, Moscow did not hesitate to make use of the subsequent tension between London and its former Hashemite client.

In August 1924, the USSR established diplomatic relations with Hedjoz and its representative Karim Kharimov, a Muslim Tatar from Ufa, arrived in Jeddah as the "Agent et Consul Général de L'URSS prés de Sa majesté Le Roi de L'Arabie."[15] However, these new relations soon faced a major challenge. Sheriff Hussein's bid for a caliphate proved to be a total failure, and in addition, his family's rule in Hedjoz began to crumble under the blows of his old enemy, Abdul Aziz Al-Saud and the Wahhabis' movement which he led. By the end of 1925, the Hashemite family had to give up their rule in the country, whose name was changed to Saudi Arabia in 1932, after the unification with Najd and Hasa provinces.[16] However, Moscow reacted to the developments pragmatically. The Soviet press started to write about "an extraordinarily interesting political social program of the Wahhabis, and when in February 1926, Abdul Aziz Al-Saud won the crown from Hedjoz, the USSR was the first state to recognize him on February 16, 1926.[17]

The Soviets believed that Ibn Saud would be able to establish an independent (that is, anti-Western) federation of Arab principalities in the Gulf and thus weaken Western imperial domination on their Eastern borders. According to both Russian

13. A. Bocharov, "Schitaem eti Vody Dostypnymi Plavanlju Vsech Natsii: Pervye Poseshcheniye Rossyskimi Korabliami Persiskogo Zaliva," *Morskoi Sbornik* (Russia) no. 2 (1999), 71-77.
14. As he said in his speech in 1892: "I should regard the concession, by any Power of a part upon the Persian Gulf to Russia (that dear dream of many patriots from Neva to the Volga) as a… provocation to war; and I should impeach the British minister guilty of acquiescing in such surrender as a traitor to his country." Olaf Caroe, *Wells of Power, the Oil Field of South West Asia: A Regional and Global Study* (New York: Macmillan, 1951), 64-65.
15. Elena Melkumian, *Gulf Cooperation Council Relations with Russia* (Dubai: Gulf Research Center, 2005), 7.
16. J.J. Degras, *The Communist International 1919-1943 Documents* vol 1; (London: Oxford University Press, 1956), 385.
17. Kamal Salibi, *The Modern History of Jordan* (London: Tauris, 1993), 89.

and American sources, King Abdul Aziz skilfully played the Russian card against Anglo-American oil companies, and by opening his country's markets to Soviet goods, wanted to demonstrate that there is an alternative to Western pressures.[18]

For the same reasons, in May and June 1932, he sent his son Faisal bin Abdul Aziz on an official visit to Moscow. His visit might be seen as the pinnacle of pre-World War II Soviet-Arab relations and an apparent achievement of Soviet diplomacy. While receiving the Prince, the chairman of the All-Union Executive Committee (a titular head of the USSR as a state) Mikhail Kalinin stated that his visit proved that "friendship between the two countries is in the interests of both peoples and their mutual prosperity."[19] In fact, the visit helped Ibn Saud to achieve some concessions from Britain.[20] However, according to both Russian and Arab sources, King Abdul Aziz's policy towards Moscow was not inspired by purely pragmatic considerations. The King appreciated the release by the Bolsheviks of the secret treatise between Imperial Russia, France and Britain concerning the future of the Middle East, particularly the famous Sykes-Picot Agreement about the division of the zones of influence there.[21] He was closely in touch with a Soviet representative in Jeddah Karim Kharimov, who enjoyed his respect and had influence on his decisions.[22] On September 18, 1932, Ibn Saud issued his decree, "On the Merger of the Parts of the Arabian Peninsula," and his country formally became a unitary state. The USSR had, at least temporarily, an obvious interest in preserving its links with the growing power on the Arabian Peninsula. Soviet-Arab relations, however, were devoid of any deeper ideological, and at that time, even strategic content and proved to be quite unstable. In the mid 1930s, Soviet experts started to doubt the political usefulness of the alliance with Arabs, especially in view of the growing need to cooperate with Britain against Nazi Germany and Fascist Italy, and the Saudi leaders became reluctant to increase their country's cooperation with Moscow at a time when savage anti-religious repression was taking place. In May 1938, the USSR announced the closure of its office in Jeddah as part of its new general policy to reduce contacts with the non-communist states of the Greater

18. John Baldry, "Soviet Relations with Saudi Arabia and Yemen 1917-1938," *Middle Eastern Studies* 20 (January 1984), 58.
19. Alain Gresh, Dominique Vidal, *Les 100 Clés de Proche Orient* (Paris: Hachette Littératures, 2003), 60.
20. Alexei Vassiliev, *The History of Saudi Arabia* (London: Saqi, 1998), 265.
21. G.G. Kosach, E.S. Melkumian, *Vneshnyaya Politika Saudovskai Arabii* (Moscow: The Institute of Israeli and Middle Eastern Studies, 2003), 30.
22. Documents of Foreign Policy of the USSR. Ministry of Foreign Affairs, vol. 15 (Moscow, 1968), 366-367 (in Russian).

Middle East.[23] In the very traditional and Islamic region at that time, there was not a single communist party to support, and for more than 20 years, Moscow's attention was focused on other issues.

The USSR did not restart its active role in the Arab World until the mid-1950s. Its renewed and much stronger interest in the region was mainly a reaction to the Eisenhower administration's efforts to organize an anti-Soviet alliance (known as the Baghdad Pact) on its southern borders. In spite of being ultraconservative and anti-communist, the Saudi rulers nevertheless rejected participation in the new American initiative, which might have put them together with traditionally hostile Iran and, in addition, antagonized Arab national feelings.[24] On April 16, 1955, a Soviet foreign ministry spokesman officially praised Saudi Arabia as an "opponent of participation in military blocs which Western powers are forcing on the Arab countries."[25] By the end of the same year, Moscow supported Riyadh in its dispute with the British protectorates of Abu Dhabi and Muscat about the Buraimi oasis, and during King Saud's trip to India in December 1955, noted with approval his speeches supporting peaceful coexistence.[26] When in 1958, Crown Prince Faisal replaced King Saud as the ruler of the country; the Soviets welcomed him as a "well known supporter of Arab unity" and an opponent of Western military encroachment in the region.[27] However, Moscow's expectations were ill-founded. In spite of the growing Soviet support for the Palestinians, the political and ideological differences between Moscow and Riyadh were too large to overcome. Both countries were largely directed by their perceived missions – Islamic in the case of Saudi Arabia and communist and revolutionary in the case of the USSR.[28] In addition to the Soviets siding with "progressive" Arab states during the "Arab Cold War" in the 1960s,[29] the Saudi leaders were concerned about Moscow's support for the revolutionary

23. G.G. Kosach, E.S. Melkumian, *Vneshnyaya Politika Saudovskoi Arabii* (Moscow: The Institute of Israeli and Middle Eastern Studies, 2003), 30.
24. Ibid., 29.
25. A.I. Yakovlev, "Rossiysko-Saudovskiye Otnoshenia: Ozhidanye i Perspektivy," in *Rossiysko-Saudovskiye Otnoshenia: Ozhidanye i Perspektivy* (Moscow: The Institute of Israeli and Middle Eastern Studies, 2003), 25.
26. Baldry, op. cit., 74. In fact, at that time the Soviet consulates in Turkey, Afghanistan and Iran were also closed.
27. Joshua Pollack, "Saudi Arabia and the United States, 1931-2002," *Middle East Review of International Affairs* 6, no. 3 (September 2002): 79.
28. *Soviet News*, April 19, 1955.
29. Stephen Page, op. cit., 30.

movements in the area, which had led to the establishment of the quasi-Marxist regime in South Yemen and the revolutionary changes in the neighboring Horn of Africa countries, such as Ethiopia and Somalia.[30] The Kingdom became actively involved in anti-communist and anti-Soviet operations in various parts of the world, especially after the Soviet invasion of Afghanistan in December 1979.[31] The ideological conflict notwithstanding, the first attempt at restoring diplomatic relations between Moscow and Riyadh was in 1982. At that time, on the Saudi leadership's initiative, a channel of communication via London was established between the two capitals in order to exchange messages and information related to critical problems such as the Palestinian-Israeli conflict, the Israeli invasion of Lebanon, and the Iran-Iraq War.[32]

Before Gorbachev's rise to power and the ensuing *perestroika* period in the late 1980's, Moscow only had diplomatic relations with one Gulf nation: Kuwait, which was one of the richest but probably the most vulnerable in the area. Before September 1985, there were no Soviet representatives in any economically and strategically important Arab oil-producing monarchies such as Saudi Arabia, Qatar, Bahrain, Oman and the United Arab Emirates. Relations with Kuwait were exceptional, and Kuwait policy was motivated by the country's special origins and geopolitical location. The Iraqi leaders did not want to forget that until the outbreak of World War I, Kuwait had been part of the Ottoman province of Basra, which was later to become part of Iraq. As a result, they questioned the sovereignty of Kuwait, and the Kuwaiti leaders thought that their relations with the USSR were a sort of "insurance policy" against a new Iraqi attempt to annex territory.[33] Moscow saw Kuwait as a gate to the Persian Gulf and Indian Ocean, which was one of Russia's longstanding goals. And yet those relations were not always happy or harmonious. In May 1964, during his visit to Egypt, Nikita S. Khrushchev made sarcastic and highly offensive comments about "some little ruler of Kuwait,"[34] and for the following years, bilateral relations between the two countries remained predominantly cool and low-key.

30. *Izvestia*, March 26, 1958.
31. G.G. Kosach, "Rossiysko-Saudovskiye Otnoshenia: Visit Prince Abdalli," in *Rossiysko-Saudovskiye Otnoshenia: Ozhidanye i Perspektivy,* 32 (Moscow: The Institute of Israeli and Middle Eastern Studies, 2003).
32. Malcom Kerr, *The Arab Cold War, Gamel Abdul Nasir and His Rivals 1958-1970* (Oxford: Oxford University Press, Third edition, 1999).
33. M.J. Rozhbadinov, "Nekotorye Aspekty Rossiysko- Saudovskih Otnoshenii," in *Rossiysko-Saudovskiye Otnoshenia: Ozhidanye i Perspektivy*, op. cit., 6.
34. Pollack, op. cit., 80.

However, from the time of Brezhnev's rise to power in October 1964, the situation slowly began to change.[35] Moscow applauded Kuwait's attempts to take over foreign oil companies operating on its territory and the Kuwaiti development of the welfare-state institutions in the country.[36] The essential linkage between the two nations was based on similar foreign policy views on several crucial regional issues, especially the Arab-Israeli conflict. The Kuwaiti government appreciated Soviet support for the Palestinians and particularly, since the outbreak of the Iraq-Iran War in 1980, voiced its general approval of Moscow's proposals on the Gulf.[37] Because of its growing understanding of the potentially stabilizing role of USSR in the Gulf, in relation to both the regional powers such as Iraq and Iran and the US hegemony, Kuwait welcomed Brezhnev's speech in the Indian Parliament on December 10, 1980, which called for a ban on all outside forces and military bases in the area, and for the sovereign rights of the states in the region to their national resources.[38] In fact, the Kuwaiti government, viewing Moscow as a guarantor against Baghdad and Tehran, actively lobbied other co-members of the Gulf Cooperation Council (GCC) to establish relations with the USSR.[39]

In the period from 1985 to 1990, a number of factors facilitated rapprochement, including Gorbachev's *perestroika* and the subsequent de-ideologization of USSR's foreign policy. Simultaneously, the threat of Islamic fundamentalism, the ongoing Iraq-Iran War and the Arab-Israeli conflict represented a challenge to both the Soviets and the conservative Arab monarchies and caused both sides to move closer to one another.[40] In September 1985, Oman established diplomatic relations with Moscow; the United Arab Emirates did likewise in November of the same year, while Qatar followed suit in August 1988.[41] After two trips by the Saudi Foreign Minister Prince Saud Al-Faisal to Moscow in September and November 1990, the Saudis also decided to re-activate their official diplomatic relations with the USSR. In May 1991, the Soviet Embassy

35. ITAR-TASS, (in English), in FBIS-SOV-2003-0828, August 28, 2003.
36. I. A. Melikhov (Aleksandrov), "Konceptualnyi Analiz: Rossiya-Strany SSGPZ," *Rossiya na BlizhnemVostoke* (Moscow: Institute of Israeli and Middle Eastern Studies, 2001), 141-142.
37. Mark N. Katz, *Russia and Arabia: Soviet Foreign Policy towards the Arabian Peninsula* (Baltimore, Maryland: The John Hopkins University Press, 1986), 162-163.
38. Ibid., 166.
39. Ibid., 168.
40. Robert O. Freedman, *Moscow and the Middle East: Soviet Policy since the Invasion of Afghanistan* (Cambridge: Cambridge University Press, 1991), 96. See also Katz, *Russia and Arabia*, 168.
41. Melikhov, op. cit.,143.

was opened in Riyadh,[42] and the most reluctant member of the Gulf Cooperation Council, Bahrain, followed the Saudi example shortly afterwards.[43] In 1987, in the new atmosphere of mutual cooperation, the USSR, responding to Kuwait's requests, chartered three Kuwaiti tankers and was thus able to legitimize its own navy's presence in the Gulf.[44] Moscow now granted religious freedom to its Muslim subjects and even cooperated with Washington and Riyadh during the Kuwaiti crisis and the First Gulf War in 1990-1991. According to Yevgeny Primakov, who in September 1991 was sent to the Middle East including Saudi Arabia, UAE and Kuwait, all the countries he visited "clearly did not want the disintegration of the USSR" and emphasized the need to preserve it as a united economic and strategic area in order to secure its power and influence. As he said to the press on September 20, 1991, "The leaders I have met want the USSR's presence in the Near and Middle East because this would preserve the balance of power. Nobody wants one superpower to maintain a monopoly position there."[45]

Misgivings notwithstanding, in December 1991, the USSR disintegrated, giving way to the Russian Federation. Not only the domestic content of one of the partners, but the whole international system experienced unprecedented transformation and the impact on Russia-Gulf countries' relations proved to be lasting and important.

The Russian Federation and the GCC Countries

Moscow's new post-Soviet relations with the Arab Gulf countries have, from the very beginning, had a markedly different character from those of the previous periods. The new Russia had become much weaker than its predecessor, the USSR, and had lost common land borders with Iran, which although not an Arab nation, is nevertheless an important power in the Gulf. As an outcome of the First Gulf War and the subsequent international sanctions against Iraq, Russia-Iraq relations had also suffered and had to undergo a number of adjustments. However, Moscow's relations with the GCC states entered a new chapter. The new Russia had readjusted the Marxist-Leninist slogan and ideological hostility towards the conservative Arab oil monarchies of the Peninsula. According to the Foreign Policy Concept of the Russian Federation approved by President Putin

42. Ibid., 144.
43. Ibid.
44. Ibid., 145.
45. Ibid.

on June 28, 2000, "Russia will seek to achieve a multi-polar system of international relations that really reflects the diversity of the modern world with its great variety of interests."[46] Consequently, it wants to pursue "an independent and constructive foreign policy…based on…mutually advantageous pragmatism" and "it takes into consideration the legitimate interests of other states and is aimed at seeking joint discussions."[47] Russia, being located relatively close to the Arab nations and having a substantial Muslim minority among its own citizens (without even mentioning the Chechen issue) has a strong interest in a politically stable Middle East.[48] Another reason for its persistent attention to the region is the fact that Russia, as one of the major global energy suppliers, needs to cooperate with other major energy producers who are mainly located there. Unlike the USSR, which supported anti-Western revolutionary movements and "progressive" Arab states, the new Moscow is apparently willing to work with the forces of the local establishment and cooperate with the West in its struggle against Islamic extremism. Its commercial interests also favor rapprochement with the wealthier states of the area, including those "which have no recent record of any significant relationship with the Soviet Union, but may nevertheless offer Russia lucrative trade opportunities."[49] All GCC countries belonged to this category and soon became the focus of a new Russian diplomatic and business strategy. But although all ideological differences of the Soviet period between Moscow and the Gulf nations have now disappeared or have become irrelevant, further rapprochement and cooperation has been neither quick nor easy. A number of complex, and not always transparent, economic and political factors have made relations both vulnerable and difficult to develop.

Historically, the first, but probably not the most important, factor was Moscow's disappointment at the lack of influx of Arab capital in the early 1990s. Moscow had expected large-scale financial support from the oil-rich Arab monarchies, particularly Saudi Arabia and Kuwait, as a reward for ending the Afghan intervention and, even more, for its lack of support for Iraq during the Kuwait crisis and the First Gulf War. As a leading Russian expert on the Middle East Alexei Vassiliev wrote, "The war against Iraq in [January] 1991 was a success owing to the transfer of the

46. Ibid.

47. Ibid.

48. TASS, (September 20, 1991), FBIS-USSR, September 23, 1991, 10.

49. "The Foreign Policy Concept of the Russian Federation approved by the President of the Russian Federation V. Putin," June 28, 2000.

main NATO forces to the Middle East with the indulgence of the former Soviet Union. But the Soviet Union was not remunerated either materially or politically. Consequently, the USSR, and later Russia, suffered an economic loss."[50] According to some Russian sources, as an outcome of the war and its political and economic consequences, Moscow lost about $40 billion.[51] Though their calculations might have been exaggerated, the losses would nevertheless have been substantial. Low oil prices in the period following the First Gulf War, the subsequent decline in the GCC members' incomes and the lack of trust in Russian business and civil order did not lend confidence for investment in the region.[52] The fact that the Russian business people were not acquainted with the economic realities in the Arab oil-producing countries[53] and that Moscow did not pay its debt to the Arab leaders on time[54] created additional obstacles. Arab lack of confidence in the Russian markets has long persisted, and it would require a great amount of time and effort, led largely by the Russian-Arab Business Council, to start to change the situation.[55] No less difficult to overcome were the issues of achieving mutual understanding in the policy toward the oil market. Saudi Arabia and the other GCC countries have been, and still remain, leading members of OPEC with an overwhelming influence on this organization, while Russia has never been a member, and its relations with the cartel have often been tense. Moscow did not forget that in 1985-1986 Saudi Arabia and its allies used oil as a weapon against the Soviet Union. When in the fall of 2001, Saudi Arabia and the other OPEC members tried to secure Russian acceptance for reducing production and they kept oil prices relatively high, Moscow's reaction was one of refusal and suspicion.[56] Differences in the organization and structure of the oil industries in Russia and the Arab world have also contributed to repeated quarrels and misunderstandings that needed to be dealt with at high

50. Ibid.

51. Oded Eran, "Russia in the Middle East: The Yeltsin Era and Beyond," in *Russia between East and West. Russian Foreign Policy on the Threshold of the Twenty-First Century,* ed. Gabriel Gorodetsky (London: Frank Cass, 2003),167.

52. Ibid.

53. Alexei Vassiliev, "Russia and Iraq," *Middle East Policy* 7, no. 4 (October 2000): 127.

54. Several interviews with Russian sources, Moscow, December 2002.

55. Mark N. Katz, "Saudi-Russian Relations in the Putin Era," *Middle East Journal* 55, no. 4 (Fall 2001): 9-10.

56. Iskander Batyrshin, "Targovo-Ekonomicheskiye Svyazi Rossiyskoi Federatii s Stranami Soveta Sotrudnichestva Arabskih Gosudarstv Persiskogo Zaliva: MGIMO(U)MID Rosii, Analiticheskie Doklady, no. 2 (17) April 2007, 4.

political levels. Last but not least, it has been very difficult for Russian goods to gain access to the Arab markets, which have always been dominated by Western and, to a lesser extent, Far Eastern producers. Many Russians complained that Russian oil companies had been denied access to the Saudi oil fields and that commodity turnover between Russia and Saudi Arabia "was ridiculous."[57] In fact, it amounted to $57 million in 2000 and $67 million in 2001.[58] At the same time, the trade turnover between Russia and Kuwait stood at just $19 million and there were no imports from Kuwait at all.[59] Even Russian arms producers were unable to win a substantial foothold in the GCC countries' arms market, which tends to be one of the most lucrative in the world.[60] In the 1990s the only meaningful exception was the United Arab Emirates, with whom Moscow's military-technical cooperation has exceeded one billion dollars.[61]

In addition to economic-related hindrances, there were three essential political obstacles to closer Russia-Gulf relations:

1. The first and probably the most important was the US control of the Gulf. As Zbigniew Brzezinski put it: "Special security arrangements in the Persian Gulf, especially after the brief punitive mission against Iraq in 1991 [the First Gulf War], have made that economically vital region into an American military preserve"[62]
2. On the Russian side, there was the perception among the Russian political class that the GCC members – especially Saudi Arabia – posed, at least, an indirect threat to Russia's security.[63] There were allegations about their support for Chechen separatists and other radical anti-Russian Muslim groups in the northern Caucasus and suspicions concerning their funding of, and subsequent influence on, Islamic schools and institutions in some parts of the Russian Federation. These suspicions were not unfounded. While most of the Gulf countries' funds were properly used to help – for example, in the autonomous

57. Ibid., 5-7.
58. Vladimir Yevtushenkov, "After the Hull: Russia and the Arab World at a New Stage," *Russia in Global Affairs*, no. 3 (July-Sept 2005).
59. Several interviews and private contacts in Moscow in December 2002 and March 2004.
60. Several interviews with Russian sources in December 2002.
61. Dimitrii Slabodianuk, "Irak v Obmen na Saudovskuyu Neft," *Pravda*, October 30, 2002.
62. *Moscow News,* no. 32, August 19, 2003.
63. Marat Terterov, "Moscow's Gulf Foreign Policy Gets Strategic Commercial Twist," Gulf Research Center, April 2006.

region of Tartarstan to build 1,100 new mosques and Koranic schools, including the Islamic University established in 2000 in Kazan[64] – some of the funds found their way into unwanted hands. According to a State Department official, Gulf-based charities and rich individuals have thus contributed more than $100 million to support Chechen separatists between 1997 and 1999 alone.[65] GCC countries' elites and their populations were sympathetic to the Chechens, and in the late 1990s Chechen President Aslan Maskhadov visited Saudi Arabia three times and met with Saudi and other Muslim leaders.[66]

After the outbreak of the First Chechen War in October 1994, an official Saudi statement described the events in Chechnya as a "tragedy" and called for a quick end to the fighting and a peaceful resolution to the Northern Caucasian conflict.[67] On the other hand, the Gulf leaders were cautious and did not want to endanger their links with Moscow. In December 1994, the Organization of Islamic Conference (OIC), which was largely influenced by them, refused the then Chechen President Dzhokar Dudayev's request to admit Chechnya to the organization.[68] Moreover, at the end of 1999, the envoy of the Russian Ministry of Foreign Affairs was told by the Saudi diplomats that the Kingdom considered the situation in the Northern Caucasus to be Russia's internal problem and would not ask for any intervention in the ongoing developments.[69]

3. On the Arab side a decisive role was played by the perception that in the 1990s Moscow was losing its previous power and international importance. Although the leaders of the Gulf countries and the Arab political elites wanted to preserve their links with Russia to counterbalance American hegemony, they nevertheless ceased to consider Russia as a superpower, able and willing to stand up to pressure from Washington.[70]

64. ITAR-TASS in English, March 18, 2001 in FBIS-SOV-2001-0318.

65. Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and its Geostrategic Imperatives* (New York: Basic Books, 1997), 27.

66. Several interviews and private contacts in Moscow in November 2000-January 2000-01 and December 2002. See also Roman V. Svetlov, *Druzia i Vragi Rosii* (St. Petersburg, 2002), 42-43.

67. Mariam Fam, "Tatars Rediscover Islam: Guard against Fundamentalism," http://www.columbia.edu/itc/journalism/russia/feature_fam.html as retrieved on 10 July, 2007.

68. Ariel Cohen, "Beware Saudi Rapprochement," *Washington Times*, September 18, 2003.

69. Melkumian, "Gulf Cooperation Council Relations with Russia," op. cit., 64. For the description of one of his visits, see Said Isayev, "Chechen President Says Saudi Visit 'Successful,'" ITAR-TASS-April 27, 1997.

70. Razhbadinov, *Nekotorye aspekty Rossiisko-Saudovskich Otnoshenii,* p. 18.

Although in the 1990s a number of agreements on cultural, economic and financial cooperation between Moscow and the Gulf capitals had been signed, according to Russian sources, up to 2002, they remained on paper only, or were only partially implemented.[71]

The start of the new millennium signalled the start of a new era, partly because of the new Russian President Vladimir Putin's innovative leadership, but even more so because of the major political transformations at the regional and global levels occurring at that time.

The Russia-Gulf States Rapprochement

Vladimir Putin's rise to power as Prime Minister of the Russian Federation and shortly after that, as President of the country on New Year's Day 2000, did not necessarily initiate a positive turn in Russian-Arab and Muslim relations. The beginning of his tenure was marked by the Islamic extremists' incursion into the mountainous regions of Russia's autonomous Republic of Dagestan, where on August 10, 1999 they proclaimed the Independent Islamic Republic of Dagestan. The next month, in September 1999, a series of bombings that were blamed on Chechen separatists, destroyed a number of apartment buildings in three southern Russian cities causing more than 300 civilian casualties. As an outcome of that, the Second Chechen War broke out in October 1999. All of these events probably had a rather negative impact on Russia's image in the Arab and Islamic world and certainly did not help the development of Moscow's relations with the Middle Eastern countries. However, it seems likely that the sheer size and ferocity of the Islamic challenge had an impact on the new Russian leader and persuaded him that a new political approach was necessary in order to solve the conflicts with the Muslim population of the country and have a closer link with the Islamic nations.

Bearing in mind Russia's geopolitical location, its large Islamic population and the continuing Chechen conflict, the Kremlin has actively taken steps to approach the Muslim world with a proposal to join the OIC.[72] The Russian leaders wanted to be accepted by the Islamic world in order to improve their international bargaining power and facilitate an end to the separatist challenge in the Northern Caucasus. The best and probably the only way to achieve that was through a reconciliation with Riyadh, which held special prestige and influence among the Islamic nations due

71. Ibid., 9.

72. Ibid., 9.

to its wealth and unique position as the guardian of the holiest Muslim sites. The importance of the other smaller GCC members was also considerable because of their financial resources, their Islamic credentials and their already well established connections with their Muslim co-religionists in Russia. At the same time, Moscow had decided that cooperation with Riyadh and OPEC lay, at least temporarily, in its long-term and even medium-term economic interests. Russian political and corporate leaders became aware that any abrupt oil price collapse would be harmful for the stability of their exports and disastrous for the Russian economy.[73] In 2002-2003, it once again became obvious that in spite of Putin's possible efforts "modern Russia is neither capable of integration nor willing to integrate itself into the structures of the expanded West."[74] At a time when in the US the Jackson-Vanik and Stevenson amendments, which originated during the Cold War period and limited trade with and credit to Russia, had still not been abrogated and there was no sign of significant economic integration with the EU in the near future, Putin and his advisors, along with opening to the West and Israel, have been on the lookout for other potential partners.

In 2002-2003, Moscow's overtures sounded unusually timely for the Saudis. Shortly after the September 11, 2001 attack, the US National Security Council recommended that President Bush issue an ultimatum to Riyadh in order to force it to strictly control the activities of its "charity institutions" and private donors who were suspected of supporting Islamic terrorism. In July 2002, a political controversy broke out in the US after the publication of a report by Pentagon expert Laurent Murawiec, who called Saudi Arabia "the center of evil" and America's most dangerous opponent in the Middle East.[75] According to an American analyst, the "US anger against the [Saudi] Kingdom soon reached a point not seen since the 1973-74 oil embargo, and many American journalists and politicians started to speak about "the limits of Saudi cooperation" and their support for terrorism and radical Islam.[76] The Saudi reaction would soon come. Saudi capital began to flow out of the US (the Saudi investment there was estimated at $200 billion)[77] and Saudi officials

73. Melikhov, *Konceptualnyi Analiz* and several interviews in Moscow in November-January 2000-2001.

74. Dimitrii Slabodianuk, "Irak v Obmen na Saudovskuyu Neft," *Pravda*, October 30, 2002.

75. Alexander Rahr, *Between Reform and Restoration: Putin on the Eve of his Second Term* (Berlin: Korber Department. Joint Venture by Korber Foundation and the Research Institute of the German Council of Foreign Relations, February 2004)

76. *Pravda*, October 15, 2002. See also *Pravda online* October 2, 2002 and October 30, 2002.

77. *Izvestia*, September 3, 2003.

expressed their interest in the purchase of Russian weapons. According to some reports, the Saudi government even considered paying Russia $4 billion for the development of a fifth generation ABM system.[78]

In view of the forthcoming invasion of Iraq and the threat of further US military and political interventions in the region, Arabs were seemingly anxious and Russia was the best solution to attaining the means of deterrence. In September 2003, an influential Russian newspaper wrote: "Saudi Arabia, whose relations with the US have worsened, desperately needs new partners (or still better allies) in the international arena, particularly among the UN Security Council permanent members."[79]

It seems that the US-led invasion of Iraq in March 2003 played the role of a decisive catalyst in the Moscow-Riyadh rapprochement. The unilateral US domination of the region now became a tangible reality and an open challenge to both capitals. Russia accelerated its efforts to join the OIC and Saudi Arabia decided to support the Russian bid, while also recognizing Moscow's dominance over Chechnya.

In this accelerating rapprochement, there were three major developments: the visit by then Crown Prince Abdullah to Moscow in September 2003; Putin's participation at the OIC summit in October 2003; and the Saudi government in Riyadh receiving the Chechen President, Ahmed Kadyrov (who was seen by many as a Moscow puppet) as the legitimate representative of the Chechen people in January 2004.

Crown Prince Abdullah bin Aziz Al-Saud came to Russia for an official two-day visit on September 2, 2003. It had been more than 70 years since a similarly high-level Saudi leader had visited Moscow, and it apparently marked a real breakthrough in the two countries' bilateral relations. Due to the regional and international weight of Saudi Arabia and its position as the heartland of Islam, the visit had an importance that went beyond bilateral relations. Both Putin and Prince Abdullah stressed the political closeness of their countries on the issue of Arab-Israeli peace in the Middle East, the situation in Iraq and opposition to terrorism.[80] These common stances towards the three major Middle Eastern conflicts provided

78. *Pravda*, January 8, 2003. Laurent Muraviec's views on Saudi Arabia have later been upheld and repeated by him. See Laurent Muraviec, "Saudi Arabia: No Longer America's Strategic Ally," *The Jewish Institute for National Security Affairs* (JINSA) online, January 13, 2004.

79. Joshua Pollack, "Saudi Arabia and the United States, 1931-2002," *Middle East Review of International Affairs* 6, no. 3 (September 2002), 89.

80. Natalia Starichkova, "Russia and Saudi Arabia: New Friendship," Rosbalt re-September 10, 2003.

a useful stepping stone for a major five-year agreement of cooperation in the oil and gas sectors. In view of the previous conflicts between Moscow and OPEC, and because of the growing energy demand, the agreement was of crucial importance and amounted to a real breakthrough in their relations.

Russia and Saudi Arabia agreed to "coordinate and cooperate in oil policy" and preserve "an acceptable basket price for each oil barrel."[81] As the price of extraction of Russian oil is much higher than in the GCC countries,[82] and Moscow does not have the spare production capacity of Riyadh, the agreement was clearly to Russia's advantage. According to Russian Fuel and Energy Minister Igor Yusufov, another major development during the Saudi Crown Prince's visit was his "gas initiative" that proposed joint development of gas fields, geological surveys, use of gas for desalinating sea water, the construction of gas pipelines, gas powered power stations and other oil and chemical facilities. The projects were estimated at $20-25 billion.[83] In Saudi Arabia, Kuwait and the UAE, the oil industry is state controlled and is not open to direct foreign investments; cooperation in gas fields, which was liberalized in the Arab monarchies in the 1990s and is not bound by the OPEC regulation, was more promising for Russian-Arab cooperation.[84] As an outcome of that, in January 2004, Lukoil won a bid for the development of several promising major gas condensate fields located in the Northern part of the Rub al-Khali desert, which is located in the very heart of Saudi Arabia.[85] In this project, Lukoil planned to establish a joint venture with the Saudi state-owned oil and gas company, Saudi Aramco. The final contract for the joint venture was signed on March 17, 2004 and the first meeting of the board of directors of the new company under the name of Luksar took pace on April 7, 2004.[86] At the end of 2005 the drilling site was prepared, and the company started drilling the first exploration well on January 26, 2006.[87] In the joint enterprise, Lukoil owns 80 percent of the shares and Aramco owns 20 percent.[88] Lukoil was planning to spend $215 million on prospecting

81. *Pravda*, October 15, 2002. See also *Pravda online* October 2, 2002 and October 30.
82. *Izvestia*, September 3, 2003.
83. ITAR-TASS in English, September 3, 2003 in FBIS-SOV-2003.09.03.
84. "Russia, Saudi Arabia Agreement on Oil Pricing; UN Role in Iraq: Abdullah: Chechen Incident Has No Relevance to Islam," Saudi Arabia-Russia, Politics September 5, 2003 Arabic News.com
85. Batyrshin, 10.
86. "02 September 2003 19.20- Russia and Saudi Arabia Agree on Gas and Oil Cooperation," Gateway to Russia as accessed on May 10, 2007.
87. Batyrshin, 16.
88. ITAR-TASS in Russian, January 26, 2004 in FBIS-SOV-2004-0126.

and if that yields positive results, the Russian company's investment in the Saudi gas will be increased to $3 billion.[89] The first big deal in history with the Russian corporation was indeed quite small in proportion to the country's enormous gas and oil reserves but, according to observers, it "marks a strategic rapprochement between the world's two leading producers and underlines Moscow's growing role in the global energy market."[90]

In the joint statement made on the results of the Crown Prince's visit, the two sides "supported an idea of transforming the Middle East into a zone free of weapons of mass destruction, including nuclear ones" and Saudi Arabia agreed to back Russia's initiative "on expansion of cooperation with the OIC."[91] While the first statement objectively challenged the Israeli nuclear monopoly in the Middle East and because of the existing balance of power might have a mostly rhetorical meaning, the second statement by Riyadh had some important practical consequences: opening the door to Putin's participation at the OIC summit in Putrajaya (Malaysia) in October 2003 and granting Russia observer status in the Organization in 2005.

The most immediate and probably the most anticipated prize from Russia's new pan-Islamic connections was getting Saudi, and to a point OIC, support for its policy in Chechnya. During his stay in Moscow, Crown Prince Abdullah stated, "the lingering Chechen problem should be settled peacefully by means of constitutional procedures within the Russian Federation's framework, based on our convictions that the Chechen question is Russia's internal affair."[92] This was a very important statement. The Saudi Arabian ruler recognized the Chechen situation as Russia's internal affair, thereby de-legitimizing the Chechen separatists' struggle against Moscow's rule. Subsequently, representatives of the OIC, including Hamdi Irmak, considered to be a leading specialist on Russia in Saudi Arabia, monitored the presidential elections in Chechnya on October 5, 2003.[93] Although the US and other Western countries questioned the democratic nature of the victory gained by pro-Moscow candidate, Ahmed Kadyrov, Riyadh recognized him as the legitimate president of Chechnya. In January 2004, Kadyrov went as an invited guest for a

89. ITAR-TASS in English, April 7, 2004 in FBIS-SOV-2004-047.

90. "Luksar Energy Releases Results of 2005," *Scandinavian Oil-Gas Magazine* online, posted March 22, 2006.

91. ITAR-TASS in English, April 7, 2004 in FBIS-SOV-2004-047.

92. *Izvestia*, Moscow, March 10, 2004.

93. Ed Blanche, "Landmark Gas Contract Shows Saudi Policy Shift towards the East," *Daily Star*, Beirut, February 7, 2004.

four-day visit to Saudi Arabia. Before his departure, on January 14, 2004, in an interview with an ITAR-TASS correspondent, Kadyrov indicated that his invitation by the Crown Prince "in essence, means Riyadh's acknowledgement of the current institution of the Chechen authorities after the constitution had been adopted and the President elected," and called his visit "symbolic and above all, having political significance for Chechnya and Russia."[94]

Even earlier, in October 2003, the OIC summit adopted a decision on the participation of Islamic states in the restoration of the Chechen economy on the basis of Islamic solidarity and called on all member states and the Islamic philanthropic institutions "to urgently provide generous humanitarian assistance to the people and refugees of Chechnya."[95] Kadyrov's political credibility and his possible long-term political intentions could be disputed. In contrast to the "Russian puppet" image common in Western and Arab media,[96] some Russian and Western experts believed that his true goals were not dissimilar from those of the Islamic Chechen fighters, for whom he used to be the spiritual leader.[97] In their view, Kadyrov simply used different tactics to put into practice his far reaching plans on "sovereignty" and Islamization of Chechnya to the detriment of Russian interests and the secular-democratic future of the country.[98] The Saudi and OIC efforts to appease Moscow on the Chechen issue were, nevertheless, noticeable. Ahmed Kadyrov was assassinated on May 9, 2004 but his son Ramzan took his place as a leader of the powerful Kayrovs' teype (clan). Due to that and because of Moscow's support, he became the Chechen President in March 2007. On March 30, 2007, before he assumed the presidential post, Ramzan Kadyrov travelled to Saudi Arabia in order to perform umrah, or minor hajj (pilgrimage) to visit Moslem shrines in Mecca and edina, and to get Saudi assistance.[99]

In August 2007, he went to Saudi Arabia again and his trip was seen as a political success.[100] On August 15, 2007 after an official meeting with the Saudi King

94. ITAR-TASS in English, in FBIS-SOV-2003-0904.

95. *Izvestia* (Moscow), September 6, 2003, in FBIS-SOV-2003-0908.

96. ITAR-TASS in English, October 3, 2003 in FBIS-SOV-2003-1003.

97. ITAR-TASS in Russian, January 14, 2004 in FBIS-SOV-2004-0114.

98. ITAR-TASS in Russian, January 1, 2004 in FBIS-SOV-2004-0101. See also Resolution No. 29/10-E (IS) "On Humanitarian Assistance to the Chechnyan People," Resolutions on Economic Affairs adopted by the Tenth Session of the OIC, Putrajaya, Malaysia, October 13-14, 2003.

99. See, for instance, "Saudi Arabia Welcomes Moscow Puppet," *Al-Jazeera*, January 15, 2004.

100. See, for instance, Viatcheslev Avioutskii, "La Russia face au 3e Djihad," *Politique Internationa*le, no. 98 (fall 2002-2003):191-208, especially 202-05.

Abdullah, he participated with him in the ritual of washing the Kaaba in Mecca, the most sacred holy place of Islam, which takes place twice a year.[101] Since only the most respected Muslims of the world are invited to take part in this ceremony, it could be seen as his undoubted political success. Later during the day, he met in Jeddah with the head of Islamic Development Bank, Dr. Ahmed Muhamed Ali, who promised him that the bank could provide financial assistance to rebuild educational centres in Chechnya.[102] The bank would also soon send experts to Chechnya to study potential investment projects.[103]

Following in his father's footsteps, Kadyrov continued his policy of Islamization and relative Chechen autonomy. Some of his achievements, such as the reconstruction of the autonomous republic's capital, Grozny, are at least partly due to the financial assistance from Saudi Arabia and some other GCC states. According to an Islamic Development Bank official, the bank was already helping to build two schools in the Chechen Republic,[104] and some other Arab organizations assisted the reconstruction of the university in Grozny, even before Ramzan Kadyrov's second visit.[105]

Although rumors about a Russian-Saudi alliance and its potential threat to US interests were highly exaggerated or simply unfounded,[106] the rapprochement between the two countries was real. In March 2005, Moscow was reported to conclude its "first major defense contract with Saudi Arabia."[107] The death of King Fahd and enthronement of King Abdullah in August 2005 did not change Saudi-Russian relations. As a Russian expert had then indicated, both countries "have already built sustainable political and economic relations" and King Abdullah "would be willing to develop them."[108] In fact, during the following years, the new ruler, by and large, strengthened and expanded Saudi relations with Moscow. Between

101. Georgiy Bovt, "Fatwa of Mufti Kadyrov on President Putin," *Izvestia* (Moscow), January 22, 2004 in FBIS-SOV-2004-0122

102. Interfax, "Kadyrov Arrives in Saudi Arabia for Hajj," in Dialog Update, March 26, 2007.

103. Interfax, "Chechen President Pleased with Trip to Saudi Arabia," in Dialog Update, August 15, 2007.

104. ITAR-TASS "Saudi King, Chechen President Jointly Perform Islamic Ritual," in Daily Update, August 15, 2007.

105. Interfax, "Islamic Development Bank Will Help Build Social Infrastructure in Chechnya," in Daily Update, August 15, 2007.

106. Interfax, "Chechen President Pleased with Trip to Saudi Arabia," in Dialog Update, August 15, 2007.

107. Interfax, "Islamic Development Bank Will Help Build Social Infrastructure in Chechnya," op. cit.

108. Several interviews during the Second Congress for Middle East Studies in Amman, Jordan, June 11-16, 2006.

February 11 and 13, 2007, Russian President Vladimir Putin visited Saudi Arabia, Qatar and Jordan and, according to many, appeared to find quick success on his Mideast tour. During all of his visits, he received a very public and warm welcome, signalling the host countries' search for closer political and economic relations with the non-Western Powers, including Russia and China.[109] As an editorial in the semi-official Saudi daily *Arab News* indicated, Vladimir Putin's visit underlined a shift in the Kingdom's economic and political policy, in an eastward direction, away from what was formerly an almost exclusive reliance on ties with the US, Europe and other Western nations.[110] Following that path, Saudi Arabia was doing what everyone is doing. What makes the relationship between Russia and Saudi Arabia as well as other Arab countries different is the fact that

> "for Saudis, just as for all Arabs, Palestine is the number one emotive issue – and that as all Arabs – the Russians have consistently supported the Palestinians. Nor did Russia support the invasion of Iraq. This has not been forgotten. Despite Chechnya, despite what happened in Afghanistan, despite the Cold War and the decades of communism, the Russians are seen as friends by ordinary Arabs."[111]

On a purely practical level, the search for closer economic ties with Russia was based on two main premises:

1. The role of Russia and the GCC countries as the leading global energy producers and exporters.
2. The fact that Russia has technologies and skills that are far cheaper than those available from Western countries and come without any potential strings attached.

Although the wealthy oil-producing Arab monarchies still appreciate the quality of western goods and services, they want, nevertheless, to find alternative sources of supplies in order to avoid unilateral dependency and possible political pressures.[112] As the Jordanian paper *Al Ra'i* admitted: "The warm reception

109. "Soviet Rapprochement," *Washington Times,* September 18, 2003.

110. Thalif Deen, "Saudis Look to Russia for Arms," *Asia Times,* March 7, 2005.

111. Opinion of Russian Academy of Sciences Africa Institute director Alexei Vasiliyev as quoted in Interfax, "Russia-Saudi Relations Won't Change with New King - Expert," in Dialog Update, August 1, 2005.

112. See for instance, "UK-based Arab writer calls for more active Russian role in the Middle East." Article by Abd-al-Rahman al-Rashid, "The Russian Return to the Region," *Al Sharq Al-Awsat* (internet version: February 19, 2007 in Dialog Update, February 19, 2007) and article by Tariq

accorded to the Russian president in several Arab states, especially Saudi Arabia, was indicative of their displeasure with US policy in the region."[113]

Putin visited Saudi Arabia, Qatar and Jordan shortly after his speech at the 43rd Munich Conference on Security Policy, where he expressed his opinion that "unipolarity is impossible in today's world" and that this model of international relations "itself is flawed."[114] It was the first ever visit of the leader of Russia to countries of the Arabian Peninsula and the Gulf,[115] and the Chairman of the State Duma Committee for the CIS and Relations with Compatriots, Andrey Kokoshin, praised it as a "major event" opening up a new page in Russia's "relations with very important countries of the Persian Gulf."[116] In an apparent effort to stress Russia's links with the region, the Russian delegation, led by Putin, also included the presidents of the predominantly Muslim Autonomous Republics, such as Tatarstan, Ingushetia and Kabardino-Balkaria.[117] On February 12, King Abdullah of Saudi Arabia decorated the President of Tatarstan, Mintimer Shaimiyev with the prestigious King Faisal International Prize for his contributions to the revival of Muslim culture.[118] While accepting the prize, Shaimiyev said that it is "recognition of the high international role and influence of Russia."[119] In fact, on several key political issues, Russia's stated positions seemed to be close to Arab views and expectations. On February 10, 2007 Putin said, in an interview with Al-Jazeera, that the new US strategy in Iraq will work only if a date for withdrawing the foreign military contingent is set.[120] Russia expressed the opinion that "the Middle East peace settlement is the key to the solution of many other regional

---

Al' Meine, "Russians Coming in as Friends," *Arab News* (internet version: March 10, 2007. Dialog Update, March 10, 2007).

113. "Saudi Daily: Putin's Visit Stresses 'Shift' in Saudi Economic, Political Policy," *Arab News*, (internet version) in Dialog Update, February 14, 2007.

114. Ibid.

115. Ibid.

116. "Putin in Amman, Warm Welcome and a Bid for a Vital Role," *Al-Ra'i,* February 13, 2007 in "Jordanian Dailies Comment on Russian President Putin's Middle East Tour," Jordan-OSC Report, Dialog Update, February 14, 2007.

117. Putin's speech at the 43rd Munich Conference on Security Policy.

118. Interfax, "Putin Begins Visit to Saudi Arabia," in Dialog Update, February 11, 2007.

119. ITAR-TASS, "Russian Politicians Welcome Putin's Mideast Visit," in Dialog Update, February 13, 2007.

120. ITAR-TASS, "Putin Visit to Mideast Displays Foreign Policy Pragmatism – MP," February 13, 2007 in Dialog Update, February 13, 2007.

problems"[121] and Putin called for preparing an international conference on the Middle East.[122] He particularly appreciated the efforts of Saudi King Abdullah to resolve the differences between the Palestinian movements Fatah and Hamas which culminated in the Mecca Agreement saying, "Hardly anyone else could have done more. The King undertook and implemented this task."[123] The Secretary of Russia's Security Council, Igor Ivanov, had even expressed the hope that it will be possible to use the same pattern for the settlement of other regional conflicts such as "Iraq, Lebanon and the Iranian problem."[124] Moscow's insistence on a multipolar world and Putin's condemnation of "an almost unrestricted hyper use of force – military force – in international relations…plunging the world into an abyss of permanent conflict"[125] have certainly met with a positive response among Arab nations. As one of the Saudi journalists noted: "Unlike the current US administration…the Russians are quietly and gradually making the right diplomatic overtures in gaining economic and political footholds in a previously inaccessible territory. And doing it all without a hint of aggression."[126] Although the Arab leaders were aware, as the Jordanian daily *Al-Ghadd* admitted, that "Russia's role in the main issues in the region, the Arab-Israeli conflict, and in Iraq will remain a limited one"[127] and that "Washington considers the two issues as its priority,"[128] they nevertheless welcomed Moscow's return to the region. Even a politically weak Russian presence might be seen by them as an asset in their dealing with US unilateralism and, what has been no less important, would be useful for their domestic reasons. Because of the moral impact of events in Iraq and the occupied Palestinian Territories, the closer relations with Moscow might thus provide even some such staunchly pro-American leaders as the King of Saudi Arabia, Ruler of Qatar and the King of Jordan some level of additional legitimacy from their own populations.

121. Interfax, "Tatar President Awarded with King Faisal International Prize," in Dialog Update, February 12, 2007.

122. Ibid.

123. Interfax, "Putin: Date for Withdrawing Foreign Forces from Iraq Should Be Set," in Dialog Update, February 10, 2007.

124. ITAR-TASS, "Russian Security Chief says Mideast Settlement Key to Solve Other Regional Problems," in Dialog Update, February 9, 2007.

125. Ibid. See also, "Putin Calls for a Broad International Conference," *Moscow Times*, February 14, 2007.

126. Interfax, "Putin Calls for Preparing Middle East Conference," in Dialog Update, February 12, 2007.

127. ITAR-TASS, "Russian Security Chief Says Mideast Settlement Key to Solve Other Regional Problems," in Dialog Update, February 9, 2007.

128. Putin's speech at the 43rd Munich Conference on Security Policy.

On the economic level, Putin's talks both during his stay in Saudi Arabia and during the following working visit in Qatar were mainly focused on more coordination between energy producers and various other forms of increased business cooperation. Speaking to journalists in Amman (Jordan), Putin admitted that Russia is interested in coordinating its steps on global energy markets with other energy producers and argued that "this coordination will be aimed at consolidating the international energy market."[129] Concerning the oil industry, the Saudi Minister of Oil and Mineral Resources Ali Al-Nuaimi told journalists that Lukoil operates on the Saudi oil fields and "we cooperate successfully."[130] He expected that "relations will develop not only between Lukoil and Saudi Arabia, but also between Lukoil and neighbouring countries."[131] The Russian-Saudi joint venture Luksar, after signing the agreement on prospecting deposits of hydrocarbons in the Rub 'al Khali desert, carried out field seismic exploration and discovered a big oil field there. The evolution of the oil field is planned to be made in 2008[132] and prospects for its future extraction might take Russian business closer to Saudi's oil resources. As Luksar was originally created just for the development of gas condensate fields, it would be a major extension of its planned business agenda and political success for Moscow.

The topic of the gas industry largely dominated Putin's visit to Qatar's capital, Doha, where he came on February 12, after his visit to Saudi Arabia.[133] He neither endorsed nor rejected the goal of creating a gas cartel, which had been proposed by Iran and some other countries. He called the idea "an interesting proposal"[134] but stressed that "whether or not we need such a cartel, or whether or not we will create such an organization should be discussed separately."[135] However, he made sure that Russia and Qatar will coordinate their actions in the gas sphere irrespective of whether a gas equivalent of OPEC is set up.[136] Against the rising

129. Article by Tariq al Ma'ina, "Russians Coming in as Friends," *Arab News* (Internet version, March 10, 2007 in Dialog Update, March 10, 2007).

130. "Jordanian Dailies Comment on Russian President Putin's Middle East Tour," Jordan-OSC Report, in Dialog Update, February 14, 2007.

131. Ibid.

132. Interfax, "President Putin Says Russia Wants More Coordination between Energy Producers," in Dialog Update, February 13, 2007.

133. ITAR-TASS, "Saudi Oil Minister, Lukoil President Confirms Intent to Boost Cooperation," in Dialog Update, February 11, 2007.

134. Ibid.

135. Ibid.

136. ITAR-TASS, "Putin's Visit to Qatar to Confirm Bilateral Cooperation Boosting," in Dialog

Western objections, he asked: "If the consumers of hydrocarbons coordinate their activities, as for instance, within the International Energy Agency or at other floors, what prevents the producers from coordinating their activities as well."[137] As Russia and Qatar are two of the world's largest producers of natural gas and Qatar owns the world's largest gas field, the discussion of gas industry issues were particularity topical in Doha. While in Riyadh, Putin told Russian and Saudi businessmen that Russia and Saudi Arabia should be allies instead of rivals on the world energy market.[138] In Qatar, he stated that though at first sight it might seem that Russia and Qatar – world leaders in terms of gas reserves – would be competitors on the market, the real situation is different. As he argued, "We operate in different markets" and Qatar, as a partner in this area, is of special interest to Russia.[139]

Dealing with both the oil and gas industries, the Russian leader stressed the common understanding and cooperation between Russia and the GCC countries that he visited. Moscow seems to be ready to extend its help to the Arab countries of the Gulf, seeking to develop their own nuclear programs.[140] There have been and still are continuous Russian offers of weapon supplies to the Gulf countries. Even though Saudi Arabia has taken a step forward towards concluding an arms deal with Russia, and according to the Saudi Foreign Minister Saud al-Faysal, "there were no obstacles before cooperation in all fields including armaments and nuclear energy,"[141] any significant progress in those fields is, in the best case, a matter of the future. With the potential exception of the UAE, which will be discussed subsequently, the Gulf weapons and high-tech markets are still overwhelmingly dominated by the Americans. In July 2007, the Bush administration announced that it would sell $20 billion worth of high-tech military equipment to the six Gulf nations and that the deal will supply them with satellite-guided missiles, F-22 Raptor fighter jets and other advanced military platforms, over the next 10 years.[142] Comparing with that,

Update, February 12, 2007.

137. Interfax, "Gas Cartel Can Be Discussed," in Dialog Update, February 12, 2007.

138. Ibid.

139. ITAR-TASS, "Putin, on Visit to Qatar, Denies Ruling out the Idea of Gas Cartel," in Dialog Update, February 12, 2007.

140. Interfax, "President Putin Says Russia Wants More Coordination between Energy Producers," in Dialog Update, February 13, 2007.

141. Interfax, "Russia, Saudi Arabia Should Be Allies on World Energy Market – Putin," in Dialog Update, February 12, 2007.

142. "Putin, on Visit to Qatar, Denies Ruling out the Idea of Gas Cartel," op. cit.

any possible Russian arms deals in the area might be relatively modest.[143] During his visit to Saudi Arabia and Qatar, Putin called the businessmen of these countries to invest in Russia, and Vneshnecombank, Rosexembank and the Saudi Fund for Development signed memorandums on mutual understanding and cooperation in the development of industrial exports.[144] Putin invited Saudi bankers to open subsidiaries in Russia[145] and suggested that interest would be high, as the Russian market of financial services was developing.[146] In Qatar, both sides signed four agreements on the development of trade and economic cooperation and, according to the Russian Ambassador in Doha, Andrei Denisov, special attention was paid to discussions regarding the prospects for a partnership in the oil and gas sectors. Qatar even showed interest in inviting Russian companies for the $10 billion project to construct a gas pipeline in the Gulf. Following the example of Russian-Saudi cooperation, both Russia and Qatar promised to create favorable conditions for their investors and to seek to achieve a major breakthrough in the development of trade and economic cooperation.[147] It was decided to establish a Russia-Qatar council to promote such cooperation.[148]

Putin's Middle East tour and the prospects for Russian political and economic expansion in the region, which it highlighted, caused negative Western reactions[149] and skeptical comments even by some Russian analysts. One of the well known Russian[150] experts on the Middle East and Islam, Alex Malashenko, warned that "it is important for Russia in its dealings with Arab countries not to repeat the great many mistakes it made earlier in the Middle East." As he argued, the Russian Federation

143. Interfax, "Gulf States to Comply with Nonproliferation Treaty – Lavrov," in Dialog Update, Feb. 15, 2007 and article by Ale-Abd-al Wahab 'Gulf Russia …Relations with a Nuclear Flavor' ". *Al-Akhbar*, March 1, 2007 in Dialog Update, March 1, 2007.

144. "Egyptian Commentator Examines Nuclear Dimensions in Russian-Gulf Relations…"

145. "US to Supply $20 Billion in Arms to Gulf Countries," cmonitor.com, July 31, 2007.

146. At the beginning of 2007, Saudi Arabia held talks with the Rosabornexport on the supply of 150 T-90S tanks, BMP-3 and other armored equipment worth $1 billion. Nicolaeva Nikolskiy, "Priveredlivye Sheyhi," *Vedomosti*, February 13, 2002, and Mikhail Barabanov, "Russian Arms Trade with the Gulf Monarchies," *Moscow Defense Brief*, Russia, 10-11.

147. ITAR-TASS, "Vneshnecombank, Roseximbank, Saudi Fund for Development Sign Memo," in Dialog Update, February 11, 2007.

148. Interfax, "Putin Invites Saudi Banks to Russia," in Dialog Update, February 12, 2007.

149. ITAR-TASS, "Putin, Emir Hamad Seek to Strengthen Russian-Qatar Relations," in Dialog Update, February 12, 2007.

150. ITAR-TASS, "Russia-Qatar Intend to Create Favourable Conditions for Investors," in Dialog Update, February 12, 2007.

is not the Soviet Union, and in addition to Russian-Muslim or Russian-Middle Eastern relations, one needs to keep in mind the broader picture of its interests, particularly its relations with the West. Concerning the development of Russian-Arab business relations, he recalled that Russia's economic presence in the Middle East has been minimal, and that it cannot be compared to that of the US or Europe.[151] In his view "we (Russia) will get no money from Saudi Arabia whatsoever.[152]

However, his critical opinions proved to be somewhat unfounded. It is true that President Putin and Russian diplomats aim to distance Russia from the US unilateral policy towards the region. In view of the perceived failure of the US mission in Iraq and the general resentment in the Arab and Islamic world towards US Middle Eastern policy, it is perhaps the best way for Moscow to get access to the region, which is geopolitically close to it. It might also be a reaction against the increased US political presence and military development in East Central Europe. However, the Russian Federation has neither the means nor the aspiration to challenge US influence in the Arabian Peninsula. After his arrival to Riyadh, Putin stressed that Russia "does not intend to enter into competition with anyone" in the Middle East.[153] In addition, as one Russian commentator noted, Saudi Arabia, Qatar and Jordan "are well known to have close relations with the US, so any manifestations of anti-Americanism in our (Russia's) dialogue with them makes little sense."[154] None of the Arab states visited by Putin consider Russia able to replace the US as their main security provider.[155] In view of US military superiority and the Russian domestic and Eastern European problems, even to think about that seems utterly unrealistic. However, the Arab countries are still ready and willing to welcome Russia's return to the area.[156] Many Arab regimes view Russia as a counter-weight to American domination[157] and believe that better relations with Moscow would make them appear independent from US foreign policy makers,

151. ITAR-TASS, "RF-Qatari Business Council Designed to Promote Trade, Investment," in Dialog Update, February 12, 2007.

152. See for instance, Ariel Cohen, "Putin's Middle East Visit: Russia is Back," The Heritage Foundation, March 2007.

153. Mayak Radio, "Russian Pundits Mull Putin's Saudi Arabia Visit," in Dialog Update, February 14, 2007.

154. Ibid.

155. Ibid.

156. Sami Ali Bayoumi, "The New Russian Role in the Arabian Gulf Region," The Emirates Center for Strategic Studies and Research.

157. Arthur Blinov in *Nezavisimaya Gazeta*, February 15, 2007.

and this would serve their domestic legitimacy well.[158] Allowing Russian business to operate in their territories may also strengthen their position in their dealings with Western corporations, which would now face some real competitors.[159] The First Russian Regional Fair of Goods and Services was held in Riyadh from May 27-30, 2007, and its main goal was to check the capabilities of Russian products to break into Gulf market through the Saudi one.[160]

The Gulf market is one of the most competitive and demanding ones. In 2002, the GCC countries, with a population of 32 million, imported goods and services to the value of $96 billion.[161] However, the Russian portion of it was very small. In 2002, Russian exports there amounted to 0.68 percent of their total imports and Russian imports from the GCC countries did not exceed 0.1 percent of their total exports.[162] As post-Soviet Moscow is no longer directed in its foreign policy by ideology but by national interest and related business considerations,[163] to get access to the Gulf markets is one of its most coveted prizes. Both Russia and the GCC states are large oil and natural gas producing countries and need to develop a common understanding on the extraction and marketing of the energy resources. The scope for their economic cooperation is not limited to the field of energy resources, but also includes technology and armaments, and possible Russian support for the GCC's plans for developing a peaceful nuclear program.[164]

Russian efforts to find a niche in the Gulf until now have brought rather modest results with the possible exceptions of the UAE, and to a lesser degree, Bahrain.

The UAE, a relatively small country located in an 83,600 sq km area and with an estimated 4.5 million population, is nevertheless extremely important due to its geopolitical location and because of its rapid economic development. In

158. Mark N. Katz, "Policy Watch: Saudi-Russian Partnership," United Press International, July 23, 2007.

159. "Jordanian Dailies Comment on Russian President Vladimir Putin's Middle East Tour," Jordan-OSC Report, February 14, 20007 in Dialogue Update, February 14, 2007 and Mahmoud Murad, "Russia Returns," *Al-Ahram Weekly* online: located at http://weekly.ahram.org.eg/2007/856/op7.htm..

160. Aleksandr Latyshev, "Prince Arrives off Balance. Saudi National Security Official Sounds out the Kremlin," *Izvestia*, August 10, 2007 in Dialog Update, August 10, 2007.

161. Katz, "Policy Watch: Saudi-Russian Partnership," op. cit.

162. Ibid.

163. Ahmed el Abidli, "Gulf Services to Russia in Exchange for Political Support," *Al-Hayat,* April 20, 2007. See also endnote 157.

164. Batyrshin, op. cit., 15.

2005, its GDP (nominal) was estimated at $160 billion and its GDP per capita at $33,397. Because of its rapid economic development and due to its relatively lax laws concerning the money laundering issue and a very liberal economic system, the country has attracted a good number of affluent expatriates from various parts of the world, including the post-Soviet states. The Russian community in the UAE, more than 30,000 in number, is the largest in the GCC.[165] In February 2007, Russian Foreign Minister Lavrov anticipated that Russian trade with the UAE will soon reach $1 billion.[166] At the International Arms Exhibition IDEX 2007 in Abu Dhabi, the Russian companies displayed over 500 samples of vehicles, ammunition and equipment in the form of full scale specimens, models and drawings.[167] Although the contracts won there by the Russian companies for military supplies were estimated at only $50-55 million,[168] during the IDEX on February 19, 2007, a Russian surface-to-air "Pantsir-S1" missile was tested.[169] The UAE, which wants to buy a Russian anti-aircraft and anti-missile defense system and owns an investment portfolio in the Russian company that produces them, has asked for modifications to them in order to meet the country's need.[170] The supply of the Russian mode anti-aircraft missile system Pantsir-S1 ordered by the UAE should begin at the end of this year.[171] In the 1998-2005 period, the Russian Federation had already supplied the UAE with weapons worth $900 million, which is modest compared with the American contracts which then exceeded $8,300 million.[172] The UAE, which is traditionally very diversified in its purchases, is still the biggest buyer of Russian weapons among the GCC nations, and there is now greater scope for increased defense and security cooperation. During Putin's visit to Abu Dhabi in September 2007, the UAE and the Russian Federation signed a number of intergovernmental agreements to settle

165. Ibid., 16.

166. Katz, "Policy Watch: Saudi-Russian Partnership," op. cit.

167. Sami Ali Bayoumi, op.cit.

168. "UAE-Russia to Sign Security Cooperation Memo during Putin's Upcoming Visit," Report by Taj-al Din Abd Al-Haq in "Abu Dhabi: Emirates and Russia to Sign Security Cooperation Memorandum during Putin's Visit to Abu Dhabi Next Month," Ilaf www-text, August 17, 2007 in Dialog Update, August 17, 2007.

169. Interfax, "UAE-Russia Trade May Reach $1Billion – Lavrov," in Dialog Update, February 15, 2007.

170. ITAR-TASS, "Russia to Put on Display over 500 Exhibits at Arms Show in UAE," in Dialog Update, February 22, 2007.

171. ITAR-TASS, "Russia Strikes Arms Deal with UAE," in Dialog Update, February 22, 2007.

172. ITAR-TASS, "Russian Ground-to-Air Pantsir Missile Shown in Action in UAE," in Dialog Update, February 19, 2007.

the Soviet debt of about $600 million, on cooperation against crime and on air travel, as well as a memorandum of mutual understanding in the field of standardization.[173] A main reason for the agreement on cooperation against crime was the fact that the arrival of many Russian tourists and expatriates to the UAE since the Soviet Union's collapse in 1991 has caused a number of security problems such as money laundering. The UAE laws do not consider funds coming into the country in order to avoid some financial and tax laws as dirty money. The economic situation in Russia in the early 1990s led to a massive flow of Russian capital to the UAE.[174] Some of this money was used afterwards to finance Chechen separatists and other anti-Russian terrorist organizations or to support organized crime. Moscow now wants to establish a legal channel for exchange of information about these security challenges.

Although Bahrain was the last among GCC members to establish diplomatic relations with Moscow, and the regime there is staunchly pro-Western, in the spring of 2007 a shift in Russia-Bahrain relations seemed to be in the offing. In April 2007, Yevgeny Primakov, who now works as head of the Russian Federation Chamber of Commerce and Industry, visited Bahrain in order to oversee the final preparations for the establishment of a Russian-Bahrain Business Council.[175] As an Arab journalist noted, "Nothing underlines the chances in Russia's economic position in the Gulf like the chance provided by Yevgeny Primakov, who has left his mark on his country's history over the past four decades.[176] While in the 1970s Primakov's focus was on the opposition organizations and parties in the region, his present job is to encourage trade and investment in the Gulf countries and his partners are mainly business people and State officials. For the Gulf countries' ruling elites, his personal transformation is seen as symbolic of a general change in Russian interests and foreign policy toward the region. Moscow, which wants to develop its commercial relations with the Gulf and to advance its national interests there, is not going to be avoided but will be accepted as a possible and even desirable partner. During his talks with Primakov, Bahrain's ambassador to Russia, Abdul Hamid Hassan expressed his hope that "Russian companies operating in Bahrain will make profits by choosing this State for their headquarters in the region,"[177] and indicated

173. See endnote 165.

174. ITAR-TASS, "Exports of Russia Missile System to UAE to Begin at Year End," in Dialog Update, February 20, 2007.

175. Mikhail Barabanov, "Russian Arms Trade with the Gulf Monarchies," op. cit.

176. Marianna Bielenkaya, "Russia-UAE: From Shuttle Trade to High Technologies," *RIA Novosti*, 12/09/2007..

177. Ahmed el Abidli, "Gulf Services to Russia in Exchange for Political Support," op.cit.

that both countries are following the same path of economic diversification.[178] Bahrain, which is the smallest Arab nation with an approximate population of 700,000, nevertheless enjoys an exceptionally favorable strategic location, and its capital Manama is a Middle Eastern financial capital. Russia is certainly interested in attracting some of the investment funds which are abundant there. Bahrain is offering Russia benefits from the advantages provided by the island's geographic location and economic development. Although the country was the first oil producer among all six GCC members, with production starting in 1932, its oil reserves are now almost exhausted. The country is not an OPEC member and service industries such as tourism and finance play a major role in its economy. There is not much need to cooperate with Moscow in the oil and gas industries and the global energy market. In view of the relatively low cost of Western and even more Asian (Indian and Chinese) technological products, Russian business does not have much to offer in that area either.[179] The reasons for the recent Bahraini-Russian rapprochement are political ones. Bahrain is seeking Moscow's support in order to deal with the Iranian nuclear challenge and the threat of a new US military intervention. Just like the other GCC countries, Manama wants to promote the Arab League Middle East Peace Initiative, which was welcomed by Moscow, and to calm the situation in Iraq. As one Arab commentator has noted, "The trade that will be created, until further notice, will be under the title 'Politics in Exchange for Economy.'"[180]

178. Ibid.

179. Ibid.

180. Ibid.

Russian Relations with Iran and Iraq

Dr. Andrej Kreutz

University of Calgary, Canada

Although Iran and Iraq are located in the Gulf region, their relations with Russia have been markedly different from Moscow's relations with neighboring GCC countries. First, both Iran and Iraq are located geopolitically closer to the former USSR, present CIS borders. Iran has a direct frontier with Azerbaijan, which used to be a part of the Soviet Union and which still has some Russian presence. Iraq is closest in proximity to the former Soviet borders, and Iraqi leaders have traditionally been more exposed to the potential threat of Moscow's (initially communist) infiltration than other Arab leaders. The second is both Iran and Iraq appear to be the major powers in the region. Their military and political weight is more significant than that of other Gulf States, with the exception of Saudi Arabia. The third reason is that while other countries in the Gulf have been under persistent Western (British and later American) influence, in Iraq and Iran this influence changed dramatically in the late 1950s and late 1970s; Iraq, between 1958 and 2003, was ruled by various Arab nationalists frequently hostile to the West; Iran, after the Islamic Revolution in 1979, was separated from the Western world. Both of these factors opened the door for Moscow's influence, economically and politically, in Iran and Iraq, which were perceived by the West as black sheep. In spite of these apparent similarities, Moscow's relations with Iran and Iraq have always been and still remain marked by a number of special features and differ greatly from each other.

Russia and Iraq

Soviet Period

Iraq is a relatively new state established by the British after World War I by combining the territories of the three former Ottoman provinces (*vilayets*) of Baghdad, Basra and Mosul, between 1921 and 1926. Moscow's relations with Iraq, especially from 1958 to 1990, were considered part of the USSR's relations with Third World countries' national liberation movements, and in particular Arab nationalism. Even so, several unique features characterized Soviet-Iraqi relations which set them apart from Soviet relations with other Afro-Asian nations including the states of the Arab Middle East.

First of all, Iraq was the nearest of all Arab countries to the Soviet borders and the possibilities for Soviet interference were seen as potentially more real by Iraq's leaders than by leaders of other Arab states.[1] At the same time, the Soviets and after that the Russian Federation leaders might have seen Iraq as a source of potential threat either because of the likelihood of spillover of its domestic, ethnic and religious tensions on their territories and/or as an outpost of Western (British and later American) imperialism.

Different from the other Al Mashreq states, Iraq has always had a substantial (close to 25 percent) non-Arab, Kurdish minority with specific constitutional rights. These rights were granted in 1925 as a precondition for the incorporation of the largely Kurdish populated Mosul province into its national borders.[2] The Kurdish national aspirations, towards which the Soviets could not remain indifferent, put the Soviet government in the awkward position of having to choose between the recognition of Kurdish self-determination and a general support of Arab nationalism and the Iraqi government.

The Iraqi Communist Party (ICP), founded in 1934, was one of the most effective and socially influential Marxist organizations in the Arab World. Though never strong enough to take power by itself, it still represented a significant political force in the country. After 1958, it proved to be both a valuable asset and a liability in the Soviet dealings with the anti-imperialist and "progressive," but viciously anti-communist, Iraqi government.

1. In 1916-17, during World War I, the Russian army occupied the north-eastern part of present day Iraq, which had been a province of the Ottoman Empire. See Haim Shemesh, *Soviet-Iraqi Relations, 1968-1988. In the Shadow of the Iraq-Iran Conflict* (Boulder and London: Lynne Reinner Publishers, 1992), 14 f. 2
2. Oles M. Smolansky with Bettie M. Smolansky, *The USSR and Iraq : the Soviet Quest for Influence* (Durham and London: Duke University Press, 1981), 63.

Last but not least, Iraq's economic potential and relative wealth, especially after the 1973 October War and the subsequent rise in oil prices, made this country a financially attractive partner and customer for Moscow, especially at a time when the other Gulf countries were in practice closed to it. These economic aspects have acquired additional importance since the collapse of the USSR and the emergence of the Russian Federation as a separate and neo-capitalist state.

Russian (Soviet) relations with Iraq have a relatively long and complex history. Diplomatic relations between the two countries were established for the first time on September 9, 1944 at the end of World War II.[3] The monarchic regime in Baghdad, though staunchly anti-communist, established its links with Moscow because of its dependence on Britain and the British-Soviet alliance during the war. In January 1955, relations were broken off, after the Soviets criticized the Iraqi government's decision to join the Baghdad Pact.[4] When the pro-Western monarchy was overthrown by a military coup on July 14, 1958, the new leader of the country, General Ad-al-Karim Quasim immediately re-established diplomatic ties with Moscow and started to buy Soviet weapons.[5] Since then, for about 30 years, until Gorbachev's *perestroika* in the late 1980s, Soviet-Iraqi cooperation was both close and multi-faceted and, for most of the period it was even officially called "a strategic partnership." However, this did not mean that the two states' relations were always friendly or without political differences. Baghdad's interest in cooperation with Moscow "was based on the need for a powerful patron in its efforts to shed all the remnants of Western colonialism and to establish Iraq as an autonomous member of the world order of nation states."[6] At the same time, the Iraqi ruling elite staunchly opposed infringement upon "Iraq's sovereignty over its international policy."[7]

In spite of Iraqi domestic upheavals and the occasional tensions caused by the Kurdish problem in the 1960's, the 1968-1975 period can be seen as "the high tide of Soviet influence in Iraq."[8] Its apogee was the Treaty of Friendship and Cooperation between the USSR and the Iraqi Republic signed on April 9,

3. Majid Khadduri, *Independent Iraq 1932-1958: A Study in Iraqi Politics* (London: Oxford University Press, 1960), 252
4. Shemesh, op. cit., 2-3.
5. Smolansky, op. cit., 14.
6. Ibid., 281.
7. Shemesh, op. cit., 6.
8. Francis Fukuyama, *The Soviet Union and Iraq since 1968* (Santa Monica: Rand Corporation, 1980), 46.

1972. The Treaty, which was concluded as a result of an Iraqi initiative,[9] stressed the need for "concerted action in the international field to ensure world peace and security and to develop political cooperation between Iraq and the USSR" (art. 7).[10] Both parties also declared that they "will not enter into any international alliance or groupings or take part in any actions or undertakings directed against the other" (art. 10).[11] However, the treaty did not include any direct military obligations and stopped short of a real military alliance.

The late 1970s and early 1980s saw some cooling of these mutual relations. Iraq's growing financial resources after the rise in oil prices in 1973 created the basis for its widening links with the West, and the ratio of the Soviet and Eastern European participation in the country's economy during this period of economic growth steadily declined. In the late 1970s, political disagreements between the two countries caused by the Soviet recognition of Israel in 1948, Iraq's treatment of the Iraqi Communists and Kurdish nationalists, and the Soviet support for Ethiopia against Somalia and Eritrea were further aggravated after the Iranian Revolution, and even more so after the Soviet military intervention in Afghanistan on December 27, 1979. On January 6, 1980, Saddam Hussein called the Soviet intervention "unjustifiable, erroneous behaviour that could cause anxiety for all freedom-loving and independent peoples"[12] and Iraq voted for the resolutions condemning Soviet intervention both in the UN General Assembly and the Islamabad (Pakistan) Conference of the Islamic States.[13] When on September 22, 1980 Iraq attacked Iran, starting a war which lasted for almost eight years and proved to be devastating to both countries, the USSR did not outwardly condemn Iraq's aggression, but immediately stopped its direct military supply to it and adopted a neutral stand.[14]

From the Soviet point of view, the situation when the two "anti-imperialist regimes … were cutting each other's throats" was truly deplorable.[15] When on June

9. A. Agarkov "Rossijsko-Irackiye otnosheniya na novom etapie razvitiia sotrudnichestva : problemy i perspektivy", *Vostok i Rossiya na rubezhe XXI veka* (Moscow: Institute of Oriental Studies, Russian Academy of Sciences, 1998), 214. According to the well informed French Middle Eastern expert, Eric Ruleau, Saddam Hussein was the real architect of the treaty *Le Monde,* April 14, 1972
10. TASS (in English), April 9, 1972.
11. Ibid.
12. Smolansky, op. cit., 33.
13. Radio Baghdad, January 8, 1980 (FBIS, January 8, 1980).
14. Shemesh, op. cit., 163.
15. Alexei M. Vassiliev, *Rossija na Blizhnem i Srednem Vostoke ; ot Messianstva k pragmatizme* (Moskva: Nauka, 1993), 335.

10, 1982, Iraq promised to withdraw to its territorial borders, Moscow renewed its arms supplies to Baghdad.[16] However, it still supported all attempts to find a mediated settlement between the combatants.[17] Its balanced and cautious policy resulted in a marked improvement in its relations with Iran, which would be of particular importance for the future.[18] Despite these tensions, Soviet-Iraqi relations remained on essentially friendly terms prior to the end of the 1990s, with mutual cooperation continuing without major disturbances. Condemning the Soviet intervention in Afghanistan, Saddam Hussein nevertheless declared that, "Iraq would not change the trends of its general policy in its relations with the Soviets."[19] The Treaty of Friendship and Cooperation of 1972 had not been suspended and up to 1990, in the implementation of its goals, 50 more specific treaties were concluded.[20] When the Egyptian government of Anwar Sadat moved towards an openly pro-American position in the Camp David Accords, and the Islamic Revolution in Iran proved to be both anti-Communist and anti-Soviet, Iraq's importance in Soviet Middle Eastern policies increased. For the USSR, it was one of the few remaining efficient instruments of influence in the region.[21]

However, Iraqi leaders were well aware of the Soviet difficulties and in exchange for the political loyalty and verbal acceptance of socialist ideas they constantly demanded economic support and a continued supply of arms.[22] Iraq was taking about half of all Soviet exports to the region and the total value of Soviet contracts with Iraq amounted to $37.5 billion.[23] During 30 years of cooperation, Soviet specialists built more than 80 large factories in Iraq[24] and prior to August 2, 1990, some 8,000 Soviet citizens lived in Iraq.[25] Soviet-Iraqi relations started to change in the late 1980s when perestroika brought about a fundamental breakdown in the previous political orientation.[26] Following the so-called "new political thinking" and

16. Ibid.
17. Ibid., 336.
18. Ibid.
19. BBC News, February 2, 1980.
20. Agarkov, op. cit., 214.
21. Ibid., 215.
22. Ibid.
23. Ibid.
24. Ibid.
25. On August 2, 1990, there were exactly 7,791 Soviet citizens there. See Vassiliev, op. cit., 363.
26. V.Z. Sharipov, *Persiskii Zaliv: Neft – politika i voina* (Moscow: Institute of Oriental Studies, Russian Academy of Sciences, 2000), 107.

trying to bring to an end the Cold War with the American superpower and alleviate Soviet economic problems, Gorbachev and his advisors looked for better Soviet-Israeli relations and limited the previous Soviet support for the more radical Arab regimes including Iraq. All Soviet policy towards the Middle East now became geared towards the major goal of close cooperation with the West, especially the US,[27] and the previously defended political interests in the region, by and large consistent with the Arab aspirations, were disregarded.[28] That was evident from the Soviet Union's diplomatic maneuvers following the Iraqi invasion of Kuwait on August 2, 1990. On August 3, 1990, a meeting between the Soviet Foreign Minister, Eduard Shevardnadze, and the US Secretary of State, James Baker, confirmed Soviet support for the US position, regardless of the pre-existing Soviet-Iraqi Treaty for Friendship and Cooperation, particularly article 10,[29] and the multitude of common links between the two states.[30]

Although there was no lack of outspoken Soviet opposition to this policy,[31] Gorbachev's meeting in Helsinki on September 9, 1990 with US President George H. Bush, "marked a watershed in the policy of the two powers."[32] In spite of his domestic opponents, Gorbachev supported every crisis-related action of the United States, thus giving Washington a free hand on military matters.[33] The USSR also voted for the November 29, 1990 UN Security Council Resolution 678 which called for "all necessary means to end the occupation of Kuwait."

In February 1991, under pressure from the opposition, Gorbachev tried to mediate between Iraq and the US and to prevent the outbreak of war. Yevgeny Primakov's mission as a special Soviet presidential envoy to Baghdad proved to be relatively successful, and the Iraqi government accepted his proposal for full

27. Ibid., 109.

28. Agarkov, op. cit., 215.

29. That was indicated soon afterwards by a prominent Russian scholar who noted that, "We lost the confidence of the Arab countries when we trampled upon the Treaty of Friendship and Cooperation with Iraq." See A.M. Khazanov, ed., *Posledstva voiny v Persiskom Zalive i situatsia v regione* (Moscow : Prometei, 1993), 9.

30. Agarkov, op. cit., 215.

31. Elena S. Melkumyan, "Soviet Policy and the Gulf Crisis," in *The Gulf Crisis: Background and Consequences, ed. Ibrahim Ibrahim* (Washington, D.C.: Center for Contemporary Arab Studies, Georgetown University, 1992), 84.

32. Vassiliev, *Rossiya na Blizhnem* …, 352.

33. Ibid.

withdrawal of Iraqi forces from Kuwait on February 23, 1991.[34] However, as Saddam Hussein did not accept the American ultimatum on February 22, 1991, the US and its allies launched an attack on Iraq on February 24, 1991. As the reputed Russian scholar G. Mirsky reported, Primakov told him that if he had three more days, he would have been able to persuade the Iraqi leaders to accept on agreement satisfying the US demands. In his view, however, this was unrealistic because the American preparations for war were too advanced and the operation was ready to start.[35]

Facing this fait accompli, Moscow had to accept the logic of the emerging unipolar world, and the collapsing Soviet Union was too weak and too internally divided to react forcefully.[36] In fact, it cooperated fully with the US in the subsequent dramatic developments and its representative joined with the members of the victorious coalition at the UN Security Council in dictating harsh terms of surrender on Baghdad, particularly in Resolution 678 of April 3, 1991.[37] The USSR (and later Russia) had been represented in the Sanctions Committee, which was established to supervise the resolution's implementation. Although Moscow became now less openly involved in Iraq, its close interest in this country still persisted and was supported by the well established political and personal relations of the leading circles of both nations.

Post-Soviet Period

The post-Soviet period of Russia-Iraq relations needs to be subdivided into two main stages:

1. From the end of the USSR on December 8, 1991 until the outbreak of the Second Gulf War on March 20, 2003.
2. From the beginning of the US occupation of Iraq in April 2003 until now.

In spite of the decisive military defeat during the Desert Storm operation in 1991, the Baathist regime was still going to survive for 12 years more until the

34. Melkumyan, op. cit., 87.
35. Georgi Mirsky, "The Soviet Perception of the US Threat," in *The Middle East and the United States: A Historical and Political Reassessment* edited by David Lesch (Boulder, CO: Westview Press, 2003), 404.
36. Vassiliev, op. cit., 358. See also Galia Golan, "Gorbachev's Difficult Time in the Gulf," *Political Science Quarterly* 107, no. 2 (1992), 216-217, and Y. Primakov, *Gody v Bolshoi Politike* (Moscow : Sovershenno Sekretno, 1999), 309-310.
37. Golan, op. cit., 219.

second major US-led invasion in March 2003. The country was submitted to harsh economic sanctions, a number of political restrictions and occasional American/British bombardments. Yet the Iraqi state was still able to preserve its independence and the existing regime tried hard to find a way out of the critical deadlock.

Although during the first two years Yeltsin's administration viewed the official avoidance of old ties with Iraq as a test of political correctness, in the following years both economic and geopolitical reasons again moved Moscow closer to Baghdad. As a result of Russia's participation in the sanctions, its economic relations with Iraq were greatly curtailed, and because a number of previous obligations had not been fulfilled, it lost between $9 billion -$12 billion.[38] At the same time, the "new Russia" did not receive any substantial financial help from the wealthy and pro-Western Arab oil-producing countries, particularly Saudi Arabia and Kuwait. The return to the radical states such as Iraq and Libya and, in the 1990s increasingly to Iran, in fact became an economic necessity.[39] Iraq's strategic location in the Gulf and its proximity to the former Soviet border made it too important to be ignored by any government in Moscow, especially in view of its influence on the Islamic states in the post-Soviet space and the numerous Muslim populations in the Russian Federation itself.[40] Official contacts were slowly re-established and a June 1993 meeting in Prague brought together the Deputy Foreign ministers of the Russian Federation and Iraq for the first time since the 1991 war.[41] The practical outcome of this meeting was an agreement (August 1993) on Russia's continuation of the work contracts signed during the Soviet period save for those which were prohibited by the sanctions regime.[42]

For the following 10 years Russia alongside France became a major economic partner and political advocate of Baghdad, trying to prevent an outbreak of a new military conflict and further expansion of US power in its southern neighbourhood. In the fall of 1994 in order to advance a peaceful solution of the Iraqi problem, the Russian Foreign Minister, Andrei Kozyrev, persuaded the Iraqis to recognize the independence and territorial integrity of Kuwait, which previous official Iraqi statements had referred to as the 19th province of Iraq.[43] The Russian leaders intended

38. V.I Kiselev, ed., *Mezhdunarodnye Otnoshenia na Blizhnem i Srednem Vostoke i Polika Rossii* (Moscow: Russian National Fund, 1995), 76.
39. Agarkov, op. cit., 216.
40. Abdalla Abdalla Omar, *SSZA, Islamskii Vostok i Rossiia* (Moscow : Russian National Fund, 1995), 77.
41. Agarkov, 216.
42. *Mezhdunarodnye Otnosheniia na Blizhnem Srednem Vostoke*, 29.
43. Abdallah Abdallah Omar, op. cit., 78.

to preserve balance in their ties with Iraq and Kuwait as well as the West.[44]So while demanding from Baghdad compliance with the relevant UN resolutions, it wanted to preserve and further develop economic cooperation with Iraq through advocacy to end sanctions. Particularly promising for the Russian side, cooperation in the oil industry increased. In April 1995, an intergovernmental agreement was concluded that provided a total of $15 billion for Russian drilling in the oilfields of West Qurna and Rumaila North, which are some of Iraq's largest oil fields.[45] Another major contract was signed in March 1997 between the Iraqi company SKOP and a group of Russian companies. It provided for the development of the second stage of the West Qurna oilfields with extractive deposits of oil amounting to one billion tons.[46] According to the estimates of the Iraqi experts, the future profits of the Russian companies might have been as high as $70 billion.[47]

As these projects were possible only after the lifting of the UN-imposed sanctions regime, for Baghdad the provision of the lucrative contracts to Russian petroleum companies was a method of stimulating Moscow to make further efforts to alleviate its economic strangulation.[48] Since the passage of UN Security Council Resolution 986 on April 14, 1995, allowing Iraq to sell $2 billion in oil over a period of six months to pay for the civil imports that were necessary for the population (the Oil for Food Program), Russian companies had received highly favorable treatment by the Iraqi authorities.[49] Their share in exporting Iraqi oil during the first six stages of the Oil for Food Program amounted to approximately 40 percent of the total volume of Iraqi oil exports.[50] Between 1998 and 1999, Russian companies also procured the highest volume of civil goods delivered to Iraq (approximately $500 million) and in 2000 all of Iraq's orders from Russia exceeded $20 billion.[51] According to Russian Deputy Minister Alexander Saltanov, in the first 10 months of 2001, Russia and Iraq signed contracts worth more than $1.85 billion and in his

44. Diplomaticheskii Vestnik (Moscow: September, 1995) 21.

45. *Mezhdunarodnye Otnosheniia* …, 30.

46. Ibid.

47. Ibid.

48. Gawdat Bahgat "The Iraqi Crisis in the New Millenium: The Prospects," *Asian Affairs*, XXXI, part 2 (June 2000):. 150. See also *Current Digest of the Post-Soviet Press* XLVI, no. 10 (1994): 28 and no. 28, 24.

49. From a private interview with Professor A.M. Vassiliev on December 4, 2000. *Mezhdunarodnye Otnoshenia*, 30.

50. Ibid.

51. *Mezhdunarodnye Otnoshenia na Blizhnem i Srednem Vostoke*, 41.

view, "Iraq secured its position as Russia's leading partner in the Arab World, with a turnover of goods with that country accounting for 60 percent of that with all Arab countries."[52]

Russian corporations and the Russian government were also keenly interested in Iraq's repayment of its debts, amounting to an estimated $8.5 billion.[53] As Russia was then in a very difficult economic situation, this foreign currency was certainly important but, as the Russian Minister V. Posuvalyuk indicated, the economic reasons were not the only ones for Russian involvement.[54] Iraq, he said, was "very geographically close to the former Soviet borders and even Russia itself. It is not a distant country where one can play political games. The developments there have an impact on the political life in Russia, including its domestic problems.[55]

After Yevgeny Primakov became Russian Foreign Minister in January 1996, Russia together with other countries such as France and China, created an informed "pro-Iraqi lobby" in the UN Security Council to alleviate the sanctions and to prevent a new outbreak of hostilities.[56] On November 1, 1997, both Russia and France issued a statement stressing that all new steps concerning Iraq should be undertaken only on the authorization of the UN Security Council.[57] The statement also made it clear that the outcome of Iraqi cooperation with the UN Special Commission (UNSCOM) should be the "lifting of the oil embargo and full integration of Iraq into the international community."[58] The connections between Iraqi cooperation and the sanctions also underlined the Primakov and Aziz agreement of November 19, 1997, that "on the basis of Iraq's fulfilment of the relevant UN Security Council resolutions, Russia … will energetically work for the earliest possible lifting of the sanctions against Iraq."[59] On November 20, 1997, Primakov persuaded representatives of the five permanent members of the UN Security Council to accept the agreement,[60] which he considered "a great success for Russian diplomacy."[61] His satisfaction was shared by virtually all Russian scholars and commentators, who indicated that "this

52. AP Worldstream, November 26, 2001.
53. Sharipov, *Persiskii Zaliv,* 113.
54. ITAR-TASS in Russian issue 165 (October 21, 1994), 1-8.
55. Agarkov, op. cit., 218-219.
56. *Diplomaticheskii Vestnik,* November 1997, 55.
57. Ibid.
58. *Nezavisimaya Gazeta*, November 21, 1997.
59. Ibid.
60. *Rossiyskaya Gazeta*, November 21, 1997.
61. Ibid.

time Moscow played the role of a world power that averted what at first had seemed to be an inevitable war in the Persian Gulf."[62]

Thanks to Russian mediation in November 1997, the threat of a new American military intervention was temporarily avoided but the underlying conflict was left unsolved. It soon reignited and Moscow was unable to prevent its further aggravation. When on December 17, 1998, the US and UK began bombing Iraq, Russian politicians of all stripes reacted to the events with condemnation. Yeltsin considered it to be a "gross violation of the UN Charter and universally accepted principles of international law" and called for an immediate end to the attacks.[63] Primakov stressed that the bombardment was not provoked by Iraq and the sole responsibility rested on the US administration which acted contrary to Russia's advice.[64] On December 18, 1998, the Duma asked President Yeltsin to stop Russia's participation in the sanctions against Iraq imposed by the UN Security Council resolutions, because they "have been trampled upon by the recent aggression" and to take all necessary actions to re-establish normal economic and military-technological relations with Iraq.[65]

Russian politicians were particularly concerned that, as President Yeltsin indicated, they were "essentially dealing with an action that undermines the entire international security system" and that Russia's voice had been neglected.[66] Their fears were not unfounded, but Moscow had still tried to postpone the new outbreak of violence. In February 2001, when US and UK forces attacked Iraq again, President Putin stated that such "unprovoked actions do not help settle the situation regarding Iraq" and the Russian Foreign Ministry issued an official statement criticizing the military intervention.[67] However, as on February 24, 2001, Foreign Ministry spokesman Alexander Yakovenko admitted it was "virtually impossible" for Russia … to raise the issue of American and British air strikes in the UN Security Council.[68] Russia's weakened post-Soviet position was once again noted, even more so than during the previous US and UK attacks in 1996 and 1998.

Russia's official position on the Iraqi question remained unchanged for a long

62. *Diplomaticheskii Vestnik*, January 1999, 25.
63. Ibid., 27.
64. Ibid., 24.
65. *Diplomaticheskii Vestnik*, January 1999, 24.
66. *Nezavisimaya Gazeta*, December 18, 1998.
67. RFE/RL *Newsline*, vol. 5, no. 36 (February 21, 2001).
68. RFE/RL *Newsline*, vol. 5, no. 35 (February 20, 2001), 1.

time. Although on May 12, 1999, Primakov was relieved of his position as Russian Prime Minister, Russian policy towards Iraq remained essentially stable. Under somewhat different circumstances, President Putin and Foreign Minister Igor Ivanov's policy on Iraq largely followed Primakov's line, though perhaps with less apparent success. Russia's weakened post-Soviet position was again noted, even more so than during the previous US and UK attacks of 1996 and 1997. Moscow did not succeed either in having the sanctions lifted or even temporarily suspended. In November 2001, as Vladimir Safrankov, a political counsellor at the Russian Mission to the UN admitted, Russia "accepted the philosophy of the British-American proposals."[69]

The Security Council Resolution 1409, adopted on May 14, 2002, extended the Oil for Food program for a six-month period but also included the Goods Review List (GRL) of the items that may have dual military and civilian uses. Availability of materials on the GRL to be imported into Iraq would require submission to the elaborate UN supervision and control mechanism. The GRL was a result of long negotiations, item by item, by diplomats from Russia, France, China, the UK and the US. Moscow had staunchly opposed the implementation of "smart sanctions" a year earlier, but now approved the GRL, arguing that it was not "prohibitive in character" but only "corrected the malfunctioning Oil for Food system" and that the new resolution made it practically impossible to "suspend contracts" in the UN Committee on Sanctions.[70] According to the head of the Russian Foreign Ministry's International Organization Department, Yuri Fedotov, the main goal of Russian approval of the resolution was to prevent further US military strikes on targets in Iraq. In his view, Washington would find it "much more difficult to justify its actions against Iraq before the international community" after the approval of Resolution 1409.[71] On the other hand, Moscow stressed the temporary nature of the new arrangements[72] and its anxiety that the lack of progress in the Iraqi situation would "produce grounds to those who favour other solutions, presumably a military intervention."[73] According to the Russian leaders, it was to avoid this outcome that their country was "taking all necessary efforts to find a political solution to the problem of Iraq."[74]

69. *The Australian*, November 28, 2001.
70. ITAR-TASS in English, May 20, 2002 in *FBIS-SOV*-2002-05-20.
71. ITAR-TASS in English, May 20, 2002 in *FBIS-SOV*-2002-05-20.
72. ITAR-TASS, May 17, 2002 in *FBIS-SOV*-2002-05-20.
73. Interfax, July 17, 2002.
74. Ibid.

In the extremely tense and uncertain political atmosphere following the September 11, 2001, events in the US, the Israeli incursion and reoccupation of the West Bank, and the spiralling escalation of the "War on Terror," there was no lack of rumors pointing to an alleged Russian acceptance of the prospective American military strike against Iraq which Washington succeeded in buying with promises to maintain its commercial, oil and economic interests in Iraq after [the fall] of Saddam."[75] An analysis of known facts suggests, however, that Moscow had, for a long time, genuinely opposed a prospective second Gulf War near its borders and traditional zones of influence, but in the existing balance of power, however, it had neither the means nor sufficient interest to stop a unilateral US invasion in Iraq.[76] There is no doubt that the clash of interest involved in the Iraqi crisis represented a major challenge to the Putin administration as Moscow tried to protect its interests despite the US hegemony, alongside its own desire to preserve its traditional status quo as a great power.

In July 2002, Russian Foreign Minister Ivanov admitted, "if the bombing of Iraq became inevitable we will proceed from the situation arising."[77] Although Moscow argued that it had opposed the invasion for important political reasons, to prevent "a war of civilization" and to avoid the possible disruption of international terrorist coalition,[78] it had little doubt that if the US administration decided to start a new Gulf War there would be little that it could do to stop it. Consequently, Moscow's opposition to the war weakened.

On November 8, 2002, Russia joined the other UN Security Council members to vote unanimously for Resolution 1441 which threatened Iraq with "serious consequences" if it would not actively cooperate with the UN weapons inspectors in their search for its alleged weapons of mass destruction. According to some sources, Moscow's acceptance of the resolution was facilitated by the American pledge that "its contracts with Saddam would be honoured under all circumstances."[79]

At the time of the severe international disagreement before the US-led

75. *Al Sharq Al-Awsat* internet version in *FBIS-WEU*-2002-07-14. One leading American specialist went so far as to write on "Moscow's apparent decision to sell out Iran and quietly sell out Iraq," See "One Year Later – Where Are We?" Stratfor.com, July 8, 2002.

76. Scott Peterson, "Russia Rethinks its Long-time Support for Iraq," *Christian Science Monitor*, March 13, 2002, 1.

77. *Interfax*, July 10, 2002.

78. The Director of the Institute of the US and Canada Affairs Sergei Rogov as quoted in ITAR-TASS, November 29, 2002.

79. Kees van der Pijl, *Global Rivalries from the Cold War to Iraq* (London: Pluto Press, 2006) 366.

invasion, Putin's economic advisor, Andrei Illarionov, argued that Russia "does not take such a militant position as the US, which relies on force. On the other hand, we [the Russian leaders] are not copying the position of France and Germany, which are on collision course with the US on the Iraqi issue."[80] Moscow did not accept and was trying to prevent the invasion until the last moment, but as Putin openly admitted, "the nature of our relations with the US does not allow us to descend to a point of confrontation."[81] In response to unrelated American pressure and arm-twisting, Moscow, like many other countries had no other choice but try to save face and look after its own direct interests.

The Post Second Gulf War Period

Starting in April 2003, following the seemingly decisive US victory and in view of overwhelming American military superiority, Moscow made a move to accommodate the winner and if possible to preserve at least some of its economic and political interests in Iraq. The consequences of the Second Gulf War and the US occupation of the country took a heavy toll on the Russian economy. In April 2003, Russian Security Council First Deputy Secretary, Oleg Chernov, estimated Russian losses due to the Iraqi crisis at about $12 billion.[82] Moscow has also been concerned about the potential impact of the new US-controlled Iraqi oil industry on the future of their own economy. Oil export accounted for one third of Russia's GDP, and fluctuations in oil prices could have made an impact on its income.[83] In geopolitical terms, the damage which involved the collapse of the friendly Arab nationalist regime and the presence of the powerful Western forces near its borders was obvious.

The Putin administration tried to downplay the issue and claimed instead that the disagreements over the Iraqi crisis should not affect the activity of the international anti-terrorist coalition.[84] Its efforts to oppose the Americans proved to be rather successful. According to the various leaks, and in the opinion of many analysts, the US administration decided to "punish France, ignore Germany and forgive Russia,"[85] and on April 28, 2003, the US Ambassador to Moscow A. Vershbov

80. Interfax in English, January 28, 2003.
81. *Nezavisimaya Gazeta*, January 28, 2003.
82. Interfax in English, April 25, 2003 in *FBIS-SOV*-2003-04-25.
83. Alexei Frolov, "Could Iraq Pose a Threat to the Russian Economy?" Rosbalt News Agency, June 15, 2003.
84. Interfax in English, April 23, 2003 in *FBIS-SOV*-2003-04-23.
85. Pavel Ivanov, "The Evian Summit : Russia's Future and G-8," in *The National Interest* (internet version), May 28, 2003. <www.nationalinterest.org>

stated that "both Russia and the new Iraqi government need good relations and [that] it is in US interests that Russia take part in the post-war reconstruction of Iraq."[86] On May 22, 2002 Moscow joined the other UN Security Council members voting for Resolution 1483 which, according to the prominent Russian analyst Alexei Arbatov, "amounted to the retrospective legitimization of the occupation regime of the US and Britain and consequently of the military action in Iraq itself."[87] On October 16, 2003, after some hesitation Moscow approved Resolution 1511 which recognized the Governing Council established by the Americans for the temporary administration of Iraq.[88]

In March 2004, following the same path of resignation to US domination, Russia welcomed the Iraq Interim Constitution[89] and although with some initial reservations,[90] on June 28, 2004, voted for the UN Security Council resolution 1546, which endorsed the formation of the Iraqi interim government and the holding of democratic elections in Iraq by January 2005. When the sovereignty was officially handed over to the interim government on June 28, 2004, Moscow expressed its satisfaction, and according to Russian Deputy Foreign Minister Yuri Fedotov, the Russian Embassy in Baghdad was "energetically interacting with the new Iraqi authorities."[91] Diplomatic relations with the new Iraqi regime, which although US-sponsored included a number of people with a strong previous connection with Russia, had been quickly re-established. Even before the Iraqi elections and the formal legitimization of the regime, in October 2004, the new Iraqi Ambassador to Russia, Abd al-Karim Hashim Mustafa, was officially accredited and began his activities.[92]

When on January 25, 2005 the Iraqi elections took place, Putin called them "a step in the right direction" and a "positive event."[93] Putin's political adjustment to the situation in Iraq and to the existing balance of power meant neither complete surrender to US wishes nor an abandonment of Russian interests in Iraq. His policy has been and still remains essentially defensive because he was and still is unable to

86. Interfax in English, April 28, 2003 in *FBIS-SOV*-2003-04-28.

87. Alexei Arbatov, "Lessons of Iraq," *Vremya MN*, June 4, 2003 in *FBIS-SOV*-2003-06-04.

88. UN Resolution 1511, 2003 <http://www.un.org/Docs/sc/unsc_resolutions03.html>

89. "Russia Welcomes Iraq's Interim Constitution," ITAR-TASS (in English), March 8, 2004 in FBIS-SOV-2004-03-08.

90. "France, Russia Questions US Handover in Iraq," cnn.com, May 26, 2004.

91. *Pravda* online, July 1, 2004

92. Moscow *Vremya Novostei,* December 22, 2004 in *FBIS-SOV*-2004-12-22.

93. "Putin Says Iraqi Vote Is Step in Right Direction," Reuters, January 31, 2005.

directly challenge the US. Putin's policy focuses on two major issues: the role of the US in post-Saddam Iraq and the character of the new political authorities there, and the protection of Russian economic contracts and interests.

Moscow has often said that "it has not changed its position regarding the military operation [US invasion of March-April 2003] in Iraq which is considered a mistake"[94] and that "the cause of events confirm this."[95] Wanting an end to the Iraqi crisis, Russia emphasized the need "to respect national sovereignty, the territorial integrity of Iraq, and the Iraqi people's right to manage the country's wealth themselves."[96] For this purpose and in order to put some formal limitations on US control of the country, Russia and France called for the revival of the UN role in Iraq and preservation of the rule of international law and legitimacy. In spite of well established Russian connections with the Kurds, Putin opposed the creation of a Kurdish state in the north of Iraq and admitted that "Russia and Turkey's stance on this issue coincides."[97] Russia staunchly refused to send its peacekeepers to Iraq because as Russian Foreign Minister Ivanov argued, "there is no resolution of the UN Security Council to that effect."[98] In addition to the legal aspects, Moscow did not want to antagonize the Middle Eastern nations and its own Muslim population.

Instead of military power, Russia has stressed the importance of inter-Iraqi dialogue and the inclusion of all ethnic and confessional groups in Iraqi society in the political process. Since December 2003, Moscow has been calling for an international conference with the involvement of all parties to the conflict including opposition forces and "foreign participants" such as "neighbouring countries and other states, including the Permanent Members of the UN Security Council."[99] This concept became a lasting part of the Russian program for Iraq, and was repeated in Putin's letter to the Arab League Summit in Khartoum on March 28, 2006.[100] Since

94. "Russian FM Outlines Russia's Iraq, Middle East Policy at Cairo Talks," July 17, 2003, ITAR-TASS (in Russian) in *FBIS-SOV*-2003-07-17.

95. Ibid.

96. "Putin Says Russia Ready to Cooperate in Reviving UN Role in Iraq," ITAR-TASS (in English), February 27, 2004 in *FBIS-SOV*-2004-02-27.

97. "Russia's Putin Clarifies Stance on Iraq, Says against Establishment of Kurdish State," ITAR-TASS (in Russian) September 1, 2004 in *FBIS-SOV*-2004-09-01.

98. "Russia FM Ivanov Says Russia Not Considering Sending Peacekeepers to Iraq," ITAR-TASS (in English) July 18, 2003 in *FBIS-SOV*-2003-07-18.

99. "Deputy FM Says Russia Wants Review of Strategy in Iraq, Concerned with Security," ITAR-TASS, December 9, 2003 in *FBIS-SOV*-2003-12-09.

100. Interfax, "Russia: Putin Says Civil War Must Be Prevented in Iraq," Dialog Update, March 28, 2006.

August 2005 Putin has also been calling for a timetable of US troop withdrawals from Iraq.[101] On September 14, 2007, meeting with the members of the Valday International Discussion Club in Sochi, Putin openly stated: "I do not agree with (US) President Bush that one should withdraw forces when the Iraqi leadership itself, the Iraqi state itself is able to provide for internal security… I hold that it is better to set a certain date for withdrawal because as long as it is not clear when the US troops are leaving Iraq, the Iraqi leadership will not have internal incentives to attend to the organization of its army and its security service."[102]

Although Russian political and economic influence in Iraq decreased dramatically after the US invasion, relations with the new Iraqi authorities are now quickly expanding. Between December 6 and 8, 2004, Iraqi Interim Prime Minister, Ayad Alawi, visited the Russian capital for the first time and met with Putin and other high ranking officials.[103] On September 18, 2007, Iraqi Foreign Minister, Hoshyar Zebari, came to Moscow in order to discuss both nations' bilateral relations and to coordinate the dates and plans of a first post-2003 war meeting of the Russian-Iraqi Intergovernmental Commission on trade, economic, scientific and technological cooperation.[104] In order to prove its autonomy from the Americans, the Iraqi government seems to be keen to renew some formal channels with Moscow. The Russian and Iraqi military experts will meet in October to restart the cooperation[105] and the Iraqi government agreed to the opening in the country of two Russian consulates, in Irbil, in the north, at the end of October, and a bilateral in Basra, in the south.[106] However, the new Iraqi leaders believe that the American military in the country is "at present necessary,"[107] and that they are relieved from obligations related to the contracts which had been signed with the Baathist regime.[108] In an effort to restore its relations with Baghdad,

101. "US Rejects Putin's Proposal for Timetable of Troops Withdrawal from Iraq," *MosNews*, August 19, 2005.

102. Interfax, "Timetable for Withdrawing US Troops Is Needed to Stabilize Situation in Iraq-Putin," Dialog Update, September 20, 2007.

103. "Russia Supports Iraq in Restoration of Order," *Xinhua* (in English), December 7, 2004 in *FBIS-SOV*-2004-12-07.

104. Interfax, "Lavrov, Zebari Discuss Iraq, Bilateral Relations," Dialog Update, September 19, 2007.

105. ITAR-TASS, "Russian, Iraqi Experts to Discuss Military Cooperation in October," Dialog Update, September 21, 2007.

106. "Russia ; Iraqi Foreign Minister Stresses Competitiveness in New Oil Contracts," interview with Hosuyar Zebari by Yelana Suponina, "We'll Ensure the Lukoil President's Safety," *Vremya Novostei*, September 21, 2007 in Dialog Update, September 21, 2007.

107. Interfax, September 19, 2007.

108. "Russia ; Iraqi Foreign Minister Stresses Competitiveness in New Oil Contracts," interview with

Moscow agreed to write off 80 percent of the Iraqi debt to Russia which amounts to $13 billion.[109] In spite of the civil war in the country, some Russian companies still continue to operate in Iraq and more may come in the near future. During his stay in Moscow, Iraqi Foreign Minister Zebari invited Lukoil president Vagit Alekperov to visit Iraq and to meet personally with government representatives[110] and pledged no discrimination against Russian oil companies.[111]

Russia and Iraq: Concluding Remarks

Iraq is the Arab country which has always been nearest to the Russian (Soviet) boundaries and because of that its strategic importance has always been very great for Moscow. Until the Second Gulf War in 2003 it was the only Gulf nation with which Russia had well established political and economic relations. As Iraq is a country rich in energy resources, Russian oil companies have been actively involved in their exploitation. Since the Second Gulf War and the US occupation of the country, the Russian political and economic role in Iraq has been greatly curtailed. However, Russian business is still operating there and is hoping to increase its activities. Because of the existing balance of power equations, Russia needs to keep her hands off Iraq and there is no direct political involvement in the country, but Moscow's interest in Iraq will persist. The integrity and sovereignty of Iraq and the end of civil war there are seen by Moscow as crucial for its own international and domestic security. Russian leaders are well aware that "in the crisis situation which is now in Iraq, it would be naïve to set a date, by which the situation will be settled in the country."[112]

Russia and Iran

Iran (formally known as Persia before 1935) is a nation whose historical traditions can be traced to antiquity. Modern Iran with its current borders and Shia

---

Hosuyar Zebari by Yelana Suponina, "We'll ensure the Lukoil President's safety," *Vremya Novostei*, September 21, 2007 in Dialog Update, September 21, 2007. See also Andrew E. Kramer, "Iraq with US Support Voids a Russian Oil Contract," *New York Times*, November 4, 2007.

109. Interfax, "Iraq Hopes Debt Relief Accord with Russia Will be Signed before Year end," Dialog Update, September 21, 2007.

110. Interfax, "Iraqi Foreign Minister Invites Alekperov," September 19, 2007 in Dialog Update, September 19, 2007.

111. "Iraqi Foreign Minister Pledges No Discrimination against Russian Oil Companies," ITAR-TASS, September 21, 2007 in Dialog Update: September 21, 2007.

112. "It's Too Early to Speak of Time Limits of Settlement in Iraq-Russia," ITAR-TASS September 23, 2007 in Dialog Update, September 23, 2007.

character originated in the sixteenth century under the Safavid dynasty. Though in the last three centuries the country has often been affected by foreign powers, it has never lost its formal independence. The historical and social roots of the Iranian state are thus much stronger and better established than in the case of Iraq, which was artificially created by the British in the 1920s. Iran has a landmass more than three times the size of Iraq and its population is more than twice that of Iraq's. Iraq is considered to be Iran's regional rival. Throughout its long history, Iran has been and still remains of crucial geostrategic importance because of its central location in Eurasia and dominant position in the Gulf. As an American scholar indicated, "Nature conspired to make it [Iran] an effective land bridge between the Middle East and southern and eastern Asia, on the one hand, and between Russia and the Indian Ocean and the Persian Gulf on the other."[113]

Imperial and Soviet Periods

The history of Iran's relations with Russia (USSR) has been complex and often rocky. In the nineteenth and the first part of the twentieth centuries, Russia's relations with Iran were characterized by political, territorial and economic aggression. After a number of consecutive wars, Persia (Iran) was forced to sign the Treaty of Turkmenchay on February 21, 1828. The treaty established the Russian-Iranian frontier at the Aras River south of the Caucasus and marked "the beginning of Russian economic and political penetration of that country."[114] By the end of the nineteenth century the Russian army occupied Tabriz, Qazvin and a number of other cities in the northern part of Iran. The central government in Tehran was subjected to constant interference by the British and Russian Consulates.[115] The Anglo-Russian Convention signed on August 31, 1907 divided Iran (which was at that time still called Persia) into three zones: a British zone in the south, a Russian zone in the north, and a narrow central neutral zone serving as a buffer in between. Under the terms of agreement, Russia received the right of exclusive economic and political penetration in all of northern and central Iran as far south as Isfahan.[116] Understandably, both Western and Russian Middle Eastern strategy traditionally aroused Persian suspicions.

During and after World War I, the Russian Empire intervened militarily in

113. Martin Sicker, *The Bear and the Lion: Soviet Imperialism and Iran* (New York: Praeger, 1988), 3.

114. A. Lobanov-Rostovsky, *Russia and Asia* (New York: Macmillan, 1933), 111.

115. Morgan Shuster, *The Struggling of Persia* (New York: The Century Co., 1912), 53 and passim

116. Sicker, op. cit., 25.

Northern Persia, but the October 1917 Bolshevik Revolution opened a new chapter in both countries' relations. On February 26, 1921, in the Soviet-Iranian Treaty of Friendship, Moscow renounced all special privileges and concessions which the Russian Empire had acquired in Iranian territory. However, the treaty gave Soviet Russia the right to send troops across the borders into Iran if danger threatened from a third party.[117]

Invoking article 6 of the treaty, USSR joined Britain in its invasion and occupation of Iran in August 1941. The officially claimed goal of the occupation was to prevent the "attempts of the Axis powers to establish their control on Iran."[118] The allies had thus secured the country as an open line for Lend-Lease supplies to the Soviet Union, and for control over the Iranian oil resources. They also forced Iran's Reza Shah to abdicate in favor of his son Mohammed Pahlavi. However, the Soviet government argued that it had "no designs affecting the territorial integrity and the independence of the Iranian State," and that as soon as the German threat had been removed, Moscow, "in compliance with its obligation under the Soviet-Iranian Treaty of 1921 will immediately withdraw Soviet troops from Iranian territory."[119] Contrary to the apprehensions of many Iranians, "the Soviet troops proved to be the most disciplined of the Allied forces and made a very favourable impression on the populace."[120] The Soviet Union joined the UK and the USA in the 1943 Tehran Declaration affirming Iran's independence. After the war, the USSR tried to maintain some presence in Iran and supported the Azeri and Kurdish separatists in the north and west of the country, but under US pressure the last Soviet troops left Iran by May 5, 1946.[121]

Although in the early 1950s and later, Moscow was upset by the US-sponsored coup d'etat which overthrew the reformist Mossadeq government in Iran and the suppression of the Tudeh party in the country, it still maintained cooperation and reasonably good relations with the Shah regime.[122] The Shah was a geopolitical realist[123] and "despite his defence treaties with CENTO and the US, … kept Iran

117. Don Peretz, *The Middle East Today* (New York: Praeger, 1994), 112.

118. Sicker, op. cit. 58.

119. Note by the Soviet Foreign Minister V. Molotov on August 25, 1941, Alvin Z. Rubinstein, ed., *The Foreign Policy of the Soviet Union* (New York: Random House, 1966), 183-185.

120. Sicker, op. cit. 59.

121. Bill Samii, "World War II – 60 Years After: The Tehran Relations," *Radio Free Europe – Radio Liberty,* May 6, 2005.

122. Sicker, op. cit., 86.

123. Ibid., 88.

from becoming a US forward base on one of the few frontiers where the Soviet heartland was directly vulnerable."[124] While Moscow was arming Iraq, a number of commercial treaties were concluded with Iran, and Iran supplied its gas to the Soviet Union.[125] On March 16, 1973 Soviet Premier Alexei Kosygin attended the opening of the Isfahan iron and steel foundries, built with Soviet assistance and the largest non-petroleum industrial project in the country.[126] According to the official Soviet assessment of the state of Soviet-Iranian economic relations, which was published in April 1979; "In terms of the level of trade exchange Iran ranked second or third among the USSR's customers from the developing states. In turn the Soviet Union has ranked first in Iranian exports (excluding oil) … In all Soviet organizations have taken part in the building of 147 installations: commitments for 88 of them have already been fulfilled. To a considerable extent this cooperation is being effected on the basis of Soviet credits granted to Iran under preferential terms."[127] The need for such a relatively high level of bilateral relations was largely caused by the fact that Iran-USSR boundaries were approximately 1,690 kilometres long and there was no dividing border in the Caspian Sea which still remains a bone of contention among its coastal nations.[128]

The Islamic Revolution of 1978-79 transformed Iran from a monarchy to an Islamic republic and its leadership of Shia clergy led by Ayatollah Ruhollah Khomeini proclaimed the policy of "neither East nor West" which formally precluded relations with the Marxist-Leninist USSR as much as with the West. In spite of that, during and after the Islamic Revolution, Moscow staunchly opposed any foreign (particularly American) intervention in the Iranian developments. As on November 19, 1978, the Soviet leader Leonid Brezhnev stated, his country was "against foreign interference in Iran's internal affairs by anyone, in any form and under any pretext."[129] He added that "any interference, especially military, in the affairs of Iran, a state directly bordering on the Soviet Union, would be regarded by the Soviet Union as a matter affecting its security interests."[130] This geopolitical approach and persisting concern about its own security became a lasting feature

124. Ibid., 106.

125. Ibid., 100-101.

126. Ibid., 105.

127. P. Demchenko in *Pravda*, April 6, 1979.

128. Iran-USSR Boundary, <http://www.law.fsu.edu/library/> November 2007.

129. *Pravda*, November 19, 1978.

130. Ibid.

of Moscow's relations with Tehran in spite of the all Iranian upheavals and their possible challenges to some of its other interests.

In fact, during the first five years after the Islamic Revolution, Tehran's relations with Moscow apparently deteriorated. Even before the outbreak of the war with Iraq in 1980, Iranian gas supplies to the USSR had been suspended[131] and the trade exchange between the two countries had considerably decreased.[132] The situation started to change with Gorbachev's rise to power in 1985 and the "new thinking" towards Soviet foreign policy initiated by him. The new Soviet leader wanted to focus more on bilateral economic relations and to check the American build-up in the Gulf.[133] Iran desperately needed to rebuild its economy which had suffered because of the Iran-Iraq War. When in February 1986, Soviet Deputy Foreign Minister Georgy Korniyenko visited Tehran, the Iranians agreed to "expand economic and trade relations, and to conduct joint oil explorations in the Caspian Sea."[134] In addition, Iran agreed to resume natural gas exports to the Soviet Union, which had been halted after the Islamic Revolution in 1979. Iran, which wanted to rebuild its armed forces after the end of the war with Iraq in 1988, and which as a result of Desert Storm faced a growing American presence in the Gulf, turned to Moscow in order to get Soviet military equipment.[135] In 1991, a one billion dollar arms deal was concluded between the two nations and both Soviet weakness and the perceptions of similar common interests facilitated further military supplies to Iran.[136] However, according to one Iranian scholar, "the icy relations only melted after the Soviet Union's collapse and after Moscow reduced its global claims 'as a beacon of the Socialist Revolution.'"[137] In his view, "this was the most dramatic change to take place in Iranian-Russian relations over the span of several centuries."[138]

131. Sicker, op. cit. 120. On April 6, 1980 Iran cut off gas shipment entirely, causing significant local shortages in the bordering regions of the USSR.

132. Not until January 1985 did Iran agree to the revival of the joint economic group that had been set up in 1974 but had not met since the revolution. See Sicker, op. cit., 126.

133. Nikki R. Keddie and Mark J. Gasiorowski, *Neither East nor West: Iran, the Soviet Union and the United States.* (New Haven: Yale University Press, 1990), 88.

134. Sicker, op. cit., 128.

135. Keddie and Gasiorowski, 88-89.

136. Peter Shearman, ed., *Russian Foreign Policy since 1990* (Boulder, CO: Westview Press, 1995), 273.

137. Mehdi Sanaie, "Problems and Prospects in Iranian-Russian Relations," *Russia in Global Affairs*, no. 2, July-September 2007.

138. Ibid.

The Russian Federation and Iran during the Yeltsin Period

The successor state of the USSR, the Russian Federation, was much weaker than the USSR, did not claim any messianic social mission, and repudiated its previous atheistic ideology. It wanted to follow a pragmatic foreign policy and sought political and economic rapprochement with the Islamic nations. Iranian President Hashemi Rafsanjani, then Iran's Parliament Speaker, had already visited Moscow in June 1989 and was extremely careful not to alienate Moscow while the USSR was breaking up and during the first years of the Yeltsin period. Tehran wanted to overcome its isolation and to persuade Moscow that it would be in its best interest to continue supplying Iran with arms and maintain good economic relations.[139] A greatly weakened Russia started to see the Middle East through the lens of its policy toward Central Asia and Transcaucasia. Because of its strategic location on the Arab Gulf, its importance as a trading partner, and its influence in the post-Soviet republics in Central Asia and Transcaucasia, Iran became an important country for Moscow.[140] Iran's low key reaction toward Chechen separatists in the 1990s and its active involvement in putting an end to the civil war in Tajikistan in February 1997, helped to strengthen its bilateral relations with Russia. In addition, Yeltsin's regime used its relations with Iran as a way to demonstrate its independence from the United States, and Iran needed Russia's diplomatic protection against growing American threats.[141] Russian-Iranian trade amounted to only $415 million in 1996, less than Russia's trade with Israel,[142] but on January 8, 1995, Moscow signed a contract with Tehran to install an $800 million nuclear reactor at Iran's Bushehr region.[143] This contract was soon to become a hard topic in Russian-American relations and still remains so.[144] In spite of strong American reactions against the agreement, which Washington claimed would enable Iranians to obtain the materials necessary for making a nuclear bomb, implementation of the deal began. However, it has still not been completed and due to the present political tension,

139. "Russian-Iranian Relations in the 1990s," *Middle East Review of International Affairs* 4, no. 2 (June 2000): 5.

140. Ibid., 1.

141. Ibid., 2.

142. Robert O. Freedman, "Russia and Iran since 9/11," in *Eurasia in Balance: The US and Regional Power Shift,* edited by Ariel A. Cohen (Burlington, VT: Ashgate, 2005), 131.

143. Sanaie, op. cit.

144. Ariel Cohen and James Philips, "Countering Russian-Iranian Military Cooperation," Heritage Foundation: Russia and Eurasia, Backgrounder 1425, April 5, 2001. <http://www.heritage.org/research/russiaandeurasia/BG1425.cfm>

work on it has been substantially delayed. Though Russia was continuing to supply arms to Iran, on June 30, 1995, Russian Prime Minister Chernomyrdin and US Vice President Al Gore signed a confidential agreement that was supposed to limit Moscow's weapons delivery to Iran and to stop them completely by December 31, 1999.[145] However, energy cooperation was starting to become one of the major areas of Russian-Iranian relations. In 1997, Russia joined France and Malaysia to develop Iran's South Pars offshore natural gas field in the Arab Gulf, despite the US threat of imposing economic sanctions on the three countries' corporations for violating the D'Amato Act, which intended to punish non-American companies investing more than $20 million in Iran or Libya.

American pressures notwithstanding, President Yeltsin's relations with Iran were overall friendly and a major contribution to that was made by Yevgeny Primakov who, as Russian Prime Minister in 1998-99, "dispelled the remainder of Moscow's doubts about the importance of working relations with Teheran."[146] In the fall of 1999, Iran, which was then the President of the Organization of Islamic Conference (OIC), helped Moscow during the most critical period of its Chechen policy. The OIC reluctantly agreed to consider Chechnya Russia's domestic problem, largely because of Iran's position.[147] As in all other fields of Russia's Middle Eastern policy, the new millennium opened a new chapter in Russian-Iranian relations.

Putin's Russia and Iran

Vladimir Putin's time as president of Russia was characterized by a marked improvement of Russian-Iranian relations. Though President Putin has been trying as always to advance the interests of Russian business, his relations with Tehran were primarily based on a firm geopolitical and security consideration. In response to the NATO Eastern European enlargement of March 1999, which included Poland, the Czech Republic and Hungary, and the American refusal to abandon its plans for anti-ballistic missile defense which were going to change the existing balance of power in Eurasia, President Putin in November 2000, publicly abrogated the hitherto secret Gore-Chernomyrdin agreement.[148] He expressed his readiness to increase Russian arms sales to Iran stressing that according to the international law they

145. Ibid.

146. Sanaie, op. cit.

147. "Vladimir Putin's First Visit to Iran," *RIA Novosti*, October 15, 2007. See also, Robert O. Freedman, "Russian-Iranian Relations in the 1990s," *Middle East Review of International Affairs* (MERIA) 4, no. 2, June 2000, 9-10.

148. Mark N. Katz, "Russian-Iranian Relations in the Putin Era," *Demokratizatsiya* (Winter 2002), 2.

were perfectly legal. These discussions caused American sanctions, which included a ban on the use of Russian rockets for satellite launches, the discouragement of US investments in Russia and US pressure on the International Monetary Fund (IMF) not to reschedule Russian debts.[149] However, Moscow and Tehran still continued to advance their cooperation, and Russia decided to resume its work on the nuclear reactor at Bushehr and even suggested that it might build more for Iran.[150] In the opinion of this writer, the situation and political intentions of the leadership of both nations were clearly reflected by the Iranian President Mohammed Khatami, who, in September 2000, admitted that: "We [Iran] share a lot of interests with Russia. We both live in one of the most sensitive areas of the world. I believe the two countries can engage in a viable and strong relationship. Russia needs a powerful and stable Iran. A stronger relationship would allow both countries to marginalize external powers that are seeking destructive ends and which do not belong in the region."[151]

This does not necessarily imply that Russian relations with Iran during Putin's tenure have been tension-free and completely harmonious. Russia and Iran compete as major oil and natural gas producers and differ in their opinions about the legal status of the Caspian Sea and the division of its seabed natural resources. During Putin's first few years in office, Russia and Iran were to have some problems over Chechnya and the alternative exit route pipelines for the Caspian Sea's gas and oil.[152] When Putin moved closer to Washington after September 11, 2001, and acquiesced to the deployment of US troops in Central Asia, Iran was sceptical and Tehran warned that US foreign policy is going to "expand its sphere of influence in Central Asia and the Caucasus and… to lessen Russia's traditional influence in the region."[153]

However, during the last six years the main contentious issue between the two countries was Moscow's constant delay in completing the work on the Bushehr nuclear station due mainly to American pressure on Russia and unclear developments in Iran itself. Moscow had to tread a thin line between bargaining and compromises, but its credibility in Iran was often put to doubt. The Bushehr reactor, originally scheduled for completion in 2004, is now expected to be

149. Robert O. Freedman, "Russia and Iran since 9/11," 136.

150. Valeria Sychova, "Declaration of Disaffection," *Sevodnya*, November 24, 2000, 1-2, in *The Current Digest of the Post-Soviet Press*, December 27, 2000, 1-2.

151. Freedman, 136.

152. Robert O. Freedman, "Russia, Iran and the Nuclear Question: The Putin Record," *Jerusalem Viewpoints*, July 2, 2006.

153. "US Military Presence in Central Asia to Lessen Russian Influence," Radio Iran, December 10, 2001, *FBIS-MESA*, December 18, 2001.

operational in mid-October 2008,[154] and delivering its maximum capacity to the country's power grid one year later.[155] On December 18, 2007, Russia finally started delivering nuclear fuel to the facility as part of a compromise effort to alleviate concerns over Iran's nuclear intentions while supporting the country's right to a nuclear energy program.[156] Addressing Western concerns about Iran and the allegations of the Iranian nuclear threat, President Putin stated: "We have no evidence of Iran's intention to produce nuclear weapons. Therefore, we proceed from the premise that Iran has no such plans. But we share the concern of other partners and believe that Iran's programs must be transparent."[157] Russia firmly condemned Iranian President Ahmadinejad's call for "wiping off the map," Israel as a Jewish state[158] and has been careful to maintain good relations with this nation. From the strategic and political aspects, Moscow's relations with Washington are crucial; the same as its economic relations with the EU. And yet an American analyst's opinion that, "Putin stands perfectly ready to betray the Iranian's confidence for a price,"[159] seems to be unfounded. As Carnegie Foundation expert Dimitri Trenin indicates, "Russian flexibility has its limits," and "Russian leaders will not subscribe to anything at the UN Security Council that would sanction the use of force against Iran."[160] Talks of weapons of mass destruction and the imposition of sanctions might, as in the case of Iraq before, open the way for US, or its allies, military intervention and occupation of this country. For Russia, such a development might mean even more growing strategic encirclement from the west and south, and threaten its vital security. While war is at present rather unlikely, the strategic and military balance in the Gulf and Caspian regions relatively near Russian borders, are for Russia of crucial geopolitical importance. Even assuming that the Western military intervention in Iran won't succeed, and the United States will have to withdraw, it is certain that they will leave the whole

154. ITAR-TASS January 30, 2008 in Dialog Update, January 30, 2008.

155. "Iran: Bushehr Nuclear Plant Ready by March; More Planned," *CNN International*, December 23, 2007, < http://www.cnn.com/2007/WORLD/meast/12/23/iran.nuclear/index.html>

156. "Russia Ships First Lot of Nuclear Fuel to Iran: Kremlin, US Officials Say Step Removes Need for Teheran to Pursue Enrichment," *Washington Post*, December 18, 2007.

157. Pyotr Goncharov, "Vladimir Putin's First Visit to Iran," *RIA Novosti,* October 15, 2007.

158. Ivan Groshkov, "Iranian President's anti-Israeli Remarks Viewed; Deemed Dirty Trick on Lavrov," *Nezavisimaya Gazeta*, October 30, 2005, *FBIS-SOV,* November 1, 2005.

159. Peter Zeihan, "The Russian Problem," <www.*stratfor.com*>, October 16, 2007.

160. Dimitri Trenin, "Russia Redefines Itself and Its Relations with the West," *The Washington Quarterly* (Spring 2007): 102.

neighborhood in disarray and upset the situation in Central Asia, the Caspian region and Transcaucasia.

As Trenin notes, "Looking at Iran and Afghanistan, Russians are sceptical about US staying power and its effectiveness. They suspect that the US might try to disarm Iran, fail, and have to withdraw leaving others in the neighbourhood, including Russia, to inherit the mess."[161] Whatever way the events could turn out, in the case of the US attack on Iran, Russia certainly will not be in "a win-win situation,"[162] and its international and domestic security will be seriously challenged. Iran abuts directly to the South Caucasus and Moscow has always considered this region a strategic interest priority zone. Russian analysts perceive that, "whoever controls the Trans-Caucasus also controls the Caspian Sea and access to Central Asia and the Middle East."[163] In addition, ensuring influence and stability in the Trans-Caucasus countries is seen as a necessary precondition for Russia's internal peace and for its territorial integrity.[164] Russia itself is also a Caucasus state. Seven regions of the Russian Federation (Adygea, Ingushetia, Dagestan, Kabardino-Balkaria, Karachaevo-Cherkesia, North Ossetia, Chechnya) are located in the North Caucasus, and four more are on the steppes adjacent to the Caucasus (Krasnodar and Stavropol territories, the Rostov region, Kalmykia).[165] With Muslims constituting more than 15 percent of the Russian population, any potential American and allied invasion of Iran and the ensuing clash of civilizations would put pressure on Russia's domestic issues and might threaten its territorial integrity.

Being aware of that, on October 16, 2007, in his speech at the Second Summit of Caspian Sea countries in Tehran, Putin issued a strong warning against attacking Iran, saying that the five littoral nations "must not let any outside powers use their territories for attacking neighbours."[166] The final declaration adopted at the Summit stated that "the Caspian Sea should be used only for peaceful purposes" (article 13) and that all signatories "will under no circumstances allow their territories to be used by other countries for acts of aggression or other military actions against any

161. Ibid.

162. Oldberg, op. cit., 14.

163. Oleg Gorupai, "The Geopolitical Whirlpool of the Caucasus," *Krasnaya Zvezda,* October 5, 2007, in Dialog Update, January 6, 2007.

164. Ibid.

165. Ibid.

166. "Putin Seeks to Please Both Iran and West in Nuclear Standoff," *International Herald Tribune*, October 17, 2007.

of the signatories."[167] Russia and Iran have consistently pushed for the inclusion of these provisions not only in the declaration but also in the future permanent convention on the legal status of the Caspian Sea.[168]

In addition to the crucial security considerations, Russian-Iranian relations are focused on the common exploitation of the Caspian Sea's natural resources and trade and business opportunities. Iran is the only Caspian nation which shares Russia's position that the Caspian Sea should preserve its lake status and that non-regional countries should be kept away from its basin.[169] The only agreements in place concerning the legal status of the Caspian Sea are the 1921 and 1940 treaties between Iran and the Soviet Union. They recognize the Caspian Sea as a lake that belongs to and is divided equally between the Soviet Union and Iran. The Republics of Kazakhstan, Azerbaijan and Turkmenistan do not consider themselves parties to these treaties.[170] However, while Russia, Azerbaijan, Turkmenistan and Kazakhstan want to divide the Caspian seabed into national sectors, according to the post-Soviet international borders and shorelines, Iran wants the seabed equally divided which would give it a longer share.[171] Some differences notwithstanding, using ecological arguments both Russia and Iran oppose the building of Trans-Caspian pipelines. Putin argued that pipelines from the region should only be built if all five littoral nations accept them.[172] That runs against US and EU wishes to build new pipelines to carry oil and gas across the Caspian from Turkmenistan and Kazakhstan to Azerbaijan and further west bypassing Russia.[173]

In view of the fact that both countries are major natural gas producing nations and that, though for different reasons, their geostrategic situation seems precarious, the leaders of both countries have often spoken about the establishment of a "[gas] cooperation organization similar to OPEC."[174] Because of the strong American opposition and a number of technical difficulties, the implementation of the idea

167. "Tehran Summit Unites Caspian States on Major Issues," http://newscentralasia.net> October 17, 2007.

168. Piotr Goncharov, "A Summit of Postponed Problems," RIA Novosti, October 17, 2007.

169. Piotr Goncharov, "Vladimir Putin's First Visit to Iran," RIA Novosti, October 15, 2007.

170. "Scene-Setter: Russia's Putin to Visit Iran for Caspian Summit," *BBC Monitoring*, October 15, 2007.

171. Ibid.

172. Vladimir Isachenkov, "No Deal at Caspian Summit on Sharing Sea," Associated Press, October 16, 2007.

173. Stephen Blank, *The Foundations of Russian Policy in the Persian Gulf,* (unpublished paper, May 2007).

174. Commentary by Mona Mashhadi Rajabi, "Russia New Economic Partner of Iran, Tries Between Two Powers are Growing,'" *Hezbollah*, January 16, 2008, in Dialog Update, January 16, 2008.

is rather unlikely. However, some forms of the Iranian-Russian cooperation of their energy industries are still possible as a reflection of both their economic and geopolitical interests. In recent months, there have been some talks about creating a joint Russian-Iranian gas company and an Iran-Gazprom understanding has been reached regarding investment by the Russian company in Iran's gas fields.[175] The Russian oil company Lukoil is likewise going to expand its oil presence in Iran.[176]

Economic relations between Russia and Iran follow in the wake of their political relations. Because of the tense and uncertain relations with the US, Iran needed to find some other economic partners. During the last few years, Iran's isolation grew even more after pressure from the EU on Tehran regarding its nuclear program and the departure of the European companies from Iran. Because of the Chinese political hesitation and the reported lack of the opening of lines of credit by the Chinese for Iranian traders, Russia became an essential economic and industrial partner of Iran.[177] Russian-Iranian trade tripled between 2000 and 2006[178] and, according to the Iranian Ambassador to Moscow, Ghalamreza Ansari, "in the first nine months of 2007, the value of mutual trade between the two countries was somewhere around $2.294 billion. Compared to the first nine months of the previous year this means that trade between the two countries has doubled."[179] As Iran's exports to Russia only amounted to $240 million, the trade balance was very favorable to the Russians.[180] In addition to weapons and military equipment, Iran has also imported iron, iron materials, wood and wood products from Russia. Iran's exports to Russia included spare car parts, cars and foodstuff.[181]

Moscow has been strongly criticized for its arms sales to Iran and in 2006, the US imposed sanctions on the two Russian military export companies: combat jet maker Sukhoi and Rosoboronexport for violating Iran Non-Proliferation Act.[182] However, the documented Russian supplies to Iran have been until now modest both in their qualities and quantities. Last year's reported supplies which amounted to $270 million accounted for only 5.6 percent of Russian total arms exports and falls

175. *RT-Russia Today*, December 14, 2007.

176. Ibid.

177. See endnote 61.

178. Oldberg, op. cit., 3.

179. See endnote 61.

180. Ibid.

181. Ibid.

182. "Russia Calls US Sanctions against Two Weapons Companies 'Unlawful,'" Voice of America, Moscow, August 5, 2006.

far behind not only China and India, which are Moscow's main customers, but even Algeria and Kuwait.[183] Russia's TOR-M1 missiles delivered to Iran on February 10, 2007, only have a range of 12km and can only reach targets at a maximum altitude of six kilometres and could not pose a threat to US war planes.[184] According to President Putin, Moscow delivered this system to Tehran in order to prevent its feeling of total alienation from the international community.[185] The announcement in December 2007 by the Iranian Defense Minister, that Russian S-300 air defense missiles had been delivered, was denied by Moscow. The Russian Federal Military and Technical Cooperation Service issued a statement that the supply of these weapons to Iran "is not being considered and is not being discussed with the Iranian side at the moment."[186] In any case the known scale of Russian arms sales to Iran cannot change the existing balance of power in the region, though it might make the possible invasion of Iran less risk-free and a bit more complicated. Moscow wants to avoid both a nuclear-armed and a militarily strong Iran, and the occupation of this country by the US and/or its allies. As Fyodor Lukyanov, the editor of *Russia in Global Affairs* said: "Russia doesn't want a nuclear Iran – nobody does – and so Russia will not take the position of Iran's total defender… But Moscow absolutely disagrees with the West about how to deal with Iran."[187]

Russian trade relations with Iran are lagging far behind Moscow's trade relations with Turkey ($10 billion) and Israel ($6 billion). Yet last year's quick development has been politically significant for the region and Russia's foreign policy. The business interests of some Russian companies and their employees are also involved, yet these are, by and large, of secondary importance.

Russia and Iran: Concluding Remarks

Russian-Iranian relations have a long though not always friendly tradition. During the last two centuries, the major role in their history was played both by the

183. Oldberg, op. cit., 5. See also Lionel Beehner, "Russia-Iran Arms Trade," Council on Foreign Relations, November 1, 2006.

184. Hannes Adomeit, *Russlands Iran-Politik unter Putin,* SWP-Studies, April 2007, (Stiftung Wissenschaft und Politik – German Institute for International and Security Affairs: Berlin), 23.

185. Vladimir Putin, "Speech and the Following Discussion at the Munich Conference on Security Policy," February 10, 2007 <http://www.kremlin.ru/eng/speeches/2007/02/10/0138_type82912type82914type82917type84779_118123.shtml>

186. Mark N. Katz, "Russia and Iran: Unfriendly Friends," *Middle East Times*, January 2, 2008.

187. "Putin Seeks to Please Both Iran and West in Nuclear Standoff," *International Herald Tribune*, October 17, 2007.

geopolitical proximity and the impact of the Western powers, first Britain and now the US, in the region. Moscow has long opposed any Western interference, especially military, in neighboring Iran and perceived such interference as a matter affecting its security interests. Because of the present US policy of military expansion and the threat of strategic encirclement, Russian fears might be more acute now than ever before. Russia shares with Iran common interests in the exploitation of the Caspian Sea's resources, and both nations oppose the non-regional powers interference in its basin. During the last few years, Russian-Iranian trade relations have quickly expanded but they are still playing a relatively small part in Moscow's foreign trade with the region. However, Moscow has never called Iran its strategic ally but rather a regional partner, and President Putin's policy represents a delicate balancing act reflecting Moscow's desire to preserve its own security and maintain good relations with Washington.

Russian Relations with Yemen

Ruslan Aliev

Center for Analysis of Strategies and Technologies, Russia

Introduction

This paper addresses the topic of Yemeni-Russian relations during the nearly two decade long period following the disbandment of the USSR. It asserts that despite a substantial track record of mutually beneficial cooperation between the USSR and the two Yemen republics, the Russian Federation and the present-day Republic of Yemen are yet to develop a new and meaningful partnership bereft of legacies from the Cold War. Russia and Yemen have not been able to forge a comprehensive new direction for cooperation based on mutually beneficial interests and disconnected from the traditional client-patron state relationship which defined their ties during the Cold War period. Although the USSR was prepared to sponsor client regimes in developing countries in exchange for political or ideological allegiance, Russia has proven less willing to support regimes in countries on the brink of state failure or civil war.

Nevertheless, there is one core issue of relevance to contemporary Yemeni-Russian relations upon which this chapter will formulate a discussion: that of arms trade. Although the Russian-Yemeni arms trade – consistent with the arms industry, more broadly – is a topic effectively non-transparent to the outsider, it nevertheless provides a basis for some conclusions regarding the increase in current Russian arms exports as a paradigm of Russia's new foreign policy. From the political point of view, Yemen, being one of the principal recipients of Russian arms in the region,

has remained Moscow's important partner in the arms trade sphere. The need for maintenance and technical support services for advanced military equipment and training for personnel on the ground binds the arms exporter to the recipient for a substantially long time period. Furthermore, intensive cooperation in the military-technical field results in the consolidation of relationships at the political level, and promotes contact between financial and industrial circles in Russia and Yemen. This, in turn, provides support for pro-Russian forces in the country's leadership.

Although this might suggest that the basis for a broader set of relations between Yemen and Russia should be emerging at present, the military-technical cooperation between the two sides has not led to deeper Russian-Yemeni ties outside of the arms trade sphere. In terms of economic relations, it is unclear why no meaningful progress has been made in the sphere of joint civil projects, particularly those in the hydrocarbon field and those aimed at meeting the water supply deficit. Secondly, there is very little understanding about how and by whom Yemen's military build-up is being financed. As will be discussed in-depth later, Yemen, despite being one of the poorest countries in the region, has a colossal budget for its rearmament program. It is also evident that the Yemeni military establishment's appetite is not limited to current arms deliveries but extends substantially further afield.

According to some reports, in autumn 2007, the Yemeni authorities were on the verge of scaling down their diplomatic presence in the Russian capital. Does this imply that bilateral relations between Yemen and Russia in the near future will be relegated primarily to a level of contact through Rosoboronexport, the state-owned arms export monopolist and mediator? The answer is still unclear. In order to delve into the question in a more substantial manner, and to derive at least some form of an educated response, this article will aim to encapsulate the key known facts and trends with respect to contemporary Russia-Yemeni relations. We commence our review with a glimpse into the perplexing Soviet-Yemeni relationship during the last decades of the Cold War.

An Insight into Yemeni-USSR Relations on the Eve of 1992

The foundation for close Soviet-Yemeni cooperation was laid in 1969. After November 30, 1967, when Great Britain reposed power over Southern Yemen in the hands of the National Liberation Front (NLF), British troops were withdrawn from their former colony. Qahtan Mohammed Al-Shaabi, one of the moderate leaders of NFL, became President of the newly proclaimed People's Republic of Southern Yemen (PDRY). However, he was removed from power by a revolutionary faction headed by the pro-Soviet Abd al-Fattah Ismail Ali Al-Jawfi and pro-Chinese Salim Ali Rubayyi in June 1969.

After taking over power, the left wing of the NLF announced its intention to act on the basis of socialist ideology and to strengthen ties with the USSR. In 1970, PDRY broke off diplomatic relations with the US.

In 1972, PDRY and the Yemen Arab Republic (YAR) reached an agreement aimed at ceasing the confrontation between the two countries and their gradual unification. But the agreement was never implemented. In March 1972, NLF was reorganized into the Political Organization of the National Front (PONF), and in 1975, PONF together with the Left Marxists and Ba'athists formed the United Political Organization of the National Front (UPONF). In 1978, Salim Ali Rubayyi was replaced by Abd al-Fattah Ismail. The latter made a 20-year pact with USSR for Soviet armed forces deployment in the country. PDRY's authorities initiated a policy to terminate the national-democratic revolution and to embark on the road to building socialism. Later, UPONF was renamed as the Yemeni Socialist Party (YSP).

In the meantime, the Constitution went through amendments which defined the leading role of the YSP and stated the national-democratic character of the implemented reforms. According to the Constitution of 1978, PDRY was proclaimed as a democratic national republic that represented the interests of labor, peasants, the lower middle class and intelligentsia.

However, disputes within the YSP continued and in April 1980, Abd al-Fattah Ismail was removed from the posts of YSP Secretary General and Chairman of Presidium of the Supreme National Council, and he migrated to the USSR. He was succeeded by Prime Minister Ali Nasser Muhammad who re-established diplomatic relations with Saudi Arabia and Oman in 1983.

In January 1986, after Abd al-Fattah Ismail re-joined the YSP leadership, bloody clashes broke out in Aden between his supporters and the supporters of the country's ruling leaders. The clashes were provoked by a "preventive strike" against Ismail's supporters carried out by Ali Nasser at the January 13 session of the YSP Politburo, the highest party council. Abd al-Fattah Ismail and many other hard-line party leaders of YSP were killed. Some 10,000 people died during the 12-day long fighting in which Ali Nasser's supporters suffered defeat and fled to YAR.

According to some reports, Soviet intelligence (KGB's First Chief Directorate responsible for intelligence abroad) had informed Moscow of the sensitive situation in PDRY. Soviet intelligence authorities took certain measures to reconcile the antagonistic groups in a bid to prevent the bloody conflict in Yemen. But that did not help. As a consequence, the USSR had to evacuate 8,000 of its citizens and some 2,000 foreigners. [1]

1. According to FSB official site, http://svr.gov.ru/history/stage11.htm.

In October 1986, Haidar Abu Bakr Al-Attas took charge of the Supreme National Council Presidium, but it was Ali Salem Al-Biedh, YSP Secretary-General, who practically ran the country.

The authorities of PDRY and YAR embarked upon a course towards reunification despite the aspirations of the radicals in Aden and Sanaa. At the same time, the USSR introduced a set of reforms named *perestroika*. The collapse of the Soviet Union officially documented a year after Yemen's reunification became one of the milestones of that period. The disintegration of the USSR marked the end of the Cold War, and Russia, concentrating on internal problems, practically abandoned the independent and strong foreign policy of its predecessor.

Among other issues, with the confrontation between the US and the USSR ceasing, it was assumed that the Soviet presence in Yemen would be withdrawn and there would be almost complete suspension of bilateral relations, which was absolutely in line with the diminishing involvement of Russia in the Middle East.

USSR-Yemen relations were based mainly on the politico-military interests of the Soviet state. The Soviet military base located in Aden port enabled it to control the transportation of hydrocarbons from the Gulf to the potential rivals of the USSR in the West. In return, Yemen got significant arms deliveries and some economic aid. A lot of Yemenis received Soviet education, and even today there many military men, medical and other specialists in Yemen who understand Russian very well.

The USSR supplied to Yemen over 30 air defense systems, over 1,300 tanks, some 200 infantry combat vehicles, over 1,200 armored personnel carriers and armored reconnaissance vehicles, over 600 multiple artillery rocket systems and other equipment worth $6 billion. Besides, Yemen was rendered military services totalling $500 million.

The volume of military-technical cooperation amounted to $7 billion, $6.5 billion of which were deliveries on credit.[2] Yemen's external debt to Russia was partially written off in 1997 within the framework of Paris Club of creditor nations.[3] After another restructuring of the debt in 2001, it fell to $1.25 billion.[4] The Yemeni armed forces are still equipped (almost 80-90 percent) with the armaments once produced by the USSR.

2. "Perspektivy Rossii na rynke vooruzhenij Jemena obretajut konkretnoe soderzhanie," ARMS-TASS, 24.05.2004.
3. Paris Club: Countries – Yemen, http://www.clubdeparis.org/sections/pays/yemen/viewLanguage/en.
4. P. Orehin, "Tochechnoe proschenie," Nezavisimaja Gazeta, January 14, 2004.

On the whole, collaboration between Moscow, Sanaa and Aden advanced under one of the most primitive scenarios. Moscow supported both states by supplying them with armaments; in return it gained control over a strategically important strait. Thus, the loyalty of this sub-region to the USSR was paid by arms deliveries. Historically, both North and South Yemen had very tense relations with Saudi Arabia. It was a highly logical step for the USSR to back the opponents of one of the main US allies in the Middle East.

Nevertheless, certain particularities can be traced: while PDRY was guided by the USSR both in internal and external policies, YAR pursued a more complicated policy receiving assistance from the two antagonistic blocs, making each of them feel geopolitically comfortable. Sanaa's approach was quite typical of the Middle East policy of the second half of the 20th century. The same tactics were adopted earlier by Gamal Abdel Nasser.

Probably the only valuable acquisition for the USSR in Yemen was the naval base at Socotra Island. The 8th (Indian) operational fleet based there included battle and support ships and submarines while the Soviet Il-38 anti-subs aircraft were based at the Aden airbase. These forces were based in Yemen since 1971 after the Indo-Pak war and were aimed at demonstrating the control over the region and observing the trend of events in Arabian Sea and the Gulf. Following an agreement with the government of South Yemen, Socotra and Aden became permanent bases for Soviet fleet and naval aviation.

In 1990, North and South Yemen united to become the Republic of Yemen. The Soviet Union grew engrossed in its own internal problems, and the West and Saudi Arabia gradually lost interest in assisting Yemen too. Most probably, the loss of interest was a result of the Gulf War, where the Yemenis had expressed their support to Iraq.[5] Although Yemen lacked operational capabilities to back or resist Iraq, the authorities of the country had to take public opinion into consideration. However, this did not save Yemen from a civil war launched in few years. The 90s were very challenging both for Yemen itself and for its bilateral relations with the new Russia.

Russia and Yemen: Specific Pragmatism

The first half of the 90s can be regarded as a confusing period both for Russia and Yemen, and this had an impact on bilateral relations. Briefly at that time, a point of view prevailed among the new Russian authorities that Russia should

5. Abdul-Salam Al-Korary, "Structural Reforms," SABANET, September 11, 2005.

not support friendly regimes without adequate payments for the armaments and service. In 1992, during "United Yemen in a Changing World" conference, Russia announced the revision of its foreign policy priorities suggesting that Yemen pay off its debt to the USSR. Such request could not be approved by Yemen, but Russia had no other alternatives. Perhaps, there was nobody in the Russian ruling circles to think of such alternatives.

Such steps can be simply explained: the USSR had generously backed friendly regimes ignoring its own interests for the sake of ideology. But it is not clear what the ideas and motives were behind the young Russian democracy's decision to stop backing its former allies. It is said that the decisions were made by short-sighted, unprofessional amateurs in President Yeltsin's team. Most likely, the reason lies somewhere else – perhaps, in the confrontation between the president and the parliamentary opposition. The country's foreign policy interests were sacrificed to other considerations. That is why Russia was balancing on the brink of civil war in the first half of the 90s.

Yemen, in its turn, could not and would not meet all the new and unexpected requirements in any case. To begin with, as one of the poorest economies of the world it was simply unable to pay off such a huge sum of money. Besides, Russia announced the possibility of assignment of the Yemeni debt to a third country. Finally, Moscow abruptly reversed its relations with the US and Europe, which could not but trouble Yemen.

Of course, the Russian economy was then in decline and not only lacked the ability to assist, but was in need of assistance itself. Certainly it was naïve to hope that Yemen would pay off the debt voluntarily. The situation, demonstrating a rather unusual approach to the Middle East, was both ironic and humiliating at the same time for Russia.

Naturally, the lack of mutual interests and common views on the future of bilateral policy reflected negatively on these relations and put them on hold for several years. However, educational, medical and archeological collaboration was not affected.

Thus, the first half of the 90s was marked by a pause in bilateral relations. After Yevgeny Primakov, a well-known specialist on the Middle East, was appointed as the Minister of Foreign Affairs in 1996, the search for new directions in cooperation was activated.

In 1996-1997, Russian and Yemeni legislative and executive representatives paid a series of mutual visits. These include the Speaker of the Yemeni House of Representatives Shaikh Abdullah bin Hussein Al-Ahmar's official visit in

December 1996 and the visit of the Russian Parliamentary delegation, headed by Vice President of the State Duma Mikhalil Gutseriev, in March 1997 when an agreement on inter-parliamentary cooperation was signed. Besides, in October 1997, Russian Foreign Minister Primakov's met with the President of the Republic of Yemen Ali Abdullah Saleh in Amman.

During 1998-1999, Russia went through hard times: there was the crisis of executive power, the severe struggle between the parties and the politicians on the eve of parliamentary elections; and a major economic crisis in August 1998 which coincided with a sharp cooling off in Russia-NATO relations provoked by the tension in the former Yugoslavia. Russia, at that point, had enough issues to settle and did not focus much on relations with Yemen. But everything changed in 1999-2000.

Counter-terrorism operations in North Caucasus brought up the issue of foreign mercenaries recruited from among Islamic extremists of Arab origin. Russian authorities represented by the Prime Minister and later on by President Vladimir Putin took a series of intensive measures aimed at establishing contacts with the Arab world. After the terrorist attacks in New York on September 11, 2001, the issue of fighting terrorism became a priority on the world agenda, which moved Russian-Yemeni relations to a new level. Naturally, the details of such cooperation have not been revealed, but both Russian and Yemeni officials have emphasized its significance on repeated occasions.

In May 2000, a Russian governmental delegation headed by the Minister of Defense Igor Sergeev took part in the occasion dedicated to the 10th anniversary of the reunification of Yemen.

In September 2000, during the Millennium Summit in New York, Russian President Vladimir Putin and Yemeni President Ali Abdullah Saleh held a brief meeting.

In April 2001, the Minister of Foreign Relations of the Yemeni Republic, Abu Bakr Abdullah Al-Kerbi, visited Russia and held negotiations with the Russian Minister of Foreign Affairs, Igor Ivanov, following which the two countries signed a convention.

In December 2002, during Ali Abdullah Saleh's official visit to Moscow, the parties signed a Declaration on the Principles of Friendly Relations and Cooperation between the Russian Federation and the Republic of Yemen, an Inter-governmental Agreement on Cooperation in the field of Science, Culture, Education, Sport and Tourism, as well as an Agreement on Stimulation and Mutual Protection of Investments.

Today Russian-Yemeni cooperation is focused on the following areas: public health, energy, construction, transport, agriculture and irrigation. There

are several Russian export companies operating in Yemen: Tekhnopromexport, Sel'khozpromexport, and Zdravexport.

In 2001, new opportunities for bilateral cooperation opened up. A subsidiary of "Rosneftegazstroi International Oil and Gas Holdings" obtained a concession for two oil and gas blocks in the south of Yemen.

The overall number of Russian specialists in Yemen has moved up to 300 people. Most of them are doctors and paramedics.

The volume of Russian-Yemeni trade and economic liaisons except arms trade in 2002 amounted to $5 million ($7 million in 1999).

In 1999, an Agreement on Cooperation between ITAR-TASS and SABA news agencies was signed.

On August 6, 2003, a Russian-Yemeni Friendship Conference was held in Moscow and was headed by Hermitage Museum Director Mikhail Piotrovsky.

Nevertheless, Russian and CIS interests are not strongly represented in Yemen with the exception of arms deliveries.

Yemen's Military Technical Cooperation with Foreign States

Although Yemen is one of the poorest countries in the region, it purchases considerable volumes of armaments and military equipment (AME). The USSR used to be the principal supplier both for the traditionalist North Yemen and for the Marxist South Yemen (however, YAR also purchased Western armaments).

The break-up of the Warsaw Pact and the Soviet Union was followed by a pause in deliveries until 1994 when the civil war in Yemen required the military support of former Soviet republics. The main Yemeni partners in military-technical cooperation after 1991 (with the exception of Russia) became Bulgaria, Poland, Czech Republic, Ukraine, Belarus and China. There were also reports of some sporadic deliveries from the US and France.

Table 1 shows the confirmed contracts and deliveries.

Table 1. Identified Contracts on AME Supply to Yemen, 1994-2005

Supplier	Items	Financial Data	Details
1994			
Bulgaria	10 120-mm M-43 mortars		
Bulgaria	56 T-62[1] tanks	$20 million	
Bulgaria	6 T-55 tanks[2]		

Bulgaria	Big number of small arms and light weapons, munitions		
Moldavia	8 MiG-29 single-seat fighters, 2 MiG-29UB two-seaters		Former 86th fighter wing jets
Moldavia	13 220-mm MRLS 9P140 "Uragan"		Former 4th Artillery Regiment, 4th Army
Poland	Visit of Cenzin representatives to Yemen, contract signed (armaments, munitions)[3]	Several million dollars	Some days before the civil war started
Ukraine	4 Su-22 tactic multirole combat jets		Delivered in 1995[4]
1995			
China	3 brand new Huangfen-type missile boats		With S-801 antiship missiles
1996			
Ukraine	4 Su-17 strike aircraft[5]	$2 million[6]	
France	6 Baklan patrol crafts (CMN)		Delivered in 1996-1997
1998			
France	15 AML-60/90 AFV		Delivered in 1998-1999[7]
1999			
Poland	4 landing ship and boats[8]	$50 million	Middle landing ship of NS-722 project, delivered in 2002,[9] 3 landing boats of NS-717 project, the delivery of 2001 r.
Poland	20 T-55 tanks by Cenzin[10]	$1.2 million	Tanks finally got to Sudan
Poland	550 Star 266 trucks	$70 million as a loan by Bank Handlowy (Poland)	Deliveries in 1999-2000 by Starachowice plant, subsidiary of Zasada SA[11]
Czech Republic	106 T-55 tanks	about $3 million	Probably upgraded. Deliveries in 2000 (97),[12] 2001 (9), 2002 (35)[13]
Czech Republic	12 brand new L-39C trainers		
2000			
Belarus	27 T-72B tanks		Delivered in 2000[14]
2001			
Czech Republic	12 Zlin-242L trainers		4 delivered in 2001, 6 – in 2002[15]
Czech Republic	Light weapons[16]		
2002			
Czech Republic	30 100-mm tank guns TK 10-T2C[17]		

PDRC	15 tactical missiles Hwasong 5 (Soviet R-300 modification)		
2003			
Ukraine	32 T-72 tanks 36 BMP-2 IFVs[18]		
2004			
USA	8 small patrol crafts		
2005			
Australia	10 patrol craftsl[19]	$70.4 million	Contract signed in June 2003 r., deliveries finished by 2005

1 SIPRI, *Transfers and Licensed Production of Major Conventional Weapons*, http://first.sipri.org .

2 Ibid.

3 Tomasz Oljasz, Jarosław Szczepańskiin, "The Government's 'Tankless' Task," *The Warsaw Voice*, September 12, 2005.

4 SIPRI, *Transfers and Licensed Production of Major Conventional Weapons*.

5 Nezavisimoe voennoe obozrenie, February 3, 1997.

6 "Nacional>na bezpeka i oborona," Ukrainskij centr jekonomicheskih i politicheskih issledovanij, No6, 2000.

7 SIPRI, *Transfers and Licensed Production of Major Conventional Weapons*; отчет Франции в Регистр ООН за 1999 г.

8 Warsaw Rzeczpospolita, March 3, 2000.

9 SIPRI, *Transfers and Licensed Production of Major Conventional Weapons*.

10 *Al-Ayyam*, 6-12.09.1999.

11 Warsaw Rzeczpospolita, March 3, 2000.

12 UN Registry on Conventional Arms Transfers, 2000 г.

13 UN Registry on Conventional Arms Transfers, 2002 г.

14 UN Registry on Conventional Arms Transfers, 2000 г.

15 SIPRI, Transfers and Licensed Production of Major Conventional Weapons.

16 *Middle East Military Balance – Yemen*, Jaffee Center For Strategic Studies, http://tau.co.il.

17 UN Registry on Conventional Arms Transfers, 2002.

18 UN Registry on Conventional Arms Transfers, 2003.

29 "Avstralija postavila 10 patrul'nyh katerov dlja VMS Jemena," ITAR-TASS, February 24, 2005.

It should be noted that in the 90s, deliveries from Eastern Europe and former Soviet republics to Yemen were often made behind closed doors. The following episodes about Polish tanks in Sudan and Turkmenistan's mediation are the most illustrative.

It is known that socialists from the South were supported by Turkmenistan in 1994 when the preparation for the civil war in Yemen was going on at full drive. Turkmen military men with the help of semi-legal companies delivered to Yemen 10 MiG-29s from Moldavia, 20 BM-21 Grad multiple rocket launchers and 13,000 AK-

47 assault rifles from Romania, 8 Su-22 aircraft from Belarus, 4 Su-17 from Ukraine and artillery systems with munitions from Bulgaria. An official website of one of the mediator companies, Phoenix Air, naturally, does not enlist such a service as "illegal arms traffic in contravention of the international law" but it informs that the company has all the necessary permissions for "air transportation of forbidden cargos."

In 1999, Poland's government granted to Yemen a $70 million credit for purchasing T-55 tanks. The general contractor, Cenzin, shipped 20 vehicles to Yemen which, however, ended up in Sudan. The US authorities initiated action aimed at finding out how the tanks had reached Sudan, the territory where a US embargo was in force. Poland's Prime Minister announced that Warsaw was unaware of the final destination of the cargo and confirmed canceling further delivery of 30 more vehicles to Yemen.[6]

In 1994, up to 12 MiG-29s were loaned to South Yemen during the civil war. Some were reportedly destroyed and the others were returned later that year for an overhaul in Belarus.[7] Efforts are on to improve serviceability and capability of older warplanes, with an initial batch of 10 Sukhoi Su-22 'Fitter' fighters presently undergoing overhaul in Belarus at the 558 Plant in Baranovichi (the order is placed by Rosoboronexport and the scheme is not obvious in fact).[8]

When Yemen supported the US after the 9/11 attacks, Washington dropped the embargo on the country, thus, opening up the possibility that the country could be supplied with American armaments in the near future.

In 2004, eight small patrol vessels were sent to Yemen for the needs of the Yemeni Coast Guard created with US help. Nevertheless, Yemen is still mostly oriented to Russian-produced weapons.

In its report to the UN on arms transfers in 2006, Ukraine just mentioned 12 pieces delivered to Yemen; no details were revealed. One can lose oneself in conjectures trying to find out what it is all about. Being a strong Russian competitor in the arms upgrade market, Ukraine is always secretive about everything concerning its business. Usually information on any Ukrainian deals surfaces incidentally. As an example, information on the supply of combat helicopters and small-arms to Yemen was revealed only after 12 Ukrainian citizens got themselves poisoned with wood alcohol in Yemen.

6. *Warsaw Rzeczpospolita*, March 3, 2000.
7. "Europe, Moldovan Sale of 'Fulcrums' to Pave Way for Helicopter Buy," *Jane's Defence Weekly*, August 27, 1997.
8. Interfax, November 1, 2005.

On the whole, Yemen received a lot of proposals from CIS countries and especially from Ukraine, as Yemeni Minister of Defense revealed in an interview to a Russian newspaper in September 2006. "At the same time Yemen prefers Russian armaments as many Yemeni military specialists studied in the USSR and know how to use Soviet weapons."[9]

Military-Technical Cooperation with Russia

United Yemen, being in line with PDRY (South Yemen) policy, chose Russian and Soviet-produced armaments as the most preferable. The last delivery from the USSR was made in 1990-1991 (2 missile crafts of 1241RE project).[10]

Just like many other traditional USSR customers (such as Peru, Vietnam, Syria), Yemen tried to save money by buying many armaments from the former Soviet republics and Warsaw Pact countries. But after realizing that the "grey" deliveries did not guarantee any technical support or after-sales service, the country's authorities began re-establishing contacts with Russia in the second half of the 90s. The situation was complicated because of a huge debt for the USSR deliveries. The debt was almost fully written off in order to galvanize military-technical cooperation.

President of Yemen Ali Abdullah Saleh personally came to Russia to discuss possible renewal of deliveries as well as prices for Russian armaments. As the situation both inside the country and on its borders has continued to be very tense for years, Yemen is interested in all the range of AME. For instance, in July 1998, a Yemeni delegation considered the possibility of purchasing 12 Su-27SK fighter jets and 2 Su-27UBK, as well as several air defense systems totaling $500 million.[11] In March 2000, during the visit of the Yemeni Minister of Defense to Moscow, a working protocol regarding Yemen's interests in the field of military-technical cooperation with Russia was signed. The protocol mentioned some 10 Su-27SK fighters, the same quantity of MiG-29 and Mi-35 helicopters, Su-27UB aircraft, over 5 batteries of air defense systems S-300PMU or S-300PMU-1, some 100 T-72B tanks, about 100 BMP-2 or BMP-3 infantry combat vehicles, several "Smerch"

9. "Jemen sformiroval zajavku na zakupku u Rossii bol'shoj partii oruzhija i boevoj tehniki," Interfax-AVN, September 29, 2006.
10. V. Shvarev, "Rossijskoe oruzhie dlja Jemena," *Voenno-promyshlennyj kur'er*, April 21, 2004.
11. Yuri Golotjuk, "Rossija gotova postavit> S-300 PMU-1 na Blizhnij Vostok," *Russkij telegraf,* July 22, 1998.

multiple launcher rocket systems and "Kornet-E" antitank missile systems.[12]

In 2000, 31 T-72B tanks from Russian MOD stocks were delivered to Yemen.[13] The tanks were said to be equipped with the Arena active vehicle defense system developed by the KBM Design Bureau – the first such export order to include the Arena system. According to SIPRI data, eight more tanks were delivered in 2001. There were reports that on March 14-15, 2000, a Yemeni delegation participated in negotiations concerning the purchase of a big batch of armaments, including air defense systems, T-72 tanks, multiple launcher rocket systems, Su-27 fighters.

Jane's Sentinel Security Assessment in June 2005 quoted an unnamed Ethiopian newspaper, which reported that, "according to industry sources, Yemen had bought 300 T-72 tanks from Russia in a deal concluded in October 2002". The paper claimed that "60 of these tanks had been sold to Ethiopia and that Yemen intended to sell more to Djibouti and Sudan", stating that "Yemen was acting as a middleman for African states seeking major military systems."[14]

It was learned in 2001 that Russia's KBM Design Bureau signed a contract with the government of Yemen for an appraisal of the condition of Yemen's OTR-21/9M79 "Tochka" short-range single warhead ballistic missiles supplied in the late 1980s.

However, there are still only two principal contracts within the framework of Russian-Yemeni military-technical cooperation: a contract on delivery of MiG-29 fighters and their further modernization, and a contract on delivery of 180 BMP-2 infantry combat vehicles.

The contract on 12 MiG-29 and 2 MiG-29UB deliveries was signed in September 2001. The aircraft were shipped in June-December 2002. The contract totalled some $300 million.[15]

In March 2003, another contract for the delivery of 6 MiG-29SMT (advanced modification of standard MiG-29) as well as repair and upgrade of the 12 MiG-29 and 2 MiG-29UB delivered earlier was signed. The contract value went up to $153 million (apparently, only for the six new aircraft).

---

12. M. Kenzhetaev, "VTS Rossii so stranami Blizhnego i Srednego Vostoka," *JAdernyj kontrol'*, no. 1, 2004 g.
13. "Perspektivy Rossii na rynke vooruzhenij Jemena obretajut konkretnoe soderzhanie," ARMS-TASS, May 24, 2004.
14. Procurement, Yemen // *Jane's Sentinel Security Assessment - The Gulf States*. It must be mentioned that the number 300 was absolutely unreal and *Jane's* later removed this statement from its database. Besides, some number of T-72s, in fact, could have been transferred to Ethiopia.
15. SIPRI, *Transfers and Licensed Production of Major Conventional Weapons.*

In fact, Yemen became the first customer of MiG-29SMT in the world. But in November 2004, the General Director of Rosoboronexport Sergei Chemezov mentioned that the contract was being implemented "not so smoothly."[16] This may be attributed to the difficulties which emerged while debugging the avionics equipment. The first two MiG-29UBT were shipped to Yemen at the end of 2004 (obviously, some of the modernized ones) and were enlisted in the UN Register of Conventional Arms.[17]

In February 2005, it was announced that the Russian Aircraft Corporation MiG had already modernized six MiG-29 fighters under the Yemeni contract, and that the work on modernization of Yemeni MiG-29 to MiG-29SMT would be continued.[18] It is believed that all the works were finished by the end of 2007. According to the top managers of MiG Corporation, the company should have begun talks on additional deliveries as soon as the main contract was complete.

In July-August 2005, two MiG-29 fighters were lost in an accident. This provided a reason to sign new contracts on aircraft deliveries to substitute the lost jets.[19] And in August 2006, it was learned that deliveries of 32 additional MiG-29SMT for $1.3 billion was likely.[20] Signing of this contract was postponed till the full cycle of firing tests in Yemen was completed.

According to *Jane's Defence Weekly*, "United Yemen Air Force (UYAF) pilots have made over 100 flights and, with the help of Russian Air Force and RSK MiG personnel, have conducted precision ground-munitions firing tests locally, sources say. In one test, UYAF pilots scored a 100 per cent hit rate using four Kh-31A anti-ship missiles." There is no available information about the target used in the anti-ship missiles test, but if the fact is true then YAF should be counted as a very strong force with perfect defensive capabilities against any kind of land, air or sea aggressor.

There is also information on deliveries of STBP-29 full-flight weapons-use simulators to Sudan and on Yemen already operating them. "The Middle East is packed with MiGs, from MiG-21s to MiG-29s," Alexei Fedorov, Head of RSK MiG, said to *Jane's Defence Weekly*. To facilitate sales, RSK MiG is offering a trade-

16. "Ob'emy postavok rossijskih vooruzhenij v Jemen prevysjat v 2004 g. 100 mln doll," PRAJM-TASS, November 22, 2004.
17. UN Registry on Conventional Arms Transfers, 2004.
18. ARMS-TASS, February 15, 2005.
19. SABA, September 1, 2005.
20. "Jemen planiruet zakupit' u RSK 'MiG' 32 istrebitelja MiG-29SMT," ARMS-TASS, September 8, 2006.

in option: a used MiG-21, -23 or -25 would be taken as partial payment for a new MiG-29SMT.[21]

In 2003, a contract on 180 BMP-2 infantry combat vehicle deliveries (to all appearances, from the Russian Ministry of Defense stocking depots) was signed. The contract value amounted to $100 million. Fifty vehicles were shipped in July 2004, and the total amount of infantry combat vehicles delivered to Yemen, as Russia officially declared to the UN, was 128. All the documentation was prepared by "Kurganmashzavod," with the general contractor represented by the Ministry of Defense repair factory #144 in Ekaterinburg.[22]

Among other things, there were also negotiations on possible delivery of "Kornet E" antitank missile systems and on upgrade of Yemeni MiG-21s. In 2002, under the contract signed in 2001, Kolomna Machine-Building Design Bureau carried out an examination in Yemen of 80 missiles of the "Tochka" tactical guided missile system. ARMS-TASS information agency mentioned some contracts with a State Scientific and Production Center "Zvezda-Strela" and with Nizhny Novgorod "Sokol" aircraft factory. It is known that in 2002, deliveries to Yemen reached 32.2 percent of the total volume of Sokol's exports[23] (it might have been mostly repair parts for MiG-21 aircraft).

In the course of Ali Abdullah Saleh's visit to Russia in 2002, a possibility of purchasing up to six "Ka" helicopters was discussed. During that occasion a contract on delivery of Mi-171 VIP-modification was signed. The helicopter was shipped in December 2004.[24]

In June 2006, Russia reported to the UN on the delivery of 2 Mi-17 helicopters to Yemen. It is not clear if there were any further unconfirmed deliveries but a batch of only two helicopters seems to be too small.

According to unofficial information, there was a delivery of 10 Mi-171 civil transport helicopters built by the Ulan-Ude Aviation Plant to Yemen in 2004.[25] In 2004, sources said that Yemen might be supplied with 12 Ka-52 "Alligator" combat helicopters valued at $150 million. However, Yemen authorities were said to insist on signing the helicopter contract only after SMT deliveries were completed.[26]

---

21. Henry Ivanov, "Russia Details Middle East Export Strategy," *Jane's Defence Weekly*, July 12, 2005.
22. I. Mokrousova, N. Poljakov, Rossija ne prodast Jemenu 'Alligatorov,' *Gazeta.Ru,* August 13, 2004.
23. ARMS-TASS, May 24, 2004.
24. ARMS-TASS, February 15, 2005.
25. K. Makienko, "Predvaritel'nye itogi voenno-tehnicheskogo sotrudnichestva Rossii s zarubezhnymi gosudarstvami v 2004 godu," *JEksport vooruzhenij*, no. 6, 2004.
26. A. Nikol'skij, "Ka-52 letit v Jemen," *Vedomosti*, May 31, 2004.

Yemen also sought the modernization of its BRDM-2 combat reconnaissance patrol vehicles, but no more information is available.

As the MiG-SMT contract is almost completed, it is logical to expect the possibility of additional deliveries and the signing of another contract on combat helicopters. Still these expectations are not yet confirmed. As Ka-52 lost a long competition with Mi-28N in tests held by Russian MOD, it is obvious, that "Alligator"'s export future is too foggy to make definite forecasts. The Russian press has also reported on permanent problems with the "Arbalet" radar.

Conclusion

Today Russia has three prospective partners – Kuwait, Yemen and Syria – as Mikhail Dmitriev, Head of Russian Federal Service on Military-Technical Cooperation, put it in February 2007. He stated that the Middle East was a great market for Russian armaments, and in the near future, it would become comparable with Indian and Chinese partners.[27] It is very well known that Yemen is extremely keen to buy AME from Russia, especially expensive sorts of armaments such as combat jets and air defense systems.

It is also known that Russia and Yemen have renewed the military education program, and as a consequence, at least several dozen Yemeni cadets and officers have been studying in Russia since October 2006.

There are many factors that must be taken into consideration if we speak about the prospects of Yemen's military-technical cooperation with foreign states in general, and Russia, in particular.

Firstly, there are a lot of old Soviet-built armaments in the country that need repair, modernization or substitution. Secondly, the Yemeni authorities are evidently interested in further development of military-technical cooperation with Russia. This interest is supported by a shortage of modern AME in the country.

In 2004, the volume of Russian AME deliveries to Yemen exceeded $100 million.[28] Oddly enough, one of the poorest countries in the world has become a major customer of Russian up-to-date armament, including MiG-29SMT, and is aiming at purchasing Ka-52, S-300PMU air defense system and the like.

It is not yet clear where Yemen gets financial support for its projects. Rumors say Saudi Arabia could be a sponsor, though the motives for it to support Yemen

27. Portfel' zakazov po postavkam rossijskogo oruzhija za rubezh dostig 30 mlrd dollarov - Mihail Dmitriev // Interfax-AVN, February 27, 2007.

28. ARMS-TASS, February 15, 2005.

remain vague. The only reason for Saudi Arabia to support the Yemeni government is to prevent radical Islamic extremists from taking power in the country.

But it seems much more likely that Yemeni procurement is sponsored by some very powerful player, who needs a strong counterpart for Saudi Arabia in the region in case the Saudis try to play their own game. Geographically, Yemen is a very suitable place to build a base to control the whole region, and especially Saudi Arabia.

After the US lifted the trade embargo against Yemen, the latter became a very attractive market not only for America, but also for West Europe and Australia. The interest in the Yemeni market may have been stirred up by the readiness of the authorities to permit access to hydrocarbon fields as the means of payment for deliveries.

Besides, the Iraqi crisis makes the US aspire to extend its influence into each country of the region. With regard to Yemen, the strategic location of Aden port is of special interest. The Bab-el-Mandeb Strait and Red Sea may be controlled from this port.

The geopolitical situation also creates conditions for different coalitions to back one or the other groups inside the confrontational Yemen. If such confrontation provokes the collapse of the unstable Ali Abdullah Saleh's regime, many of the potential contracts can fail as a new sanguinary civil war will break out. In such case, people could resort to small arms which are in abundance in Yemen.

As for the Kremlin's policy towards Yemen during the Putin era, it is obvious that the progress is great, but in arms trade only. The future of Russian-Yemeni relations depends on the next President's vision on the Russian position in the Middle East and Gulf region. There are two main factors that allow us to expect further progress in Yemen: a) growing tensions between Gulf and the Middle East countries and the US, and b) the brilliant prospects of the only Russian arms exporter, Rosoboronexport.

Considering the internal challenges likely to be faced by Russian elites in the near future when the parliamentary and presidential elections come up, it is more likely that Russia will go on developing the arms trade with Yemen, while at the same time trying to enter other sectors of the Yemeni economy, primarily oil projects.

It is also known that a part of Yemeni payments for MiG fighters was made by allocating a fish quota for Russian companies in the Yemeni fishing zone. Such cooperation is much more fruitful in the long-term as it involves different companies from both sides thus resulting in a strengthening of economic and political links.

Armenia and the Gulf States: Foreign Policy Fundamentals and Choices

Dr. Joseph A. Kéchichian

Editor, Journal of the Society for Armenian Studies, Los Angeles, USA

Introduction

Because land-locked countries pursue survival strategies, geography determines the direction of their foreign policies, even if other contentions abound. In the case of Armenia, and except for its unique and privileged ties with Russia, Yerevan looks to neighboring countries in the Middle East as potential international partners, and perceives all League of Arab States and Organization of Islamic Conference countries — perhaps with the exceptions of Turkey and Azerbaijan in the short-term — as recognizable allies. Yet, because Armenia literally sits on Europe's eastern border with the Muslim World, it hovers between two poles. How it manages its ties with Russia in the North and the Muslim World in the South, and how it balances its pro-Western preferences with critical concerns that pertain to Turkey and Azerbaijan, may well determine its long-term security. It is partly for these reasons that Yerevan looks closely to the Gulf States where large and highly productive Armenian diaspora communities thrive. Over the very short period of its post-1991 independence, Armenia pursued a consistent foreign policy direction, even if its quest was severely handicapped by a conflict with Azerbaijan over Artsakh (more widely known as Nagorno-Karabakh).[1]

1. Joseph A. Kéchichian, "Armenian Foreign Policy: Patterns and Prospects," *Armenian Review* 46,

Since 1991, the Armenian government has moved quickly and effectively to establish friendly ties with the outside world. Over 50 governments have officially established diplomatic relations and several have signed privileged bilateral economic accords to serve mutual interests. In fact, many countries maintained embassies in Armenia, including China, Egypt, France, Georgia, Germany, Greece, India, Iran, Lebanon, Romania, Russia, Syria, Ukraine, the United Kingdom, and the United States (See Table 1). Moreover, over 50 states have ambassadors and chargés d'Affaires accredited to the Republic of Armenia, but with representation outside of the country. In turn, Yerevan established permanent representations in over 40 countries, as it sought to co-exist in peace with other nations.

Out of necessity, Armenia addressed its strategic potential starting in 1991, as the USSR withered and nascent republics gained their respective independence. To its initial post-independence leaders' credit, Yerevan quickly embarked on a whirlwind of activity, which gathered envy and scorn from foes and allies alike. Notwithstanding good intentions, the "Karabakh Committee," which propelled several individuals to positions of authority, was ill-equipped to rule a state even if its attributes compelled it to govern a nation.[2] Overnight, opposition forces were empowered to govern, and it was within such a context that its record must be assessed to better highlight accomplishments during the past two decades. With limited resources and operating under severe constraints imposed by a joint Turkish/Azerbaijani blockade on the land-locked country, Armenia struggled to keep its political cohesiveness, internal security, and economic stability. Despite harsh conditions, Yerevan managed as best as it was possible and, with respect to its ties with the Muslim World in general and the Gulf States in particular, established solid long-term foundations. It drew succor from its historical legacy, correctly assessed its unique attributes with a key neighbor like Iran, and articulated a farsighted message that was discerning. In that respect, contemporary Armenian leaders shouldered their responsibilities with poise and exercised their authority with distinction. To be sure, there were awkward moments, but such was the writ of foreign policy, whose burdens weighed heavily on those entrusted with protecting interests while promoting immediate concerns.

To better assess Armenia's contemporary relationships with the Gulf States, this paper will first highlight the country's historical legacy, examine initial post-

1-4 (Spring-Winter 1993): 143-156.

2. The authoritative work on the Committee is Mark Malkasian, *"Gha-ra-bagh!": The Emergence of the National Democratic Movement in Armenia* (Detroit, Michigan: Wayne State University Press, 1996).

independence woes, and identify major contentions with Turkey. This discussion is essential to illustrate Armenia's legitimizing influences over the centuries. Even if past empires withered, Armenians maintained a continuous presence throughout the Muslim World for centuries, which partly explained its contemporary outlook. After this brief discourse, the paper addresses key foreign policy fundamentals with Azerbaijan, Georgia, Russia, Iran, Iraq, and the six conservative Arab monarchies within the Gulf Cooperation Council (GCC). It concludes with a brief evaluation of Armenia's limited accomplishments against significant odds.

From Empires to States

Armenian empires fought pre- and post-Muslim kingdoms. Still, millions of Armenians survived the 1915 Holocaust, sometimes referred to as the "Armenian Genocide," and were welcomed by Arab Muslims into their homes.[3]

The first Kingdom of Armenia was established under the Orontid Dynasty, which flourished under Tigranes the Great, who ruled between 95 and 55 BC (see map 1). At the time, this first monarchy was one of the most powerful kingdoms in the Middle East, which enjoyed genuine autonomy. Yet, because of its strategic location, the kingdom was repeatedly confronted by leading foes, including Assyrians, Greeks, Romans, Arabs, Mongols, Persians, Turks, and Russians. Although Christianity arrived to Armenia around 40 AD, King Tiridates III (238-314 AD) formally converted his entire nation in 301, while remaining pagan communities were slowly Christianized.[4] Armenia was occupied by the Sassanid Persian Empire in 252, and fought with the equally hegemonic Roman Empire in 287. This first Armenian kingdom was literally divided in 384 into a "Western" portion that followed the Romans, and an "Eastern" portion that retained some autonomy within Persia until 428, when ambitious lords — with full Sassanid acquiescence — overthrew the monarch. Persia replaced the fallen king with a governor (marzapan) as Armenia was reduced to a Sassanid Marzapanate until 451, when a revolt — ostensibly to exercise religious freedoms — failed to alter increasingly difficult conditions.

When the Sassanid Empire was destroyed by the `Umayyad Caliphate in 639,

3. The term "Armenian Holocaust" is attributed to Winston Churchill; see Robert Fisk, *The Great War for Civilization: The Conquest of the Middle East* (New York: Alfred A. Knopf, 2005), 329.

4. For a concise introduction, see Christopher J. Walker, *Armenia: The Survival of a Nation,* 2nd ed. (New York: Palgrave Macmillan, 1990); and George A. Bournoutian, *A Concise History of the Armenian People: From Ancient Times to the Present* (Costa Mesa, California: Mazda Publishers, 2002).

Armenia submitted to Arab conquerors, and remained under Arab rule for the next 200 years. Remarkably, it re-emerged as an autonomous principality reuniting lands previously occupied by the Byzantine Empire, and was ruled by princes recognized by both the Caliph as well as the Byzantine Emperor. This principality became part of an administrative emirate known as *Arminiyyah* centered around the historically significant city of Dvin, which was violently put down and whose survivors were forced into military service; Dvin was the primary residence of the Arshakuni Dynasty. *Arminiyyah* lasted until 884 as the Bagratuni Dynasty (884-1045) emerged and slowly regained power. In many ways this was one of the most glorious periods for Armenians as several autonomous kingdoms and principalities came to life, including Vaspurakan, ruled by the Artsruni, which submitted to Bagratid rulers. Nevertheless, despite the Armenian Renaissance, Byzantine emperors re-conquered Bagratid Armenia in 1045, before Seljuk Turks extended their realms to Armenian lands starting in 1071. Survivors of the Seljuk conquest sought and received shelter in Byzantine Cilicia (Kilikia) where Armenians established their second kingdom. The "Armenian Kingdom of Cilicia" fought with Seljuks before defending the realm from Mongol hordes during the first few years of the 11th century (see map 2). In turn, the Mongols were followed by Central Asian tribes, which ruled with iron fists until the 1400s. Weakened and unable to withstand further attacks, Armenians fell victim to a division of their lands between Safavid Persians and the emergent Ottoman Empire. Even the Russian Empire feasted on parts of Armenia, when the Yerevan and Artsakh (Karabakh) regions were occupied in 1813 and 1828, respectively.[5]

As Christians under Muslim order, Armenians were granted some autonomy within the Ottoman Empire, although they quickly faced discrimination and were subjected to periodic ethnic cleansing. During the reign of Sultan Abdul Hamid II, most particularly, Constantinople authorized massacres between 1894 and 1896, when an estimated 300,000 perished.[6] Even worse calamities befell them after the collapse of the Ottoman Empire and the rise of the Young Turk government. In fact, Armenians were perceived as suspicious fifth-columnists (allegedly on behalf of Russia), which led to the 1915-1918 Holocaust in which an estimated 1.5 million were slaughtered throughout Anatolia.[7] For a very brief period (May 28,

5. Dominic Lieven, *Empire: The Russian Empire and Its Rivals* (New Haven, CT: Yale University Press, 2002), 201-231; 378-382.

6. Vahakn N. Dadrian, *The History of the Armenian Genocide: Ethnic Conflict from the Balkans to Anatolia to the Caucasus,* 6th ed. (New York: Berghahn Books, 2004), 113-171.

7. Several recent studies cover this topic. See Taner Akçam, *A Shameful Act: The Armenian Genocide and the Question of Turkish Responsibility* (New York: Metropolitan Books, 2006); Donald

1918 to November 28, 1922), and largely under Russian tutelage, an independent Armenia existed but all was lost as Moscow extended its physical control over the entire Caucasus. By August 10, 1920, and in light of terms agreed to by victorious Entente powers, the Treaty of Sèvres envisaged a separate republic to which former territories of Ottoman Armenia would be amalgamated. When the emergent Turkish nationalist movement led by Mustafa Kemal Atatürk rejected the superseding Treaty of Lausanne (July 24, 1923), the die was cast. Atatürk fought for his republic and what remained of Armenia folded within the Stalinist Armenian Soviet Socialist Republic.[8] Yerevan was subjected to fresh vagaries as Stalin, in particular, ruled through fear. He did not spare Armenians the terror he generously spread throughout his meek empire. Tens of thousands of Armenians were either executed or deported, a situation that did not abate until the Khrushchev era after 1953.[9] When in 1965 Armenians demonstrated en masse to commemorate the 50th anniversary of the holocaust, Moscow finally authorized the construction of a memorial to its victims, which was inaugurated two years later on the Tsitsernakaberd hill in Yerevan. Even before the devastating 1988 Spitak earthquake that shook the Gorbachev regime, Armenians insisted that real reforms — especially stricter environmental controls on a decrepit nuclear plant and pollution ridden factories that pullulated — be introduced in the *glasnost* spirit en vogue at the time. Still, a disorganized response to the earthquake forced Moscow to welcome sorely needed Western assistance, which further emboldened opposition forces. Equally important, tensions between Armenia and Azerbaijan over Artsakh (colloquially known as the Nagorno-Karabakh region), spilled over into a grassroots independence movement.

Inspired by *glasnost*, Armenian leaders authorized the establishment of the New Armenian Army (NAA) in May 1990 that, not surprisingly, was looked upon with

Bloxham, *The Great Game of Genocide: Imperialism, Nationalism, and the Destruction of the Ottoman Armenians* (Oxford, UK: Oxford University Press, 2005); Vahakn N. Dadrian, *Warrant for Genocide: Key Elements of Turko-Armenian Conflict* (New Brunswick, N.J.: Transaction Books, 1999); Richard H. Hovannisian, *Looking Backward, Moving Forward: Confronting the Armenian Genocide* (New Brunswick, N.J.: Transaction Books, 2003).

8. Akçam, op. cit., 349-67.

9. For detailed assessments of Armenians in the Soviet Gulag, see Ronald Grigor Suny, The *Revenge of the Past: Nationalism, Revolution, and the Collapse of the Soviet Union* (Stanford, CA: Stanford University Press 1993;) Georgiy I. Mirsky, *On Ruins of Empire: Ethnicity and Nationalism in the Former Soviet Union* (Westport, CT: Greenwood Press, 1997), 61-90; 146-148; J. Otto Pohl, *Ethnic Cleansing in the USSR, 1937-1949* (Westport, CT: Greenwood Press, 1999), 111-136; and Dina Zisserman-Brodsky, *Constructing Ethnopolitics in the Soviet Union: Samizdat, Deprivation and the Rise of Ethnic Nationalism* (New York: Palgrave Macmillan, 2003), 69-110, 119-121.

disfavor by the Soviet Red Army (MVD). When Armenians commemorated the establishment of the 1918 republic, however, clashes resulted with five Armenians gunned down at the central railway station in Yerevan. Eyewitnesses claimed the use of excessive force by Soviet troops that led to frequent confrontations throughout 1990 and early 1991. The lethality of these battles further exacerbated ties, which spilled over into political conflict. On March 17, 1991, Armenia joined Estonia, Latvia, Lithuania, Georgia and Moldova in the boycott of a union-wide referendum calling for the creation of a reinvigorated Commonwealth of Soviet Republics. The die was cast as the nascent Armenian state embarked on full independence.

Armenia after 1991

When the Soviet Union imploded in late 1990, Armenia quickly sought to re-establish its independence, declaring its secession from the union on August 23, 1991. Utter economic chaos, military confrontation, and political isolation followed what should have been a joyous new opening. In the event, a hastily assembled government with heavy nation-building burdens tackled all three challenges helter-skelter, pursuing what appeared to be contradictory policies. Yerevan managed chaos rather than devise long-term policies but such an assessment was the result of hindsight rather than pragmatic undertakings.[10] It must be emphasized that the country's economic problems were quickly exacerbated by the war with Azerbaijan, which imposed a devastating blockade on the land-locked country. As an estimated 85 percent of all cargo destined for Armenia arrived through rail traffic, this tactical Azerbaijani move crippled the Armenian economy.[11] Yerevan was further strangulated in 1993, after Turkey joined the blockade against Armenia, in part to support Azerbaijan. Even Georgia, a traditional rival in every sense of the word but which could display raw interests on a need basis, joined in. The sum total of these suppressions led the Armenian government to look south, first at Iran and then beyond it to the Muslim World.

It may be worth recalling that the war with Azerbaijan over Artsakh stopped in 1994 after Moscow brokered a ceasefire, although Baku nursed a sore wound because

10. Enrique Gerbard, Jimmy McHugh, Garbis Iradian, Christian Beddies, and Laure Redifer, *Growth and Poverty Reduction in Armenia: Achievements and Challenges* (Washington, D.C.: International Monetary Fund, 2005).

11. Michael P. Croissant, *The Armenia-Azerbaijan Conflict: Causes and Implications* (London: Praeger, 1998), 34.

an estimated 14 percent of its territory was under occupation.[12] Although Armenia and Azerbaijan have held regular peace talks since the 1990s, chiefly through the Organization for Security and Cooperation in Europe (OSCE), no breakthroughs loomed over the horizon in late 2008. Consequently, the Armenian economy was partially diverted to the war, even if undeniable progress was recorded during the past decade in all other segments.[13] Needless to say, Armenia's borders with Turkey and Azerbaijan remained closed, its contacts with Georgia were lukewarm at best, which left Iran as the sole land conduit to the rest of the world. How Yerevan perceived its ties with each of Turkey, Azerbaijan, and Georgia is worthy of further examination.

Armenia and Turkey

Ironically, Turkey was one of the first countries to recognize the nascent Armenian republic's independence on December 16, 1991, although bonds never developed as anticipated and no formal diplomatic exchanges were initiated.

While some of the reasons for this lackluster record may be a legacy of the twentieth century Holocaust, relations were tense for a variety of other reasons too, including the unresolved conflict with Azerbaijan, the treatment of the small Armenian community in Turkey, the Baku-Tbilisi-Ceyhan oil pipeline, and the Kars-Akhalkalaki-Baku railway controversy.[14] Still, Ankara's refusal to acknowledge the Armenian Holocaust lies at the heart of all contentions between the two countries, though timid even if largely marginal discussions of the event are taking place in Turkey. It is widely expected that leading European powers, but especially Germany, France and Britain, may well impose full Turkish recognition of the genocide as a condition for Ankara to join the European Union. This monumental contention notwithstanding, Armenia has sought to settle differences peacefully and to establish full diplomatic ties without any preconditions. President Robert Kocharian declared that he was ready to "continue dialogue with Azerbaijan for the settlement of the Nagorno-Karabakh conflict and with Turkey on establishing

12. This figure includes Artsakh itself that, at least for Armenians, is not occupied but liberated. See Thomas De Waal, *Black Garden: Armenia and Azerbaijan through Peace and War* (New York: New York University Press), 240.

13. Gelbard, op. cit., 85-98.

14. Vladimir Socor, "Baku-Tbilisi-Ceyhan Oil Pipeline Inaugurated," *Eurasia Daily Monitor,* 2:105, May 31, 2005, at http://jamestown.org/edm/article.php?article_id=2369812; see also Idem, "Kars-Akhalkalaki-Tbilisi-Baku Rail Project Soon To Roll Forward," *Eurasia Daily Monitor,* 4:14, January 19, 2007, at http://www.jamestown.org/edm/article.php?article_id=2371822.

relations without any preconditions."[15] His successor, Serj Sarkisyan — who was elected on February 24, 2008 under unconventional conditions — pledged to continue Kocharian's policies.[16]

Other contentions are worthy of attention as well, including various assassination attempts of Turkish diplomats by the Armenian Secret Army for the Liberation of Armenia (ASALA), which gunned down 42 individuals between 1968 and 1984. Naturally, these killings occurred while Armenia was part of the Soviet Union, and ASALA was not empowered by an "Armenian State" to engage in such activities. Nevertheless, the murders incited nationalistic sentiments in Turkey, as several ASALA operatives were arrested in key Western countries, tried and condemned to various sentences including life terms.[17] On January 19, 2007, a 17-year-old ultra-nationalist, Ogun Samast, assassinated Hrant Dink, the editor of *Agos*, a Turkish-Armenian newspaper published in Istanbul. Dink was the target of Turkey's infamous Article 301 of the Penal Code that defined as a crime any insult of "Turkishness." His funeral witnessed a heretofore-unseen spectacle as tens of thousands of Turks marched in solidarity with the fallen journalist, many bearing placards, which read: "We are all Armenians."[18] Still, when his young killer was exalted as a hero by some Turkish government officials while in police custody, many recalled dormant historical-political tensions.[19]

These differences notwithstanding, the primary contention between Armenia and Turkey in 2008 was the closed border, which was a Turkish decision reached to placate Azerbaijan. Whether Ankara accepted this noose around its political neck

15. See "Yerevan Ready to Continue Dialogue with Baku for Karabakh Settlement," June 5, 2005 at http://www.panarmenian.net/news/eng/?nid=18307.

16. "Serj Sarkisyan: 'I will continue Robert Kocharyan's policy,'" *Today.AZ: All News from Azerbaijan*, February 16, 2008, at http://www.today.az/news/politics/43159.html.

17. According to the Memorial Institute for the Prevention of Terrorism (MIPT), an Oklahoma based research institution, 84 incidents were attributed to ASALA, leaving 46 people dead, and 299 people injured. See http://www.tkb.org/Group.jsp?groupID=258.

18. The rare display notwithstanding, "We Are All Armenians" ["Hapimiz Ermani Iz"] may have different connotations. For a critique, see George Aghjayan, "We Are All Not Hrant Dink," The *Armenian Weekly* 73, no. 4, January 27, 2007, at: http://www.hairenik.com/armenianweekly/com01270702.htm.

19. Ogun Samast, the 17-year-old ultra-nationalist child killer, declared that "Hrant Dink's writing and his speeches on television bothered [him]." "I shot him directly. I am not sorry," he stated. See "Hrant Dink's Killer: I Am Not Sorry," *Hurriyet*, January 21, 2007, http://www.hurriyet.com.tr/english/5817465.asp?gid=74; the young man was quickly brought to his senses and recanted two days later, see, "Trabzon Circle of Suspects Widens; Ogun Samast Says 'I Am Sorry I Killed Him,' *Hurriyet*, January 24, 2007, http://www.hurriyet.com.tr/english/5830266_p.asp.

in the Caucasus was a key question that needed elucidation. In fact, it may be fair to ask whether the smaller country was masterfully manipulating its larger partner, in the name of Islamic solidarity or even pan-Turanic desires. While it is alleged that the closure is chiefly related to Ankara's security concerns, a healthy black market trade through the border spoke against such a plank. For Vartan Oskanian, the controversy was not related to security, but to Ankara's fear of Armenian territorial designs.[20] According to the former Armenian foreign minister, the international border was negotiated under the October 23, 1921 (ratified on September 11, 1922) Kars Treaty by the Soviet Union, which encouraged contacts among all parties. Armenia insisted that Turkey was isolating it by supporting projects such as the Baku-Tbilisi-Ceyhan oil pipeline, or the Baku-Tbilisi-Erzurum natural gas pipeline, and even the Kars-Akhalkalaki-Baku railway that directly bypassed Armenia despite the economic logic of incorporating it along the route.[21] Remarkably, the rail line from Kars to Baku remained closed for political reasons as well, because it passed through the Turkish-Armenian border.[22]

Despite this unproductive preference, Turkey seemed keen to help resolve the Karabakh conflict under the Minsk Process, while insisting on the territorial integrity of Azerbaijan. Ankara thus supported indirect bilateral talks between Azerbaijan and Armenia, while acting as a mediator through a trilateral process of dialogue, which witnessed two meetings — in Reykjavik in 2002 and in Istanbul during the 2004 NATO Summit — among the ministers of Foreign Affairs of Turkey, Azerbaijan and Armenia.[23]

---

20. "In Vartan Oskanian's Words, Turkey Casts Doubt on Treaty of Kars with Its Actions," December 13, 2006, at http://www.mediaforum.am/armtoday.php?year=2006&month=12&day=13&LangID=1.

21. For the definitive study on pipeline politics, see R. Hrair Dekmejian and Hovann H. Simonian, *Troubled Waters: The Geopolitics of the Caspian Region* (London and New York: I.B. Tauris Publishers, 2001).

22. Socor, op. cit., January 19, 2007.

23. The Minsk Talks are regularly covered by Radio Free Europe/Radio Liberty. For a recent analysis, see Liz Fuller, "Azerbaijani, Armenian, Karabakh Officials Comment on Minsk Talks," Radio Free Europe/Radio Liberty 10:221, December 1, 2006, at http://www.rferl.org/newsline/2006/12/5-NOT/not-011206.asp. It is worth noting that President Serge Sargisyan invited his Turkish counterpart, President Abdullah Gul to visit Armenia in September 6, 2008, to attend the Turkey-Armenia FIFA World Cup qualifying soccer match. Gul expressed an interest in attending by declaring that Turkey was not an enemy of Armenia, and Yerevan reciprocated by lifting entrance visa requirements for any Turkish citizen who wished to visit between September 1 and 6 for the sports event. See Agence France Presse, "Turkey 'No Enemy' to Armenia: Gul," August 18, 2008, European Armenian Federation for Justice and Democracy, at http://eafjd.eu/spip.

There was an additional point of conflict in Armenian-Turkish relations worthy of attention, namely the physical condition of the Metsamor nuclear power plant. While the latter produced nearly half of Armenia's electricity in 2008, the facility posed a safety concern because it was "severely outdated." The plant was first built during the 1970s by Russia and was shut down after the 1988 Spitak earthquake. A severe energy crisis throughout Armenia compelled Yerevan to reopen it on October 26, 1995 but, based on current consumption, is scheduled to be permanently closed by 2016. Whether Metsamor will be replaced by a new nuclear power plant that will meet the needs for 1,000 MW, or whether Rosebergoatom, the Russian company running it at present, will be allowed to further extend the current facility's life-span, were serious concerns to Armenia and its neighbors. Turkey appealed to the International Atomic Energy Agency (IAEA) to pressure Yerevan to act on its safety concerns although it failed to offer pragmatic alternatives. A rare opportunity was lost because the Turkish economic blockade forced Armenia to keep the nuclear reactor operating beyond its anticipated lifespan. Even if Turkey was not disposed to open long-term negotiations with Armenia, it was in Ankara's intrinsic interests to avoid an environmental disaster so close to its borders, and it was difficult to determine what policy goals Turkey promoted by ignoring this critical issue.[24]

Finally, the two countries were also confronted with the super-sensitive question of the remaining and very small Armenian community in Turkey, which continues to be the largest minority group with an estimated legal population of 40,000 to 70,000. According to Turkish Prime Minister Recep T. Erdogan, another 40,000 Armenians were residing in Turkey illegally in 2007.[25] Their fate prompted President Robert Kocharian to break the political deadlock between the two countries, and opine that Armenia perceived Turkey as a "threat." After the Erdogan government suggested that a committee of Turkish and Armenian historians re-examine the tragedy of 1915, Kocharian rejected the modest overture, because Erdogan framed the historical search for truth in terms of a challenge to the committee to prove that Armenian

php?breve1494. See also Forum.ArmenianClub.com, "Armenia Lifts Turkish Visas for Football Match," August 16, 2008, at http://forum.armenianclub.com/showthread.php?p=201798.

24. World Nuclear Association, "Nuclear Power in Armenia," May 2007, at http://www.world-nuclear.org/info/inf113.html. The Center for Nonproliferation Studies (CNI) at the Monterey Institute of International Studies in Monterey, California, maintains a useful site on changes associated with Metsamor. See "Armenia: Metsamor Nuclear Power Plant," at http://www.nti.org/db/nisprofs/armenia/powerrea.htm.

25. "Ankara [Does] Not Expect Negative Decision on Genocide Resolution," at http://www.abhaber.com/news_page.asp?id=3306.

deaths resulted from a genocidal intent. Yerevan was astute in its call to normalize bilateral relations as a political step, leaving to historians the time to dig, assess, and reflect.[26] Interestingly, leading Western powers formally recognized the Armenian Holocaust, despite considerable Turkish diplomatic and economic pressure. Likewise, several international organizations conducted independent studies to determine whether the term "genocide" aptly describes "the Ottoman massacre of Armenians in 1915-1916."[27] In addition to the International Center for Transnational Justice, the International Association of Genocide Scholars, and the United Nations Sub-Commission on the Prevention of Discrimination and Protection of Minorities, all stood by this conclusion. Then Turkish Foreign Minister Abdullah Gul suggested that Ankara was contemplating arbitration, believing that it could effectively counter claims of an Armenian Holocaust, although his Armenian counterpart, Vartan Oskanian, insisted that the Turkish viewpoint did not necessarily "impede the normalization of our relations."[28] When questioned by a Turkish journalist about a potential arbitration or even a court case, Oskanian replied:

> "For us, there's no court case, we'll never talk about this, because we grew up with the real evidence, our parents and our grandparents. That living evidence of this tragedy, survival of genocide, I'm the son of one of them. So for Armenians there has never been an issue where we ourselves have to prove this by going to court, that this genocide happened. The question for us is to get a political solution. Because the issue is neither historical nor legal, it's political... between the governments of Turkey and Armenia."[29]

Yerevan sought to find a political solution to its Turkish dilemma and wished to separate the thorny Holocaust question from political and economic contacts. In fact, Armenia did not object to an eventual Turkish membership in the European Union and, according to President Kocharian, Yerevan was "never … against Turkey's

26. Reuters, "Armenia Ready For Ties, Talks with Turkey," February 19, 2007, Radio Free Europe/Radio Liberty, at http://www.armenialiberty.org/armeniareport/report/en/2007/02/786D82CE-E489-47EA-A15C-BABC50859734.asp.

27. International Center for Transnational Justice, "Turkey Recalls Envoys over Armenian Genocide," May 8, 2006, at http://www.ictj.org/en/news/coverage/article/935.html.

28. "Ankara Takes Turkish Agenda to Washington," *Turkish Daily News,* February 5, 2007, at http://www.turkishdailynews.com.tr/article.php?enewsid=65457; see also Nursun Erel, "Armenian FM Vartan Oskanian Gives Exclusive Interview to TNA," *The New Anatolian,* December 4, 2006, reproduced by *Aztag* and *The Armenian Weekly* at http://www.aztagdaily.com/EnglishSupplement/NEWS_12042006_0001.htm.

29. Ibid.

accession." As a member of the "New Neighborhood" group, which may one day lead to EU membership, Armenia contemplated the positive aspects of such an accession and calculated how best to serve its long-term interests.[30] Following the respectable *Adalet ve Kalkinma Partisi* (AKP or the Justice and Development Party) win in the July 22, 2007 elections, Prime Minister Serge Sargsyan declared that Yerevan was "ready to negotiate with Turkey's new government" because "we cannot stay in a situation without having communication and talks with our neighbor."[31] The pragmatism was astounding and reflective of a realist school among members of the Armenian intelligentsia in the young republic.

Armenia and Azerbaijan

Even before the demise of the Soviet Union, Armenians living in Artsakh embarked on a peaceful and democratic movement to reunify with the Armenian SSR.[32] In 1988, that is a full two years before the USSR collapsed, Armenians in Artsakh voted to secede from Azerbaijan. Not surprisingly, Baku rejected this democratic call, authorizing anti-Armenian pogroms in and around the capital city, as well as Sumgait and Kirovabad that recorded some vicious atrocities. In fact, the violence was carefully channeled to enhance Azeri nationalism that was applied on the domestic front, as an internal power struggle took on regional dimensions.[33]

After Armenia and Azerbaijan became independent, the two countries engaged in a full-scale armed conflict, in part fueled by outside forces. Remarkably, the fighting exhausted both sides, which stopped after a May 1994 Russian-brokered ceasefire was implemented. Artsakh was no longer geographically separated from Armenia. For its part, Baku controlled the formerly Armenian-populated and now

30. "Oskanian: We Would Like to See Turkey Among EU Members," December 12, 2006, at http://www.norharevanner.am/news.php?cont=3&rg=2&date=21.12.2006&month=13&year=2006; see also Ahto Lobjakas, "EU: European Commission Unveils Details Of 'New Neighborhood' Strategy," Radio Free Europe/Radio Liberty, May 12, 2004, at http://www.rferl.org/featuresarticle/2004/05/077d3a6b-3883-4119-972e-cc470a9ff6b6.html.

31. "Armenia Open for Talks with Turkey," *The Turkish Daily News*, August 3, 2007, at www.turkishdailynews.com.tr.

32. Nagorno-Karabakh was annexed by Moscow into the Azerbaijan SSR during a geographical experiment whose goal was to erase ethnic boundaries and replace them with a larger "Soviet" sphere. See Benjamin Lieberman, *Terrible Fate: Ethnic Cleansing in the Making of Modern Europe* (Chicago: Ivan R. Dee, Publisher, 2006), especially pp. 282-328.

33. Samyel Shahmuratian, ed., *The Sumgait Tragedy: Pogroms Against Armenians in Soviet Azerbaijan — Eyewitness Accounts* (Zoryan Files Series, Number 3) (New Rochelle, New York: Aristide D. Caratzas Publishers, September 1990).

ethnically cleansed Shahumian district, as well as eastern parts of Mardakert and Martuni districts of Nagorno-Karabakh. In fact, Yerevan and Baku were locked in a stalemate, with both sides refusing to return to the status quo ante. Armenia wished to negotiate an agreement on all occupied territories, whereas Azerbaijan insisted that Nagorno-Karabakh be restored to its sovereignty. Still, both observed the 1994 ceasefire and, in late 1995, agreed to Georgia-based Organization for Security and Co-operation in Europe (OSCE) field representatives to monitor their borders and facilitate a peace process. More recently, negotiations under the aegis of the Minsk Group — co-chaired by the United States, France and Russia — of the OSCE, were irregularly held to peacefully resolve the conflict.[34]

Armenia and Georgia

Though Armenians and Georgians shared much in common as established Christian civilizations, their historical relationships tended to be tenuous at best.[35] To some extent, the confrontations that emerged over the years were due to the presence of a large Armenian population in Tbilisi as well as the Javakheti region in southern Georgia, some of whose leaders clamored for autonomy.[36] Nevertheless, Georgia is the key Caucasus country that links Armenia to Europe, not only to act as a lifeline to the land-locked country, but also to act as a natural extension to the European continent. Neither Yerevan nor Tbilisi managed to build on this natural condition after 1991, largely because the former relied on Moscow whereas the latter sought to distance itself from Russia. Moreover, specific Georgian steps with Turkey, including the building of the Baku-Tbilisi-Ceyhan oil pipeline, which bypassed Armenia and further blocked-in the country, irritated Yerevan. Tbilisi perceived its interests to be more closely associated with Turkey on this matter although the two

34. The OSCE web-page at http://www.osce.org/regions/13001.html carries the latest updates, press releases and documents pertaining to all Minsk Group negotiations.

35. Both Armenians and Georgians have their own distinct alphabets but use interchangeable terms like "Apostolic," "Orthodox," and "Catholicos" in the full titles of their respective religious leaders. See Edmund Herzig, *New Caucasus: Armenia, Azerbaijan and Georgia* (London: Pinter Publishers Ltd, for the Royal Institute for International Affairs, 1999); see also Mathijs Pelkman, *Defending the Border: Identity, Religion, and Modernity in the Republic of Georgia* (Ithaca, New York: Cornell University Press, 2006), 84-95.

36. Emil Danielyan, "Russian Bases Won't Solve Problems in Javakheti," *Eurasian Daily Monitor* 2:69. April 8, 2005 at http://www.jamestown.org/edm/article.php?volume_id=407&issue_id=3294&article_id=2369575.

Caucasus neighbors finally agreed to a new border demarcation in 2006.[37]

How Armenia and Georgia strengthen their ties, as both aspire to participate in European political and security deliberations, remains to be determined. A potential source of conflict is brewing between the two neighbors because Yerevan was keen to enhance ties with both Russia and the Muslim World, both of which are far from Tbilisi's orbit. In fact, tensions rose further in the aftermath of the Russian incursions in South Ossetia as well as Abkhazia in August 2008, which probably crippled Georgian-Russian relations for several decades. Yerevan was bound to shoulder some of the international condemnation that would inevitably be lobbed against Moscow by virtue of its close association with a traditional benefactor and within whose orbit it was safely nestled. How Armenian-Georgian ties would evolve in this new climate was impossible to determine although a period of severe tensions was easily predictable.[38]

Armenia and Russia

Arguably, Russia was Armenia's most critical ally, and the relationship had been strengthened by a major 25-year military alliance signed on August 29, 1997. That "Treaty of Friendship, Cooperation and Mutual Assistance," committed Moscow to defend the small republic from foreign incursions. It also authorized the stationing of Russian troops along Armenia's border with Turkey, and barred Armenia from joining NATO or any other alliance without Moscow's consent.[39] To ensure its

37. Republic of Georgia, "Information on the Working Visit of Minister of Foreign Affairs of the Republic of Armenia Vardan Oskanian to Georgia" (Tbilisi: Ministry of Foreign Affairs, June 27, 2006), at http://www.mfa.gov.ge/index.php?lang_id=ENG&sec_id=30&info_id=1673.

38. An August 12, 2008 article in the London *Guardian* maintained that Russian planes flew out of Armenian bases to attack various targets in Georgia. This was promptly denied by the Armenian Defense Ministry spokesman, Colonel Seyran Shahsuvaryan, although few officials in Tbilisi believed it. See Luke Harding, "War in the Caucasus: 'I Got My Children out Minutes before the Bombs Fell'—Stories of Survival and Destruction from Residents of the Georgian Town Hit by Russian Jets that Missed Their Target," *The Guardian,* August 12, 2008, at http://www.guardian.co.uk/world/2008/aug/11/georgia.russia11; see also "Russian Planes Don't Take off from Armenia to Raid Georgia," August 9, 2008 at /PanARMENIAN.Net/, http://realarmenia.wordpress.com/2008/08/09/russian-planes-don%E2%80%99t-take-off-from-armenia-to-raid-georgia/; and Michael Muskal, "Getting One's Bearings in the Georgia-Russia Conflict," *Los Angeles Times,* August 12, 2008, at http://www.latimes.com/news/nationworld/world/la-fg-qna12-2008aug12,0,5625896.story.

39. "Moscow Signs Formal Military Alliance with Armenia; Plans to Finance Military Reform via Weapons Proliferation," *Russia Reform Monitor,* Number 313, September 18, 1997, at http://www.afpc.org/rrm/rrm313.htm.

security vis-à-vis significant regional challenges, Yerevan saw Moscow as its most reliable regional ally, even if did not rely exclusively on Russia. Within the wider context of Armenian foreign policy, Yerevan welcomed security guarantees from its traditional backer, while forging bridges with others. Among the latter, none were as critical as Iran, Iraq, and the Arab Gulf States.

Armenia and Iran

Armenia and Iran enjoyed established cultural and historical ties that traced their origins to several thousand years. Despite religious and ideological differences, the Christian Armenian minority in Iran enjoyed official recognition after the 1979 Islamic Revolution, as interactions between Armenia and Iran intensified during the past decade and a half. Relatively cordial ties were elevated to a strategic partnership, especially after Tehran agreed to provide sorely needed natural gas to the land-locked country, which was strangulated by both Turkey and Azerbaijan. Although Armenia's border with Iran was a mere 35 kilometers long, in 2007, this was of the utmost value as the relationship was based on necessity that fathomed close neighborly ties, where a small nation survived through the generosity of its larger partner.

As discussed above, Armenia was conquered by the Persian Empire, although more recent contacts were far more peaceful. The 140 km-long pipeline that was inaugurated on March 19, 2007 acted as far more than a mere energy link. For Armenian President Kocharian, who addressed his Iranian counterpart, Mahmoud Ahmadinajad, the symbolic flame lighted at the opening ceremonies was "evidence of [their] friendship."[40] In fact, Iran committed itself to supply Armenia with 10 million cubic meters of natural gas per day in its initial phase and, over time, to authorize the sale of 2.5 billion cubic meters per year, which will meet Armenia's needs.[41] While the critical gas pipeline was the most visible feature of Armenian-Iranian links in recent years, it was one of several infrastructure projects funded by Tehran that included the construction of power plants, electrical lines, and dams, among other facilities. For its part, Yerevan funded the building of a new highway leading to the Iranian border, to boost trade traffic with its neighbor. In 2005, Armenia's commercial dealings with

40. Nicole Itano, "Another Theater for US-Iran Fallout: the South Caucasus," *The Christian Science Monitor,* May 21, 2007, 7.

41. The pipeline is 100 km long in Iranian territory and 40 km in Armenian territory. See IRNA, "Iran-Armenia Gas Pipeline Inaugurated," March 19, 2007, 19, at http://www2.irna.ir/en/news/view/line-24/0703199272145559.htm.

Iran totaled a modest $105 million although this was expected to increase sharply in the years ahead. Remarkably, most Armenians perceived emerging links as being vital to the country's welfare, not only to mitigate the effects of the continuing blockades, but also to diversify the economy.

Remarkably, and in the short period after independence, high-level contacts between Armenian and Iranian officials grew in frequency and, more important, quality. A detailed mercantile agreement was signed in May 1995 (and entered into force on January 18, 1997), followed by an Air Transport Agreement in January 2001, which entered into force on December 2 that same year. During a high-level presidential visit to Tehran on December 27, 2001, a specific accord was signed on a customs law (which entered into force on September 1, 2003), along with two Memoranda of Understanding, on "Standardization, Metrology and Certification" (ratified on May 22, 2002) and on cooperation in the field of seismic protection (ratified on May 22, 2002).[42]

Kocharian returned to Tehran in mid-2006, when seven new accords were signed, including a "Memorandum of Understanding on assistance provided by Iran for the development of Armenia;" a "Program of Cooperation for 2006-2011 between the Ministry of Culture and Youth Issues of Armenia and Iran's Cultural Heritage and Tourism Organization;" an "Additional Protocol on the financing of the third high-voltage transmission line;" an "Agreement between on Extradition;" an "Agreement on Legal Cooperation in the investigation of civil and criminal cases;" a "Memorandum of Understanding between the Ministries of Energy;" and an "Agreement on the financing of the construction of the transmission line." According to Armenian sources, these accords "augmented the package of nearly 100 existing bilateral documents" between Armenia and Iran.[43]

Iranian leaders reciprocated the Armenia visits at the highest levels. In September 2004, President Sayyid Mohammed Khatami reviewed various aspects of "the Iranian-Armenian relations, [the] current state and prospects of bilateral

42. The text of these agreements are available at, Republic of Armenia, Ministry of Foreign Affairs, http://www.armeniaforeignministry.com/; several other accords were also inked, including a "Memorandum of Understanding on construction of the Kajaran tunnel;" an "Agreement on mutual recognition of documents on higher education and scientific degrees;" and "The 2001-2004 program for cooperation between the Armenian Department for Preservation of Historical and Cultural Monuments and the Iranian Cultural Heritage Organization." See Republic of Armenia, Office of the President, "President Robert Kocharian's official visit to the Islamic Republic of Iran," December 25-27, 2006, at http://news.president.am/eng/?sub=official&mode=1.

43. Republic of Armenia, Office of the President, "President Robert Kocharian's Working Visit to the Islamic Republic of Iran," July 5-6, 2006, at http://news.president.am/eng/?sub=official&mode=1.

cooperation, and exchanged views on regional and international developments." The erudite Khatami addressed the Armenian Parliament and paid a visit to Yerevan State University where he interacted with students and faculty. Because Kocharian paid his respects at the tomb of the late Ayatollah Ruhollah Khomeini in 2001, Khatami laid a wreath at the Genocide Memorial in memory of the victims of the 1915 Genocide. The touching moment was followed by a tour of the restored "Blue Mosque," where he met Iranian citizens working in Armenia. He also traveled to Echmiadzin, the seat of the "Catholicos of All Armenians," to meet with Karekin II.[44]

By mid-2007, when Manouchehr Mottaki, the Foreign Minister of the Islamic Republic of Iran and President of the Intergovernmental Committee on Armenian-Iranian Relations Coordination, arrived in Yerevan for the 7th Joint Session of the Intergovernmental Commission, ties between the two countries had reached unexpected levels. The trip allowed Mottaki to meet his counterpart, Foreign Minister Vartan Oskanian, who emphasized the high quality of the existing bilateral relationship. Mottaki highlighted the importance of the relationship, discussing key economic projects, to further place the nascent contacts in their natural long-term prospects.[45]

Oskanian and Mottaki, who had met several times over the past few years, prepared President Ahmadinajad's visit to Armenia, which occurred on October 22-23, 2007. The Iranian President arrived at the head of a large delegation, which included the Minister of Foreign Affairs and the Chairman of the Intergovernmental Commission Manouchehr Mottaki, the Acting Minister of Petroleum Gholam Hossein Nouzari, the Chief Adviser to the President Samare Hashemian, and an influential member of Parliament Nategh Nouri, among others.[46]

Beyond anticipated bilateral discussions between the two heads of states and their respective delegations on regional political questions, the two countries signed several agreements, including a new "Memorandum of Understanding between the Ministry of Foreign Affairs of Armenia and the Ministry of Foreign Affairs of Iran

44. Republic of Armenia, Office of the President, "Official Visit of the President of the Islamic Republic of Iran Seied [sic] Mohammed Khatami to Armenia," September 8-9, 2004, at http://news.president.am/eng/?sub=official&mode=1.

45. Republic of Armenia, Ministry of Foreign Affairs, "Minister Oskanian Receives Iranian Foreign Minister Manouchehr Mottaki," July 16, 2007, at http://www.armeniaforeignministry.com/news/index.html.

46. Republic of Armenia, Office of the President, "Official Visit of the President of the Islamic Republic of Iran Mahmud Ahmadinajad to Armenia," October 22-23, 2007 at http://news.president.am/eng/?sub=official&id=171&from=0&year=2007.

on reciprocal opening of General Consulates," as well as a Memorandum between the Central Banks of the two states on the Monitoring of Banking activities. Yerevan and Tehran also agreed to encourage investments by removing trade barriers. The Armenian Development Agency and the Iranian Organization on Investments, Economic and Technical Assistance further sealed their close cooperation by agreeing to build two wind power stations in Armenia.[47]

Like his predecessor, President Mahmoud Ahmadinejad went to Yerevan State University to deliver a lecture, where he met with both students and faculty members, and accepted an honorary doctorate. Even if this first day was apparently deemed a successful trip, Ahmadinejad cut short his visit to return home earlier than planned because of an internal crisis over the President's decision to replace Ali Larijani, Iran's senior nuclear negotiator with one of his protégés, Saeed Jalili. Ironically, the Iranian leader came under strong criticism at home, as fellow conservatives frowned on the Jalili appointment, perceiving the latter as a negotiator who could derail painstaking discussions with Javier Solana, the High Representative for the Common and Security Policy as well as the Secretary-General of both the Council of the European Union and the Western European Union.[48]

As the Iranian leader was scheduled to begin his second day with a visit to the Tsitsernakaberd genocide memorial in Yerevan — and address the Armenian Parliament — the interruption received several interpretations. While Armenian officials accepted the matter's "internal" aspect, others wondered whether Ahmadinejad sought to avoid angering Turkey by visiting the genocide memorial. Given its sensitive nature, the latter explanation was addressed by Ahmadinejad himself, who assured the speaker of parliament, Tigran Torosian, that he regretted the "need to interrupt the visit and return to Iran" for urgent reasons. Given that former President Khatami set a precedent by standing in silence at the Tsitsernakaberd in 2004, presumably in communion with the monument's epochal legacy, Ahmadinejad would not have hesitated to mimic his illustrious predecessor. By all accounts, the visit was cut short for purely domestic reasons, which were extraordinary indeed.

This hiccup notwithstanding, Ahmadinejad's visit was "very successful," and President Kocharian reiterated that the two countries agreed to press ahead with plans to jointly build a large oil refinery in southeastern Armenia as well as

47. "Iran to Build Two Wind Power Plants in Armenia," ITAR-TASS, October 23, 2007.

48. "Iranian President Visits Armenia," Radio Free Europe/Radio Liberty, RFE/RL Newsline 11:196, Part I, October 23, 2007.

an Armenian-Iranian railway. Moreover, both Yerevan and Tehran emphasized that the two governments planned to further invest in joint projects, including erecting a hydroelectric plant on the Arax River — marking the Armenian-Iranian border — and completing the second and final section of the natural gas pipeline from Iran. In Ahmadinejad's own words, "Fortunately, Armenian-Iranian relations [were] warm, strong and developing … because "relations [were] based on friendship, justice and mutual respect." Ahmadinejad stressed that Tehran and Yerevan were only "at the beginning of the road" and that their relationship had a "bright future."[49]

It was important to underline that contacts were not limited to energy needs or bilateral trade initiatives. Among the more interesting features of recent projects was the accord signed between the Iranian National Children's Library and Armenia's National Library to cement even closer cultural bonds. Ali Akbar Ash`ari recognized that Iran and Armenia shared cultural commonalities and would benefit from each other especially in the field of children's literature.[50]

Even if Armenia and Iran shared an ideological understanding over Azerbaijan (as both countries opposed Azeri irredentism and were wary of outside interferences to destabilize Iran by agitating Azeri irrendist elements inside Iran), the gas pipeline loosened the tight noose around Armenia's economic neck.[51] It also built on historical contacts between the two peoples. Armenia pursued an astute foreign policy preference vis-à-vis Azeri irredentism, letting Iran manage this delicate portfolio, while stressing the necessity to co-exist with Azerbaijan in peace. For their part, Iranian-Armenians, especially in Isfahan, played useful roles in encouraging Tehran to pursue pro-Armenia initiatives, and Yerevan accepted Iran's potential nuclear status in the region even when these affected its multilateral relations with Western allies. Simply stated, Armenia was in no position to object, and recognized Tehran as the emergent regional power. It emphasized mutual interests, and reciprocated as best as it could, mindful of long-term benefits that went beyond immediate contentions.

49. Ruzanna Stepanian, Ruzanna Khachatrian and Ruben Meloyan, "Ahmadinajad Cuts Short Armenia Visit," Armenialiberty, October 23, 2007, at http://www.armenialiberty.org/Armeniareport/Report/En/2007/10/B8EC513C-C7CF-4B8A-9022-7541BF2F869B.ASP.

50. Iran News Agency (ANA), "Iran, Armenia Agree on Library Co-Op," July 23, 2007, at http://www.ana.ir/en/viewnewsdetails.aspx?newsid=11014.

51. Daria Vaisman, "Azeris Caught in US-Iran Tussle," *The Christian Science Monitor,* May 22, 2007, 6.

Armenia and Iraq

Because the Armenian community of Iraq, with its millennia-old history, was an indivisible part of the Iraqi people, Yerevan adopted specific foreign policy goals towards Baghdad. It played a key role in the development and progress of its brethren after independence in 1991 and encouraged Armenians there — together with other minorities — to participate in contemporary Iraqi social life. In the post 2003 war that befell on Mesopotamia, however, Armenians saw their presence severely strained. Armenia was deeply concerned about the substantial human and material losses in Iraq, which resulted from repeated terrorist activities aimed at Christian churches in Baghdad and Mosul in particular, and which accelerated the exodus of many Armenians from Iraq.[52] In the twenty-first century, Armenia's interests in Iraq include the welfare and security of the remaining Armenian community, estimated at 30,000 people (mostly descendants of Armenian survivors of the 1915 Genocide in the Ottoman Empire), primarily in Baghdad, Basra, and Mosul.

As the conflict in Iraq hovered around both the terrorism phenomenon —that Armenia repeatedly condemned — and the deployment of foreign troops under a coalition of forces, Yerevan chose to tread carefully. Largely due to its close ties with the United States, Armenia unconditionally supported Washington in the latter's campaign against international terrorism, in the aftermath of the 9/11 attacks. Following this tragedy, Yerevan extended blanket clearance for all American forces to fly over its territory, land and refuel on a need to basis for all coalition aircraft involved in "Operation Enduring Freedom" targeting the Taliban in Afghanistan.[53] It also made its medical facilities available to US troops, including the unique Spinal Injuries Treatment Hospital of the Armenian Red Cross, which was duly recognized by US Secretary of Defense Donald Rumsfeld during the latter's visit to Armenia in December 2001.[54]

Equally noteworthy was the reaction of the people of Armenia to the tragedy of September 11, 2001. In fact, Armenia's willingness to support the United States

52. Annia Ciezadlo, "Iraq's Christians Consider Fleeing as Attacks on Them Rise," *The Christian Science Monitor*, July 13, 2004, 7; see also David Zenian, "The Armenians of Kuwait: Rebuilding after the Gulf War," The Armenian General Benevolent Union, January 2, 1994, at http://www.agbu.org/publications/article.asp?A_ID=111.

53. Coalition aircraft operated more than 600 flights over Armenia between September 2001 and September 2002, which spared US aircraft stationed in neighboring Turkey the dangerous task of refueling in mid-air on their way back from Afghanistan.

54. Embassy of the Republic of Armenia, "Armenia and the War on Terror," Washington D.C. at, http://www.armeniaemb.org/ArmeniaUS/WaronTerror/Index.htm.

grew from the close human relationships that brought the two countries closer together, ranging from church contacts to non-governmental organizations, many of which rushed to Armenia's assistance during the 1998 Spitak earthquake. Unanimous and instantaneous Armenian condemnation of the perpetrators of the 2001 tragedy was followed by expressions of solidarity with the American people. About 360 Armenian nationals volunteered to fight against the Taliban regime alongside US troops in 2001. On July 10, 2002, the small town of Ararat unveiled a moving memorial to the victims of the tragedy, and the famous Armenian pop star Nune attracted large crowds to her charity concert under the slogan "Armenia for America" in the spring of 2002.[55]

President Kocharian reiterated to President George W. Bush: "Armenia is committed to the U.S.-led global coalition campaign against international terrorism." When Washington called on the international community to contribute forces to its 2003 campaign against Iraq, Armenia made a small contribution to the post-war operations in Iraq by assigning 46 military medical officers and de-mining specialists to coalition forces in Iraq starting in January 2005.[56] The number of Armenian servicepersons assigned to the post-war operations in Iraq is commensurate with the Armenian Armed Forces' nascent peacekeeping capacity and are rotated every six months while serving under Polish command. Despite fears that the Armenian community may be targeted, Yerevan justified the deployment as a way to boost ties with Europe.[57] One of its de-miners was seriously wounded in 2006 and was amputated after the incident.[58] Yerevan also assigned an Armenian liaison officer to the Central Command [USCENTCOM] headquarters in Tampa, Florida, to supplement the current channels of military-to-military communications.

More important, Armenia remained fully engaged with the coalition, as the

55. Pan Armenian Network, "Nune Yesayan Armenian Pop-Star to Perform Concert in Favor of Victims of Terrorist Acts in US September 11," March 11, 2002, at http://www.panarmenian.net/news/eng/?nid=3882.

56. A small Armenian military contingent, which includes sappers, medical doctors and transport engineers, is currently serving with the international forces deployed in Iraq in accordance with UN Security Council Resolution 1511.

57. The Associated Press, "Armenia Sends New Rotation of Troops to Iraq," January 27, 2007, at http://www.iht.com/articles/ap/2007/01/27/europe/EU-GEN-Armenia-Iraq.php.

58. According to the Armenian Defense Ministry spokesman Seiran Shakhsuvarian, Lt. Gevorg Nalbandian was wounded while on a mission to defuse mines, and had his foot amputated after the incident. See the Associated Press, "Officials: Armenian Military Officer Wounded in Iraq," November 11, 2006, at http://www.iht.com/articles/ap/2006/11/11/europe/EU_GEN_Armenia_Iraq.php

latter focused on its stabilization efforts. Foreign Minister Oskanian participated in the 2005 Brussels international conference on Iraq, and the follow-up Sharm al-Sheikh gathering in May 2007, and offered Armenia's renewed efforts to the United Nations mandated international coalition.

Along with more than 80 foreign ministers, Oskanian discussed support for Iraq's political transition process, encouraging its economic recovery and reconstruction, and helping establish the rule of law and public order in the country. According to Oskanian, Armenia appreciated the conference and pledged the modest resources of a small country, even if it was symbolic, to express his support for Iraqis. Oskanian further declared that "Armenia look[ed] forward to developing and strengthening bilateral relations with a peaceful, unified and democratic Iraq." He emphasized that the two capitals were separated by a mere 200 miles that, in his colorful expression was akin to "as the crow flies," which surely meant an ease in close associations.[59] Yerevan was keenly interested in improved interactions with the nascent post-Saddam Hussein Iraq to forge enduring links that would serve both the Armenian community there and benefit Armenia's overall political and economic conditions.

Armenia and the Gulf Cooperation Council

Although Armenia was recognized as a sovereign country by a slew of nations in 1991, limited financial resources and, more importantly, a dearth of trained personnel prevented the establishment of many diplomatic missions. In the Arab and Muslim worlds, Yerevan first established diplomatic legations in Lebanon (1991), Iran (1992), Iraq (1992), Egypt (1993), and Syria (1997). Consequently, bilateral relations between independent Armenia and the Gulf Cooperation Council (GCC) states, evolved slowly. In 2008, Armenia had a single working diplomatic mission in the Gulf, in Abu Dhabi. Yet, because Armenia's links revolved around trade and the economy, specific matters, including the condition of Armenian expatriate workers in GCC States and socio-cultural contacts expanded by thousands of Levantine Armenians, also played valuable roles. In the event, bilateral relations between Yerevan and each GCC country focused on the doable, although long-term prospects were promising. They concentrated on human associations and linked economic investments with regional political objectives. What Yerevan gained from the GCC states and what it bestowed on the latter are worthy of further investigation.

59. Republic of Armenia, Ministry of Foreign Affairs, "Foreign Minister Oskanian Attends Conference on Iraq," Yerevan, June 21, 2005, at http://www.armeniaforeignministry.com/.

Armenia and Bahrain

Bahrain and Armenia recognized each other on October 15, 1996 and first exchanged diplomatic credentials in 2003 when Ambassador Kamel Saleh Al-Saleh presented copies of his credentials to Foreign Minister Oskanian. Both officials reaffirmed the traditionally warm relations that existed between Armenians and Arab countries. Al-Saleh emphasized Arab appreciation for the friendly relations that Armenia maintained with Arab states. Oskanian expressed his hope that the Tehran-based ambassador would return frequently to help forge even closer ties between the two countries. He underlined that no political differences existed between Yerevan and Manama, which should assist in fostering untapped economic potential, along with the adoption of mutually beneficial regional initiatives.[60]

Armenia and Kuwait

Because of the significant Armenian presence in Kuwait, especially in the valuable industrial sector, Yerevan perceived Kuwait as an indispensable partner in regional affairs. Moreover, the Shaikhdom's rich experience with parliamentary democratization in what was a traditional authoritarian regime, attracted Armenia's attention. Much as Kuwait made significant strides in political participation in a largely paternalistic society, Yerevan wished to learn from the experience as it balanced a quest for genuine freedoms with the authoritarian legacy inherited from the Soviet Union. Towards that end, the "Armenia-Kuwait Inter-Parliamentary Friendship Commission" met in Yerevan in 2002, to discuss issues of common interest to both Armenia and Kuwait. The delegation, led by Ahmed Nassar Al-Sherian, stressed the importance of developing ties between the two countries and explored enhanced economic cooperation, while imparting lessons learned in parliamentary life. As with his discussions with other Arab officials, Oskanian broached regional issues, including critical Middle East and Caucasus portfolios, and explained the Armenian perception to his Kuwaiti guests.[61] He was cognizant of the dynamic Kuwaiti experience and yearned to comprehend his guests' *savoir faire* in such essential matters.

It must be emphasized that Kuwaiti officials were particularly familiar with

60. Republic of Armenia, Ministry of Foreign Affairs, "Ambassador of Bahrain Presents Credentials," November 24, 2003,at http://www.armeniaforeignministry.com/.

61. Republic of Armenia, Ministry of Foreign Affairs, "Delegations Visit the Foreign Ministry," April 25, 2002, at http://www.armeniaforeignministry.com/.

Armenians for two primary reasons: first, because of the presence of a significant Armenian expatriate population that arrived in the Shaikhdom starting in the 1960s chiefly from Lebanon, Syria and the Israeli Occupied Territories, and second, because of the latter's technical contributions to the economic boom then underway. While concrete figures are next to impossible to secure, an estimated 10,000 Armenians called Kuwait home between the 1970s and 1990. Many were either expelled or voluntarily joined exodus lines in the aftermath of the August 1, 1990 Iraqi invasion. Others remained behind and some joined the Kuwaiti resistance. Although liberated Kuwait welcomed back a number of its Armenian refugees, most stayed away, having no citizenship claims to receive compensation for their losses (mostly looted businesses) from the Al Sabah.

Armenia and Oman

After an Azerbaijani delegation headed by then-Prime Minister Gasan Aziz Oglu Gasanov visited Oman in January 1992, when "the situation in Azerbaijan and the latest events in the Commonwealth of Independent States" were discussed with senior Omani officials, Sultan Qaboos bin Said Al-Said was interested in hearing both the Azeri and Armenian views on the Karabakh conflict that threatened to engulf the entire region in a protracted war. Although Muscat was keenly interested in its discussions with Kazakhstan on oil exports, Armenia, Azerbaijan and Georgia played critical roles as potential "pipeline highways," and any insights on regional conflicts interested the Omani ruler. Despite legitimate Azeri grievances, Qaboos was somewhat disenchanted with Baku's unwillingness to work towards a compromise solution, insisting on its non-negotiable positions. Relations between Baku and Muscat moved slowly because of internal problems in Azerbaijan, especially after the coup that ousted Azerbaijan's only democratically elected President, Abulfez Elcibey.[62]

The Sultanate of Oman and the Republic of Armenia established diplomatic relations on July 7, 1992.[63] Muscat considered its budding relations with Yerevan

62. The International Institute for Democracy and Electoral Assistance (International Idea), Democratic Development and the Regional Environment in the South Caucasus: Divisions of Power, Devolution and Political Party Development in a Geopolitical Hotspot, (Stockholm, Sweden: Cornell Caspian Consulting, LLC, November 30, 2002), 11-12 and 19-21.

63. Although initial contacts between the two governments were made on December 28, 1991, the actual exchange of diplomatic notes did not occur until early July 1992. "Diplomatic Relations Established with Armenia," Foreign Broadcast Information Service-Near East and South Asia 92-131, July 8, 1992, 22.

with the utmost care because of its critical business contacts in Baku. Inasmuch as the construction of pipelines from Central Asia to Europe mattered, Oman took note of Armenia's geographical position at the crossroads between Iran and Turkey, and moved accordingly.[64] Still, because Oman never wavered from established principles, ties with Armenia were elevated to a higher plateau. Armenian envoy Eduard Nalbandian carried a confidential note on the Karabakh conflict from President Levon Ter-Petrossian to Sultan Qaboos on May 3, 1994, appealing to the Sultanate's good offices to help achieve a permanent settlement.[65] The effort was not successful but Qaboos did not flinch from his position that Baku adopt more realistic objectives. Omani and Armenian foreign ministries met on a regular basis throughout the 1990s and, periodically, signed joint accords. A significant memorandum of understanding relating to bilateral relations and the means of supporting and developing them was signed in early 2003 by Rupen Shukaryan, the deputy foreign minister in Armenia, and Yusuf bin Alawi bin Abdallah, the Minister Responsible for Foreign Affairs in the Sultanate.[66]

Armenia and Qatar

Qatari officials were familiar with Armenians in general and knew of the great contribution many made in Doha albeit as representatives of other countries. For example, between 1985 and 1989, the Ambassador Extraordinary and Plenipotentiary representing the United States of America in Qatar was Joseph Ghougassian, a California Armenian with close contacts with the Reagan Administration, who served with distinction. The gregarious Ghougassian was a well-known figure within the Armenian expatriate community in Doha and worked diligently to assist many. Leading Armenian businessmen from Lebanon and Syria were also active in Qatar, at a time when many Levantine Arabs considered a posting in the Gulf akin to hardship, and not worthy of one's efforts. Although the Lebanese Civil War, and dramatic political changes in Qatar, changed the overall

64. Artem Aznavuryan, "Oman-Armenia: Prospects for Cooperation" (in Armenian), *Azg* [Yerevan Daily], September 25, 1992, 4-5.

65. Nalbandian delivered his message to Qays Al-Zawawi, the deputy prime minister for economic affairs, certainly the person ideally situated at the time to assess future Omani-Armenian ties. See "Armenia Diplomat Visits Oman, Discusses Ties," Foreign Broadcast Information Service-Soviet Union 94-089, May 9, 1994, 70; and "Armenia-Oman Ties," *The Armenian Observer,* May 11, 1994, 4.

66. Republic of Armenia, Ministry of Foreign Affairs, "Oman, Armenia to Enhance Bilateral Relations," January 23, 2003, at http://www.armeniaforeignministry.com/.

attractiveness of various Gulf countries, Armenians who were in Doha in the 1970s and 1980s were well positioned to benefit from the openness that the Shaikhdom witnessed after the 1995 coup d'état, which brought Shaikh Hamad bin Khalifah Al-Thani to power.

While Qatar and the Republic of Armenia established diplomatic relations on November 15, 1992, initial contacts were lukewarm, and ties moved slowly. The pace changed in April 2002, when President Robert Kocharian paid an official visit to Doha, to accelerate the momentum. Kocharian met with Shaikh Hamad with whom he negotiated comprehensive political and economic questions that pertained to Armenian-Qatari affairs. During this first visit ever by an Armenian head of state, six intergovernmental agreements were signed, including agreements on avoiding double taxation, promoting and protecting capital investments, and several trade, economic and technical cooperation items. Interestingly, several Armenian businessmen accompanied Kocharian to Doha where they met with Qatari counterparts interested in investing in Armenia.[67]

On April 22, 2002, Shaikh Hamad issued four instruments of ratification approving agreements signed between Qatar and Armenia, to set up several joint ministerial committees. These covered the following areas of interest to both countries: a Qatari-Armenian economic, trading and technical agreement, an air transport agreement, an agreement for mutual agricultural cooperation, the avoidance of double taxation and tax evasion, as well as an accord to encourage and protect investments. The accords augured well for future contacts between the two countries and Kocharian invited Shaikh Hamad to visit him in Yerevan.

Armenia and Saudi Arabia

The Kingdom of Saudi Arabia and the Republic of Armenia established diplomatic relations in 1992 but did not exchange ambassadors as of late 2008. Still, the relationship between the Al Saud ruling family and Armenia are long-standing, particularly because of intermarriage. In fact, the founder of the Kingdom, Abdul Aziz bin Abdul Rahman Al Saud, married four Armenian women who gave him several sons in prominent posts. Princes Mansur, Mish`al, and Mit`ab bin Abdul Aziz were from one of the king's favorite wives, Shahidah the Armenian. Mansur was the first Saudi defense minister in 1940 and was succeeded by his brother and deputy Mish`al when he died in 1951. Mit`ab became Mish`al's

67. Republic of Armenia, Office of the President, "President Kocharian's Official Visit to Qatar," April 22-23, 2002, at http://news.president.am/eng/?sub=official&mode=1.

deputy, and while both were ousted in 1953 by King Saud, they returned to high office in 1963 when Heir Apparent Faysal prepared his accession to the throne. Both served respectively as governor and deputy governor of Makkah until 1971 and Mit`ab became minister of public works and housing from October 1975 until his retirement in 2001.[68]

Another Armenian woman, Munaiyir, gave Abdul Aziz Princes Talal and Nawwaf. Talal was the Commander of the Royal Guard between 1950 and 1962 and Minister of Communications between 1953 and 1955. Although he stood with Faysal during the 1958 family crisis, he joined the so-called "Free Officers" movement in the 1960s, became Minister of Finance in 1962 but resigned in 1964 when he moved to Cairo. He was rehabilitated in 1979, when he returned to Saudi Arabia, and became a UNESCO Special Envoy. His son, Walid, is one of the world's wealthiest tycoons. Munaiyir's other son, Nawwaf, also served as Commander of the Royal Guard (1952-1956) as well as in a myriad other top posts including special Advisor for Gulf Affairs to King Faysal, but retired from government service in 1975 to look after business interests. He assumed the position of head of intelligence between 2001 and 2002 but retired from public life following a stroke.

Given this legacy, Armenian-Saudi relations were bound to grow, although slowly because of the Kingdom's burden to accommodate Islamic Conference Organization commitments towards Azerbaijan. Nevertheless, it would be a mistake to assume that Riyadh would hold potential ties with Yerevan hostage to its obligations towards Baku, especially if the latter was inflexible in putative peace talks. In fact, Saudi Arabia identified non-political areas of interest to pursue, and one of the more interesting projects that involved the two countries was Armenia's pioneering e-visa program — second only to Australia — which acted as a model for the initiative adopted by the Kingdom.[69] Riyadh benefited from Yerevan's experience in implementing the paper-free plan, and acknowledged the contribution to be of genuine value to its own nascent program, which handled several million visitors each year to perform haj(pilgrimage)in Makkah and Madinah.

68. Joseph A. Kechichian, *Succession in Saudi Arabia* (New York: Palgrave, 2001), 27-28.

69. UNDP-Europe and the CIS and Hewlett Packard, "Virtual Consulate Primer: How to Design and Implement an e-Visa Programme; Partnership-based e-Governance Innovations from Armenia and Saudi Arabia," Bratislava, Slovakia and Vienna, Austria, 1986 at http://unpan1.un.org/intradoc/groups/public/documents/UNDP/UNPAN022486.pdf.

Armenia and the United Arab Emirates

Armenia and the United Arab Emirates recognized each other on June 25, 1998, and Yerevan opened its first embassy in the Gulf region in Abu Dhabi, on September 24, 2000. The goal was to forge closer bonds with one of the most dynamic Gulf societies where a significant number of Armenian expatriate workers prospered. Foreign Minister Oskanian was on hand to launch inauguration ceremonies and, addressing a large gathering of diplomats, guests and Armenian brethren, underlined how an old race reborn in a new country with limited experience in the art of statehood envisaged the future. Speaking in Arabic — which delighted his hosts — Oskanian declared: "Every new embassy that we open gives us confidence and consolidates our independence," adding that the opening of the embassy in the UAE was an historic occasion. He praised the leadership of the President, the late Shaikh Zayed bin Sultan Al-Nahyan, and hoisted his country's flag to mark the opening, as Yerevan "looked into the prospects of developing bilateral ties."[70]

Although the Abu Dhabi mission was the first Armenian embassy in the Gulf, the legation was also accredited to other GCC countries not only to represent the estimated 2,000 Armenians living in the UAE and another 8,000 in other GCC countries, but also to facilitate contacts with all GCC governments. The erudite Oskanian, who learned Arabic in his native Aleppo, Syria, delved into history, recalling how "Armenians fleeing oppressions found refuge in Arab lands." He expressed gratitude and pledged to "reciprocate that goodwill," reflecting sentiments felt by a majority of Armenians throughout the Arab World where many prospered without losing their identities and where their contributions were valued by tolerant hosts.[71] Oskanian's expressions were seconded by Dr. Arshak Poladian, the chargé d'affaires who assumed his country's ambassadorship in the UAE, and served with distinction. According to Poladian, prior to "the Russian Empire and Soviet rule, Armenia enjoyed deep-rooted and strong trade and cultural relations with the Arab world." He pledged "to restore and strengthen the same," making this his "embassy's prime target."[72] It must be emphasized that even before diplomatic ties were formalized, Armenian Airlines, the now defunct national airline, operated two weekly flights between Dubai and Yerevan, to serve a growing clientele that considered the UAE

70. Republic of Armenia, Ministry of Foreign Affairs, "Armenia Opens Embassy in Abu Dhabi," September 24, 2000, Yerevan, Armenia, at http://www.armeniaforeignministry.com/.

71. Ibid.

72. Republic of Armenia, Ministry of Foreign Affairs, "Armenia Opens Embassy in Abu Dhabi," September 24, 2000, at http://www.armeniaforeignministry.com/htms/PR/PR103.html.

a prime business center. It was replaced in 2002 by its successor airline, ARMAVIA, with improved frequencies and service on Western equipment.

President Robert Kocharian visited the UAE in April 2002 and, in meetings and presentations in Abu Dhabi and Sharjah, pointed to growing economic opportunities in Armenia. He was accompanied by the Minister of Foreign Affairs, the Minister in Charge of Regional Government and Coordination of Infrastructure Activities, the Minister of Trade and Economic Development, as well as businessmen and reporters. During the visit, Kocharian met with the late Shaikh Zayed bin Sultan Al-Nahyan, and delivered a speech at the Abu Dhabi Chamber of Commerce, where he met with representatives of the business community.[73]

The Armenian delegation visited Dubai as well, where they met with the President of Dubai's Chief Department for Investments and Promotion of Development and members of the Council, as well as with the leadership of the Dubai Chamber of Commerce. The erudite scholar/ruler of Sharjah, Shaikh Sultan bin Muhammad Al-Qasimi, received them as well, and they visited the St. Gregory the Illuminator Church. In all of his contacts, Kocharian underlined his country's liberal trade regime, urged local businessmen to invest in Armenia, and signed various agreements that focused on agribusiness, banking and healthcare. Kocharian praised and encouraged members of the local Armenian community who represented one of the most dynamic and successful expatriate communities in the federation.

At the invitation of Shaikh Sultan bin Muhammad Al-Qasimi, UAE Supreme Council Member and Ruler of Sharjah, Armenia held a cultural exchange program in the UAE between December 12 and 17, 2004. The five-day "Armenian Culture Days" showcased artists representing traditional art and music, as Armenians and Gulf Arabs intermingled. Arshak Poladian introduced the Armenian Culture Minister, Hovig Hoveian, who summed up the importance of maintaining traditional culture. "To know a people," he declared, "you have to know their traditional culture, their music and art." He then introduced Armenia's most widely acclaimed group of folk musicians, the Shoghaken Ensemble, "to take the listener back to the depths of Armenian history, to the depths of the Armenian spirit." Over the span of a week, Emiratis were introduced to the rich cultural legacy of their guests, to the delight of the indigenous population. Armenian performers visited the St. Krikor Lusavorich Church, as well as the Ohanesian School in Sharjah, both of which

73. Republic of Armenia, Office of the President, "President Kocharian's Official Visit to [the] United Arab Emirates," April 20-22, 2002, at http://news.president.am/eng/?sub=official&mode=1.

were constructed with generous Emirati assistance in 1995.[74] In September 2005, Shaikh Sultan bin Muhammad Al-Qasimi, reciprocated with a visit to Yerevan where he inaugurated the "Sharjah Cultural Week in Armenia" at the National Art Gallery. This was a momentous undertaking because of Sharjah's unique role within the UAE — as the education emirate of the federation — and its ruler's scholarly interests. A widely published author, Shaikh Sultan earned a doctorate from Exeter University in Britain, and devoted attention to the history of the region.

While in Armenia, Shaikh Sultan met with President Kocharian and Prime Minister Andranik Markarian. He also visited the Tsitsernakaberd Memorial to the Armenian Genocide victims, Yerevan State University, as well as the National Academy of Sciences, where he was awarded an honorary doctorate. Interestingly, the decision to award the degree was made by members of the academy's senate, in recognition of the Shaikh's contributions to cultural and intellectual activities.[75] Nikolay Hovhannisian, Director of the Academy's Institute of Oriental Studies, delighted his guest by sharing the Center's focus on the history and culture of Arab countries. Shaikh Sultan emphasized that he hoped this visit would foster wider cooperation. "Armenia is a country [with] scientific traditions," he declared, and "the evidence of which are Armenian scientists who work in different countries of the world and have made great scientific discoveries. My country is ready to start a serious cooperation with Armenia," he concluded.[76] Before returning home, the ruler visited the Sevan and Dilijan resorts, and hoped to return as the two countries forged privileged ties.

Conclusion

Since 1991, Armenia has pursued a consistent foreign policy direction, even if its quest was significantly handicapped by the conflict over Artsakh with Azerbaijan. Armenia nurtured a unique and privileged relationship with Russia, although Yerevan also looked favorably to neighboring countries in the Middle East, as potential international partners. In fact, Armenia perceived most of the Gulf States, including Iran and the conservative Arab Gulf monarchies, as neighbors with whom

74. Andranik Michaelian, "Armenian Culture Days," December 12-17, 2004, at http://www.road-to-armenia.com/music/armenianculturedays.html.

75. "Sultan Opens Cultural Week in Armenia," *Gulf News,* September 21, 2005, at http://archive.gulfnews.com/articles/05/09/21/182813.html.

76. Media Forum Armenia, "Delegation of Sharjah Emirate Meets with Armenian Scientists," September 27, 2005, at http://mediaforum.am/newpost.php?NewsID=8647&p=1&LangID=1.

it could do business. Towards that end, it harbored friendly contacts with all, and nurtured close ties with key Muslim countries. It relied on its diaspora to uphold intrinsic values, stressed its non-aligned status, and balanced its preferences with critical concerns that pertained to Turkey and Azerbaijan. To placate the latter two, Yerevan posited that it sought to establish cordial relations with both Ankara and Baku, and invited both to reciprocate. By pursuing such a policy, it strengthened its long-term security needs, and secured critical economic welfare. For Yerevan, the Gulf States represented valuable interlocutors, where sophisticated government officials knew of Armenia's past and acknowledged its contemporary rights. They took note of Armenia's established identity, which was separate from the Ottoman/Turkic variety, and looked to the future with relative optimism.

Map 1. The Armenian Empire under King Tigranes

An Aivazovsky map adapted from George A. Bournoutian, A Concise History of the Armenian People: From Ancient Times to the Present, Costa Mesa, California: Mazda Publishers, 2002, p. 132. Permission granted to reproduce under the terms of the GNU Free Documentation License, Version 1.2 or any later version published by the Free Software Foundation.

Map 2. The Kingdom of Cilician Armenia, 1199-1375

Permission is granted to copy, distribute and/or modify this document under the terms of the GNU Free Documentation License, Version 1.2 or any later version published by the Free Software Foundation; with no Invariant Sections, no Front-Cover Texts, and no Back-Cover Texts.

Table 1. Diplomatic Ties with Armenia (Partial List)

Afghanistan	December 24, 1991
Albania	January 4, 1992
Algeria	December 27, 1992
Bahrain	October 15, 1996
Bangladesh	December 29, 1991
Bosnia and Herzegovina	July 29, 1997
Burkina Faso	January 16, 1992
Cameroon	May 28, 2007
Chad	December 26, 2006
China	April 6, 1992
Egypt	May 1, 1993
Ethiopia	January 7, 1992
France	March 26, 1992
Gabon	January 10, 1992
Georgia	May 5, 1999
Germany	February 25,1992
Greece	March 26 1993
Guinea Bissau	September 3, 1992
Guyana	January 8, 1992
India	March 1, 1999
Indonesia	December 28, 1991
Iran	April 30, 1992
Iraq	January 1, 1992
Jordan	December 28, 1991
Kazakhstan	December 23, 1991
Kirghizstan	October 21, 1992
Kuwait	July 8, 1994

Lebanon	May 5, 1991
Libya	June 19, 2000
Malaysia	March 11, 1993
Morocco	December 30, 1991
Nigeria	February 4, 1993
Oman	July 7, 1992
Pakistan	December 31, 1991
Qatar	November 15, 1997
Romania	February 17, 1999
Russia	June 20, 1999
Sénégal	April 8, 2004
Somalia	June 28, 2001
Sudan	December 8, 1992
Syria	October 1, 1997
Tajikistan	October 21, 1992
Togo	November 14, 2003
Tunisia	July 15, 2002
Turkey	December 16, 1991
Turkmenistan	October 9, 1992
Uganda	February 13, 1992
Ukraine	September 17, 1996
United Arab Emirates	June 25, 1998
United Kingdom	September 1, 1992
United States of America	January 28, 1992
Uzbekistan	January 4, 1992
Yemen	May 28, 1995

Not all of the countries on this partial list, which formally recognized Armenia as an independent entity, maintain diplomatic representatives in Yerevan.

Source: Republic of Armenia, Ministry of Foreign Affairs, August 15, 2007, and open media notices.

Active Diplomatic Engagements and Energy Politics: The Caspian, Azerbaijan, and the Gulf Region

Dr. Suhnaz Yilmaz

*Koc University, Turkey**

Prominent strategist Zbigniew Brzezinski referred to Eurasia as a "grand chessboard," where both regional and global actors compete in terms of geo-strategic and economic interests.[1] Hence, both the Caspian and the Gulf regions constitute vital areas in this complex chessboard of international politics, particularly due to their rich energy reserves. This chapter aims to analyze the competition and complementarities between the Caspian and Gulf regions from the perspective of energy security. It also presents an extensive study of active diplomatic engagements and commercial ties between Azerbaijan and the Gulf region.

Due to the exponentially growing demand for oil and the dramatic increase in world oil prices, the concept of energy security has been receiving much attention. In their academic writings, Barry Buzan and some of the other members of the Copenhagen School have broadened the concept of security to embrace political, economic, social and environmental aspects, in addition to the component of hard security based on military power.[2] The term 'energy security,' while heavily based

* The author would like to thank Kamil Yilmaz for his assistance in accessing consistent and reliable trade data for Azerbaijan and the able assistance of Osman Sengul is also gratefully acknowledged. Suhnaz Yilmaz is a recipient of the Distinguished Young Scientist Award of the Turkish Academy of Sciences and would like to acknowledge the support of the Turkish Academy of Sciences for her research.

1. Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives* (New York: Harper Collins Publishers, 1997), 30-56.

2. For a comprehensive discussion of this broadened concept of security, see Barry Buzan, Ole

on the economic dimension, comprises all the above mentioned components too. Energy security is defined as the governments' drive to secure their energy supplies at affordable prices. One key goal in this respect is to mitigate the vulnerability of a state to the possible disruption of energy supplies by diversifying its suppliers and avoiding over-dependence on one energy producer. Energy security also necessitates secure access to energy. Hence, the safe delivery of crude oil and natural gas to consumers is also of prime importance. For instance, this issue poses a particular problem in the Caspian region due to unresolved and long-standing ethnic conflicts, as well as the intense competition over pipeline routes.[3] While discussing production issues and pipeline politics, often the emphasis is on the governments of the key players. However, while this chapter will not be discussing the specific roles and activities of major energy firms such as British Petroleum, Chevron Texaco and Lukoil, it must be mentioned that energy companies and lending agencies have emerged as very influential actors in providing financial assistance and technical expertise for the implementation of energy projects.

In the complex interaction among energy producers, energy transit countries and energy consumers, the Gulf region and the Middle East, as well as Eurasia and the Caspian Basin emerge as extremely critical areas for global energy security.[4] The Gulf region will maintain its position at the heart of energy politics. Caspian energy reserves are also significant for meeting the increasing oil and gas demands. Though they cannot constitute a substitute for the Gulf region, the Caspian Basin is rather important for the diversification of energy supplies, which is crucial for a reliable supply and energy security policy.

Fossil fuels continue to be the dominant component of the global energy mix (comprising approximately 85 percent of the total demand), while oil persists as the leading fuel. Oil reserves are heavily concentrated in some of the most volatile regions of the world like the Middle East, North Africa and the Caspian, while gas reserves are located predominantly in the Middle East, Russian Federation and the Commonwealth of Independent States (CIS) countries. If the current trends continue, world energy needs are expected to be almost 60 percent higher in 2030 than they are now.

Weaver and Jaap de Wilde, *Security: A New Framework for Analysis* (Boulder, Colorado and London: Lynne Rienner, 1998).

3. Gareth M. Winrow, "Energy Security in the Black Sea-Caspian Region," *Perceptions* (Autumn 2005), 85-87.

4. States may fall in one or more of these categories. For instance, Azerbaijan is primarily an energy producer, Turkey is both an energy transit country and a consumer, while Russia is a major energy producer and consumer, as well as being a potentially significant energy transit country.

In a world of rapidly growing energy demand, the global struggle over access to and control of energy resources has been intensifying. Hence, "the energy ellipse," covering both the Caspian region and the Gulf, which contains over two-thirds of the world's proven petroleum reserves and more than 40 percent of the proven natural gas resources, is like a strategic "jackpot." Ultimately, in the complex dynamics of the Eurasian energy geopolitics, there are three critical issues which are of paramount importance for all key players (i) the amount of hydrocarbon reserves available for extraction; (ii) ownership of the resource; and (iii) production and distribution options including direct and environmental costs. In this respect, the US, the EU, China and Russia are the key global players with substantial interests and influence in these areas, and Azerbaijan, Turkey and Iran are emerging as significant regional actors in Eurasia. The challenge of bringing the land-locked Caspian energy to the international markets further complicates the intricate ties between energy producers, energy transit countries and energy consumers, highlighting pipeline politics as an integral part of energy security. Hence, both the Gulf and the Caspian region, which are already highly volatile and conflict-ridden areas, will continue to be sites of intense global and regional competition for energy.

The Caspian Basin and the Gulf Region: Competition or Complementarities?

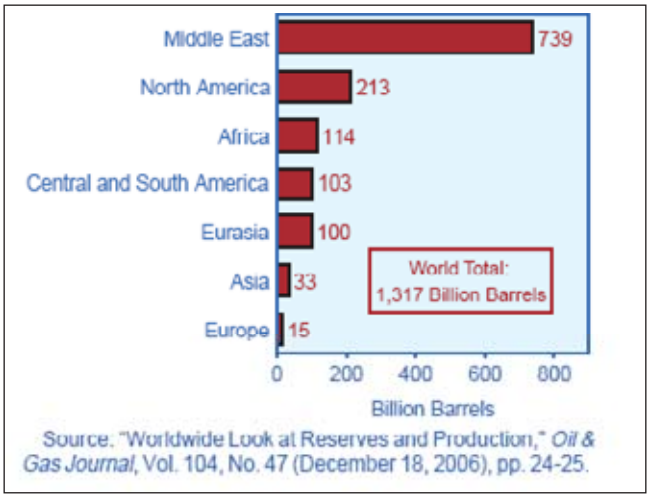
The radical developments in the international system in the early 1990s also led to changes in the global energy scenario. On the one hand, Iraq's invasion of Kuwait had a seismic effect in the global energy sector revealing the vulnerabilities of oil supply coming from the Gulf region, on which the world predominantly relied to meet its rapidly increasing energy demand. On the other hand, the collapse of the Soviet Union and the emergence of new states in the Caucasus and Central Asia suddenly raised hopes about the possibility of an alternative energy supply source. The rich Caspian fossil fuel reserves, in particular, turned this region into a focal point for global politico-economic interest and competition highlighting Azerbaijan, Kazakhstan and Turkmenistan (particularly with its natural gas reserves) on the map of energy politics.

The timing was also very suitable as the turbulent and unpredictable political and economic environment of the Gulf region intensified concerns about energy security and led to the quest for alternate sources of oil. Moreover, the post-September 11 context increased anxiety, particularly in the US, regarding the vulnerabilities of over-dependence on Gulf oil and led to a pressing drive to control and secure the supply of

oil. In addition to the many reasons that have been officially stated, securing "a pliant and dependable oil protectorate in the Middle East" has emerged as a critical factor in the US invasion of Iraq in 2003.[5] Concomitantly, rising oil prices and vulnerabilities of the Gulf region pushed the Caspian region into the limelight.

When we compare the proven oil reserves of different regions, however, it is apparent that the Middle East and the Gulf region with 739 billion barrels of proven reserves will continue to be the core energy supplier in the global market. Eurasia (Russia/CIS) ranks only fifth after the Middle East, North America, Africa, Central and South America in terms of its proven oil reserves with 100 billion barrels.[6] Nevertheless, the investment and output projections for the Caspian region's long-term production potential are still marked with cautious optimism. The Caspian output is expected to more than double from the 2004 level to 4.3 million barrels per day by 2015 and to increase steadily thereafter.[7]

Figure 1. World Proven Oil Reserves by Geographic Region as of January 1, 2007



In addition to the proven and potential reserves, there are three critical issues which currently affect and also are likely to determine the future prospects of the Caspian Basin. First, the disputes regarding the legal status of the Caspian

5. Ian Rutledge, *Addicted to Oil: America's Relentless Drive for Energy Security*, (London: I.B. Tauris, 2005), 178-201.
6. "Worldwide Look at Reserves and Production," *Oil and Gas* Journal 104, no.47 (December 2006): 24-25.
7. US Department of Energy, *International Energy Outlook 2007*, 32.

Basin have undermined, but not stopped, the further development of the region's mineral resources. These disputes have led to major disagreements between the five littoral states regarding how to divide the seabed among themselves.[8] For instance, the governments of Turkmenistan and Iran have confronted the authorities in Azerbaijan over the ownership of some specific oilfields in disputed areas, obstructing the construction of pipelines across the Caspian. Moreover, Russian and Iranian officials also raised objections concerning environmental safety due to the risk of seismic disturbances in the seabed. Second, the Caspian region is overburdened with persistent ethnic rivalries and struggles. Finally, providing an affordable, secure and uninterrupted flow of hydrocarbon resources from the land-locked Greater Caspian region to Europe and beyond itself presents a major challenge and has led to extensive competition and pipeline politics. There are a number of export pipeline initiatives from the Caspian region, which are already completed, under construction, or being planned. While in the long run they could provide wealth and prosperity for the region, in the short run there are fears that the intense competition might lead to greater instability.

The East-West Energy Corridor, which has been developed through close collaboration among Azerbaijan, Georgia and the United States, forms a critical part of these initiatives. The Energy Corridor aims primarily at transporting the Caucasian and Central Asian crude oil and natural gas to international markets via safe, alternate routes. The main components of this corridor include Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, the Shah-Deniz natural gas pipeline (Baku-Tbilisi-Erzurum), as well as the other Trans-Caspian Natural Gas Pipeline projects (i.e. the Nabucco natural gas pipeline project, and the Turkey-Greece-Italy Interconnector Project)), rail roads and other infrastructure. For instance, the Nabucco natural gas pipeline project, which will be stretching from Turkey to Austria via Bulgaria, Romania and Hungary, will contribute to the diversification of routes and resources needed by European economies. It is anticipated to bring mutual benefits for all parties concerned including producer, consumer and transit countries. Turning our attention to the East, China is also keen on meeting its exponentially rising energy demand partly through increasing its imports from the Caspian region. The subsequent crude oil and natural gas deliveries are expected to help diversify energy

8. For a comprehensive discussion concerning the legal status of the Caspian Basin, see Geoffrey Kemp, *Energy Superbowl: Strategic Politics and the Persian Gulf and Caspian Basin* (Washington D.C.: Nixon Center for Peace and Freedom Publications, 1997), 28-30; Gawdat Bahgat, "The Caspian Sea: Potentials and Prospects," *Governance: An International Journal of Policy, Administration, and Institutions* 17, no.1 (January 2004): 122-126.

imports and contribute to energy security in the Western markets, as well as in the rapidly growing economies of Southeast Asia.

In an overall assessment, while initially there have been some overly optimistic declarations by some high-level officials in Azerbaijan and Kazakhstan describing their countries as "another Saudi Arabia" or "another Kuwait" and the Caspian basin "as another Middle East," it is clear that the Gulf's significance will not be affected by the energy reserves of the Caspian Basin. The Gulf region will maintain its position as the principal supplier of oil and an important supplier of natural gas. While the Caspian is emerging as a world class area in oil and particularly natural gas production, it falls short of providing a substitute for the Gulf.[9] Nevertheless, it provides a significant supplement and the full utilization of this region's hydrocarbon resources would substantially contribute to global energy security. Hence, rather than competition, it would be more suitable to describe the current situation as complementarity.

Case of Azerbaijan and the Gulf Region: Commercial Relations and Diplomatic Ties

After the declaration of its independence in 1991, the Republic of Azerbaijan has confronted a plethora of new problems concerning the transition from a centrally planned to a market economy. This transition proved to be particularly problematic during the early years of independence up to 1994. In this period, the GDP decreased drastically on an annual basis by 13 percent to 20 percent and it dropped to 1,873 billion manats in 1994. Azerbaijan's economy was brought to the brink of total collapse. However, particularly through the revenues generated by the energy sector, GDP increased to a level of 23.6 trillion manats during 1996 to 2000, rising 39 percent over this period.[10]

The years between 1996 and 1997 were marked by a period of stabilization of the economy. The positive trend in production volumes persisted during the five-year period from 1996 reaching 5.9 percent by 2000. Production growth was based primarily on the successful work of state-owned electric power, fuel, chemistry and oil industries, as well as the increasing enterprises in the private sector. However, the

9. For a detailed discussion of this issue, also see Robert A. Manning, "The Myth of the Caspian Great Game and the 'New Persian Gulf'," *The Brown Journal of World Affairs* 7, no.2, (Summer/Fall 2000): 15-33; Patrick Clawson, *The Brown Journal of World Affairs*,7, no.2, (Summer/Fall 2000): 35-41.

10. Ministry of Foreign Affairs of the Republic of Azerbaijan: http://www. mfa.gov.az/eng/azer/economy.shtml.

decline persisted in the machine-building, light industry, food industry, agriculture and a number of other sectors. While increasing oil revenues have emerged as a critical asset for the Azerbaijan economy, similar to the oil-rich countries of the Gulf region and the Middle East, the economy has been revealing the signs of the so-called 'Dutch Disease.' The heavy concentration of investments in the oil sector and supporting industries leads to reduced allocations in other areas of the economy. The influx of foreign exchange increases government spending. Subsequently, government spending of oil revenues results in a shift of labor and capital from traded goods (industry and agriculture) to non-traded goods (services). This situation raises the danger of boosting inflation and distorting exchange rates.[11]

Oil is the main national wealth of Azerbaijan and the oil industry lies at the core of the country's economy. The most critical economic and geo-strategic event of the previous decade for Azerbaijan was the signing of the "Contract of the Century" on September 20, 1994 with the leading foreign energy companies. The then President Heydar Aliyev stressed the enormous importance of this contract for Azerbaijan by declaring in a very optimistic tone: "The foundation we laid with the Contract of the Century creates favorable conditions for the strengthening of the state sovereignty of independent Azerbaijan, the development and happy life of the people of the country in the 21st century. I believe that the 21st century will be the happiest period for the independent state of Azerbaijan."[12]

The Contract targeted joint exploration of Azeri, Chirag, Guneshli fields (ACG) based in the Azerbaijanian section of the Caspian Sea with the goal of extracting more than 50 million tons of oil. The signatories included the State Oil Company of the Republic of Azerbaijan (SOCAR) and 11 foreign oil companies. The Azerbaijan International Operation Company, which consists of SOCAR, BP, Unocal, Statoil, Lukoil, Exxon, Mobil, Itochu, Delta Hess, TPAO and other companies, was formed. After the Contract of the Century, Azerbaijan signed 21 oil contracts with foreign oil companies. Approximately $6 billion has been invested in these projects, with $4 billion allocated for the ACG.[13] In November 1997, Azerbaijan extracted early oil from the Chirag field, and by the end of

11. For a discussion of the examples of the Dutch disease caused by oil revenues in the Middle East, see Alan Richards and John Waterbury, *A Political Economy of the Middle East: State, Class, and Economic Development* (Oxford: Westview Press, 1990), 13-16.

12. "Contract of the Century," http://www.azerbaijan.az/_Economy/_OilStrategy/_oilStrategy_e.html.

13. Ministry of Foreign Affairs of the Republic of Azerbaijan: http://www.mfa.gov.az/eng/azer/economy.shtml.

2000, 12.2 million tons of crude oil and 1.8 bcm of natural gas had been extracted generating a significant amount of revenue. In 2000, the total volume of oil produced in Azerbaijan reached 14 million tons, which was 1.5 times that of 1995, accompanied by a 10 per cent rise in electricity production in comparison with 1995.[14] Initially, early oil from the Chirag field was transported through the Baku-Novorossiysk pipeline. Concomitantly, Azerbaijan was building the Baku–Supsa pipeline, which became operational on April 17, 1999. To date, 22.6 million tons of oil has been extracted of which 3.8 million tons reached international consumers through the Baku–Novorossiysk pipeline, while 18.6 million tons of it has been transported via the Baku–Supsa pipeline.[15]

These two pipelines, however, were insufficient for the transport of the anticipated high oil volumes. Hence, on September 5, 1997, President Heydar Aliyev, with strong backing from Turkey and the US, established an active working group for this main energy transit pipeline. At the OSCE Istanbul Summit in November 1999, Turkey, Georgia and Azerbaijan concluded an agreement for constructing a main export pipeline through Baku-Tbilisi-Ceyhan (BTC). The three countries also issued a common declaration, which was also endorsed by the US President Bill Clinton. The BTC company was established to implement the building of the main pipeline.[16] On September 18, 2002, an official ceremony took place in Baku, celebrating the laying of a foundation for the main BTC export pipeline.

The BTC project was finally completed in 2006. It cost approximately $4 billion and had a total length of 1,767 km of pipelines of which 443 km lies in Azerbaijan, 248 km in Gurcistan and 1,076 km in Turkey.[17] When one of the main oil producers of this region, Kazakhstan, also expressed its interest to join the pipeline by 2010, it raised the expectations that the capacity of the pipeline could eventually reach 75 million tons.[18] Hence, BTC opened a new East-West energy corridor creating an alternative energy route to Russia and Iran. It also raised Azerbaijan from having medium-class oil production capabilities to being a world

14. Ibid.

15. Ibid.

16. The partner companies participating in the construction of the BTC pipeline included SOCAR, BP, Unocal, STATOIL, TPAO, ENI, Itochu, Delta Hess, TFE and INPEKS. Anticipating significant returns, Azerbaijan has agreed to undertake 25 per cent of the project financing.

17. "Baku-Tbilisi-Ceyhan Oil Pipeline Named after Heydar Aliyev," http://www.azerbaijan.az/_Economy/_OilStrategy/_oilStrategy_e.html.

18. "Kazak Petrolu Ceyhan'a Akacak," *Milliyet*, June 9, 2006; "Baku-Tiflis-Ceyhan Tam Kapasite," *Radikal*, June 11, 2006; "Kazakistan'dan Iyi Haber Geldi," *Radikal*, June 16, 2006.

class producer with strong operational facilities. Moreover, it enhanced the geo-political significance of Turkey by turning it into a critical energy corridor.

When it comes to natural gas, Azerbaijan is currently a net importer. In 2001, for instance, Azerbaijan purchased 125 billion cubic feet (bcf) of Russian natural gas and in 2002, imports from Russia were approximately 141 bcf. This seems to be due to the fact that the current level of annual gas consumption of Azerbaijan is more than its production.[19] Although the annual increase in the rate of Azerbaijan's natural gas production is more than that of its consumption since 2004, manifested by 18.0 percent increase in its rate of gas production compared to only a 8.1 percent of rise in its consumption from 2005 to 2006, by the year 2006 the country still produced only 6.3 bcm of natural gas compared to its consumption for the same year of 9.6 bcm. However, it is anticipated that Azerbaijan will turn into a net exporter of natural gas in the near future as the Shah Deniz field is developed, when the country will be able to extract more natural gas from its promising reserves which was recorded to be 1.35 trillion cubic meters by the end of 2006.[20] Indeed, Azerbaijan has already concluded agreements with Statoil and BP to develop and export natural gas. Azerbaijan's annual natural gas production is expected to reach 400-500 bcf by 2010.[21]

Since Azerbaijan focused its attention on developing its energy sector and creating reliable transit routes for its energy exports, its contacts and trade relations with the Gulf region remained rather limited. The core reason for this has been that both regions have a similar major export commodity, which is oil. While there is an increasing trend in trade volume since 2000 with most of the Gulf countries, it still falls short of 1996 levels, when oil's share in Azerbaijan's exports was much less. For instance, while exports to Iran constituted approximately 35.8 percent of Azeri total exports in 1996 ($226 million out of $631 million), it was only around 4.6 percent in 2006 ($295 million out of $6,37 billion). Hence, in a similar fashion, while there seems in general to be a rising trend in trade volume, due to the rapidly expanding oil exports of Azerbaijan, their share as a percentage of total trade volume remains limited. There is clearly more room for growth.

As indicated in Table 1, in 2004, the main trading partners of Azerbaijan were as follows:[22]

19. The related data is derived from *BP Statistical Review of World Energy June 2007*, http://www.bp.com/statisticalreview.

20. Ibid.

21. Ministry of Foreign Affairs of the Republic of Azerbaijan: http://www. mfa.gov.az/eng/azer/economy.shtml.

22. "Foreign Trade Relations in Year 2004," http://www.azerbaijan.az/_Economy/_ForeignTrade/_

Table 1: Top Ten Trading Partners of Azerbaijan, 2004

EXPORT			IMPORT		
	Million USD	Specific weight, %		Million USD	Specific weight, %
Italy	1614.9	44.68	Russia	569.2	16.24
Israel	323.7	8.96	Great Britain	421.6	12.03
Russia	209.7	5.80	Kazakhstan	236.7	6.75
Georgia	188.4	5.21	Turkey	224.9	6.42
Turkey	182.6	5.05	Germany	198.5	5.66
Iran	153.6	4.25	Ukraine	170.3	4.86
Turkmenistan	143.4	3.97	The Netherlands	152.6	4.35
Indonesia	129.3	3.58	China	145.4	4.15
Croatia	109.2	3.02	USA	131.5	3.75
Romania	82.3	2.28	Japan	127.1	3.63

Based on the share of imports and exports to total trade volume, from the Gulf region only neighboring Iran emerges as a significant trading partner for Azerbaijan (in terms of exports). In this region, in its trade relations with Azerbaijan, the United Arab Emirates emerges as a distant second to Iran. The figures for Bahrain, Kuwait, Qatar, Oman and Saudi Arabia, which seem to have a persistent trade surplus since 2000, remain relatively more negligible.[23] Among this latter group, Saudi Arabia with a total trade volume of $1,150,063 in 2006 and Oman with a total trade volume of $852,153 during the same year rank higher in comparison to the others.

Since the independence of Azerbaijan, diplomatic ties have been growing, including a number of high-level visits between the Gulf region countries and Azerbaijan. For instance, President Hayder Aliyev visited neighboring Iran, with a substantial Azeri population, during June 29-July 2, 1994, May 12-13, 1996, December 8-11, 1997 and May 18-20, 2000. These visits at the highest level were also supplemented by the official visits of the Chairman of the Parliament M. Alesgerov during December 27-28, 1998 and June-15-17, 1999, the visit of Minister of Foreign Affairs V. Quliyev on March 13-16, 2000 and the visit of the

foreignTrade_e.html; Azerbaijan in Figures 2004**:** http://www.azerembassy-kuwait.org/files/Figures.pdf.

23. Since the trade figures with Iraq are very sketchy and have significant gaps, and the diplomatic relations had been rather limited and hindered by the wars in Iraq, Azerbaijan's relations with Iraq will be included in the discussion. Just to give an idea, however, in 2003, the volume of trade turnover between Azerbaijan and Iraq was $1,514,400, which was close to that of Saudi Arabia which had a trade volume of $1,705,765 during the same year.

Minister of Foreign Affairs E. Mammadyarov during July 31-August 1, 2004. Iran also responded to this high level of diplomatic interaction with the official visits of President Rafsanjani during October 26-28, 1993 and of President Khatami during August 5-7, 2004. At the vice-presidential level, H. Habibi visited Iran during October 28-31, 1996 and M. Aref made another official visit on December, 2003.[24] Hence, despite pipeline politics and Azerbaijan's traditionally close ties with Turkey, it also had extensive diplomatic interaction and significant commerce with Iran.

Table 2: Azerbaijan's Top Trade Partners in the Gulf Region, 1996-2006[25]

Trade of Azerbaijan with the World and Selected Gulf countries (US $ million)										
Year	World		Iran				United Arab Emirates			
	Export	Import	Export	%*	Import	%	Export	%	Import	%
1996	631	961	226	**35.8**	66	**6.9**	3	**0.5**	109	**11.3**
1997	781	794	190	**24.3**	49	**6.1**	1	**0.1**	42	**5.3**
1998	606	1,076	44	**7.3**	43	**4**	3	**0.5**	46	**4.2**
1999	929	1,036	23	**2.4**	47	**4.6**	9	**1**	12	**1.2**
2000	1,745	1,172	8	**0.4**	57	**4.8**	7	**0.4**	20	**1.7**
2001	2,314	1,431	9	**0.4**	55	**3.9**	10	**0.4**	19	**1.3**
2002	2,167	1,666	30	**1.4**	58	**3.5**	7	**0.3**	19	**1.1**
2003	2,592	2,626	49	**1.9**	51	**1.9**	6	**0.2**	26	**1**
2004	3,615	3,516	154	**4.2**	45	**1.3**	8	**0.2**	31	**0.9**
2005	4,347	4,211	166	**3.8**	76	**1.8**	15	**0.4**	33	**0.8**
2006	6,372	5,268	296	**4.6**	86	**1.6**	12	**0.2**	38	**0.7**
* % signifies the percentage of Azerbaijani exports or imports with Iran and UAE to that with the world in each year.										

24. These visits were complemented by the numerous visits of Ministers of Foreign Affairs, including four visits of A. Vilayeti (December 1991; August 1993; March 1996; April 1997) and three visits of K. Kharrazi (August 1998; 11 April 11, 2002; April 28-29, 2002), "Diplomatic Relations," http://www.mfa.gov.az/eng/foreign.policy/ bilateral.shtml.

25. http://comtrade.un.org/db/dqBasicQuery.aspx**.** Since it has been rather difficult to obtain consistent and reliable data concerning Azerbaijan's trade volume with the specific Gulf countries, this table was formed by utilizing the United Nations Commodity Trade Statistics Database (UN Comtrade), which contains comprehensive imports and exports statistics reported by statistical authorities of close to 200 countries or areas. However, one should also be cautious regarding some limitations of the UN Comtrade data. For instance, imports reported by one country in some cases do not correspond with the export figures reported by its trading partner. Differences might arise due to various factors including valuation (imports CIF, exports FOB), timing, and differences in inclusions/exclusions of particular commodities etc.

Azerbaijan and Iran have actually been connected by a rather complicated web of relations with significant ups and downs, which in certain instances came to the brink of collapse. The presence of Iranian Azeris, who constitute approximately one-quarter of Iran's population, further complicated relations after the fall of the Soviet Union in 1991. In order to understand the complex nature of current relations, one must search for its roots deeply embedded in the history of Azerbaijani-Iranian relations. In the aftermath of the Russian victory in the Russo-Persian Wars of 1804-1813 and 1826-1828, the peace treaties signed in Gulistan (1813) and Turkmanchay (1828) marked the division of the Azerbaijani khanates. Consequently, the Azeribaijani lands south of the Araxes River remained under the control of the royal house of Qajar, whereas Azerbaijani khanates in the north came under the rule of the Romanov empire. In the following decades, the Araxes River not only became a symbol of separation (*ayrilig* in Azerbaijani), but also this division was presented as a historical trauma to be remedied by the Azerbaijani patriots. However, two centuries of separate existence gave way to different political and social trajectories between the Azeris settled on the northern and southern shores of the Araxes.[26]

During the course of its modern history, the region referred to as Iranian Azerbaijan has experienced a number of insurgencies (the ones between 1918-1919 and 1945-1946 are particularly significant), which gave way to Iranian fears of irredentism by the Azerbaijani population of Northwestern Iran. Subsequently, the Iranians adopted a strategy similar to the Soviets, which aimed at gradually diminishing Azerbaijani identity, and eventually Iranianizing them. The Islamic Revolution in Iran marked an important policy change from the Reza Pehlavi era, during which official propaganda glorified "Aryan" Persians at the expense of "Turkic" Azerbaijani tribes. However, after the Islamic Revolution, the commonly shared Shia faith replaced Pan-Iranianism as the core of state ideology. At least in the initial period following the revolution, differences of language and ethnic origin ceased to play a crucial part, and within the Iranian state an overall improvement of Persian-Azerbaijani relations occurred. Ironically, within a few years of the Islamic Revolution, the Iranianization of Southern Azerbaijan's ethnic identity has gained impetus to the extent that was never reached in the long period of Pan-Iranianism. Currently, numerous key positions in the Iranian government are filled by Azeris. Nevertheless, with the renewed strength

26. For a comprehensive assessment of Azerbaijani history within Iran and Russia/Soviet Union, see Tadeusz Swietochowski, *Russia and Azerbaijan: A Borderland in Transition* (New York: Columbia University Press, 1995); Audrey L. Altstadt, *The Azerbaijani Turks: Power and Identity Under Russian Rule* (Stanford: Hoover Institution Press, 1992); Shaffer Brenda, *Borders and Brethren: Iran and the Challenge of Azerbaijani Identity* (Cambridge: MIT Press, 2002).

of Iranian nationalism, there have also been some indications of political unrest among the younger generation of Iranian Azerbaijanis. For instance, spontaneous demonstrations took place in southern Azerbaijani cities and even in Tehran during May/June 2006 to protest a caricature published in a state-run newspaper depicting the Azerbaijani minority as cockroaches.[27]

With the dissolution of the Soviet Union, while the Iranians initially perceived some potential risks to their territorial integrity, immediately after the creation of Azerbaijan, there were no alarming signals of a "new Azerbaijani threat," particularly in the short-term. On the contrary, Azerbaijanis even anticipated that Iran could provide support as a pro-Azerbaijani mediator in the conflict over Nagorno-Karabakh. In the meantime, Iran, which was competing with Turkey for influence over Azerbaijan, had already started sending Iranian clergy to Azerbaijan, the volume of trade had reached unprecedented levels, and visas were no longer necessary for travel. However, this honeymoon proved to be rather ephemeral, when Ayaz Mutalibov, a former Azerbaijani Communist Party head and the first president of Azerbaijan, was succeeded by Abulfaz Elcibey, the chief of the National Front of Azerbaijan (NFA). Elcibey, who was a nationalist, strongly supported secularism and assumed an anti-Iranian stance. During the 13-month-long Elcibey government, relations became so strained that Iran even started supporting Christian Armenia, which was at war with Shia Azerbaijan. After Elcibey was deposed in June 1993 and Heydar Aliyev assumed the position of presidency, Azerbaijan-Iran relations, according to some analysts, seemed to enter a period of détente.[28] Aliyev, following a pragmatic stance, made important attempts to normalize the relations and, as indicated previously, intensified high-level diplomatic visits.

The energy politics of the Caspian region, marked by competing Azerbaijani and Iranian positions, however, would once again lead to increasing tensions between the two countries. As Azerbaijan started to more clearly side with the United States and Turkey in the "Great Energy Game," Iran more closely aligned itself with Russia and Armenia and, more recently, with China. Moreover, Iran has frequently brought up the question of the disputed legal status of the Caspian Basin and has made serious diplomatic efforts to prevent the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which was the most competitive alternative (in addition to the Russian one) to the Iranian route to get the land-locked fossil

27. Emil Souleimanov, "The Cartoon Crisis in Iranian Azerbaijan: Is Azeri Nationalism Underestimated," *The Central Asia-Caucasus Analyst*, June 14, 2006.

28. For instance, see Emil Souleimanov and Ondrej Ditrych, "Iran and Azerbaijan: A Contested Neighborhood," *Middle East Policy* XIV, no.2 (Summer 2007): 104.

fuels of the Caspian region to the global markets. In this respect, when BTC became operational in 2006, Iran, along with Russia, suffered a major geo-political setback. Just like in the past decade, the energy politics of this region will continue to determine the complex path of Azerbaijani-Iranian relations.

Azerbaijan also gave importance to maintaining active diplomatic links with the other countries of the Gulf region. For instance, Azerbaijan's Chairman of the Parliament R. Quliyev made an official visit to the UAE in October 1994. There were also subsequent high level visits to enhance commercial and cultural ties between the two countries. For instance, Deputy Minister of Foreign Affairs K. Khalafov undertook a business visit in December 2001, which was followed by the visit of the Chairman of the Chamber of Commerce to participate in the 9th Islamic Trade Exhibition. In April 2004, in order to expand cultural ties, Minister of Culture P. Boulbouloglu visited the UAE. In return, the Minister of Communication of the UAE Ahmed Humaid Al-Tayer visited Azerbaijan in July 2003.[29]

There were a number of other high level visits from Azerbaijan to the Gulf region, particularly to Saudi Arabia, focusing primarily on commercial and cultural issues. For instance, President Heydar Aliyev visited Saudi Arabia during July 9-13, 1994 and N. Mammadov, special envoy of the President, paid a subsequent visit in October 2002. Starting with the initial stabilization and the rising trend in the Azeri economy, diplomatic activity reached its peak during the 1994-1999 period. Visits of Azerbaijani officials to Saudi Arabia in this period included the visits of Deputy Prime Minister A. Sharifov, Minister of Education L. Resulova, Minister of Trade M. Gambarov, Chief of State Company of Azerkimya F. Sadikhov, Chief of Chamber of Trade S. Tatliyev, and Sheikhulislam Haji Allahshukur Pashazadeh. On the Saudi side, after the initial visit of Saud Al-Faisal, Minister of Foreign Affairs, in 1992, there were more frequent contacts during the 1994-1999 period, with the visits of Deputy Foreign Minister, Minister of Islamic Affairs and Deputy Minister of Housing. In order to further collaboration on energy and related issues, Dr. Zohair Nawwab, Minister of Oil and Natural Resources, also visited Baku in September 2002.[30]

When compared with Iran, UAE, and Saudi Arabia, other Gulf States such as Kuwait, Bahrain, Qatar and Oman had more limited diplomatic ties with Azerbaijan. Saudi Arabia, Iran and UAE established formal diplomatic relations with Azerbaijan in 1992. From the other group, Oman was the first country to establish diplomatic

29. Ibid.

30. Ibid.

ties with Baku in July 1992. Even the establishment of initial diplomatic relations came quite late for Qatar (September 14, 1994), while Kuwait established diplomatic relations in October 1994. Bahrain was the last country in the Gulf region to establish diplomatic ties with Azerbaijan, which was as late as November 1996.

In general, Azerbaijan has active diplomatic engagements and some commercial ties with the Gulf region. In this respect, we can make a threefold categorization based on trade volume and the extent of diplomatic relations (i) Iran and UAE emerge as the countries with the most extensive ties; (ii) Saudi Arabia and Oman have more limited, but nevertheless significant trade and diplomatic contacts; (iii) finally, Kuwait, Qatar and Bahrain have extremely limited contacts. Since the primary export commodity for both regions is oil, it naturally accounts for the relatively limited commercial ties between most of the countries of the Gulf region and Azerbaijan. Moreover, there is significant competition between Azerbaijan and Iran concerning energy politics in this region. Nevertheless, increased inter-regional ties and collaboration might yield a significant synergy, such as the role of the Oman Oil Company in the establishment of the Caspian pipeline consortium. In any case, there is ample room for enhancement of both commercial and diplomatic ties in all three groups.

Concluding Remarks

In his 2006 State of the Union address, US President George Bush admitted that America is now "addicted to oil."[31] Unfortunately, the addiction to fossil fuels is not unique to the US, but it is indeed a global one affecting developed countries of the world, such as the EU member states, as well as the rapidly growing economies of East Asia, such as China and India. The insatiable global appetite for oil and natural gas has brought the notion of energy security to the center stage of economic and geo-political debates.[32] Concomitantly, the global competition over access to and control of secure energy resources has been rapidly intensifying. In the grand chessboard of energy politics, since "the energy ellipse" extending from Southern Russia to Oman contains over two-thirds of the global proven petroleum reserves and more than 40 percent of the world's proven natural gas reserves, "the Persian Gulf and Caspian Basin together is a strategic prize of immeasurable importance."[33]

31. George W. Bush, State of the Union Address by the President, January 31, 2006.
32. Due to the detrimental impact of the use of fossil fuels on global warming, the exponentially increasing global energy consumption also has significant environmental implications.
33. Geoffrey Kemp, *Energy Superbowl: Strategic Politics and the Persian Gulf and Caspian Basin,* op. cit., 14.

In this respect, the US, the EU, China and Russia emerge as the major global powers with significant interests and impact in these regions, in addition to Azerbaijan, Turkey and Iran, which are becoming increasingly important regional actors in Eurasia. Getting the land-locked Caspian energy out brings an additional level of complexity to the relations between energy producers, energy transit countries and energy consumers, introducing pipeline politics as an indispensable part of the notion of energy security. The Gulf region will sustain its position at the heart of global energy politics due to its extremely rich petroleum reserves. In the meantime, while the Caspian Basin emerges as a major producer of oil and particularly natural gas, it can, by no means, be a substitute for oil from the Gulf. The Caspian region, nevertheless, provides a significant supplement, at a time when international actors are arduously striving to reduce the vulnerabilities of their states to the possible disruption of their energy supplies, which are often located in extremely volatile regions. Consequently, they are trying to looking to diversify their supplies and avoid over-dependence on a single source. In this respect, there is more of a complementarity between the Gulf region and the Caspian Basin, rather than fierce competition. As indicated by Azeri-Iranian relations, however, there are also some competing interests and varying regional strategic alignments related to energy issues.

The enhancement of inter-regional ties in terms of commerce and diplomatic contacts, nevertheless, promises more interaction and collaboration between the Gulf and Caspian regions that would result in mutual gains. In this respect, Azerbaijan provides a good example in terms of its trade and active diplomatic engagements with a number of countries of the Gulf region. Based on the total trade volume and the extent of diplomatic ties, Iran and the UAE emerge as the countries with the most intensive interaction with Azerbaijan; Saudi Arabia and Oman have relatively limited, but still substantial commercial and diplomatic ties; finally, Kuwait, Qatar and Bahrain have rather minimal contacts. The primary export commodity for both regions is oil; this factor explains the relatively limited commercial ties between most of the countries of the Gulf region and Azerbaijan. Nevertheless, increased inter-regional ties and collaboration might create new opportunities, and there is certainly more room for the growth of both commercial and diplomatic ties. Interdependence of the Gulf and the Caspian regions has intensified in a period of rapid globalization, and both regions will continue to play a critical role in a world obsessed with energy politics.

Georgia's Relations with the States of the Gulf

Professor Tornike Sharashenidze

Georgian Institute of Public Affairs, Georgia

Introduction

The Republic of Georgia has experienced an uneasy process of political development since the disbandment of the Soviet Union. A country which has been severely hampered by ethnic conflicts and impoverishment of the majority of its population, it has at the same time been hailed for its democratic reforms and aspirations to integrate into NATO and the European Union. Such aspirations have resulted in extreme deterioration of relations with Russia, which has essentially viewed Georgia as its bastion in the South Caucasus for more than two centuries.

Georgia became part of the Tsarist Russian Empire at the end of the 18th century and up until the end of the Soviet Union exercised no foreign relations as such. Despite this, it should be noted that Georgia has a long history of interaction with the Gulf region, which goes well beyond the last two centuries. While modern Georgia has predominantly been developing as a nation state under various forms of Russian tutelage, Georgia's history also demonstrates periods spent under both Arab and Iranian influence. Although any formal links which Georgia had with the Gulf were largely abrogated during the time spent under Russian and Soviet political domination, the promulgation of Georgia's independence and the disbandment of the Soviet Union in 1991 provided the basis for restoration of Tbilisi's relations with outside world. With the exception of Iran which had substantial geopolitical

and historic grounds for developing relations with independent Georgia, Tbilisi's prospects for cultivating relations with the Gulf seemed minimal in the early 1990s. While the Gulf States aimed to foster ties with the ex-Soviet, nominally Muslim republics of Central Asia, there were no special ties and few compelling reasons for them to promote active relations with Georgia.

To the contrary, post-Soviet Georgia developed into a domain for the former Cold War adversaries – Moscow and Washington – to play out their competing geopolitical interests. Geopolitical competition between the US and the newly emerged Russian Federation overshadowed Georgia's efforts to cultivate bilateral relations with prospective new partners in the international arena, including the Gulf States. Furthermore, the country was severely weakened internally as a result of two separatist conflicts in Abkhazia and South Ossetia respectively, the resulting refugee crisis and a fragile political environment overall.

However, since the late 1990s, Georgia's regional role has been increasing in significance, particularly due to its geo-strategic position as a transit corridor connecting Caspian energy resources to international markets. This position is reinforced by several major oil and gas pipelines having been built across Georgian territory, bringing with it major foreign investments from international oil companies and political endorsement from Western governments. Georgia's role as an energy transit corridor has, to some degree, attracted the attention of the Gulf States, given that trans-Caucasus bound energy export routes could be perceived as competitive routes for energy exports from the Gulf. On the other hand, Georgia's potential as an energy transportation hub could contribute notably to building stronger levels of mutual cooperation with the Gulf.

The ensuing essay contains four main sections. The first section provides a short overview of Georgia's political history since the end of the Soviet era. During this short but dramatic period Georgia witnessed two revolutions, wars in regions populated by ethnic minorities, crises in relations with Russia, the mysterious death of the country's first president and assassination attempts on another. The second section looks at Georgia's relations with Iran, the once formidable neighbor which has left immeasurable cultural impact on contemporary Georgia. Besides, Iran's relations with Georgia are seen as forming an important part of a security balance in the region given Iran's difficult relations with the US on the one hand, and Georgia being a major regional ally of the US on the other.

The third section of this essay addresses Georgia's relations with the states of the Gulf Cooperation Council (GCC), which continue to remain rather limited for the most part. However, as will be discussed in the final section, investment in major

new oil and gas transport projects and the newfound significance of Georgia as an energy transit corridor is likely to bring the country into closer contact with both Iran and the GCC states in the future.

Modern Georgia: Overview of Recent Political History

In the beginning of the 1990s, when the collapse of the Soviet Union seemed inevitable, Georgia, together with the Baltic States, stood at the vanguard of the nationalist movement. After the Baltic States, Georgia was one of the first to declare its independence but the country's position was dramatically different from Estonia, Latvia and Lithuania in that Georgia did not enjoy the same substantial support from the West as a result of several key factors. The regime of Zviad Gamsakhurdia, one of the prominent Georgian dissidents who came to power after free elections were held in 1990, for example, was one of the reasons for the lack of external support. Gamsakhurdia failed to build democracy (if he ever attempted to) and squandered popular support in less than two years. Accused of dictatorship and the mismanagement of national resources, Gamsakhurdia faced mounting opposition and lost the support of his armed forces in 1991 which resulted in bloody clashes in the centre of Tbilisi. Gamsakhurdia fled Georgia but the civil war which ensued lasted for years in regions of the country where the first President of Georgia enjoyed more support than in the capital.

There was another and maybe more important reason that kept Georgia out of the sphere of Western interest. If the Baltic States never were recognized as part of the Soviet Union and were always considered organic parts of Europe, Georgia was thought of as belonging to a natural sphere of Russian interest. Even after the collapse of the Soviet Union when an oral agreement was struck between Moscow and Washington, Georgia was left within Russia's sphere of influence.

Apart from civil war, Gamsakhurdia's legacy included ethnic conflict in South Ossetia. Under Soviet rule, three autonomous units appeared in Georgia which turned out to be time bombs controlled by the Kremlin. As Georgia strove for independence, the bombs were activated. Ossetians and Abkhazians demanded secession from Georgia with the situation becoming worse due to Gamsakhurdia's inflexible and xenophobic policy. In 1991, South Ossetia became the first conflict zone but the others would follow suit.

A few months after ousting Gamsakhurdia, a new leader arrived in Georgia in the form of Eduard Shevardnadze, the prominent Foreign Minister of the Soviet Union who greatly contributed to the process of disarmament and the ending of the Cold War.

Most Georgians welcomed Shevardnadze as a savior who would rebuild the devastated country and integrate it into the West with his connections with the most influential politicians in the world. Shevardnadze, too, seemed to rely upon his connections in the first place. He turned down Russia's offer for entering Commonwealth of Independent States (CIS) and unambiguously showed an interest towards the West but the country remained unstable. Some regions of West Georgia did not obey the new authority and supported Gamsakhurdia in exile. Soon, a new conflict broke out in Abkhazia which proved instantly to be much more serious than that in South Ossetia. Russia almost openly supported the Abkhazians during the conflict which ended in 1993 with Georgia's defeat. By the end of the conflict, the supporters of Gamsakhurdia in West Georgia were activated and they seized almost half of the territory of Georgia. Facing a total collapse of the country and the threat of losing his authority as well, Shevardnadze agreed to enter the CIS and, in fact, to become Russia's satellite. Russia's armed forces easily dealt with Gamsakhurdia's supporters but Abkhazia remained broken away from the rest of Georgia as the conflict in the South Ossetia became frozen. Shevardnadze had to appoint Russia-oriented officials in key positions and for a time abandon plans for integrating into the West.

Until the late 1990s, Georgia hardly had any options except to follow Russia. This adherence, however, did not result in any concrete benefits for the country in that Russia did not care about Georgia's economic hardship (although it has to be admitted that Russia itself experienced severe economic problems due to low oil prices) and, most importantly, the country's territorial integrity remained violated. As a result, Georgians became extremely resentful about Russia and Georgian opinion makers never abandoned the idea of moving to the West. It happened when the South Caucasus region became the subject of American interests as a potential (and alternative to Russian) energy corridor for Caspian resources. Azerbaijan was to become the main supplier of Caspian energy resources, and since Baku was at odds with Armenia due to the territorial conflict over Nagorno Karabakh, Georgia was the only option for the energy route. Implementation of this ambitious project - in the form of building a pipeline bypassing Russia - meant a change in foreign policy priority. The Western interest allowed Shevardnadze to get rid of the pro-Russian officials and take a pro-American stance. Much to Russia's resentment, Georgia become a close ally of the US. Georgia-Russia relations had definitely deteriorated and Tbilisi saw no option except to move further in its Westward orientation and integration into Euro-Atlantic community. In 2002, Shevardnadze openly declared his intention of joining NATO.[1]

1. Statement by President of Georgia Eduard Shevardnadze at the EAPC Summit, November 22,

The pro-Western foreign policy, however, did not resolve Georgia's internal problems. Apart from the violated territorial integrity, the country suffered from extreme poverty and widespread corruption. Shevardnadze was losing popular support and American support as well. From 2003, Russia launched an aggressive policy of energy expansion and Georgia became one of its first targets. Russians took over large shares of Georgia's energy system which made the US quite unhappy and further contributed to undermining Shevardnadze's position. The parliamentary elections of 2003 were the final straw. Shevardnadze definitely rigged the election results, leading to an outburst of popular protest. The opposition seized the opportunity and led the anti-government rallies, which resulted in the Rose Revolution of November 2003. Shevardnadze peacefully left office and a new era began.

The new government undertook substantive reforms in the country. The volume of corruption was significantly reduced and the state governance strengthened. Euro-Atlantic integration became the main priority of the security policy. The new government highlighted Georgia's role as a regional hub and transport corridor. The country's economy became more liberalized and open to foreign investment. Thanks to the reforms in 2006, Georgia was appraised by the World Bank as one of the most reformed and liberalized economies.[2] At the same time, relations with Russia deteriorated further due to Georgia's striving for NATO membership. The new government has made the restoration of territorial integrity its main goal but, because of Russia, the process of conflict resolution is still frozen.

Despite some tangible progress, the country is still faced with severe problems. The revolutionary government has not fulfilled all of the promises it made and Russia definitely does not favor Georgia's current leadership. Moscow still uses the breakaway regions as levers to exert pressure. During 2006, the Georgia-Russia showdown reached a peak, which resulted in the imposition of severe economic sanctions on Georgia; Georgian products (mainly wine and mineral waters) lost the Russian market. Georgia thinks the solution to its problems lies in integrating into the Western community but this task requires substantive democratic transformation and will take a few more years especially given the fact that the country continues to suffer from a weakness of democratic institutions and an imbalance within the governmental system. The judicial branch in Georgia is definitely weak and courts in the main simply follow orders from the government. The political bloc of President

www.nato.int 2002

2. "Georgia Tops Business Reform List," bbcnews.com, September 6, 2006.

Saakashvili controls the majority in the Parliament which precludes any serious chances of balancing the executive branch with the legislative one.

Concerns also persist about economic development. Georgia suffers from a substantial trade deficit and the country's industry is still in decline. Agriculture and tourism are viewed as the sectors with the most prospects but due to Russian sanctions, Georgian wines and mineral waters can hardly find a new market which could replace the Russian one. As for tourism, it suffers from the extremely poor infrastructure in many regions of the country. Only the port city of Batumi can be considered as a resort which is close to meeting the international standards.

Georgia's current government actively pursues a liberal economic agenda. The government tries not to interfere in the country's economic development and promotes divestiture of state assets to private investors. Foreign direct investment is welcomed and the investment climate has improved significantly. In most cases, however, foreign investment simply overlaps with the privatization of former state assets. Foreign capital is, for the most part, channelled into the purchase of real estate rather than into building plants and expanding industrial or service capabilities. These circumstances cast some doubts over Georgia's future economic development.

In summation, it could be said that since the restoration of independence, Georgia has experienced severe conflicts and economic hardship, and the new government has inherited more than its fair share of problems which it is now trying to address in quite a radical manner. Georgia is the only country from the former Soviet Union which has made integration into NATO its main priority, and Georgia's relations with Russia are therefore constantly on the edge. The US is Georgia's closest ally and stands by the new government. Georgia now faces the task of building a strong democracy and effectively functioning economy in order to meet the expectations created by the Rose Revolution. If the country's new government fails to make substantial progress in these areas, its legitimacy will become questionable and the country's future will remain unclear.

Georgia's Relations with Iran: A Complicated Affiliation

The history of Georgia-Iran relations is typical of relations between a small country and a regional power. In the 16th century, Iran emerged as an important player in the region whereas Georgia had become weakened and disintegrated by that time and was hardly able to resist foreign expansion. Iran viewed Georgia as a natural sphere of its interest, and taking control of Georgia meant not only

gaining more influence in the region but also strengthening positions vis-à-vis its main rival, Turkey. These two regional powers, Turkey and Iran, struck a kind of condominium over Georgia with West Georgia under Turkish influence and East Georgia under Iranian control. As previously mentioned, Georgia was disunited in this period with East Georgia being further dismembered into several parts, which made the task of resisting Iranian influence all the more difficult. There were times when East Georgian kingdoms fought devastating wars with Iran and Georgians were expatriated to Iran in great numbers where they live up to present times (with most of them still speaking Georgian). There were also times, however, when East Georgia enjoyed a period of peace as Iran's satellite. Georgian princes were welcomed at the Iranian court and they participated in Iranian military campaigns. One of the Georgian princes, Alaverdi-Khan Undiladze, was a close and influential aide to one of the most prominent Shahs, Abbas the Great, while another Georgian, the legendary military leader Giorgi Saakadze, was the commander of the Iranian army under Abbas the Great.[3] At the same time, it was quite commonplace for Iranian Shahs to have Georgian women as their wives. Following Abbas the Great, it was Georgians who usually held the position of Spasalar (Minister of Defense) at the Iranian court.

Up to 19th century, Georgia was greatly influenced by Iranian culture. The Georgian language absorbed a great deal of Persian words and expressions and Persian was the main language for East Georgian noblemen who very often wore Iranian garments. Iranian poetry was very popular, and some Georgian kings even tried to imitate Iranian authors by writing poems under their influence. One of the Georgian kings even admitted that the Persian language exposed him to the world of the "music of poetry."

This phase of relations between Iran and Georgia ended when Georgia became a part of the Russian Empire at the end of the 18th century. Georgians continue to argue whether or not applying for Russian protection was a right decision. No one, however, argues about the reason the decision was made. Iranian invasions devastated East Georgia, and there were very few choices left for the East Georgian King Erekle II. Tehran had to blame itself in the first place for Russia gaining access to East Georgia (and later to the whole of the South Caucasus). For centuries, Georgia kept the aggressive Northern neighbors out of the South Caucasus by keeping the Dariali Gorge, which connected the South and North Caucasus, closed. By opening the gorge for the Russians, Erekle II allowed them to occupy not only

3. S. Maskharashvili, *Mateane Kartvelta* (Annals of Georgians), (Tbilisi, Georgia,2006).

the East of Georgia but, consequently, the West as well which was under Turkish influence. After that, Russia was allowed to expand at the expense of Turkey, and most of the Russian military campaign against the Ottoman Empire was conducted from Georgian soil.

Centuries of complicated relations between Georgia and Iran have left an indelible imprint on Georgian historical memory. Besides, the most prominent Georgian thinkers and authors used to draw upon examples of Georgia's heroic resistance against Iranian oppression and, as was typical, create grandiose legends which inspired Georgian national pride and served as a tool for nation-building. Being a part of the Russian Empire, Georgia faced the risk of losing its national identity, and such tools inspiring national pride and identity were necessary. The sense of enmity between Georgia and Iran was even more highlighted in the Soviet era wherein Iran was pictured as Georgia's main rival and tormentor and Georgia as a victim that was finally saved by a fellow Christian country, Russia.

Being well aware of such an attitude, Iran nowadays keeps quite a low profile in Georgia. Iranians continuously stress their peaceful intentions and close cultural ties with Georgia. There is a lot of talk about a Georgian-Iranian "common identity" but Georgia certainly does not enjoy the same close relations with Iran as it does with Turkey. The latter, as a member of NATO and a close ally of the US, has assisted Georgia in rebuilding its armed forces and invested a great deal in Georgia's economy. Georgia imports Turkish products (mainly textile and food), there is a liberalized bilateral trade relationship and the countries enjoy a non-visa regime. Of course, this is not true about Georgia-Iran relations. Due to economic sanctions, Iran can hardly invest in Georgia let alone participate in the rebuilding of the Georgian armed forces.

The strategic partnership between the US and Georgia, as well as the American influence in the South Caucasus, is definitely viewed as a problem by Tehran wherein making the South Caucasus a strategic stronghold for the US is its worst case scenario. In 2003, information was leaked that the US was considering the deployment of troops in Azerbaijan and this was confirmed by high-level American military officers.[4] The fact that it was not followed by any concrete steps can be explained by the diplomatic and military pressure (Iranian aircraft deliberately flew along the Azeri border) that Iran exerted upon Azerbaijan. Baku finally agreed to give Tehran guarantees that its territory would not used for any attack against Iran. Georgia escaped similar complications, but close ties with the US put some

4. "Secret Agent. Rumsfeld Sneaks off to Baku," *Energy Bulletin*, April 14, 2005.

constraints upon bilateral relations with Iran. In the early 2000s, Iran expressed an interest in buying Su-25 aircraft (which have been made by the Tbilisi Aircraft Factory since the Soviet period) from Georgia, but the deal was withdrawn due to American pressure.[5] After launching the military campaign in Iraq, some Georgian defense analysts expressed concern that Iran would become America's next target and, in this case, Georgia as a close ally of the US ally could easily become a subject of Iran's retaliatory measures, such as an attack by Iranian medium-range missiles. Such speculation is still evoked in connection with the US-Iran standoff over Tehran's nuclear program and Georgia's possible NATO membership.

As for the Iranian viewpoint, Tehran more or less views Georgia as a friendly state. Georgia's close partnership with the US (including Georgia's active participation in peace missions in Iraq and Afghanistan) is not viewed as an anti-Iranian policy. Tehran should realize that a Western orientation is a matter of survival for Georgia, and it is not a move directed against anyone. Unless Georgia becomes a base for a military campaign against Iran, Tehran will not seriously oppose a Georgian-American partnership. Iran has the experience of living alongside a NATO member country (Turkey). Not being in Iran's immediate neighborhood, Georgia is not likely to stir up any serious fears in Tehran with its plans for Euro-Atlantic integration. The history of Azeri-Armenian conflict over Nagorno Karabakh has demonstrated that Iran fears destabilization and distortion of the balance of power in its neighborhood. In this conflict, Iran backed Armenia because it feared the strengthening of Azerbaijan (which implied the strengthening of irredentist trends in Iran's Azeri minority for Iranian policymakers). Backing Armenia was also determined by the calculations of a weakening Turkey (Iran's main historic rival) which has openly and unambiguously supported Azerbaijan. Conflicts on Georgia's territory did not raise any serious concern in Tehran since there was no threat of any spillover into Iran or any implication similar to the Azeri one.

In general, Iran has shown itself to be a proponent of *realpolitik* rather than an Islamic state unconditionally supporting its Muslim brothers. Apart from the case of Nagorno Karabakh, we have the example of the wars in Chechnya wherein Tehran did not take any moves aimed at backing the Chechen rebels.[6] Unlike Nagorno Karabakh, Tehran's stance towards Chechnya was not caused by any fear of its territorial integrity. It did not back the Chechen rebels simply to maintain close relations with Russia which is its main supplier of arms and nuclear materials.

5. Sakartvelo Saaviacio, "Garigebis Gareshe Darcha," (Georgia Left without Jet Deal), *Kviris Palitra*, September 12, 2001.

6. *Iran's Security Policy in the Post-Revolutionary Era* (Santa Monica: RAND Corporation, 2000).

Clearly, Iran's main concern is its own security, and the country is not likely to see any threat from Georgia's NATO integration unless there is a real prospect of a further worsening of US-Iran relations which may eventually lead to a military showdown. At the same time, however, such a scenario definitely does not depend upon Georgia, and Georgia's possible NATO membership will hardly worsen Iran's position as it is already encircled by the US troops (from Iraq and Afghanistan).

As previously mentioned, bilateral economic relations between Georgia and Iran are not well-developed, and this is a reality which was true during the Shevardnadze era and remains so after the Rose Revolution when the investment climate in Georgia has dramatically improved. There have been some talks about possible major Iranian investments and even though some other Gulf countries have invested significantly in post-revolution Georgia, nothing has materialized so far. Cooperation in the banking sector remains completely undeveloped. Iranian imports are limited to some agricultural products and gas heaters.[7] In contrast, Georgian-Turkish economic relations are booming. Tbilisi abounds with Turkish restaurants, Turkish banks have opened branches in Georgia, Turkey has built the new airports in Tbilisi and Batumi (Georgia's main sea resort that once belonged to Turkey) and it is the main travel destination for Georgian citizens lured by high quality textile and other goods. Neighboring Turkey is associated with the West and Western brands whereas Iran cannot offer the same appeal.

Generally, Iranians often express regret about not being as active in Georgia as they "should be." During Georgian-Iranian roundtable meetings and discussions, Iranians talk about future prospects of relations wherein the US is typically not mentioned and Georgian-Iranian cultural ties are highlighted. Once again, such talks are directed towards the past rather than the future, and it is clear that Georgian-Iranian relations lack any kind of dynamics. Despite the fact that educational and cultural ties are the most developed field in bilateral relations - they are reinforced by the Mutual Agreement between the Georgian and Iranian Governments on an Exchange Program in Fields of Culture, Education, Science and Sport (2004) and the Memorandum of Understanding between the Ministry of Education and Science of Georgia and Iran's Ministry of Science, Research and Technologies (2005) - joint cultural events remain poorly highlighted and publicized. In 2007, an exhibition of modern Iranian painters was held in Tbilisi but the event hardly attracted the interest of the media and specialists.[8] One of the regional educational

7. Government of Georgia, Department of Statistics, Tbilisi.

8. Roundtable discussion on "Georgian-Iranian Relations: Economic, Political and Cultural Issues," Georgian Foundation for Strategic and International Studies, June 19-21, 2007.

institutes of Kutaisi established a partnership with some Iranian counterparts in 1996. Moreover, some Iranian books have been translated into Georgian but there is hardly any demand for Iranian prose or poetry among the wider Georgian public with Iranian authors unable to compete with the Western or Russian bestsellers.

The present state of Georgian-Iranian cultural relations can be summed up as follows: Despite the fact that Iran views cultural ties as the main means for building bilateral relations (and gaining some influence over Georgia), the wider Georgian public is not interested in Iranian culture which is associated with the enmity of the past and with the aggressive Islam of the present. Iranian culture remains a sphere of interest only for a very narrow group of Georgian specialists.

The development of modern Georgian-Iranian relations reached its peak in January 2006. Georgia, which had suffered from energy shortages since the collapse of the Soviet Union, managed to overcome this problem to a great extent following the Rose Revolution. In January 2006, however, an explosion occurred in the pipeline supplying Georgia with Russian natural gas (it occurred in Russian territory), and Georgia was cut off from its main energy supply during a severe winter. It took Moscow several days to begin repair work on the pipeline, and Georgia had to look for interim alternative supply lines. Under extreme conditions, the Georgian government struck an agreement on gas supply with Tehran. The price for the gas was never disclosed which allows us to conclude that the price was either too high or too low. Russian media asserted that the price was too high but, at the same time, the restoration of the Iranian gas supply line for Georgia (which had not functioned since the collapse of the Soviet Union) made Moscow nervous. Two days after Iranian gas reached Georgia, the Russian pipeline was repaired and supply restored.

The events of January 2006 led the Georgian government to hope that Iran could become an alternative for Russian gas. From 2006, the price of Russian gas for Georgia was more than doubled with Gazprom threatening to double it once more (the threat was fulfilled by 2007). Georgian government delegations visited Tehran in 2006, but negotiations did not bring results that would suit Georgian interests. Such an outcome ostensibly was determined by Russian influence over Iran. Georgian-Russian relations came close to a military showdown in the autumn of 2006 following the notorious "spy scandal" when several Russian military servicemen charged with espionage were arrested publicly by Georgian law enforcement executives before television cameras. This action infuriated Moscow which retaliated by toughening sanctions against Georgia (banning air flights and postal communication) and driving out a big number of Georgian illegal residents

working in Russia. In Moscow's view, the raised prices for Russian gas during the winter of 2006-07 would become the final strike against the "bullying Georgian government" with Russia definitely using all avenues not to allow Georgian-Iranian energy cooperation. In the winter of 2006-07, Azeri gas, supplied through the Baku-Tbilisi-Erzerum pipeline, served as a partial alternative for Russian gas. Georgia received not only its share from the pipeline but also an additional portion from Azerbaijan which decided (much to Moscow's annoyance) that undermining Tbilisi would undermine Baku as well since it depends on Georgia for the transportation of its energy resources. Once again, we see the competing interests of the Turkey-Azerbaijan-Georgia group and the Russia-Iran-Armenia group. The former has been fostered through cooperation in energy field. As for the latter, Russia and Iran back Armenia in the conflict of Nagorno-Karabakh and they resist American influence. Energy is one more field wherein Georgian-Iranian relations can hardly substitute those between Georgia and Turkey. Georgia has gained its function of an energy corridor thanks to Turkey which serves as the final destination point of the energy routes (Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzerum pipelines). Iran could also become an energy partner of Georgia (such perspectives will be discussed below) but the present situation does not allow us to expect such a scenario to develop.

To sum up Georgian-Iranian relations, it is obvious that the countries had close historical relations although bilateral ties remain limited in the present. Current activities are directed mainly towards the past rather than the future. Iran's isolation along with its close ties with Russia hamper further development of bilateral cooperation. Iran definitely will not approve of the Georgian-American strategic partnership but, at the same time, this partnership must not be viewed as a threat to Tehran.

Georgia and the Gulf States

The history of the relations between Georgia and the Arab world abounds with various exciting events. Georgia was invaded by Arabs in the 7th century with Arab rule lasting for about 250 years; first, under the local Arab ruler, Mirvan Ibn Mohamed, called Murman the Deaf by Georgians since he did not heed any pleas for mercy, and secondly under Abo Tbileli (Abo of Tiflis), an Arab from Baghdad who found himself in Tbilisi having followed one of the Georgian princes (the prince spent years in jail in Baghdad because of being slandered before the Arab Caliph).[9] In Tbilisi, Abo became convinced of Christianity but was afraid

9. www.wikipedia.com

of converting openly because Tbilisi was under Arab rule. Later, however, Abo accompanied the Georgian prince to Khazaria, which was free of Arab rule, and was baptized there. Finally, in 782 Abo returned to Tbilisi as a converted Christian no longer afraid of disclosing his belief.[10] For three years, he fortified by his example the staggering Christians and also tried to convert his Arab compatriots. Abo was ultimately imprisoned, martyred and executed. The Georgian Church made Abo a Patron Saint of Tbilisi and he became a legend thanks to the hagiographic novel *The Martyrdom of Saint Abo*.

Georgia maintained close ties with the Arab world for centuries after the end of the Arab rule. Arab influence was quite strong especially in the economic and financial fields. The Arabic alphabet was very often used as a second language on Georgian coins. We can judge the scale of Georgian-Arab economic ties by the fact that a Georgian coin (produced during the period of Arab rule) was recently found in modern Finland. After the end of the Arab rule, Tbilisi served as one of the main hubs for Arab traders. Trade relations between Georgia and the Arab world flourished in the 11th century when Georgia controlled a fragment of the Great Silk Route. As for cultural ties, *The Book of a Thousand and One Nights* was one of the most famous books among Georgians and its popularity could only be compared to modern bestsellers like the Harry Potter series.

Bilateral ties between Georgia and the Arab world were lost with the engulfing of the Arab territories within the Ottoman Empire. Arabic cultural influence was overridden by that from Iran. Georgia itself became weakened after losing its position as one of the shareholders of the Great Silk Road and had to fight wars of survival with Iranians and Turks.

Under the Soviet Union, Georgians received the opportunity of being newly exposed to the Arab world. Moscow was trying to gain influence in the Middle East, and many Soviet specialists (mainly civil engineers) were sent to the region. As a result, the Arab countries became one of the few places that Georgians from the Soviet Union could visit (since Soviet citizens were hardly allowed to travel abroad), and these countries fed the curiosity of many Georgians about the outside world and influenced their ideas and impressions about non-socialist countries.

In the 1990s, after the restoration of Georgia's independence, Dubai became one of the main destinations for Georgian entrepreneurs because of its status as a free economic zone. Large amounts of electronic goods imported into Georgia were bought in Dubai. From the 1990s, Georgians visited Turkey for buying textiles

10. Ibid.

and food products were mainly imported from Russia whereas Dubai was and still remains the main hub for importing electronic goods.

As Georgia is a small state it does not have the luxury to build strong political ties with every region and country unless motivated by its vital interest. There are only a few countries worldwide where Georgian diplomatic missions are strong and representative. These include Georgia's neighbors and the US. Also Georgia is well-represented in NATO, EU, UN and the Council of Europe.[11] It clearly demonstrates Georgia's interests – its neighborhood and ambitions for joining Euro-Atlantic community. In the GCC, Georgia is represented by only three small embassies – one of them covers Egypt and Syria, another covers Jordan, Iraq and Lebanon, and the last one covers Kuwait, Saudi Arabia, Bahrain, Qatar, Oman and the United Arab Emirates.[12] Even after the collapse of the Soviet Union, Georgia, at least at the official level, scarcely showed any political interest in the GCC and, what's more important, the GCC too had hardly any interest in Georgia. In the early 2000s, more than a few individuals of Arab origin unofficially penetrated Georgia's territory.[13] It happened during Russia's second military campaign in Chechnya when Tbilisi allowed Chechen refugees to find shelter on Georgia's territory. Moscow accused Georgia of sheltering terrorists especially as it was confirmed that there were not only refugees but also Chechen combatants who infiltrated Georgia's territory, namely the Pankisi Gorge. The Russians alleged that the Pankisi Gorge sheltered terrorists not only from Chechnya but also from Arab countries which could have been true. Moscow even threatened to undertake military strikes against Georgia, but the problem was solved thanks to US intervention.

After the Rose Revolution, Georgia-GCC relations have shown some progress. In 2007, the Georgian government's policies of encouraging foreign direct investment attracted the attention of the United Arab Emirates. During a February visit by Georgian President Mikhail Saakashvili to the Gulf emirate of Ras al Khaimah, Georgia and Ras al Khaimah established a business partnership worth $3 billion aimed at tourism, real estate and consumer shopping.[14] The partnership includes the "Tbilisi Heights," a real estate development plan that envisages the construction of a spa-like resort, business and residential area covering 200,000 square meters in Tabakhmela, near Tbilisi. A similar real estate project is "Uptown

11. Ministry of Foreign of Affairs of Georgia.
12. Ibid.
13. "In Caucasus Gorge, a Haven for Muslim Militants," *New York Times*, February 28, 2002.
14. "New Foreign Investors Entering Georgian Market," Caucaz.com, June 12, 2007.

Tbilisi" which will cover an eight hectare plot of land in Tbilisi's Digomi District. The partnership also plans investment in Tbilisi's tourism facilities. During his visit to Ras al Khaimah, President Saakashvili declared his interest in attracting Arab tourists to Georgia.[15]

Rakeen Development, a real estate company owned by the Ras al Khaimah emirate, RAK Airways and RAK Properties, plan to invest up to $1.5 billion in Georgia.[16] The company purchased the Sheraton Metekhi Palace hotel in Tbilisi in June 2007.[17] That same month, the Deputy Ruler of the emirate, Sheikh Saud bin Saqr Al-Qassimi, visited Georgia and toured the Black Sea port of Batumi. The Rakeen company also expressed an interest in the development of the Georgian Black Sea port of Poti; the Georgian Parliament has adopted a law establishing the port as a free economic zone.

Speaking of relations between Georgia and the Gulf, the Iraqi factor cannot be ignored. After the end of the military campaign against Saddam Hussein's armed forces in 2003, Georgia became one of the non-coalition countries that expressed a desire to send its peacekeepers to Iraq. Since then, Georgia has increased the number of its peacekeepers serving on Iraqi soil. Georgian peacekeepers serve in Kosovo and Afghanistan too, but unlike peacekeepers in Iraq, they have not become a subject of political discussions Georgia is the second largest (after the US itself) contributor to Iraq's peace mission by per capita. Official Tbilisi attaches great hope to assisting the US in Iraq and expects substantive political support in return. But some Georgian political parties point to the negative implications of Georgia's presence in Iraq. First, nobody can guarantee the safety of Georgian peacekeepers and the death of even one Georgian peacekeeper may negatively affect the public attitude towards strategic cooperation with the US. At the same time, the opposition argues, due to its high profile in Iraq, Georgia could become a target for terrorists.

These issues are really problematic. Casualties in Iraq could really affect public opinion in Georgia although public support for strategic cooperation with the US and integration into NATO is still very strong. As for retaliation against Georgia, it should be obvious to everyone that sending peacekeepers to Iraq is motivated by nothing else but aspirations to join the Euro-Atlantic community. Besides, events in the early 2000s such as sheltering the Chechens have helped Georgia gain a favorable reputation among Chechen combatants.

15. Ibid.
16. Ibid.
17. Ibid.

Georgia and the Gulf: Competitors or Partners?

The South Caucasus region has already had some experience in serving as a commercial corridor. From ancient times, the well-known Great Silk Route helped trade and communication between Asia and Europe. Initially, the route did not cross the South Caucasus, but the constant raids by Turkish tribes on the traders who used the route, beginning from the 11th century, put the very existence of the route under serious question. A solution was found, however, with the traders avoiding the territory where they came under attack and traveling through Georgia. As a result of this, Georgia became a strong regional power and controlled a sizeable section of the Great Silk Route which greatly increased its revenues. At the same time, Georgia had to protect its privilege and fight wars which were successful and allowed it to enjoy a brief period of prosperity. This advantage, however, was squandered due to the short-sighted policy of the Georgian kings reigning from the 12th century, and before long the region was overrun by Mongols. Apart from that, the exploration of sea routes to Asia seriously undermined the Great Silk Route. Given these realities, the region lost its function for centuries.

In the 20th century, the oil-rich fields of Baku attracted the attention of the outside world. This new focus, however, was restricted to oil exploration and production, and the region did not regain its function as a transit hub. It goes without saying that the function was not regained under the Soviet Union which regarded itself as being in hostile surroundings and hardly enjoyed any good relations with its non-communist neighbors.

The collapse of the Soviet Union did not seem to bring the region into the focus of the outside world either. War over Nagorno Karabakh seriously distorted relations between Armenia and Azerbaijan. Georgia fought wars with its separatist regions. In addition, civil wars and social disorder certainly did not make the region attractive in any sense.

Changes occurred in the late 1990s when the Western powers expressed a clear interest in Caspian oil resources. Up to that time, Caspian oil was exported to the world market only through Russia; now the idea of creating alternative energy routes was put forth. Despite overall skepticism and Russia's resistance, the project was realized with the building of the Baku-Supsa pipeline which first brought Caspian oil to the Black Sea shore of Georgia from where it was exported on tankers to European and other destinations. Baku-Supsa served as a kind of a pilot project which was followed by a major one, the Baku-Tbilisi-Ceyhan pipeline, and later by the Baku-Tbilisi-Erzerum gas pipeline.

The Baku-Tbilisi-Ceyhan (BTC) pipeline became the first ever major pipeline

transporting Caspian oil to world markets bypassing Russia.[18] The project may have raised some concern in the Middle East and Gulf as well, as the bulk of Caspian resources transported through the BTC could cause a drop in oil prices. When the project was endorsed in the late 1990s, oil prices dropped bellow $20 per barrel and OPEC had to reduce oil production in order to hike prices. Before the construction of BTC was finished, however, oil prices increased enormously. Nowadays, BTC can hardly affect oil prices. The energy market suffers from a shortage of supply and increased demand, while BTC itself does not operate at its full capacity.[19]

Under these circumstances, BTC can hardly be viewed as a competitor for GCC oil exports. However, BTC does have implications for the Caspian states, including Iran. Tehran continues to stress the "political nature" of BTC arguing that the shortest route for transportation of Caspian oil should be across Iran and not through Georgia and Turkey. Such assertions allude to Iran's bitterness about US influence in the region's politics since it is widely accepted that the Georgian-Turkish route was lobbied by Washington, whereas some European countries traditionally backed Iran.

The prospects of a Georgian-Turkish energy route do not seem as lucrative as they were in the past. It was clear from the very beginning that Azeri oil alone was not sufficient to make BTC operate to its full capacity. There were talks about possible transportation of Kazakh oil through the pipeline, but Kazakhstan has recently, and rather unambiguously, changed its stance in favor of Russia. Russia places great importance on controlling energy export routes as well as on its upstream resources, and given the high oil price, Moscow now feels much stronger than it did in the late 1990s when BTC was initiated. The resurgence in Russian political power in the international arena has been complemented by Kazakhstan moving closer to Russia, to a point where Astana can be viewed as Russia's close ally. Since Kazakhstan is one of the major players of the former Soviet Union, the regional balance of power in the Caspian has now shifted notably in Russia's favor.

As for the natural gas route, great hopes were attached to the Baku-Tbilisi-Erzerum pipeline which links Turkey to Caspian gas supplies. However, the project can hardly make any impact if it transports Azeri gas alone. The only way to undermine Russia's monopoly over gas supplies was to build a Trans-Caspian pipeline (for transportation of Kazakh and Turkmen gas) which would be connected to the Baku-Tbilisi-Erzerum pipeline. The latter would be connected to

18. Papava and Ismailov, *The Central Caucasus: Essays on Geopolitical Economy* (Stockholm, Sweden, 2006).

19. Ibid.

the NABUCCO gas pipeline, which would transport Caspian gas to Europe while bypassing Russia, thereby strengthening Europe's energy security by diversifying its gas supplies. Recently, however, Russia, Kazakhstan and Turkmenistan have backed the idea of building a new pipeline crossing the territories of these three countries.[20] The implementation of this project would seriously endanger the prospects of Trans-Caspian and NABUCCO pipelines and drastically reduce the importance of the Baku-Tbilisi-Erzerum pipeline. Although Turkmenistan has repeatedly stated that it is willing to participate in the Trans-Caspian project, Astana's stance casts doubts upon feasibility of this endeavor. Besides, it is not clear what amount of gas amounts Turkmenistan controls or whether it will be able to increase gas production sufficiently to supply the Trans-Caspian pipeline. Finally, Hungary and Bulgaria recently forged bilateral energy cooperation with Russia thus adding to the doubts about the prospects of alternative gas supply routes.

As we have seen, the Georgian-Turkish oil corridor cannot be viewed as a serious competitor to GCC oil exports due to the high oil prices prevailing at present. It is also unclear when BTC will begin to operate to its full capacity. The same is true for the gas corridor since the GCC aims seriously at the European gas market. Iran, on the other hand, can be viewed as a competitor both for the Georgian-Turkish and the Russian gas export corridors. Iran's gas production is currently too low as a result of economic sanctions, isolation and the ambiguous attitude towards foreign investment in the energy field. In fact, Iran imports gas from Turkmenistan in order to meet domestic needs. Iran's potential as a natural gas exporting state will continue to be dependent on how its relations with the US will develop in the medium-term future. If Russia's increasing influence in Central Asia excludes the implementation of the Trans-Caspian project, then Iran could become an alternative to Russia in the event that it becomes open to cooperation with the outside world. Possible transportation of Iranian gas via Baku-Tbilisi-Erzerum (and later through NABUCCO) will finally end Iran's isolation and facilitate its integration into the international community.

Iran's re-integration into the international community would seriously alter the balance of power in the region. Making Iran a part of the Western energy corridor would seriously weaken Russia's gas export monopoly and reduce its political influence on the regional CIS states. Iran's pursuit of further rapprochement with the Western countries would also weaken the Russian-Iranian partnership. Such a

20. "Putin Evel Turkmenskii Gaz" (Putin Has Stolen Turkmenistan's Gas), *Nezavisimaya Gazeta*, May 14, 2007.

scenario would, however, be beneficial for Georgia, since pressure on Georgia from Russia would most likely subside, and Georgia's role as an energy hub would be further strengthened. Nevertheless, engaging Iran in such a manner is a difficult task given the existing tension with the US over Tehran's nuclear program, not to mention ideological constraints. The engagement of Iran will require a revolutionary change in diplomatic policy in the US, no lesser than that which took place in the early 1970s when the Nixon administration altered its position towards communist China. In the medium-term, Iran will most likely remain isolated, cooperating with Russia and thereby remaining in competition with Western interests in the region.

As we have already mentioned, the new Georgian government attaches great importance to highlighting the country's energy hub function. If Georgia succeeds in its endeavor of joining NATO, the country's future will, to a great degree, begin to take a more optimistic course. Political stability, assured security and close ties to the Western countries will allow Georgia to accelerate the pace of its development. In this case, Georgia may not be so active in striving for the regional energy hub function since close cooperation with the Western countries will ensure its progress. But in case the process of Georgia's Euro-Atlantic integration slows down (or wanes altogether), the country will have to seek alternative alliance directions. It will have little choice but to realize its geographic potential and develop economic ties with the major powers of Eurasia, including the Gulf States. In this sense Georgia can become not only an energy corridor but also a passageway for commodity trade. During the last few years, the cargo movement from Turkey via Georgia has increased significantly.[21] The new government has been renovating the national highways in order to further realize the country's trade potential. In time, Georgia may attract new trade partners including the Gulf States.

Apart from its geopolitical position, Georgia could also trigger the interest of the Gulf States because of its vast water resources. A number of economists have suggested that water is Georgia's main comparative advantage whereas the Gulf suffers from water shortages. In the event of serious interest from the Gulf, Georgia could become one of the major exporters of water to the region. As has already been discussed above, Ras Al-Khaimah in the UAE has already shown commercial interest in Georgia, and effective cultivation of further economic relations between Georgia and the Gulf States could just turn the prospects of Georgia's water exports to the Gulf into reality.

21. Government of Georgia, Department of Statistics, Tbilisi.

Kazakhstan's Relations with the Gulf

Professor G.M. Mendikulova and T.N. Kasabayev

R.B. Suleimenov Institute of Oriental Studies,
Ministry of Education and Science, Republic of Kazakhstan

From the day Kazakhstan declared independence, it has fostered close political, economic and cultural relations with countries all over the world. It shares a common heritage with other members of the Commonwealth of Independent States (CIS), who remain close political, economic and cultural partners, even as each country pursues its own path. It has established solid political and economic partnerships with leading world powers like the United States. It maintains good relations with the nations and institutions of Europe and with countries of the Asia-Pacific region as well. Kazakhstan views the fostering of friendly relations with the Islamic world as a whole and with Arab states in particular as one of the important vectors of its foreign policy.

This multi-vector foreign policy is the best way of promoting political and economic integration and securing a strong position for Kazakhstan in the world community. The development of relations with the rich oil-producing nations of the Gulf is fully in line with the goal of expanding the reach of Kazakhstan's diplomatic and trade relations that will ultimately provide financial and economic support for domestic reforms in Kazakhstan.

The Gulf States hold key positions in global oil markets, producing about one half of the hydrocarbons consumed globally. As such, they are a key element supporting stability in the contemporary system of global economic relations.

Kazakhstan has a natural interest in promoting political and commercial relations with these countries, which are not only endowed with strong financial and investment resources but whose communities share a common historical, cultural and religious heritage with communities in Kazakhstan.

One of the issues of importance in Kazakh relations with the Gulf is illegal migration. Some of the migration to and from Kazakhstan is not registered, and is thus considered to be illegal. The illegality of such migration derives from several aspects: problems in the process of naturalization, tax evasion, the transport of contraband, drug trafficking and distribution, human trafficking, etc., all of which represent a threat to national and regional security. Moreover, illegal migration brings about other problems such as drastic changes of demographic and social structure or the spread of infectious diseases. Illegal migrants to Kazakhstan now arrive from Afghanistan, Sri Lanka, Iran, China, Tajikistan, the CIS and a few of the Gulf States.

It is becoming clear that without immediate action on the part of state authorities, the problem of illegal migration to Kazakhstan will become entrenched. Foreign labor is almost two times cheaper than local, since the living standards in neighboring states is much lower than in Kazakhstan. Employers naturally prefer to hire the cheaper foreign workers. One way to solve this problem would be to integrate the underground migrants into the legal labor market. Kazakhstan's authorities will likely establish a policy allowing private firms to bring foreign workers to Kazakhstan on a legal basis in the near future, in line with global practices.[1]

The multidimensionality and current relevance of Kazakhstan's relations with the Gulf States are best captured by a consideration of the following three topics: the establishment and development of diplomatic relations, economic relations, and the influence of the Islamic factor on the development of multilateral relations.

Diplomatic Relations

In the international community, intergovernmental cooperation begins with the establishment of diplomatic relations. For this reason, the establishment of strong relations based on trust with the leaders of the Gulf States is significant for Kazakhstan and for the countries of the Gulf too.

The Gulf States, as with other countries of the Arab and Islamic world, were

1. G.M. Mendikulova, *Kazahskaja diaspora: istorija i sovremennost'* (Almaty, 2006), 169-172; G.M. Mendikulova, "Nezakonnaja migracija v Kazahstane – ugroza nacional'noj i regional'noj bezopasnosti," in *Afganistan: 5 let posle Talibana.* (Dushanbe, Tajikistan), December 14-16, 2006.

quick to establish ties with the new, independent governments of Kazakhstan and other former Soviet states, where a majority of the population is Muslim. They saw the establishment of friendly relations with the states of this region as an important contribution to international stability, to the standing of the Islamic community on the world stage, to the Middle East peace process and the creation of an effective system of regional security in the Gulf.

Diplomatic relations between Kazakhstan and the Sultanate of Oman were established in April 1992 with the signing of a joint communiqué. The Sultanate was the first Arab country to recognize Kazakhstan's independence, on January 1, 1992. Kazakhstan's President Nursultan Nazarbayev visited Oman on September 2-3, 1997 during a tour of the Gulf States. A memorandum of understanding between the two states and a protocol on consultations between their foreign ministries were signed.

Relations between Kazakhstan and Qatar began with active diplomatic contacts in the beginning of 1997, when the Kazakh Ambassador in Riyadh made several trips to Doha, meeting with the Foreign Minister Shaikh Hamad bin Jassim bin Jabr Al-Thani, State Secretary for Foreign Relations Ahmad Al-Mahmud, and other officials. Qatar showed an active interest in Kazakhstan, moving quickly to establish official relations and to organize visits at various levels. In May 1997, Kazakhstan's Foreign Minister K. Tokayev visited Qatar, meeting in Doha with the Amir Shaikh Hamad bin Khalifa Al-Thani.

In April 1998, the Minister of Foreign Relations of Qatar, Shaikh Hamad bin Jassim bin Jaber Al-Thani, led an official delegation to Kazakhstan that included the Chief of the General Staff, the Deputy Minister of Energy and Industry, officials from the Ministry of Finance, Economics and Trade, as well as several leading Qatari businessmen.

President Nazarbayev visited Qatar on May 23-24, 1998, during another tour of the Gulf States, which laid the foundation of Kazakhstan's relations with the Islamic world. He emphasized that Kazakhstan, as a member of the Organization of the Islamic Conference (OIC), would make every effort to work through this organization. He noted that Kazakhstan and Qatar shared a similar approach to the majority of regional and international issues, and that this would promote closer cooperation not only between the two countries, but also between the Gulf and Central Asia as regions.

In response, the Amir expressed his satisfaction with the pace at which bilateral relations were developing. Because they share such deep historical roots, he was optimistic that Kazakhstan and Qatar would quickly reach a high level of mutual

understanding. He congratulated the people of Kazakhstan for the transfer of their capital to Astana, and pledged the assistance of Qatar in the building of the new capital. During the visit, the leaders signed agreements on trade and commercial relations, the establishment of a high-level joint commission and the creation of a joint business council. They also agreed to open embassies in each other's capital.[2]

After Nazarbayev's visit to Qatar, the Amir made an official visit to Kazakhstan on April 21-22, 1999. The development of bilateral trade, the establishment of banking contacts, and the potential opening of bank branches in Almaty and Doha were discussed.

Relations between Kazakhstan and Kuwait were established on January 11, 1992 through an exchange of notes. Later that month, the Amir of Kuwait sent a governmental delegation led by the Deputy Prime Minister and the Minister of Finance to Kazakhstan. The Kuwaiti envoy was received by President Nazarbayev and conducted negotiations with Prime Minister Tereshchenko, Finance Minister Sembayev and other cabinet members.

President Nazarbayev made his first official visit to Kuwait on August 31 and September 1, 1997. Agreements on trade and commercial relations and the promotion and protection of investments, and a memorandum on consultations between foreign ministries were signed. Further negotiations were required before an agreement on dual taxation could be reached. The visit gave a strong push to the development of multidimensional relations between the two countries, confirming that relations with Kuwait are an important element of Kazakhstan's relations with countries of the Arab world.[3]

President Nazarbayev continued his tour of the Gulf with an official visit to Bahrain on September 1-2, 1997. He met with the Amir of Bahrain, Isa bin Salman Al-Khalifa, and other officials. Nazarbayev's hosts noted the strong external trade capacity of Kazakhstan, boasting a wide variety of export products: agriculture, metals, construction materials, and so on. The parties also noted opportunities for more extensive relations through the construction of railways linking Kazakhstan with the Gulf. It was suggested that charter flights between the capitals of the two countries would also stimulate trade.

Consul A. Abdramanov became the first Kazakh diplomat posted to the United Arab Emirates in April 1997, when Kazakhstan opened a consulate in Dubai. Following this, representatives of Air Astana and Kazakhstan's Ministry of Culture

2. B. Amreev, *Aravijskie monarhii i ih mesto vo vneshnepoliticheskih prioritetah Kazahstana* (Astana: Elorda, 2004), 19.

3. Ibid., 56.

and Education's tourism department have also maintained a presence in Dubai.

The visit of Foreign Minister Tokayev to Abu Dhabi in May 1997 marked the first high-level contacts between the two countries. Tokayev and his counterpart discussed concrete means of promoting multidimensional cooperation between the two countries.

President Nazarbayev made his first official visit to the United Arab Emirates on May 24-27, 1998. High-level contacts were established, agreements on expansion of trade and commercial relations were signed, and specific measures to promote these aims were adopted during this visit. The signing of an agreement on trade and commercial relations marked a step forward in the development of a legal foundation for bilateral relations. In 1999, the Kazakh consulate in Dubai was upgraded to a consulate general.

In the wake of the collapse of the Soviet Union in 1991, the foreign policy decision makers of Saudi Arabia were not clear on how to approach the newly independent states of Central Asia. Saudi leaders felt that the Central Asian regimes had not yet established their foreign policy priorities and were not ready for integration into the Muslim community. Misunderstandings that arose during the early stages of initial contacts contributed to this policy. For example, Uzbekistan restricted the entry of Saudi citizens of Uzbek origin, fearing they would engage in religious propaganda.[4]

In this context, the visit of Kazakhstan's President to the Kingdom in 1994 marked a historic breakthrough in bilateral relations, laying the foundation for political dialogue at the highest level and bilateral relations in all areas of activity.

The political dimension of the negotiations was ample, touching on a range of issues in the political and economic spheres. Nazarbayev's meetings with King Fahd, Crown Prince Abdulla and Prince Sultan showed that the Saudi side saw Kazakhstan as one of the key states in the post-Soviet area, and in the Muslim world as a whole.[5]

During the visit, Prince Sultan supported the Kazakh initiative to cooperate on oil and gas development, environmental and military-technical cooperation, and trade in general. He noted the need to create a favorable investment climate in Kazakhstan and optimize the existing legal framework.

The visit yielded a general agreement on trade and commercial relations, investment, technology and culture, including sports and youth. This would be the first of many agreements to be signed between the two countries.

4. E.K. Karin, "Politika Kazahstana po otnosheniju KSA," *Panorama*, no. 6 (96), 2000.

5. B. Amreev, *Aravijskie monarhii i ih mesto vo vneshnepoliticheskih prioritetah Kazahstana*, op. cit., 46.

The visit of Kazakhstan's Foreign Minister K. Saudabayev to Riyadh in April 1994 marked a significant stage in the development of bilateral relations between the two countries as they signed a protocol on the establishment of diplomatic relations. When Kazakhstan was part of the USSR, it was not empowered to enter into direct diplomatic relations with foreign states. Having established diplomatic ties with the Soviet Union in 1926, Saudi Arabia abruptly broke them off the same year. It was not until 1996 that Saudi Arabia provided an explanation for its action at that time.

After construction of the Kazakh Embassy in Riyadh was complete, Prince Salman Bin Abdel Aziz, the Governor of Riyadh and brother of the deceased Saudi King Fahd bin Abdel Aziz, told the first ambassador of Kazakhstan to Saudi Arabia that the first Soviet ambassador to Saudi Arabia was a Muslim of Kazakh origin. He said: "We knew that Nazir Turekulov[6] was shot upon his return to Moscow. This drove the Saudi leader of that time, the founder of the Kingdom, King Abdel Aziz, to such a state of despondency that he decided to cut all ties with the USSR. We had no illusions regarding the nature of the Soviet regime, but this did not alleviate our shock that a diplomat, an Ambassador, was shot by his own country. Neither King Abdel Aziz, nor his successor would reconsider this decision, in spite of the persistent demands of each Soviet leader – Stalin, Khrushchev, Brezhnev, Andropov and even Gorbachev – until the collapse of the Soviet Union in the early 1990s."[7]

Constructive and successful cooperation between the two countries in the political sphere led to a range of successful initiatives. The Kingdom supported Kazakhstan's participation in the Organization of the Islamic Conference (OIC) and supported unconditionally the resolutions proposed by Kazakhstan at the Tehran summit of the OIC on the Conference on Interaction and Confidence-Building Measures in Asia (CICA) and on assistance to the Aral and Semipalatinsk regions. In March 1998, Foreign Minister Tokayev met with his counterpart Prince Saud Al-Faisal at the conference of foreign ministers of OIC members in Doha. They discussed several issues pertaining to international affairs and some pertaining to bilateral relations. Saudi Arabia established an Embassy in Almaty before it did so in other countries in Central Asia or the Caucasus. The Cabinet of Ministers of the Kingdom supported a joint suggestion of the foreign ministries of each country to appoint ministers of industry and energy as co-chairs of the joint Saudi-Kazakhstan intergovernmental commission.

6. Nazyr Turekulovich Turekulov, born in 1893, was one of the first plenipotentiary representatives (ambassador) to Saudi Arabia. Moreover, he was a famous official of his era and a talented diplomat.

7. B. Amreev, *Kazahstan i Saudovskaja Aravija* (Astana: Elorda, 2003), 233.

In this manner, negotiations at the highest level reflected the entire spectrum of mutual interests and projected in outline the opportunities for the future of bilateral relations between Kazakhstan and the countries of the Gulf. Bilateral visits launched a political dialogue and helped coordinate policies on the principal issues facing the region and the world as a whole.

Trade and commercial relations are an important aspect of relations between Kazakhstan and the Gulf States. Several agreements on trade and commercial relations, the expansion and mutual protection of investments, and cooperation protocols between foreign ministries were signed during these official visits. Work on the implementation of strategic projects (transport corridors, communications, free economic zones), as well as a trans-Asian railway line linking Kazakhstan and the Gulf was considered. Emphasizing that Kazakhstan seeks new routes for the transport of goods to international markets, President Nazarbayev said that the Republic is interested in making use of the capacities of terminals in Kuwait, Bahrain, Oman, Qatar and the UAE. One of the most interesting developments was the issue of cooperation among state economic development funds and private charitable organizations.

In pursuing these aims it was essential to take account of the fact that the Gulf States had already established strong international ties that were oriented first and foremost toward Arab and Western countries.

As for the cooperation between Kazakhstan and the Gulf States in the oil sector, the route to the Red Sea travels through Iran. For this reason, Kazakhstan has renewed negotiations on the construction of an oil pipeline through Turkmenistan to Iran for onward delivery to the Red Sea. The construction of this pipeline was mooted in the second half of the 1990s. International and Kazakh experts are in agreement on the value of this project as it would be shorter and with lower tariffs than other export routes, including the Baku-Tbilisi-Ceyhan (BTC) pipeline, that are of most interest to Russia. The overall cost of the project is estimated at $1.2 billion and its length would be about 1,500 km.

In spite of the clear advantages this project holds for Kazakhstan, there has been very little progress on its implementation. Over the past few years, there has been virtually no substantive discussion on the Iran option for oil transportation. The US makes no secret of its attitude towards Iran and spares no effort to bring the states of Central Asia in line on this issue, including lobbying strongly in favor of the Baku-Tbilisi-Ceyhan route.[8]

8. "Astana i Tegeran vozobnovljajut peregovory otnositel'no stroitel'stva kazahstansko-iranskogo nefteprovoda," *Panorama*, no. 46, November 30, 2007, 9.

There are several explanations for why Kazakh officials refrain from commenting on the issue of export corridors to Iran. First, as far back as the 1990s, Kazakhstan and Iran discussed establishing an international railroad for freight and passenger traffic. However, for several political reasons, including pressure from world powers and the onset of war in Iraq, efforts to pursue this option ceased. This would later prove to have a negative effect on trade between the two countries. Alternatively, it is possible that Kazakhstan simply wished to postpone any public discussion of an oil transport agreement with Tehran until Kazakh oil was already flowing through the BTC. Iran, on the contrary, openly espouses the export of Caspian oil through its territory and is critical of the economics of the BTC. Only the future will reveal the outcome. In any case, Kazakhstan's relations with Iran deserve special attention, for they have always been and remain important in political, economic and cultural terms.

High tariffs have derailed trade among the countries of the region and raise the possibility that Kazakhstan will respond in kind with respect to cargo from Iran, Uzbekistan and Turkmenistan transported on railways on its territory.

Only a negotiated lowering of tariffs in the framework of the Organization for Economic Cooperation on rail and truck cargo across Iran, Turkmenistan, Uzbekistan, Kazakhstan and Kyrgyzstan can solve the problem.

Economic Relations

The Gulf States are attractive markets for Kazakh goods. Cooperation on strategic transport projects linking Central Asia to the Gulf addresses a key issue relating to the economic development of Kazakhstan: to secure an outlet for industrial goods and natural resources from Kazakhstan to international markets. Establishing links between the Organization for Economic Cooperation (OEC) and the GCC could hold benefits for the member states of both organizations.

In the wake of the Gulf War of 1991, the foreign policy ambit of the Gulf States narrowed to focus on a reliable system of regional security, closer coordination among GCC states, and increased military-technical cooperation with the US. For some countries like Saudi Arabia, the focus remained on the many problems in the Arab world, such as the Middle East peace process. It was not until the mid-1990s, when the situation in the Gulf had calmed somewhat and the situation in Central Asia became clearer, that the Arab states turned their attention to this region.[9]

9. B. Amreev, *Aravijskie monarhii i ih mesto vo vneshnepoliticheskih prioritetah Kazahstana,* op. cit., 25.

Economic Relations between Kazakhstan and Oman

Oman was the first of the Arab states to enter into joint economic projects at the government level with Kazakhstan, as one of the founders of what is now known as the Caspian Pipeline Consortium (CPC). Companies from Oman participated in the development of this oil field. In addition, Oman is second only to Saudi Arabia in terms of the number of joint visits and projects with Kazakhstan. Oman was the first foreign country to lend funds to Kazakhstan. The agreement for a $30 million loan was signed during the visit of Prime Minister Tereshchenko to Oman. Kazakhstan and Oman played a key role in the implementation of the CPC project, later joined by Russia, along with a number of foreign oil companies working in the republic.

The Kazakh government signed an agreement on June 17, 1992 with the Oman government on general terms and conditions for geological exploration, development and exploitation of hydrocarbon deposits in Western Kazakhstan, which gave Oman the right to explore for hydrocarbons in the Kazakh sector of the Caspian Sea.

In support of wide-ranging reforms in Kazakhstan, Oman also donated $10 million to public works in the new capital of Astana.[10]

Economic Relations between Kazakhstan and Kuwait

The foreign economic and investment priorities of Kuwait and the strategic interests of its public and private sectors are tied strongly to the West, to the banks and companies in which Kuwaiti citizens have large investments. It took some time for conditions to ripen, such that Kazakhstan could be numbered among Kuwait's priorities.

Kuwait funded a World Bank project to provide drinking water to the Aral region through the Kuwait Fund for Arab Economic Development (KFAED). The contribution of $1.3 million went towards research and a feasibility study for the project.

Kuwait also decided to support the "Aral Project" with a donation of $24 million. However, following the visit of a delegation from Kuwait on July 27, 1998 the government of Kazakhstan decided to divide the project into four components, to allow for the participation of several donors. The board of directors of the KFAED granted a concessional loan of $12.55 million for a project to provide potable water to communities bordering the Aral sea, at a rate of three percent for 23 years with

10. Ibid., 118.

no payments during the first five years. Thus, of the initial sum allocated by Kuwait, another $12.5 million remained for other projects in Kazakhstan.

On July 6, 1999 the Amir issued a special edict to allocate $10 million to Kazakhstan as gratuitous aid for the construction of government buildings in Astana. The project was executed by the KFAED. In November 1999, Kuwaiti private donors opened a Kazakh-Kuwaiti university in Shymkent. This institution was later renamed the South-Kazakhstan Humanitarian Academy, licensed by the Ministry of Education to function as an independent secular school of higher learning and managed by the Society of Social Reform state foundation of Kuwait.

In addition, Kuwait granted $10 million for the construction of a new building for the Astana municipal government. Work began in February 2001 once the contract between KFAED and a Kazakh-Kuwaiti joint venture, Al-Harafi-Almatykul'tbytstroi, was signed. The project is now finished. A few small-scale models of the world-famous towers of Kuwait stand before the lower block of the building, a symbol of the gift of Kuwait to the new Kazakh capital.

Kuwait made another grant of $1 million in 2001 for a feasibility study of a project to install heating infrastructure on the left bank of the river running through Astana.

In total, Kuwait donated over $15 million to Kazakhstan from 1998 to 2002.

The grants and loans made to Kazakhstan by the Arab countries of the Gulf have a significance that goes beyond their purely monetary value, in that they are a kind of direct investment into the economy of the republic. For example, Kazakh construction companies were able to derive substantial benefits from their participation in these projects. In 2001 alone, on all five tenders held to select a general contractor for the projects financed by the Gulf States, the winner was always a Kazakh company or a joint venture with Kazakh participation.

Economic Relations between Kazakhstan and Bahrain

The government of Bahrain encourages its private sector, including local and foreign banks located on the island, to work in Kazakhstan and to assist with the creation of a legal base for market activities there. In 1992, a trade delegation from Bahrain was one of the first missions from the Gulf to visit Kazakhstan.[11]

Bahrain was one of the first states of the Gulf to take concrete steps towards the establishment of relations with independent Kazakhstan. In 1992, the Bahrain Chamber of Commerce and Industry visited Almaty with representatives of GCC.

11. B. Amreev, *Kazahstan i Saudovskaja Aravija,* op. cit., 211.

In February 1997, the Kazakh Ambassador resident in Riyadh met with the Minister of Oil and Industry of Bahrain, a member of the ruling family of Isa bin Ali Al-Khalifa. In the spring of 1997 the Kazakh Ambassador once again visited Bahrain, where he met with Muhammad bin Mubarak, the Minister of Foreign Affairs, and discussed the prospects for political and commercial relations. In May 1999, the Kazakh Embassy to the region together with ITE Middle East, a Bahraini company, held a GCC trade fair in Almaty. The chair of the Bahrain Chamber of Commerce and Industry, Ali Fahru, took an active part in this event, at which over 30 Bahraini companies displayed their products. Al-Fahru and other businessmen from Bahrain met with Kazakh entrepreneurs and established several small and medium joint ventures. The conference showed the high-level representatives from the Gulf what Kazakhstan has to offer and made an important contribution to the development of trade, commercial and financial relations between Kazakhstan and the Gulf.

Economic Relations between Kazakhstan and Qatar

As mentioned above, after the visit of the Amir of Qatar to Kazakhstan in 1999, relations between Kazakhstan and Qatar accelerated on all fronts.

Thus, on July 5-7, 2000, the first session of the Kazakhstan-Qatar intergovernmental commission on trade and commerce, scientific and cultural cooperation took place in Doha. One of the main issues that came up concerned the construction of the Sultan Baibars Islamic cultural centre in Astana. It was agreed that efforts would continue to finish the design and documentation for the project by the end of 2000, with construction to begin in 2001.

A festival of Kazakh culture was held in Doha from March 22-30, 2002 during the second meeting of the intergovernmental commission. The 34-member cultural delegation included leading artists and performers from Kazakhstan. These "days of culture" gave Qatari society a chance to become acquainted with the deep roots and contemporary excellence of Kazakh culture and did much to improve the image of the republic in the Gulf.

Economic Relations between Kazakhstan and the UAE

The leadership of the UAE has demonstrated a high level of interest in developing trade relations with Kazakhstan. Dubai has since become one of the popular trade and tourism destinations for Kazakhs in the world.

If Kazakhstan's relations with other Gulf States began at the state level through official contacts, economic relations with the UAE could be said to have begun through shopping tours of ordinary Kazakh citizens. By 1995, the UAE had

already become the main trade partner of Kazakhstan in the Gulf. Charter flights flew from several Kazakh cities every week. Air Astana and Zhana-Arka made regular flights to Sharjah. Trade between Kazakhstan and the Emirates reached $5 million in 1995, and $21 million in 1996. In 1997, this figure reached $40 million. At a time, about 2,000 Kazakhs visited the cities of Dubai and Sharjah, mostly for shopping but also to conduct business. There was great potential to increase trade and tourism between the two countries.

The transformation of the emirate of Dubai into one of the main trade and tourism centres of the world has influenced the foreign policy of the UAE. Kazakhstan, like other countries of the CIS, looks to the leadership of the UAE as a potential partner in stimulating trade.

In May 1997, preparatory work on agreements relating to trade and commerce, stimulation and protection of investment, legal assistance and consular relations took place.

On October 23-27, 1997, at the initiative of the Kazakh Embassy in Riyadh, the Dubai Chamber of Commerce and New Fields corporation held the first UAE trade fair in Almaty, where 63 stands occupied an area of 3,500 sq m, representing the interests of about 120 companies from the UAE. The fair was well attended by people from Kazakhstan and the CIS and was significant in terms of demonstrating Kazakhstan's investment opportunities to businessmen from the UAE.

Negotiations held in 1998 between the Kazakh Ambassador and the president of Habtoor Group, Khalaf Habtoor, led to an agreement in principle to build a complex of diplomatic residences in Astana. Some progress was made on the issue of UAE assistance for the construction of the Presidential Palace in Astana.

Trade between Kazakhstan and the UAE grew considerably in 2000, rising 107.5 percent after a fall in 1998-1999. Notably, 95 percent of the trade consists of exports from the UAE, mostly consumer durables, furniture, cars and spare parts.

Over 90 percent of shipments from the UAE to Kazakhstan go by railway and truck, while the remainder go by air. Sea and land transportation of cargo takes the following route: by sea across the Gulf from UAE ports to Bandar Abbas in Iran, and then by rail and truck from Iran to Turkmenistan to Uzbekistan to Kazakhstan. Shipment by sea from Jebel Ali to Bandar-Abbas takes one day, while onward shipment from there to Almaty then takes up to 35 days by truck. The establishment of regular railway links from Tehran to Almaty has reduced transport costs and promoted an increase of trade between the UAE and Kazakhstan.

The opening in May 1996 of a railway spur from Tejen to Seraks inaugurated the Trans-Asian railway line that joined the Near and Middle East with Central

Asia, including transit through Iran. While the potential for this route cannot be overestimated, the high cost of transport resulting from a lack of an agreed tariff policy among the participating states places a severe limit on its use, as the cost of transport currently accounts for between 25-55 per cent of the cost of the goods shipped along this route. This issue is especially pertinent with respect to the transport of strategic goods from Kazakhstan to Iran, Turkey and the Gulf. In 1998-2000, Kazakhstan transported 200,000 tons of wheat and barley, 50,000 tons of metal, 2,000 tons of asbestos and about 15,000 tons of oil products to the UAE and Pakistan.[12]

High tariffs have hampered the development of trade among countries of the region, and raise the possibility that Kazakhstan will take reciprocal measures against the shipment of goods from Iran, Uzbekistan and Turkmenistan through Kazakhstan.

Only an agreement to lower tariffs for railway and truck shipments in Iran, Turkmenistan, Uzbekistan, Kazakhstan and Kyrgyzstan, in the framework of a special agreement among members of the Economic Cooperation Organization would solve this problem.

In regard to financing, the Abu Dhabi Development Foundation decided to consider concessionary loans and joint financing for the Karaganda-Astana road reconstruction (specifically, the section from Karaganda to Osakaraovka) for $25 million.

Crown Prince Shaikh Khalifa bin Zayid Al-Nahyan visited Kazakhstan in September 2002. His visit was an important event in bilateral relations, initiating a grant of $15 million for the construction of the Presidential Palace in Astana.

Economic Relations between Kazakhstan and Saudi Arabia

The Kazakh Embassy in Riyadh undertook in 1996-1998 to establish contacts with a range of government foundations and financial institutions of the Kingdom, and continued to work with the Saudi Fund for Development (SFD), a large financial institution specializing in the provision of technical assistance to foreign governments. The Kazakh Ambassador reached an agreement with the managing director of the Fund, Muhamad Abdulla Al-Sukeir, to fund several projects in Kazakhstan. For example, the SFD gave no-interest loans to rebuild the Karaganda-Astana highway. The total cost of construction was $20 million, of which the Saudis funded $9 million. Other donors for this project included the Islamic Development Bank and the Abu Dhabi Development Fund.[13]

12. B. Amreev, *Aravijskie monarhii i ih mesto vo vneshnepoliticheskih prioritetah Kazahstana,* op. cit., 191.
13. "Podderzhka dlja Kazahstana," *Er-zherde* no. 8 (8), October 2001.

In September 1996, the Kazakh Embassy and the Islamic Development Bank held a regional conference on investment in Kazakhstan, attended by about 200 entrepreneurs, mostly from Saudi Arabia but from other Muslim countries as well. In early 1997, the Islamic Development Bank contributed $50 million to create the Saudi Investment Company to fund light industry and construction projects in Kazakhstan. About 100 Saudi entrepreneurs intended to participate in the projects. The company built a shopping center and hospital in Almaty on land provided by Kazakhstan.

From 1997 to 1998, other companies such as Saudi Oger, Saudconsult, Abdulalatif Group and others visited Kazakhstan. The president of Taamir Corporation, Sheikh Khalid ibn Ibrahim took a particular interest in Kazakhstan and sent a group to examine several projects. Several projects were funded through a regional representative of the Islamic Development Bank with no-interest loans, such as a $9 million project for the renovation and equipping of the Syzganov Medical Institute. At the same time two Saudi banks, Lariba and Taiba, received licenses to commence operations in Almaty.[14]

The Zamil group developed a project to build a factory to construct metal container buildings and a plant to produce air-conditioners. A Saudi-Kazakh joint venture to bottle mineral water was established in the Sary-Agachka area of South Kazakhstan.

Table 1: Trade between Kazakhstan and Saudi Arabia (exports f.o.b, imports c.i.f; millions of USD)[15]

	Export			Import		
	1995	1996	1997	1995	1996	1997
Asia	647.2	1006.7	1134.9	348.5	401.1	488.8
Saudi Arabia	0.7	13.9	19.8	0.2	0.2	0.6
TOTAL	5250.2	5911.0	6366.3	3806.7	4241.1	4275.1

Trade turnover in 1997-1998 was $20,384 thousand and 10,000 thousand in 1998.

Riyadh follows developments in the region closely. Saudi activity in the region is still limited to tentative relations with the Muslim countries of the CIS and marked by a desire to not fall too far behind other leading powers of the Islamic world: Turkey and Iran.

14. Ibid.

15. *Kratkij statisticheskij ezhegodnik Kazahstan 1997 g.* Almaty, 1998, 72.

In the hydrocarbon sector, Saudi Arabia looks to Asia as a potential "energy partner."[16] Saudi policy is aimed at finding stable export routes for its oil through the establishment of joint ventures in refining and distribution,[17] with the idea that GCC states should have enough refining capacity to meet the demands of their own internal consumption. Thus Saudi Arabia is looking to build more refining capacity in Asian countries according to specifications established for the refining of light Saudi crude.

The Saudi oil industry has shown a profound interest in Kazakhstan as well. For example, several Saudi companies are working in Kazakhstan. Nimir Petroleum got a license in 1996 to develop the Northern Buzachi field in the Mangistau region. The capacity of this field is estimated by specialists at 1.5 billion barrels, of which 450 million are recoverable.

The company intends to use advanced technologies to develop the field in several stages. During the first, experimental stage lasting three years, the company would invest $30 million. For the first five years Nimir intended to invest $103 million. In all, the project is estimated to be worth one billion dollars and will involve the drilling of 80 wells. Three wells were planned to be drilled in 1997, and the company intended to participate in the distribution of oil products within the country. In 1998, Nimir Petroleum modified its license to extract hydrocarbons from the Northern Buzachi field, giving a 4 per cent interest to Texaco. Nimir Petroleum formed a joint venture with Dosbol to create Delta-Dosbol-Kazakhstan Ltd. to exploit gas fields in southern Kazakhstan (Amangeldy and Airakty fields in the Dzhambyl region).[18]

Another Saudi firm active on the Kazakh market, Delta, offered to sell 10 percent of Tengizchevroil for $500 million to Kazakhstan. The company has also been involved in projects furthering the development of gas pipelines in the republic.

During his visit to Kazakhstan on September 24, 2001, the Saudi Minister of Oil and Mineral Resources Ali bin Ibrahim Al-Nuaimi underscored that Saudi Arabia and Kazakhstan are ready for close cooperation in the oil and gas sector. After his meeting with President Nazarbayev, he said: "We have found points of contact and confirmed that there is great potential for cooperation in the oil and gas sector on the international and bilateral levels."[19]

16. This policy was closely adhered to during the visit of the Crown Prince in Asia in the autumn of 1998. Riyadh accords special importance to its relations with Beijing.
17. Azija i Rossija: ekonomicheskie svjazi v 2000 g. Moscow, 2000, 378.
18. T. Kasabaev, "Opyt Saudovskoj Aravii v nacionalizacii neftjanoj ekonomiki," *Izvestija Nacional'noj Akademii nauk RK* (April 2006), 70.
19. B. Amreev, *Aravijskie monarhii i ih mesto vo vneshnepoliticheskih prioritetah Kazahstana,* op. cit., 201.

According to the minister, the meeting touched on a range of questions relating to the further strengthening and development of bilateral relations between Kazakhstan and Saudi Arabia. When asked what measures OPEC would take to support world prices for oil, he said that: "OPEC is not an agency that regulates prices for oil," but rather "can only stabilize the price of oil." According to the minister, "The price is determined by the international market for oil." In addition, Kazakhstan participated as an observer at OPEC meetings.[20]

Since the only means of access to the market of the Caspian basin lie across the land, the most promising projects are those that take a southern route.[21] Saudi companies have demonstrated an interest in such projects. The Dabbagh group is studying the possibilities of laying a pipeline through Iran for a cost of about $2 billion. The company is able to bring together the financial and technical capacities of a range of Asian and West European firms. A working group has been formed to develop the pipeline project. Another project currently under consideration is the construction of an oil terminal on the Caspian Sea.

A Saudi delegation led by the Deputy Minister of Transport Abdullah Mukbil participated in the Transit-97 international exhibition on the theme of the transportation capacities of Kazakhstan. The delegation met with officials of the Kazakh Ministry of Transport and Communications, along with those of other ministries and departments.

After the events of September 11, 2001, relations between the Gulf States and Kazakhstan grew tense. Western news agencies set the tone with negative coverage of Islam and of the Gulf States. After the onset of the US-led war in Iraq, many countries of the Gulf began to strengthen their diplomatic relations with partner countries. This can be seen from the statistical data on trade turnover among these countries.

Trade between Kazakhstan and Saudi Arabia reached $11 million in 2006, of which $9.35 million were exports and $1.95 million were imports. This was much higher than in previous years: $1.95 million in 2005, $2.6 million in 2004. The results for 2006 broke all records, being almost 5.5 times more than 2005.

Comparing this level of trade with that of other countries, it is clear that Kazakhstan-Saudi economic relations are far below their potential. Comparing the place of Saudi Arabia relative to other Gulf States in their trade with Kazakhstan, it is in second place, and in 2005 was in third place, in spite of the fact that it is in all other respects the largest Gulf State.

20. www.innov.ru

21. A. Dandygulova, "Analiz riskov, voznikaemyh pri operacijah s uglevodorodnym soedineniem," *Sajasat* (January 2002): 69.

In addition, imports constitute only 10 per cent of the total trade turnover of Kazakhstan, with the remainder being composed of exports. There are only 25 Kazakh-Saudi enterprises active in Kazakhstan today, and most of them are in the services sector.

At a Saudi-Kazakh business forum held in Almaty in April 2007, the issue of business cooperation was discussed at length. The question of matchmaking, joint-venture creation, and boosting of trade turnover were among the issues highlighted. The Kazakh Minister of Industry and Trade said: "Kazakhstan wants investment and will provide support to Saudi business that wants to invest in our economy." This reflects the fact that Kazakhstan has established favorable conditions for business entry and investment of foreign capital.

The Saudi Center for Export Development is exploring new directions in bilateral economic relations that are not related to oil. Last year such exports accounted for about $25 billion. In five years the Saudis expect this figure to reach $50 billion. Nevertheless, Riyadh will not refuse Kazakh investments.

The Saudi Fund for Development (SFD) is doing similar work. The Kazakh Ambassador, the Saudi Minister of Finance, and the managing director of the SFD agreed on the financing of a few projects in Kazakhstan worth about $100 million.[22]

The export of investment from Kazakhstan is another aspect of Kazakh-Saudi relations in recent times. Dr. Abdurahman Zamilia, president of the Centre for Export Development noted that, "Kazakhstan has become a state that exports investment, which has reached $18 billion. We would like to see a few of these billions on the Saudi market."

Saudi Arabia gave gratuitous aid to Kazakhstan through four grants worth a total of $40 million:

The first was a grant for the construction of the Parliament building ($15 million). On November 8, 1999 the Kazakh Ambassador to Saudi Arabia and the Deputy Minister of Finance signed a memorandum on bilateral relations. In 2000, the design work was complete, and in 2001, a tender was held. On July 6, a contract was signed between the Kingdom of Saudi Arabia and Almatykultbytstroi. On November 10, the land was handed over to the contractor, after which construction started. At present, the foundations have been laid and the frame of the building is being constructed.[23]

22. B. Amreev, *Kazahstan i Saudovskaja Aravija,* op. cit., 114.

23. Ibid., 207.

According to the general plan for the development of the capital city, the building will be 15 stories tall with14,000 sq. m. of usable space, and will be located on the left bank of the Irtysh river in the heart of the new administrative centre of the city in close proximity to the Presidential Palace and other government buildings.

A second grant for the construction of a cardiac center in Almaty worth $5 million was announced by Prince Sultan during his visit in 2000. At the end of 2000 the consulting firm Akhmad Al-Rashid completed the design work in coordination with the Saudi Ministry of Finance and the Syzganov surgery center in Almaty, laying the ground work for a major construction project.

Prince Sultan bin Aziz decided to give a second grant for the construction of a cardiac center in Astana. The Prince mandated the Saudi Bin Laden Group to lead on the project. The building has been completed and the interior work has begun. Kazakhstan managed to negotiate the additional service of design work on a second operating room, a morgue and other facilities. The company, following the directive of Prince Sultan to complete the project at the discretion of Kazakhstan, agreed to this extra volume of work, raising the price of their service from $5 million to $8 million.[24]

Besides these three grants, a grant of $1 million was given for the Zhan Ulan war academy. The Kazakh Ministry of Defense together with the Saudi embassy in Almaty have completed the project.

At the end of 2000, the Saudi King decided to give a grant for the construction of a large mosque in one of the cities of Kazakhstan. A hospital and polyclinic will be built next to the mosque. The work schedule will be defined after the initial design work is completed, and the total financing could be between $10 million and $25 million.

The total volume of grants issued by Saudi Arabia to Kazakhstan amounts to more than $40 million and exceeds that given by all other countries during the first 10 years of Kazakh independence.

Financial assistance is the highest form of political support, and the leadership of Kazakhstan has always looked at such assistance from friendly countries as strong moral support for the young state.

The dynamics of grant giving suggests that this is only the beginning. The value of these grants is multiplied, in that other Gulf States were stimulated to make grants of their own to assist with the construction of the new Kazakh capital after President Nazarbayev visited these countries in 1997-2000.

24. Ibid., 208

In addition, there have been some suggestions on investing in the metallurgy sector, where about $1 billion could be invested in 3-4 plants that could provide for 100 per cent of domestic demand for stainless steel and compound alloys. According to one project, $275 million could be invested in the production of sodium carbonate. Insofar as China is the world's largest consumer of fertilizer, investments in this sector would be propitious.

Exports of wheat are another area of potential cooperation between Kazakhstan and Saudi Arabia. It would be better to invest in wheat processing and agro-food production in Kazakhstan, so that ready goods, and not just raw materials, are exported.

Kazakhstan could deliver grain to the Saudi port of Dammam on the Gulf, in order to satisfy the demand of neighboring Arab countries. For his part, a Saudi governor expressed his intent to establish direct ties between the Eastern province and the Akmolinsk oblast, which is one of the leading regions of Kazakhstan for the cultivation of high-quality wheat.[25]

As Abdurakhman Zamilia said at a business forum in Astana: "We need grain, and you are a great producer of grain; we need barley, and you are a great producer of barley; we need heavy metallurgy, and you have great experience in this sector."[26]

It must be said that the greater part of the potential of the two states in the economic sphere has not been discovered. According to Kazakh analysts, further development of bilateral economic relations will be seen first of all in the refining industry, with new production technologies, and this alone opens up many opportunities for cooperation in the oil sector.[27]

Nationalization of the oil sector through the purchase of shares is one of the most important economic issues facing Kazakhstan. By nationalizing this sector, Kazakhstan took control of most of the oil infrastructure, thus doing away with its dependence on foreign capital. When it first became independent, Kazakhstan lacked the financial means to invest in its own oil sector, and so was compelled to sell a majority stake to foreign investors. The Saudi Kingdom faced a similar predicament in the 1920s when King Ibn Saud sold oil concessions to earn revenue. Kazakhstan went through the steps of nationalizing the oil sector, including the elimination of monopolies, by signing agreements with other foreign oil consortia to develop oil fields in the Caspian region, as well as the creation of a national oil

25. Interfax-Kazakhstan, Astana, April 24, 2007.

26. Ibid.

27. A. Ikonnikov, "Moment nestabil'nosti," *Kontinent*, April 2, 2002, 21-22.

company. This was the path taken by Saudi Arabia as far back as 1940-1960. It took Saudi Arabia decades to nationalize its economy, and Kazakhstan has been moving in this direction for 7-10 years. This is clearly the right path to take to develop the oil sector.

However, some of the steps taken by Kazakhstan are disquieting, namely, the fact that the China National Petroleum Company (CNPC) owns two of the three refineries in the country. It would seem that Kazakhstan should not sell its strategic national facilities to foreign companies, as this could lead to the destabilization of the economy, especially now when the country is stable in a political and economic sense, and the treasury does not require such extreme measures to earn revenue. Nevertheless, the state has not yet rid itself of the domination of foreign firms in the oil sector and elsewhere. Further economic cooperation among states is possible only through growth in trade turnover, which can occur only once problems relating to customs duties are resolved. If that were to occur, there would be great potential for mutually beneficial cooperation between Kazakhstan and regional economic structures like the OEC or GCC. This would lead to new opportunities for the member states of these organizations, as shown by the development of trade and commercial relations between Kazakhstan and the Gulf States from 2004 to 2006 (see Table 2).

Economic Diversification: Kazakhstan and the Gulf States

Other important issues relating to Kazakhstan's cooperation with the Gulf States include the development of alternative sectors of the economy. Many Kazakh researchers talk about the further development of refining with the use of qualitatively new high technologies, and this in itself could lead to further cooperation in the oil sector. The development of multilateral cooperation could be hindered by geopolitical factors. In 2000-2001, the non-resource sectors of the economy grew very quickly, acquiring a dynamic rate of growth in production. The oil and gas sector pulled along other sectors of production by injecting the economy with cash, driving up enterprise profits and consumer demand. At first, secondary markets servicing the resource industry made profits that later filtered to other sectors. It is illustrative that over 50 percent of the investments into the Kazakh economy in 2001 came from internal sources, from the funds of individual enterprises. This allows one to conclude that Kazakhstan's economy is starting to diversify. For example, in the chemical industry, production grew by 1.6 times in 2001, agriculture grew by 17 percent in 2001, and so on.

Of course, the traditional sources of energy, oil, coal and gas, exist in limited

quantities, which underscores the need for greater economic diversification. Even though Kazakhstan contains large reserves of each, at current rates of global consumption, all such reserves will be used up within 100-150 years. Kazakhstan is considered to have great potential for developing all forms of renewable energy. Using just solar and wind power, it would be possible to forego the construction of power lines and heating stations. Moreover, over 100 rivers flow through Kazakhstan on which mini hydro power stations could be built. Massive reserves of economic bio fuels are also at hand. The state program for the development of renewable sources of energy for 2008-2010 will address these questions. Some experts have suggested that this program should include a provision to make alternative sources of energy more attractive in financial terms, noting that the UK, Germany and other countries subsidize the renewables sector or give it tax breaks. If similar measures were taken in Kazakhstan, there would be no shortage of financing: both domestic and foreign private capital would be happy to become engaged.[28]

The Gulf States too are continuing their efforts to diversify their economies. Saudi Arabia, for example, in its search for alternative modes of economic development, has invested in challenging diversification projects. For example, to gain self-sufficiency in food production, the Kingdom began to cultivate grains, and a few years ago, Saudi Arabia was ranked as the sixth largest exporter of wheat, in spite of the fact that only 2 percent of its land is arable, and the cost of production is extremely high. Projects of this nature have the capacity to further bolster economic cooperation between countries such as the Republic of Kazakhstan and the Saudi Kingdom.

Kazakhstan has all of the prerequisites to diversify its oil economy and promote agriculture and the chemical industry. In the latter mentioned industry, sulphur is being stockpiled in the open air, near the Kazakh-American Tengizchevroil gas processing plant. Such open stockpiling of sulphur impacts upon the local ecology and the health of the local population. While there is no present demand for sulphur, it could in theory be used for the production of bitumen and asphalt for Kazakhstan's roads, which are almost everywhere in a terrible state and require urgent repairs.

Kazakhstan and the Gulf States should also cooperate in the sphere of ecology. The oil sector is dominated by foreign investors, and in spite of their best assurances that they employ technologies and methods that preclude environmental pollution, this is something that nevertheless occurs on a regular basis. Oil spills affect the

28. A. Kalymov, "Solnce vmesto nefti," *Kazahstanskaja pravda*, October 20, 2007, 5.

health of the population, destroy the microflora and reduce the fish harvest in the region. This happened in 2002,[29] and the big foreign investor got away with a small fine and a warning from the government. It is necessary, therefore, to strengthen controls over industrial enterprises to protect the environment. Kazakhstan could learn a lot from the experience of the Gulf States on how to protect the environment near oil extraction and refining operations.

One of the most important directions of further economic development for Kazakhstan and the Gulf countries is to increase the depth of oil refining. This would be very beneficial for Kazakhstan, which could provide for its internal market and simultaneously raise the quality of its refining products. Kazakhstan has three oil refineries: the one in Atyrau was built in 1945, the one in Pavlodar was built in 1978, and the one in Shymkent, built in 1984. Given the obsolete production technology and the characteristics of the oil from western Kazakhstan, the depth of the refining at the Atyrau refinery is very low, and the resulting gasoline and other products are of poor quality and sell for a low price.

A small branch from the internal pipeline leaving the Kumkol field is connected with the transnational pipeline close to Shymkent (Karakoin). Plans to build an internal pipeline that would free Shymkentnefteorgsintez from its dependence on Russian oil (to less than 10 percent) are in the works. The introduction of an internal pipeline would allow the plant to use Kazakh, rather than Russian, oil, and thus lower the political risk of the enterprise. The construction of a catalytic cracker would increase the capacity of the plant to produce light oil products. Notably, the Saudi company Nimir Petroleum intends to participate in the construction of internal pipelines in Kazakhstan.[30]

The activities of the Islamic Development Bank (IDB) in Kazakhstan are interesting in this regard. Since 1993, the IDB has become very active in Kazakhstan. In 1998, it opened one of its three regional branches in Almaty. In 1997-1998, the IDB offered loans and grants to Kazakhstan.[31] It issued several grants, mostly for technical and economic assessments for a range of industrial projects. In October 2001, it signed an agreement to provide $321,000 to improve the scientific and technical base of the physical-technical institute of the Ministry of Education and Science. It also agreed to fund the technical and economic assessment of the reconstruction of the Kokshetau-Petropavlovsk highway for $300,000.

29. www.caspinfo.ru/news/2002n/014.htm.

30. T. Kasabaev, "Opyt Saudovskoj Aravifi v nacionalizacii neftjanoj ekonomiki," *Izvestija Nacional'noj Akademii nauk RK*, April 2006, 72.

31. B. Amreev, *Kazahstan i Saudovskaja Aravija,* op. cit., 113.

The total volume of grants issued by the five Gulf States from 1998-2002 was about $100 million. These funds were given as a sign of support for the historic decision of President Nazarbayev to transfer the capital to Astana.

The following projects have been identified as possible recipients of support from the IDB:

- construction of an alternative route through the Kurdai pass worth $45.45 million
- construction of the Baili-Kulsary highway (estimated cost to be determined later)
- reconstruction of the airport in Atyrau (about $25 million)
- construction of a highway from Astana to Borovoi once the technical and economic assessment is complete, for an estimated $100 million, together with the Saudi Fund for Development, the Kuwait Fund for Arab Economic Development, and the Abu Dhabi Development Fund
- water supplies for agricultural regions of northern and central Kazakhstan (costs to be estimated later)
- construction of a health facility in Astana (costs to be estimated later)[32]

A distinguishing characteristic of the Arab loans is that they are issued through special-purpose state financial agencies, such as the Saudi Fund for Development, the Kuwait Fund for Arab Economic Development, and the Abu Dhabi Development Fund, and are offered as a form of financial assistance to friendly states. They are not intended to make a profit, and the low interest rates collected go towards covering the technical costs and wages of those working for these agencies.

The history of such loans originates in the petrodollar years of the 1970s-1980s, when the governments of the Gulf decided to redirect some of their windfall earnings as gratuitous (for the most part) aid to other Muslim countries.

Kazakhstan has the opportunity to foster closer ties with these countries, and thus implement more ambitious plans for its own economic development. However, the bureaucracy of Kazakhstan often stands in the way of the timely issuance of grants or loans in the following ways:

- long procedures to prepare technical and economic assessments and in some cases a lack of resources to complete such assessments

32. Ibid., 219.

- complex procedures to add a project to the list of state investments and uncertainty regarding the share of the government's contribution to its financing
- limits placed by the IMF and State Investment Program nomenclature and volumes
- long delays when several donors are involved, uncertainty regarding their stake in a given project, and multiple changes
- participation of several Kazakh government agencies and delays caused by their inability to coordinate among themselves
- delays in ratifying signed agreements, which led to delays in getting several Kuwaiti and Saudi grants for the construction of buildings in Astana

For example, Kazakhstan has a very complex procedure for inter-agency correspondence. An agreement signed with the Kuwaitis in November 1999 for evaluation of a project worth $1 million to build infrastructure on the left bank of the Ishim river was not signed by the Ministry of Finance until February 2000.

This list of bureaucratic prevarications is far from complete, for it does not include the human factor: slowness, carelessness and even indifference. Further cooperation between Kazakhstan and the Gulf States should take these points into mind for the mutual benefit of all parties involved.

Kazakhstan's foreign trade with the Gulf States is summarized in Table 2.

An Appreciation for Islam

Since it became independent, the Republic of Kazakhstan has sought to develop optimal relations with the Islamic world. Muslim countries have supported virtually every domestic and foreign policy pursued by Kazakhstan, which proves that there are no sharp political or economic disagreements between Kazakhstan and the main Islamic states.

On a related note, Kazakhstan is outspoken in its opposition to any manifestation of religious extremism that would threaten peace and stability and provoke unjustified attacks on Islam at the international level. Islam is the traditional religion of the titular nationality of Kazakhstan, and it has never been characterized by manifestations of extremism. Islam in Kazakhstan, to the contrary, has always been an inherently moderate social phenomenon and has rarely formed part of the country's political fabric. Islam has never been the cause of conflict with neighboring countries or peoples, national or cultural isolation, or alienation from the outside world. Islam has never been the cause of inter-clan conflict within the nation itself.

Table 2: Main Indicators: Kazakhstan's Trade with the Gulf States 2004-2006[33] (USD, Thousands)

Continent, country or country groups	Turnover		Export		Import	
	Total	Unit weight of country as percentage of total turnover	Total	Unit weight of country as percentage of total turnover	Total	Unit weight of country as percentage of import
January-December 2004						
Total	32877483,7	100,0	20096234,3	100,0	12781249,4	100,0
Asia	5684648,6	17,3	3667880,3	18,3	2016768,3	15,8
Bahrain	275,8	0,0			275,8	0,0
Qatar	9,8		1,8		8,1	0,0
Kuwait	253,7	0,0	249,4	0,0	4,3	
UAE	52012,4	0,2	31783,7	0,2	20228,7	0,2
Oman	1814,3	0,0	8,8		1805,5	0,0
Saudi Arabia	2626,1	0,0	2190,5	0,0	435,7	0,0
January-December 2005						
Total	45201531,2	100,0	27849044,0	100,0	17352487,2	100,0
Asia	7771608,6	17,2	4887791,1	17,6	2883817,5	16,6
Bahrain	293,0	0,0			293,0	0,0
Qatar	1274,0	0,0	1273,7	0,0	0,3	
Kuwait	16,5		5,8		10,7	0,0
UAE	50282,4	0,1	20176,7	0,1	30105,7	0,2
Oman	3902,4	0,0	295,3	0,0	3607,1	0,0
Saudi Arabia	1953,4	0,0	428,6	0,0	1524,9	0,0
January-December 2006						
Total	61 927 210,3	100,0	38 250 352,0	100,0	23 676 858,4	100,0
Asia	12 033 719,6	19,4	7 648 759,7	20,0	4 384 959,9	18,5
Bahrain	902,6	0,0	-	0,0	902,6	0,0
Qatar	879,5	0,0	273,4	0,0	606,2	0,0
Kuwait	97,2	0,0	97,2	0,0	-	0,0
UAE	153 000,0	0,2	80 005,0	0,2	72 995,0	0,3
Oman	9 268,1	0,0	1 161,9	0,0	8 106,2	0,0
Saudi Arabia	10 999,9	0,0	9 352,1	0,0	1 647,8	0,0

33. Republic of Kazakhstan State Committee on Statistics.

Cooperating actively with the Islamic world, which stretches across a broad expanse on the southern and south-western borders of the Republic, and with a Muslim community of its own that accounts for over 60 percent of the total population, Kazakhstan cannot but pay attention to the Islamic factor in its own foreign policy and to employ, when appropriate, Islamic discourse in the articulation and promotion of its interests.

The Islamic world looks to Kazakhstan as an inalienable part of the Muslim community. On the occasion of Kazakhstan's entry to the Organization for the Islamic Conference in 1995, Secretary-General A. Laraki said, "Kazakhstan, with its natural resources, its economic, cultural and intellectual capacities, its balanced and deliberate internal and foreign policy, is a priceless addition to the treasure-house of Islamic peoples and the international community as a whole."

The onset of independence in Kazakhstan was accompanied by a rebirth of national traditions, including a religious worldview and a stronger sense of belonging to the religion of Islam. Religious observance grew considerably, along with the number of religious schools and pilgrimages.

Accordingly, international cooperation in the religious sphere has also increased, including Saudi financial assistance for the construction of mosques, publication of religious literature for the Spiritual Directorate of Muslims of Kazakhstan, and organization of Haj and Umrah. In promoting such relations, Kazakhstan's diplomacy merely reflects the Islamic component of society. The spiritual life of Muslims of Kazakhstan would indeed be incomplete without a proper system of relations with the country where the most important sites of Islam are located.[34]

The Middle East vector of Kazakhstan's diplomacy is subject to the influence of the Islamic factor, and the establishment of positive relations in the religious sphere will in turn have a positive effect on general relations. Thus, for example, Saudi Arabia is represented in Kazakhstan by several associations, such as the World Assembly of Islamic Youth, Wahl-Vakf-Islamiya, the Committee of Muslims of Asia, and others. Saudi religious organizations in Kazakhstan distinguish themselves by refraining from identifying with any particular religious current, such as, for example, Turkish. All of the above-mentioned Saudi religious associations are engaged primarily in charitable activities, limited in the main to the construction of mosques.

The words of the Chief Mufti of Kazakhstan Absattar Derbisali: "Mecca is one and the worship of the shrines of saints is idolatry" have led some to conclude that the Spiritual Directorate of Muslims of Kazakhstan is trying to propagate "classical"

34. B. Amreev, *Kazahstan i Saudovskaja Aravija*, 181.

Islam, as practiced in Saudi Arabia, the UAE, and other Arabic countries.[35]

In this manner, by developing comprehensive cooperation in the religious sphere and showing an interest in receiving financial assistance from the countries of the Gulf for the construction of mosques, the publication of religious literature for the Spiritual Directorate of Muslims of Kazakhstan, the organization of Hajj and Umrah, and other aspects of religious relations, Kazakhstan's policy reflects first of all the Islamic dimension of Kazakh society. The spiritual life of Kazakh Muslims would surely be incomplete without normal religious relations with these countries.

For their part, the Gulf countries closely follow developments in the region, and their activities are thus far limited to exploring means of developing relations with the Muslim countries of the CIS, and attempting not to fall behind the activities of other large powers of the Islamic world like Turkey and Iran.

Conclusion

Although Kazakhstan had established diplomatic relations with several Gulf States as early as 1992-1993, the leadership of these countries adopted a wait-and-see stance due to the problems of economic transition in Kazakhstan and the general political situation in Central Asia as a whole. Economic relations between Kazakhstan and the Gulf States accelerated in 1997, once reforms in Kazakhstan ended the economic crisis. On the whole, the potential of these relations in the economic sphere has not been fully explored. The Gulf States and Kazakhstan have much in common in virtually all matters of state, and Kazakhstan could learn a great deal from their experience of cooperation.

There is tremendous potential for the development of cultural and educational ties, given the historical links to a shared spiritual heritage. The use of private charitable organizations of these countries for the implementation of humanitarian projects in Kazakhstan is a matter of current interest.

Relations between Kazakhstan and the Gulf States are developing from day to day and are of mutual benefit.

35. A.O. Artem'ev, "Sushnosti ponjatija 'fundamentalizm,' 'religioznyj jekstremizm' i 'politicheskij islam': obshee i osobennoe," *Religioznyj jekstremizm: istoki, real'nost' i social'no-pravovye prevencii. Sbornik materialov nauchno-prakticheskoj konferencii 26-27 aprelja 2001*. (Almaty, 2001), 73-75.

Hidden Linkages: The Republic of Uzbekistan and the Gulf Region in a Changing World Order

Prajakti Kalra
Research Associate, Cambridge Central Asia Forum, University of Cambridge

Dr. Siddharth S. Saxena, Fellow of Jesus College
Chairman, Cambridge Central Asia Forum, University of Cambridge

Central Asia Rediscovers the International Community

The collapse of the Soviet Union in 1991 opened up the world order to 15 newly independent countries which included the region of Central Asia and the Republics of Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan. The countries of Central Asia found themselves in an integrated and increasingly globalized international environment. Historically, and in modern times, the importance of Central Asia's location at the crossroads of the old Silk Road highlights its strategic, political and economic significance. Flanked by Russia in the north and west and China in the east, Central Asia is regarded by both countries as an extension of their neighborhood. Furthermore, the United States emphasized the desire for closer ties especially in light of the events of 9/11 and the subsequent invasions of Afghanistan and Iraq. The Arab world along with Iran and Turkey expressed an intense desire to establish closer links with Central Asia in light of historical, religious and ethnic ties with the region. This is not to say that there was no relationship during Soviet rule but rather to emphasize the fervor of activity that followed the end of communist rule in Central Asia. The countries of Central Asia found themselves very quickly in various regional

and intra-regional groupings – for example, Shanghai Cooperation Organization (SCO), the Economic Cooperation Organization (ECO), the Japan+Central Asia Dialogue, and the Organization of Islamic Conference (OIC) – that point to the importance of the Central Asian region as key allies and partners to all the major and middling powers in the world at the time.

At the outset, it is important to emphasize that to talk about Central Asia as a block is, in many ways, an oversimplification of the region. The five countries that make up the region are unique and have chosen different trajectories within their borders and in the international arena. They have a shared history and Soviet past, and while the experiences are not the same for all countries, they have developed singular ways in articulating and expressing their national identities, culture and political process especially after independence. This is evident from the example of Uzbekistan with its important position as the largest diaspora within the region and outside, Kazakhstan with an almost equal number of ethnic Kazakh and ethnic Russian populations, Tajikistan which was ravaged by a civil war between 1992 and 1997, and Kyrgyzstan which saw a Color Revolution, and Turkmenistan which until recently was almost entirely closed to the outside world.

In this chapter, we discuss the historical linkages and the developing relationship between the Gulf Cooperation Council (GCC) and the region of Central Asia. We have chosen to emphasize the relationship between Uzbekistan and Saudi Arabia to not only highlight the historical, cultural and intellectual exchanges between the Middle East and Central Asia, but also to draw attention to a large and long-standing Uzbek diaspora in Saudi Arabia. The Uzbek diaspora is the largest to be found within the region (including Afghanistan) and also in Saudi Arabia, Turkey and Iran. According to Munavvarov, there are over 300,000 Uzbeks in Saudi Arabia and other GCC countries.[1] However, official figures vary from anywhere between 400,000 to 800,000 Uzbeks in Saudi Arabia. Saudi Arabia also takes center stage because of its unique and important position within the GCC.[2] We begin by a brief summary of the historical interaction between Uzbekistan and Saudi Arabia, followed by a section on the evolving nature of Saudi-Uzbek relations from the time of independence to the current state of the commercial relationship, and we end with a look at the future potential of an equally beneficial and long-lasting relationship with room to learn from the experiences of both sides.

1. Z.I Muravvarov, "Uzbekistan and the Gulf Cooperation Council" in *From the Gulf to Central Asia* ed. Anoushiravan Ehteshami (Exeter: University of Exeter Press, 1994), 88.
2. http://www.fas.usda.gov/info/agexporter/2004/December/pg%2016-17.pdf

Historical Trajectory

Historically, there was constant exchange of scientific and intellectual information between Central Asia and the Middle East through cities like Samarkand, Bukhara and Khiva which are in present-day Uzbekistan since as early as the 8th century. Samarkand ranked among the premier centers of scientific research in the 12th-13th centuries.[3] The city is credited with the development and refinement of paper manufacturing techniques and introducing it to the Middle East. It was home to astrolabes, sundials, celestial globes, armillary spheres and the biggest and most accurate sextant of the time.[4] Al-Khwarazmi of Khwarezm in Uzbekistan wrote the treatise on Indian mathematical calculations which is "…an enduring gift to mathematics."[5] Samarkand and Bukhara represented the highest seat of Muslim learning through the ages. Madrassa education emerged in Central Asia. In addition, Uzbekistan has been home to powerful madrassas and mosques through the ages. Besides, Uzbekistan is home to the Koran of Osman (Maskhaf Khalif Uthman – one of the first Korans ever written), which can be found in the Tashkent Hazrat Imam Complex. Archaeological evidence found in 1979-1981 date the influence of Central Asian, Murghabo-Bactrian (Turkmenistan-Southern Uzbekistan region) materials, in the Gulf (Saudi Arabia, Oman, Bahrain, United Arab Emirates) to as early as the first half of the 2nd century BC.[6] Antiquities as varied as different kinds of goblets decorated with a wide variety of designs, a cosmetic flask, horned animals, pottery cups, and handless mirrors, to name just a few of the objects, were found by archeologists in the Gulf.[7] Contact between the two regions resulted in a fair amount of imitation. Archeologists point to a kind of 'chopping knife' found in Southern Uzbekistan which has been found in Abu Dhabi and other parts of the UAE in the discoveries of 1992.[8] Archeologists have not yet come to a conclusion as to how and why these Central Asian objects appear in the Gulf region and offer a number of different theories to explain these discoveries. The explanations and theories offered include the role of the Indus Valley Civilization, which appears to have had contact with the Gulf around the

3. Saudi Aramco World, May-June 2007, 3.
4. Saudi Aramco World, May-June 2007, 6.
5. Saudi Aramco World, May-June, 2007, 10.
6. Elizabeth Caspers, "Further Evidence for 'Central Asian' Materials from the Arabian Gulf" in the *Journal of the Economic and Social History of the Orient* 37, no. 1, 1994, pp. 33-53(21) Brill), 33.
7. Ibid., 34-42.
8. Ibid., 46-47.

end of the 3rd millennium BC.[9] Furthermore, until the 1920s – 1928 to be specific – Central Asian languages used the Arabic script which was then replaced by the Cyrillic script under Soviet rule. After independence there was a surge in Arabic learning and an attempt to revert to Arabic from Cyrillic.[10]

Uzbek Diaspora

Another feature of the interaction which has been sidelined, or worse, ignored is the fact that there has been consistent movement of peoples from one country to the other. The largest migration in recent times of Uzbeks to Saudi Arabia was after the 1917 revolution. The majority of the ethnic Uzbeks in Saudi Arabia represent pre-Soviet Central Asia, Turkistan. They lived under the Emir of Bukhara in the 17th-19th centuries. The relationship that is developing between Uzbekistan and Saudi Arabia today is the outcome of a complex network of interaction at a regional and global level combined with historical, religious and cultural aspects and serves as an example of both the history and present of Central Asia and Saudi Arabia. The second wave of emigration was seen after independence, in 1992. In Saudi Arabia, Uzbeks living there, especially who migrated after the Revolution of 1917, are still referred to as 'Bukhariyun."[11] They are a thriving community which "…[has successfully] preserved their language, created their own literature, carry out research, particularly in the Uzbek language."[12] These Uzbeks have been active and commercially successful members of Saudi society since their migration after 1917. There are restaurants that can still be found in Saudi Arabia which are owned by settlers from Central Asia and offer food resonant of the cuisine in Turkistan.[13]

Another wave of Uzbek migrants came to Saudi Arabia in the 1930s following the Stalinist purges in the Soviet Union, including Uzbekistan and the rest of Central Asia. These migrants were mostly rich landowners, intellectual elites and families of active combatants in Central Asian revolutionary groups like the 'basmachis."[14] The

9. Ibid., 53.
10. Adeeb Khalid, *Islam after Communism: Religion and Politics in Central Asia* (California: University of California Press, 2007), 118, 126.
11. Muravvarov, op. cit., 88-89.
12. Muravvarov, op. cit., 89.
13. Mai Yamani, "Saudi Arabia and Central Asia: The Islamic Connection" in *From the Gulf to Central Asia*, ed. Anoushiravan Ehteshami (Exeter: University of Exeter Press, 1994), 48-49.
14. Bayram Balci, "Central Asian Refugees in Saudi Arabia: Religious Evolution and Contributing to the reislamisation of their Motherland" in the *Refugee Survey Quarterly* 26, no. 2, pp. 12-21 (Oxford University Press, 2007), 14.

migration out of Uzbekistan was to Saudi Arabia and towards British India (to the area which is now Pakistan) and Afghanistan. Before the 1960s and the subsequent oil boom in Saudi Arabia, traders and pilgrims were very important for the economies of Mecca and Medina and the migration of Uzbeks was welcomed. The first group of refugees settled in the region between Jeddah and Mecca.[15] Refugee *mahallas* came up in other parts of Saudi Arabia as the labor needs of the oil industry in Riyadh and Taif emerged. Many of the immigrants called themselves Turkistani or Bukhari rather than Uzbek or Tajik because the former terms were better known and respected in Saudi Arabia. According to Balci, people preferred to identify themselves as Bukhari because Bukhara was remembered as the birthplace of Al-Bukhari and other important Muslim intellectuals had lived there.[16] These Uzbek refugees were integrated into society. They remain grateful to King Abdulaziz of Saudi Arabia who had welcomed them, and their loyalty has not been questioned by the Saudi state. The descendants of the Uzbeks in Saudi Arabia converted to Wahabism and this furthered their acceptance in Saudi society.[17] In contrast to these Turkistanis, the latter-day refugees from Afghanistan have been viewed with suspicion and resentment by the Saudis.

The Uzbek diaspora is represented even today in the Saudi Arabian diplomatic services, the internal security services and other sectors as well. Among important Uzbeks in Saudi Arabia are Muhammad Yuunus in the Ministry of Internal Affairs, and Major-general Abd al-Khamid Muzaffarkhon, who served as the personal pilot of King Faisal. Uzbeks played an important role in the state's commercial ministries as well. Ziyyad-hoja Muhyiddin-hoja Abdallah-hoja was the director of a factory for manufacturing covers for the Kaaba, Muhammad Ilyas Khokandiy was the head of the department in the Ministry of Oil and Mineral Resources, and Akhamd Ubaydallah Turkistoniy was the head of the Department of Management of Eastern Regions in the Ministry of Communication.[18] Interestingly, the largest Arab diaspora in the Soviet Union was in Uzbekistan and even today, according to the Arab National Cultural Centre of Uzbekistan, up to a 100,000 ethnic Arabs live in Uzbekistan.[19]

15. Ibid., 15.
16. Ibid., 16.
17. Ibid., 17.
18. S. Inogomov, "Saudia Arabiston Podshohligi," (Tashkent: Fan Publishers, 1998); also in S. Jalilov, "Bukhoriylar Qissasi," (Tashkent, Tashkent Islamic University Reports, 2006), 102-114.
19. http://www.axisglobe.com/article.asp?article=529

Synergies between GCC and Central Asia

With the inclusion of Central Asia in the Soviet Union, the flow of international and political interactions began to be guided through Moscow and independent links with countries like Uzbekistan were less frequent. All this changed very quickly after independence, and following the natural history of these two regions, it is not surprising that the Arab states of the Gulf represented a natural ally for Central Asia. Central Asia's large Muslim population and a long history of interaction with the Gulf and the Middle East from as early as the 8th century made it a foregone conclusion that links with the Gulf and the Islamic world would be revived after 1991. The GCC as the representative of the population of the Arab states in the Gulf – successful, oil-based economies with potential for economic investment, large markets for goods and labor, coupled with a common Muslim heritage – was an important organization to interact with for the newly developing region of Central Asia.

At the state-level, in 1992, the head of the Saudi Foreign Office Prince Saud Al-Faisal bin Abd Al-Aziz Al-Saud paid a visit to Uzbekistan that resulted in the signing of the protocol on establishing of diplomatic relations between the countries. In April of the same year, the President of Uzbekistan Islam Karimov visited Saudi Arabia, on the official invitation of King Fahd bin Abd Al-Aziz Al-Saud. The nature of the relationship between Uzbekistan and Saudi Arabia in the early years after independence was focused on reviving the Muslim network with the Islamic population of Uzbekistan. Similar to the anti-communist rhetoric in the West, the emphasis was on liberating the people of Uzbekistan (and Central Asia) from the oppressive policies of the Soviet Union where religion was not allowed to be practiced openly and freely. Saudi Arabia and other Muslim countries saw Uzbekistan and the wider Central Asian region in light of strengthening the support base of the Islamic world with the inclusion of the large population of Central Asia. For a short period of time, there was an intense drive towards a particularistic kind of Islamic education, and rebuilding and building of mosques. A general revival of Islamic practices was seen as a result of heavy Saudi Arabian backing for these projects. From the mid 1990s to around 2001, relations between Uzbekistan and the GCC, especially Saudi Arabia, were at low ebb. Links with Saudi Arabia and the Gulf suffered initially because financial aid was tied closely with the Saudi Fund for Development, which focuses on developing and strengthening a sort of Muslim camaraderie and extending the Muslim world to include a 'new periphery' – Central Asia. There was a substantial amount of money that the Gulf countries poured into Central Asia after the Soviet collapse to restore specific kinds of religious

institutions.[20] But the response of Central Asian leaders was not in tune with what had been expected. Soviet Central Asia seemed to have a more secular relationship with Islam, and the leaders of these countries did not opt for a model of an Islamic state of either a Saudi or Iranian type.

Some progress, however, was seen on the economic front. For instance, in 1995, an agreement to set up the Uzbek-Saudi Arabian United Commission, focusing on trade and economy, was reached between Uzbekistan and Saudi Arabia. In 1996, the national oil company of Uzbekistan, Uzbekneftegas, struck a deal with the Saudi oil company, Delta Oil, to exploit Uzbekistan's oil reserves. Trade between the two countries in 2002 was estimated at $3912.1 thousand. Some of the most important exports from Uzbekistan to Saudi Arabia include services (technology), foodstuffs (fruits and nuts) and plastic goods.[21] In 2003, Saudi Arabia assigned a sum of $350,000 to the Human Reproduction Center in Uzbekistan.[22] In 2007, at the 11th International Exhibition and Conference "Oil and Gas Uzbekistan" in Tashkent, A. Santos, President of Delta Oil, emphasized the importance of Uzbekistan's reserves of 6 trillion cubic meters of natural gas reserves and 2 billion tons of oil. On July 8, 2008, Uzbekistan welcomed a delegation from the Arab Coordination Group that included the Islamic Development Bank, Saudi Fund for Development, Kuwait Fund for Arab Economic Development and Fund OPEC to a roundtable conference. An investment of up to $1.6 billion was discussed for Uzbekistan till 2010. The proposed investment includes projects in water supply, power generation, transport infrastructure and secular education.[23]

While this chapter thus far has focused on the relationship between Saudi Arabia and Uzbekistan, it is worth pointing out that Saudi Arabia has consistently invested in projects in Central Asia through the Soviet period and post-independence. It has a significant trade relationship with other Central Asian nations, particularly Kazakhstan and Turkmenistan. For example, in 1992, Saudi Arabia promised Turkmenistan financial investment of up to $10 billion for its oil and gas industry.[24]

20. Graham Fuller, "The Impact of Central Asia on the 'New Middle East,'" in *Central Asia Meets the Middle East,* ed. David Menashri (London: Frank Cass Publishers, 1998), 222.
21. http://www.saudi-arabia.mfa.uz/modules.php?op=modload&name=Sections&file=index&req=viewarticle&artid=88&page=1
22. http://www.saudi-arabia.mfa.uz/modules.php?op=modload&name=Sections&file=index&req=viewarticle&artid=88&page=1
23. *Uzbekistan Today*, July 8, 2008.
24. Boris Rumer, "The Potential for Political Instability and Regional Conflict," in *The New Geo Politics of Central Asia and its Borderlands*, eds. Ali Banuazizi and Myron Weiner (Bloomington: Indiana University Press, 1994), 80.

It set up the Islamic Kazakh Saudi International Bank (IKSICB) in Kazakhstan soon after the collapse of the Soviet Union.[25] Between 1975 and 2005, Saudi Arabia spent $45 million in Kazakhstan for the construction of the Karaganda-Astana road; $63.38 million in Tajikistan for road reconstruction, building new schools, reconstruction and equipment for healthcare; and $37.5 million in Turkmenistan for building and equipping three diagnostic centers.[26] Trade between Kazakhstan and Saudi Arabia in 2005 was estimated at $1.954 billion.[27]

Similarly, Uzbekistan has economic ties with all the GCC countries which deserve mention. At the end of 2004, trade between Uzbekistan and the UAE was valued at $112.5 million. The main items of export from Uzbekistan to the UAE include oil, silk, metals (aluminum and nickel) and services. Furthermore, there are 22 joint ventures and 27 enterprises with 100 percent investment from the UAE in Uzbekistan.[28] In 2004, Kuwait and Uzbekistan signed a joint agreement on cooperation in trade, scientific technology, economic investment, avoidance of double taxation and communication. Trade between Kuwait and Uzbekistan totalled $88,000 at the end of 2004. This figure jumped to $210,000 at the end of 2006. Uzbekistan imports communication-related services from Kuwait.[29] The Kuwait Fund of Arab Economic Development (KFAED) granted $19.8 million for a water supply project in the Nukus and Urgench regions in Uzbekistan in 1997. In 2005, Kuwait, through the KFAED, agreed to a loan of $22 million for a project for the electrification of the railroad route between Tukimachi and Angren. In 2006, $20.75 million was allocated through the KFAED for a project on recovery and re-equipment of emergency services in 171 regions of Uzbekistan.[30] In June 2007, the Deputy Minister and the Foreign Ministers of Kuwait and Bahrain visited Uzbekistan and both "…the sides signed the Protocol on political consultations between the Ministry of Foreign Affairs of Uzbekistan and the Ministry of Foreign Affairs of Kuwait, and the Protocol on political consultations between the Ministry of Foreign Affairs of Uzbekistan and the Ministry of Foreign Affairs of Bahrain."[31]

25. Mai Yamani, "Saudi Arabia and Central Asia: The Islamic Connection," in *From the Gulf to Central Asia* ed. Anoushiravan Ehteshami, op. cit., 55.
26. Cumulative Loan Agreements signed by SFD during 1975-2005 // The Saudi Fund for Development. - The Saudi Arabia Information Resource, http://www.sfd.gov.sa/english/appenx.htm.
27. http://mfa.kz/eng/index.php?asia=1&selected=12.
28. The Uzbek Ministry of Foreign Affairs, 2007-2008.
29. The Uzbek Ministry of Foreign Affairs, 2007-2008.
30. The Uzbek Ministry of Foreign Affairs, 2007-2008.
31. http://www.huliq.com/24287/arab-pms-visit-uzbekistan.

Other than on economic issues, the Al-Beruni Institute of Oriental Studies of the Academy of Science of Uzbekistan and Juma Al-Majid Cultural Center of Dubai have been collaborating on the study of manuscripts since 1995.

The Wider Muslim World

The bulk of the commercial interaction between Saudi Arabia and Uzbekistan seems to be dependent on the reserves of oil and natural gas that Uzbekistan possesses. Only recently has Saudi Arabia promised any real investment in infrastructure and service industries of Uzbekistan. In this regard it may be beneficial for the GCC to learn from the experience of Turkey in the region. Turkey with its long-standing relationship with the Central Asian Turkic people has been actively involved in building infrastructure and commercial ties with the region since independence. Turkey and Iran are major trade partners of Uzbekistan and have invested in numerous and varied areas in the region (such as transportation, communication, education and oil). In fact, Turkey is a major trade partner for Uzbekistan. In 2001, Turkey, along with the Netherlands, received more than 50 percent of Uzbekistan's export of non-ferrous metals. Turkey also ranked among the top six countries to which Uzbekistan exported its cotton.[32] Iran has been able to get a market for a whole lot of consumer goods in Central Asia. Central Asia is much more than a reservoir of oil and natural gas, it has a wide array of resources, and it can become an important economic partner for countries in the GCC. Saudi investment in infrastructure and community-based needs of Uzbekistan should be brought into focus to encourage ties on a more extensive scale.

The Arab countries in the Gulf were not the only Muslim countries wanting to enter into close contact with and revive old links with Central Asia after the collapse of the Soviet Union; Iran also expressed a desire to be closely associated with the Central Asian countries. Iran, the second largest country in the Middle East, and the largest in the Gulf, shares its borders with Turkmenistan and within Central Asia has the closest cultural, linguistic and historical affinity with Tajikistan. Turkey has an overwhelming interest in Central Asia with most of the region (except Tajikistan) having an ethnically Turkic population. Strengthening ties with the countries of Central Asia provide the Arab Gulf, Turkey and Iran with an opportunity to utilize the economic potential of Central Asia as well as revive old traditional and historic networks that flourished between the Middle East and Central Asia.

32. http://www.adb.org/Documents/Reports/Trade_Facilitation/trade_facilitation_review_UZB.pdf

The last 15 years have shown that Central Asia has chosen a policy of coexistence with Turkey, Iran and the countries of the Gulf to operate within their borders. Rather than looking at the region as a place where the Great Game can be played out, the GCC could learn how to build networks from the example that Turkey and Iran have already set in their interaction with the countries in Central Asia. Despite the natural ethnic, cultural and religious affinities that the Turkic population of Central Asia share with Turkey, the relationship that has developed between the respective countries has precluded Turkey from becoming 'Big Brother' to Central Asia. Interestingly, Saudi Arabia and the Gulf states have lagged behind Turkey, Iran and China in their interaction with Central Asia. Besides, initial reservations due to a lack of knowledge of these countries and the post-Soviet situation, and an impetus in the region to develop links with Turkey and Iran, perhaps limited and inhibited the level of active participation that the Arab Gulf states were willing to have with Central Asia. The stance taken by Central Asian states following independence took Saudi Arabia, Turkey and Iran by surprise. The Central Asian leaders expressed a desire for cooperation, cultural and commercial links with Muslim countries but did not place themselves wholly under the protection of any one of the major players in the Muslim world. Instead, Central Asia became a place where Saudi Arabia, Iran and Turkey competed with each other for power and influence. There was a sense of an opportunity to manipulate the Central Asian republics to service and benefit the more powerful nations in the Gulf which on the surface failed. The fact that Central Asia has a predominantly Muslim population was seen as a means of easy access into the region. Saudi Arabia and Iran specifically saw Central Asia as a region of zero-sum game.

Future Trends

The importance of the region has shone through especially after 9/11, and the last few years have seen a marked improvement in links between countries like Uzbekistan and Saudi Arabia. After the 9/11 attacks Uzbekistan took center stage as a key ally of the US in the fight against terrorism and played an important role being very close to Afghanistan. With the changing world order, Saudi Arabia's interest changed from being religious and commercial to being primarily commercial. Even the Islamic Development Bank has moved away from an emphasis on investing in spreading Islamic education towards giving aid for the setting up of secular academic institutions in Uzbekistan. Uzbekistan and the rest of Central Asia stand at the crossroads of the historic Silk Road and have great economic and market

potential. It is important for Uzbekistan to have a diversified economy and revive its position in the global market as a link between Asia, the Middle East and Europe. The revival of old trade links exemplified by a once thriving Silk Route should be of key importance to not only Uzbekistan and the countries in Central Asia but also to Saudi Arabia and the GCC along with Iran, Turkey, Russia and China, to name just some of the countries that will benefit from this. Uzbekistan also has a highly skilled and educated population as a result of being the center for Islamic education through the ages and also because of the Soviet insistence on the provision of education throughout the Soviet Union. This leads us to the discussion of the potential of both Uzbekistan and Saudi Arabia of not only serving as markets for labor and goods but also as examples for learning from each other.

The last few years have seen the GCC countries making attempts to diversify their economies from being entirely oil dependent to include services and other commercial endeavors for a more stable future. Central Asia, and particularly Uzbekistan, with its substantial population can serve as a potentially very profitable market for Saudi Arabia. Uzbekistan has been – and can continue to be – a source of skilled labor for the Gulf countries. There is a large young and educated population in Uzbekistan that is now accessible to countries outside the Soviet Union. Considering historical links between the two countries, the presence of Uzbek communities in Saudi Arabia and economic opportunities, labor migration should continue to prove beneficial to both the Saudis and the Uzbeks. Central Asian countries can look to the countries that make up the GCC to track the development of new economies highly dependent on hydrocarbon reserves. UAE and other Gulf countries are good examples of oil and gas economies that have found a place in the international economy in trade, banking and commerce.[33] According to Clawson, "[The] Middle East states matter most for Central Asian economies as providers of transport routes and potential trading partners…"[34]

There is a lot of scope for Central Asia to learn from the experience and development of the GCC countries. Central Asia like the GCC has many strong regional powers around it. The countries that make up the two regions are small compared to their more powerful neighbors. Both the regions have large reserves

33. Maqsudal Nuri, "Central Asia: Role for Arab Gulf Countries" http://www.soros.org/resources/articles_publications/publications/osn_centraleurasia_/osncentraleurasia.pdf (Open Society Website).

34. Patrick Clawson, 'The Disintegration of the Soviet Union: Economic Consequences for the Middle East," in *Central Asia Meets the Middle East,* ed. David Menashri (London: Frank Cass Publishers London, 1998), 209.

of natural resources that can be exploited and that the international community is very interested in tapping into. The Central Asian countries can look to the GCC to observe the advantages of cooperating and presenting a collective voice to the international community to boost their position especially in the economic sphere. Central Asia can also look to the GCC to strategize the response to strong Islamic forces in their respective countries. There is also the possibility of tracking the ways in which the GCC countries try to solve conflicts that arise from shared water resources. Disputes centered on issues of water management and shortages are likely scenarios that will have to be dealt with, and cooperation between Central Asian countries is going to be the only likely solution.[35] The GCC can also serve as an example of how, within such a grouping, countries with lesser natural resources can benefit from the overall development and wealth creation in the region. In Central Asia's case, countries that do not have large reserves of oil, natural gas, and other hydrocarbons do not have to be excluded from the commercial success of the region. The GCC countries have been able to promote a collective front and cooperate with each other to ensure that all the countries partake in the wealth creation from their natural resources. There is also room for investment from the bigger and more successful economies in the *weaker* economies as can be seen in the GCC. The GCC charter emphasizes the need for economic integration, job creation for GCC 'nationals,' internal GCC financing as opposed to foreign dependence in GCC member-states, and training the national labor force of the countries.[36]

On the other hand, the GCC can look to Uzbekistan and Central Asia as well. As has already been mentioned, a country like Uzbekistan has been a hub of academic institutions as far back as the 8th-9th centuries. Islamic educational institutions abounded in this region and provided the basis for scientific, literary and religious knowledge for centuries. Central Asia acted as the front and the medium through which knowledge passed unceasingly from Asia to the Middle East and into Europe in the 10th-11th centuries. The culture of higher academic institutions continued throughout the Soviet period as well. As a consequence of the Soviet educational system, Uzbekistan and the rest of Central Asia have a highly educated female population. There is a huge potential for Saudi Arabia to tap into this resource

35. Timur Dadabaev, "Water Politics and Cooperation: Trans-Boundary Water and the Challenges of Cooperation in Central Asia" in *Towards Post-Soviet Central Asian Regional Integration: A Scheme for Transitional States* (Tokyo: Akashi Shoten, 2004), 165-200; Maqsudal Nuri, "Central Asia: Role for Arab Gulf Countries," http://www.soros.org/resources/articles_publications/publications/osn_centraleurasia_/osncentraleurasia.pdf (Open Society Website).

36. GCC Charter, http://www.gcc-sg.org/soon.html

to provide education for women by women teachers and professionals. Saudi Arabia and other GCC countries can also enter into knowledge sharing networks with Uzbekistan to champion local knowledge that can help deal with issues relating to desert agriculture and solar energy, which are useful and necessary areas of research for both regions. Encouragement of local and regional networks of sustainable development will go a long way in addressing issues relating to environment, water supply and electricity along with wealth creation and human capital development. Both Uzbekistan and Saudi Arabia are ideally located geographically to make use of renewable energy resources like solar and wind energy, which can be used for internal consumption and for export. The high technical achievement in these areas in Uzbekistan brings to the table a huge potential for investment by Saudi Arabia to exploit these technologies. It is interesting to note that these countries which are primarily seen as oil and gas economies occupy a unique position in harnessing and developing renewable energy resources which can prove to be beneficial not only for themselves but for our climactically challenged world. In this way, there is also scope for moving beyond the rhetoric of only geo-political-speak and areas of sustainable cultural and commercial interaction between the regions.

Along with the opportunity for both the GCC and Central Asia to learn from each other and provide each other space for economic development and commercial success, there is also the possibility of competition that may arise in the future as Central Asia is able to tap into its oil reserves. The GCC and the countries of Central Asia can compete on the global oil and natural gas market. The potential of Central Asia as a future provider to countries like Japan can be seen already. In May 2007, the Japanese Trade and Industry Minister visited Kazakhstan, Uzbekistan as well as Saudi Arabia which along with other GCC countries presently provides 75 percent of Japan's oil needs. Japan is also the largest consumer of natural gas and seeks to maintain a steady supply of uranium for non-military nuclear needs. The visit by the Japanese Minister to Central Asia shows that Japan is keen on finding new sources for their oil and gas needs. In this context, it is not difficult to see that Uzbekistan and Kazakhstan, which have oil and uranium reserves, could in the future become direct competitors to Saudi Arabia, Oman, UAE, Qatar, Kuwait and Bahrain.[37] The monopoly of the supply of oil that the GCC enjoys because of its strategic partnership with the US means that the Central Asian countries' ability to arrive into the global market might be seen as a threat rather than a positive

37. Hisane Masaki, http://english.ohmynews.com/articleview/article_view.asp?menu=c10400&no=359938&rel_no=1; http://www.japanfocus.org/products/details/2416

development. However, it is essential for Central Asia and the GCC to realize their potential for cooperation rather than conflict and prove that it is beneficial for the development for both regions.

Conclusion

There is space for creating affinity and a sense of shared experience for Saudi Arabia and Uzbekistan. Putting aside ideology, religion and a 'Big Brother' attitude toward Uzbekistan and the other countries in Central Asia is of utmost importance in light of the developments in the region. To cite another example, the experience of Kazakhstan on the world stage in the last couple of years is worth mention. Not only has the Kazakh economy been booming but Kazakhstan is going to chair the OSCE in 2010. The evolution of relations between the GCC countries and Central Asian countries necessitates a discussion on the development of the interaction between these two strategically very important regions. As integral parts of the Islamic world and given their geographical proximity to Iraq and Afghanistan, their interaction on the global stage becomes even more important.

It is very important to note that countries like Saudi Arabia and Iran are already moving away from the language of 'Great Game' playing out in the region, a notion that has been popularized by Western scholars over the years, first between Russia and Great Britain in the 19th century, then between Russia and the US after 1991, and now between Russia and China on the one hand and Saudi Arabia and Iran on the other. There is an urgent need to steer clear from notions that make countries like those in Central Asia pawns in the international arena. The emphasis and repetitive language of Spheres of Influence and pitting Russia against the US or Saudi Arabia against Iran or Saudi Arabia against Turkey makes it seem that a small country like Uzbekistan does not act in its own right but rather is acted upon by bigger and more powerful countries within and outside its immediate neighborhood. An important example that challenges the notion of choosing one or the other (Russia or the US, Saudi Arabia or Iran) is the fact that Japan, China and South Korea are all actively involved in Uzbekistan. It is no secret that these three countries do not see eye to eye in many instances, but they all operate in the same space without the rhetoric of competition in Central Asia. Also, the SCO is a great example of how two great powers like Russia and China are willing to cooperate on an equal footing with smaller countries like Uzbekistan and the rest of Central Asia. The changing dynamics of the SCO are a clear signal of the need to create spaces for all sovereign and independent states to have a voice and effective decision-making capabilities.

Finally, contrary to the prevalent view, Central Asia should not be seen as a 'new periphery' or an extension of the Muslim Middle East in any way. Post-Soviet Central Asia is made up of five independent and sovereign countries (Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan). The leaders of these countries have shown a marked level of pragmatism since independence and have expressed a deep desire to etch out their own direction. Uzbekistan has shown that it will not remain allied to countries that it does not feel are beneficial to its economic and political well-being. Kazakhstan has managed to keep a positive relationship with its powerful neighbor Russia on the one hand and also the US and Europe. The progression of the SCO, that has all the Central Asian countries except Turkmenistan along with Russia and China as member countries and Afghanistan, Iran, India and Pakistan as observer countries, reflects the desire for wider regional cooperation. There is a fair degree of interaction with countries that are seemingly at odds with each other, Russia and the US, China and Japan, and also Iran and Saudi Arabia. Nations of Central Asia are still in the process of moving away from being seen simply as post-Soviet or only as Muslim countries. Despite the prevalent western discourse about crime, conflict and instability in and around their borders, the states and people of Central Asia see the interest they are evoking as an opportunity for development and access to the global arena, which they are well placed to exploit.

Section II

Security Relations

The Foundations of Russian (Foreign) Policy in the Gulf[1]

Professor Stephen Blank

Strategic Studies Institute, US Army War College, USA

Most observers would claim that since 2004 Russia has returned to the Middle East and Gulf to challenge US policies there. While Russia's restored capacity for conducting an independent and challenging foreign policy is indisputable, it is wrong to assume that its opposition to US policy only emerged as Washington got bogged down in Iraq and as Russia revived economically, largely due to energy exports. In fact, the intellectual and political foundations of Russian policy in the Gulf were codified by 1995-96 and originated as a self-conscious program of action against perceived US threats to Russian interests and status. Since then the policy has continued along lines mapped out at that time but has also evolved to exploit new opportunities provided by the recovery of Russia and America's misadventure in Iraq. Indeed, the confluence of these trends has led Russian analysts to assert that not only is Russia returning to the region, but that it is replacing the US as a Middle East broker.[2]

Those trends enable Russia to seek to fill at least some of the vacuum left in the wake of America's unsuccessful policies. They have imparted new vitality to Russian policy even as regional confidence in US policy, power, and judgment has visibly

1. The views expressed here do not necessarily represent the views of the US Army, Defense Department, or the US government.
2. Moscow, *Vesti TV*, in Russian, December 18, 2006; *Open Source Committee, Foreign Broadcast Information Service Central Eurasia (*Henceforth *FBIS SOV*), December 18, 2006.

eroded. Consequently we now witness the rise of Iran, Moscow's main partner in the region, as an aspirant to regional hegemony in place of Washington, along with Russia's seeming recovery. Therefore, Russia's ability and willingness to play its new role in the Gulf, if not the broader Middle East, emerge as much from the actions and failures of other powers as they do from Russia's enhanced capabilities and self-confidence. The following assessment captures the situation in which all the Gulf States must now operate:

> The Saudis seek to widen their foreign policy options because as American power evaporates in the region they need to make other arrangements for their security. There are serious differences between Moscow and Riyadh over oil production, but the Saudis hope that by establishing closer links with Russia, the kingdom will be better able to counter Iran and Syria, both aided by Moscow.[3]

At the same time, the US entanglement in Iraq and Afghanistan has also furnished opportunities for Russia to increase its visibility as an arms seller and energy provider in the Middle East and resurrect its old client base there including Syria, Egypt, Yemen, Iraq, and even Algeria.[4] Russian officials regard the Middle East as a "growth area" in terms of potential Russian arms sales.[5] They are now delivering MiG-29 and MiG-31 fighters to Syria, which paid for these deliveries with Iranian subsidies. This deal was secretly signed in 2007 despite previous Russian pledges that it would not sell offensive weapons to Syria.[6]

Russia's Return to the Gulf

Russia's return to the Gulf dates to 1995 if not earlier. By 1995-96, Russia was selling Iran $500 million worth of arms annually, had decided to sell it the nuclear reactor at Bushehr besides signing several key accords, and concluded a $10 billion energy deal with Iraq that was to go into effect when UN sanctions were lifted. These actions represented efforts by Russia to assert itself as a global actor and America's main rival in the Gulf. These ambitions grew, and still grow,

3. Ed Blanche, "Claws of the Bear," *The Middle East*, April, 2007, 9.
4. Ibid., 10.
5. Alex Vatanka and Richard Weitz, "Russian Roulette – Moscow Seeks Influence through Arms Exports," *Jane's Intelligence Review*, January 2007, www4.janes.com/subscribe/jic
6. Pavel Felgenhauer, "The Strange Story of MiG-31 Jets for Syria," *Eurasia Daily Monitor*, June 20, 2007; Konstantin Lantratov, Grogory Asmolov, Aleksandra Gritskova, Mikhail Zygar, "Istrebiteli Dvoinogo Nazancheniya: MiG-31 Zashschityat i Sirii i Iran," *Kommersant*, June 19, 2007.

out of Russia's determination to assert itself in the Caucasus and Central Asia and its relative ability to project force there. With that capability in hand, it then becomes essential to move into the Middle East which Moscow has consistently regarded (both before and after the Soviet collapse) as an area directly on its borders. Moscow's capability for great power assertiveness in the former Soviet south is an indispensable precondition for a similar assertiveness in the Middle East and particularly the Gulf.[7] Russia's consistent ambition has been to reduce US power and capacity for unilateral action in the Middle East while warding off perceived threats from the rise of Islamic extremism and/or wars to Russian interests.

Iran

Since Moscow has perceived the Caucasus and Central Asia as its major threat zones since at least 1995, if not before, it must engage states on those borders, especially as Russia still regards former Soviet republics' borders with Iran and Turkey as being Russia's strategic borders and the Middle East as the next adjacent area of concern. The key Gulf actor with whom Russia must therefore engage is Iran which has needed allies against Washington since 1979 and is a reliable market for foreign weapons sales.

The ensuing harmony of interests between Russia and Iran is geopolitically "overdetermined" although it can be endangered by Iranian nuclearization or an Iranian threat to Russian interests in the Caucasus and Central Asia. Precisely because Iran, among its other capabilities, can threaten Russia or the post-Soviet successor states with insurgency and terrorism – even though Moscow professes that Iran is not a sponsor of international terrorism – Russia has continued to sell it weapons since 1992.[8] However, at the same time, it is clear that any effort to weaponize its nuclear capability would be seen in Moscow as a threat. Indeed, what American officials and foreign observers regard as signs of Moscow's "mounting frustration" with Iran evidently stem from the growing realization that Iran's nuclear and missile programs are continuing and can now threaten Russia.[9] For example,

7. Kimberly Marten Zisk, "Arzamas-16: Economics and Security in a Closed Nuclear City," *Post-Soviet Affairs* XI, no. 1, 1995, 59; Judith Perera, "Russia: Stepping into the Gulf," *Middle East International*, March 20, 1995, 13; Stephen Blank, "Russia Returns to the Middle East," *The World & I*, November 1996, 314-331.

8. Stephen Blank, "Russia and Iran in a New Middle East," *Mediterranean Quarterly* 3, no. 4 (Fall 1992): 124-127.

9. Jim Rutenberg and David Sanger, "Bush to Urge Putin to Aid in Pressuring Iran," *New York Times*, July 1, 2007, www.nytimes.com; M.K. Bhadrakumar, "Russia's Tango with Tehran," *Asia Times Online*, June 25, 2007, www.atimes.com.

Russia is now pressuring Iran to comply with IAEA demands and warning that if it does not do so, Moscow will withdraw its support. Russian officials also state that they have no interest in playing anti-American "games" merely to benefit Iran.[10]

Even now, when Russian officials still feel constrained to deny that Iran is a threat, they also cite the growing proliferation of ballistic missiles to Russia's South and East as a threat justifying Russia's withdrawal from the INF treaty.[11] Thus Russia walks along a narrow tightrope of its own making in its relations with Iran because Moscow simultaneously sees Iran as a power that is largely kept in check by its dependence on Russia but which is also determined to block US plans in the Middle East and Gulf. Therefore, as long as it does not escape that dependence upon Moscow by going nuclear, it makes an excellent ally and trading partner for Russia, especially as Iran's foreign policy since 2001 has been driven mainly by Tehran's "Ostpolitik," a policy placing primary emphasis on securing Russian, Chinese, and Asian support for its programs. Indeed, Iran seeks broader cooperation with Russia not only on nuclear issues but on a gas cartel and on all security issues in the CIS, or at least so it claims.[12] Iran also makes an excellent potential ally with regard to larger issues beyond the Gulf and, therefore, Russia has made efforts to bring Iran into a gas cartel and to its organizations for regulation of the Central Asian security system, the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO).

The continuity in Russian views over the last decade or more is striking. Already in the mid-1990s, Russian observers agreed that the Middle East's proximity to Russia impels it to resist any foreign military presence, particularly an American presence and especially nuclear arms. Therefore, nuclear weapons technology transfers should be strictly controlled even though conventional arms may be sent in abundance to rescue the beleaguered defense industry and strengthen potential friends of Moscow like Iran, Syria, the new Iraq, and the Palestinian Authority.[13]

Lest one believe that Tehran's nuclearization might drive or has driven Russia away from Iran since Moscow knows fully well that Iran is pursuing a nuclear bomb, Russian analyses even performed an astonishing feat of casuistry, e.g. in the

10. *Kommersant.com*, March 12, 2007, *FBIS SOV*, March 12, 2007; Interfax, March 12, 2007, *FBIS SOV,* March 12, 2007.

11. *RIA Novosti*, June 21, 2007.

12. Andrei Kolesnikov, "Vladimir Putin Includes Iran in Sextet," *Kommersant*, in Russian, June 16, 2006; *FBIS SOV*, June 16, 2006.

13. Alexei Vassilev, *Russian Foreign Policy in the Middle East: From Messianism to Pragmatism* (Reading Pa.: Ithaca Press), 360.

1995 SVR (Russian Foreign Intelligence) report on proliferation threats authored by Yevgeny Primakov, its then director. Fully recognizing that nuclear proliferation in the Middle East threatened Russian security and the CIS, and could force the revision of Russian defense policy, it nonetheless argued that the West was unfairly singling out Iran for undeserved reasons as it was not conclusively pursuing a military nuclear option. So while Russia already regarded Iran as a problematical partner or ally, actually America was persecuting Iran to exclude Russia from Iran and the Gulf.[14] As long as Iran keeps the "bomb in the basement" and does not jeopardize other key Russian interests, partnership with Iran was and is very much in Russia's interest and could actually serve as an example of how to conduct nonproliferation.[15]

Russia saw Iran as a partner in ending regional conflicts in Central Asia, controlling the Caspian's oil and gas flows, and in stabilizing the Caucasus.[16] In 1995, Valery Manilov, Deputy Secretary of the Security Council, stated that in regard to Iran, interests based on economic competition and great power competition for spheres of influence had intruded into (and presumably superseded) concerns of nuclear proliferation. Manilov claimed that Russia has strictly evaluated Iran's nuclear program and was convinced that it did not represent a threat since everything Iran does is under IAEA supervision. Russia understood its responsibility to prevent nuclear proliferation, but its program with Iran would facilitate both regional and global stabilization.[17]

Russian analysts also recommended partnership, if not more, with Iran, clearly believing that to do so would suppress internal Islamic threats in Russia and the CIS and that Iran did not support those threats. Russian authorities had fully grasped Iran's potential capability for threatening Central Asia and the Caucasus by 1992 and sold it weapons then partly to deter that threat.[18] Nonetheless, Moscow's continuing disclaimers that Iran does not sponsor terrorism reflects its persistent belief that Iran presently does not represent a threat to it or its neighbors.[19] Thus

14. This report is to be found in *Joint Publication Research Service Arms Control (JPRS TAC) 95-009*, April 6, 1995.
15. Ibid., 7.
16. Ibid., *Voice of the Islamic Republic of Iran First Programme Network*, in Persian, Tehran, August 22, 1994. *Open Source Committee, Foreign Broadcast Information Service, Near East Service* (Henceforth *FBIS NES),* August 22, 1994, 52.
17. "The Non-Proliferation Treaty Must Be Prolonged," *Moscow News*, April 21-27, 1995, 13.
18. Blank, op. cit., 124-127.
19. See the remarks of Putin's special presidential representative on terrorism, Anatoly Safonov,

this strategic partnership also belies or at least neutralizes Iran as an avatar of the Islamic threat often used by the Russian media and elites to justify every Russian policy from Chechnya to Tajikistan. Iran is simply not regarded as a genuine threat whatever might be said about Islamism in general. In fact, many policymakers recommend dealing with Muslim societies, specifically Iran, to engage Islamism and divert it from threatening Russia, a solution that Primakov had previously espoused.[20] Andranik Migranyan, an advisor to President Boris Yeltsin and an unapologetic defender of Russian primacy in the CIS, told Iran News in 1995 that

In many areas Iran can be a good strategic ally of Russia at [the] global level to check the hegemony of third parties and to keep the balance of power – Russia will try to further cooperation with Iran as a big regional power. We will not let the West dictate to Russia how far it can go in its relations. Of course, we will try at the same time not to damage our relations with the West.[21]

Similarly, at a 1995 Iran-Russia roundtable,

> The speakers alluded to the quest by Iran and Russia for an identity and to Russia's political determination to prevent any country from dominating the region [Central Asia and the Caucasus]. It was stressed that Iran and Russia are natural allies with distinctive natural resources and the predominance of any third power should be prevented. This is related to the manner in which the two sides define their strategic objectives. It was also stated that Russia's influence in Central Asia and the Caucasus should be treated with respect and if domination is not the objective, cooperation is possible.[22]

Every word of Manilov's and Migranyan's precepts (including the uncertainty as to whether or not Iran is actually capable of building a nuclear weapon – an axiom dear to those in the miltiary and political leadership who want to pretend there is no justification for missile defenses against it[23]) could be repeated today without any change up to and including Migranyan's implication that Russia would consider jettisoning Iran if that partnership became too great an impediment to its relations with the West, or a threat to Russia. As noted above, the perception that

in *A Russian Chronology April-June 2006* by Mark Smith (Camberley, Surrey: Conflict Studies Research Centre, 2006), 31.

20. *Mirovaya Ekonomika i Mezhdunarodnye Otnosheniya*, no. 1, January 1995 (World Economy and International Relations); *FBIS-SOV*-95-056-S, March 23, 1995, 11-16.
21. IRNA, March 8, 1995; *FBIS NES,* 95-045, March 8, 1995, 51.
22. *Abrar* (Tehran) in Persian, March 7, 1995; *FBIS-NES*-95-052, March 17, 1995, 71-72.
23. *RIA Novosti*, June 21, 2007.

Iran is crossing that red line may be influencing current Russian policy.[24] To show this consistency in Russian views, let us consider the remarks of Russian diplomat Gleb Ivashentsov, Director of the Second Asia Department in the Russian Foreign Ministry, who told a Liechtenstein Colloquium on Iran in 2005 that

> Iran today is probably the only country in the greater Middle East that, despite all the internal and external difficulties, is steadily building up its economic, scientific, technological, and military capability. Should this trend continue, Iran – with its seventy million population, which is fairly literate, compared to neighboring states, and ideologically consolidated, on the basis of Islamic and nationalist values; with a highly intellectual elite, with more than eleven percent of the world's oil and eighteen percent of natural gas reserves; with more than 500,000 strong armed forces and with a strategic geographic position enabling it to control sea and land routes between Europe and Asia – is destined to emerge as a regional leader. This means that the Islamic Republic of Iran will be playing an increasing role in resolving problems not only in the Middle East and Persian Gulf area but also in such regions that are rather sensitive for Russia as Transcaucasia, Central Asia and the Caspian region. This is why dialogue with Iran and partnership with it on a bilateral and regional as well as a broad international basis is objectively becoming one of the key tasks of Russia's foreign policy.[25]

Foreign Minister Sergei Lavrov has even repeatedly argued since then that "Iran deserves to be an equal partner of all regional countries in the resolution of the problems of the near and Middle East."[26] He also has proposed a similar involvement of Iran in Black Sea security issues.[27] Thus Russia returns Iran's earlier favor and seeks to promote its standing throughout the entire Middle East. Similarly Nikolai Bordyuzha, the Director of the CSTO, has recently said that Iran could be invited to join the organization thus giving it a voice in the defense of Central Asia under Russian supervision. Moreover, any use of force by Washington in Iran would threaten this organization's remit, i.e. security in Central Asia.[28] And

24. Rutenberg and Sanger, op. cit.; Bhadrakumar, op. cit.

25. Remarks of Ambassador Gleb A. Ivashentsov, Second Department for Asia Director, Russian Foreign Ministry, "*Iran's Security Challenges and the Region*," Liechtenstein Colloquium Report, I (Liechtenstein and Princeton, NJ, 2005): 39.

26. *Vremya Novostey*, in Russian, September 11, 2006; *FBIS SOV*, September 11, 2006.

27. Transcript of Russian Minister of Foreign Affairs Sergey Lavrov's interview to Turkish media, Moscow, May 29, 2006, www.mid.ru.

28. "Iran Invited to Join Collective Security Treaty Organization," Interfax, May 14, 2007; "Use of

it is in this light that we must interpret Russia's recent proposal to Washington for joint operation of the radar at Gabala, Azerbaijan against Iranian missile launches. Though Russian officials profess to be dismayed that others think this is a reflection of their new awareness of an Iranian nuclear and missile threat which they deny exists, this is exactly what it is and the change of tone in recent statements to and about Iran reflect this growing awareness.[29] This policy perspective has only lately gained ground since early in 2007 there were numerous warnings to Azerbaijan not to let the Americans into Gabala.[30] So obviously Russia's recent invitation to the US is premised upon its keeping control of this base's operations even as it slowly forces itself to acknowledge the reality of the Iranian threat.

Certainly Iranian media commentary and politicians see Russia as reversing its earlier professions of policy in making this proposal.[31] Meanwhile, Iranian officials' statements in 1995 also indicated their overt desire to arrive at a "division of responsibilities with Russia regarding regional conflicts and energy issues."[32] The same objective still holds sway in Iran today if Russia can be persuaded to remain a partner.[33]

This consistent stance on Iran also shows that Russia evaluates proliferation issues not according to whether the regime is democratic or not as in the US, but on the basis of whether a country's nuclearization would seriously threaten Russia and its interests.[34] Thus, commenting on the Gabala proposal, Chief of Staff, General Yuri Baluyevsky stated that Washington's claim that Russia now admitted to an Iranian threat was a misinterpretation. While Russia never denied a global threat of proliferation of missiles and nuclear proliferation, "we insist that this trend is not something catastrophic, which would require a global missile defense system deployed near Russian borders."[35]

Apart from the revenues accruing to Russian arms producers from Iranian purchases, the Russian policy towards Iran was paying dividends by 2000.

Force in Iran Would Threaten Central Asia," *RIA Novosti*, March 1, 2007.

29. Stephen Blank, "Putin's Gabala Gambit: More Than Missiles," *Central Asia Caucasus Analyst*, June 13, 2007.
30. Interfax, in Russian, March 6, 2007; *FBIS SOV*, March 6, 2007; *"Agentstvo Voyennykh Novostey Internet Version* (Moscow), in English, March 7, 2007; *FBIS SOV* March 7, 2007.
31. Blank, "Putin's Gabala Gambit," op. cit.
32. IRNA, May 30, 1995; *FBIS-NES*-95-104, May 31, 1995, 65-66.
33. *FBIS SOV*, June 16, 2006.
34. Dmitri Trenin, "Russia and Global Security Norms," *Washington Quarterly* XXVII, no. 2: 65.
35. *RIA Novosti*, June 21, 2007.

> Russia managed to recruit Iran as a cosponsor of national reconciliation in Tajikistan following the bitter 1992-97 civil war there. As a result, local Muslims were integrated into Tajikistan's new government, which remained friendly toward Moscow. Russia scored an even greater coup in 2000 when it received the de facto support of Iran, then chair of the Islamic Conference Organization, a loose assembly of all Muslim states, in Moscow's fight against Chechnya's separatist movement. Tehran discouraged any attempts by its Muslim partners to criticize Moscow publicly for the brutal treatment of Chechen resistance to the start of the 1999-2000 campaign.[36]

The same trends and consistency are observable in regard to Russian foreign policy towards Iraq before and after 2003.

Multipolarity, Russia, and the Gulf

Before 1995 Moscow mediated Iraq's November 1994 crisis with Kuwait, fostered the erosion of the anti-Iraqi united front in the Security Council led by Washington, and asserted its independence from US policies claiming that its policies there would be based on reinforcing its strategic interests, which were as important as US interests, in Iraq and the Middle East.[37] Russia's roving ambassador to the Gulf, Viktor Posvalyuk, even advocated an all-inclusive Gulf security system closed to foreigners, i.e. the United States.[38] And today Moscow again advocates the same solution for Gulf security issues even though there is no mention of what a conference organizing such a system's agenda would be, who would be invited etc.[39] However, at least some Russian officials like Mikhail Margelov, Chairman of the Federation Council's Committee on International Affairs, maintain that Russia can be the mediator at such a conference so obviously the main purpose of such a conference is to enhance Russia's standing, not resolve Iraq's issues.[40] Foreign Ministry statements too suggest that the purpose of such a conference is to legitimize Russia's enduring political influence in a reconstituted Iraq that includes all the various political, religious, and ethnic forces there.[41] The problem

36. Ibid., 67
37. *Al-Junhuriyah* (Baghdad), January 5, 1995; *FBIS SOV*, 95-071, April 13, 1995, 39.
38. M.A. Smith, *Russia and the Middle East* (Conflict Studies Research Center, RMA Sandhurst, 1994), 3-5.
39. For example, ITAR-TASS, December 11, 2006*; FBIS SOV*, December 11, 2006.
40. ITAR-TASS, March 1, 2007, *FBIS SOV*, March 1, 2007.
41. Interfax March 7, 2007, *FBIS SOV*, March 7, 2007.

with this approach is that no Iraqi government to date is either willing or able to take such a step neither can foreign powers make them do so. So this proposal for a conference is close to being an empty proposal, something which Moscow probably understands quite well.

After 1995, the spiritus rector of Russian Middle East policy was Primakov as both Foreign Minister and then Prime Minister in 1996-99, and his ideas still reverberate across Russian governmental circles. Primakov was the godfather of Russia's insistence upon multipolarity which translates into a demand that Moscow participate in all regional issues even if it has no constructive ideas to offer, simply because it is in its own mind a great power that must not be marginalized in the Middle East or elsewhere. The great danger Primakov sought to avert was that the US could act unilaterally and marginalize Russia. Primakov tried for leverage by attempting to create regional and/or strategic partnerships with states that were willing to some degree to align their goals with Moscow's in different areas of the globe.[42] In the Middle East, these partners are (or were) Iran, Iraq, Syria, Cyprus, Libya, Sudan, and France. Moscow cultivates most of them using all the tools of the trade, diplomatic support through the UN and inter-state relations, commercial trade, shared interests in energy issues, sales of weapons and nuclear technology, and perhaps most importantly, the cultivation of a common approach to the Middle East and its security issues.

Primakov's approach followed the tradition of Alexander II's Foreign Minister Prince Gorchakov who, after the defeat in the Crimean War, sought to minimize threats to Russia and enhance her status by similarly searching for regional partnerships and the exploitation of contradictions in areas where Russia could advance. Primakov explicitly invoked this aspect of Gorchakov's policies that clearly inspired him and others afterward.[43] As an article in the Foreign Ministry's journal, *International Affairs*, stated,

> For Russia, the transition to a multi-polar world will create the possibility of diversifying the directions of foreign policy and of developing constructive strategic relations immediately with some influential partners. This increases the possibility of a maneuver necessary for ensuring the country's security under the conditions of a resource deficit and of the

42. *Komsomolskaya Pravda* (Moscow), in Russian, September 30, 1998, *FBIS-SOV*, September 30, 1998; *Rossiyskaya Gazeta* (Moscow), in Russian, September 27, 1997; *FBIS-SOV*-97-272, September 30, 1997; Paris, *Le Nouvel Observateur*, in French, August 8-16, 1996; *Foreign Broadcast Information Service Western Europe* (Henceforth *FBIS-WEU*)-96-156, August 12, 1996, 10.

43. Ye. Primakov, "Russia and the Outside World," *International Affairs*, no. 3, (Moscow, 1998): 7-13.

> transition period in the development of our country which is attended by difficulties.[44]

Moscow's Middle Eastern policies fully crystallized under Primakov's intellectual and political leadership. He has long argued that it is essential for Russia and the Middle East that the United States not play the sole role of regional hegemon.[45] Russia must constitute an equal and opposing presence. In 1991, on a mission to the area to save the Soviet Union's regional position, he said that Middle Eastern leaders "consider it necessary that a united economic and military-strategic area of the USSR be preserved."

> They wanted a USSR presence in the Middle East because this would preserve the balance of power. Nobody wants some power to maintain a monopoly position there. These states understand that our country creates an area of stability in this region with its new policy of non-confrontation with anyone, a policy oriented toward searching for ways of making interests coincide with those of other countries.[46]

Indeed, there was much truth to this perception. Egypt's President Hosni Mubarak and Yasser Arafat, among others, publicly urged Moscow to return to an active role in the Middle East. Later, in March 1998, Syria announced that while it had not previously exerted much effort to develop ties with Russia, it was now doing so at the highest level. Iraq and Iran also welcomed Russia's greater regional presence.[47] Consequently Primakov's policies also enjoyed regional support.

Indeed, from the start of his tenure as Foreign Minister, Primakov insisted that Russia would demand an increasing role in the Middle East to counter America's monopoly of the peace process.[48] Primakov also then observed that the previous policies were misguided:

> We explain our inadequate activity in the Near East by the fact that our efforts were aimed at evening out relations with the former cold war

---

44. V. Lukov, "Russia's Security Challenges," *International Affairs* (Moscow), no. 1, (1997): 14-15.
45. Alvin Z. Rubinstein, "Moscow and Tehran: The Wary Accommodation," in *Regional Power Rivalries in the New Eurasia: Russia, Turkey, and Iran,* ed. Alvin Z. Rubinstein and Oles M. Smolansky (Armonk, New York: M.E. Sharpe, Inc. and Co., 1994), 31.
46. Ibid., 31-32.
47. ITAR-TASS, October 9, 1998; *FBIS SOV*, October 9, 1998 for Arafat's proposal that Russia join what was then the upcoming summit at the Wye Plantation; for Mubarak see, *Nezavisimaya Gazeta* (Moscow), in Russian, September 23, 1997; *FBIS-SOV*-97-266, September 24, 1997; for Syria, see *Al-Hawadith* (London) in Arabic, March 13, 1998, *FBIS-SOV*-98-111, April 23, 1998.
48. *Komsomolskaya Pravda* (Moscow), in Russian, March 21, 1996; *FBIS-SOV*-96-056, March 21, 1996, 16; *The Jamestown Monitor*, March 14, 1996.

> adversaries. But this was done without an understanding of the fact that, by not surrendering our positions in the region and even strengthening them, we would have paved the way to the normalization of relations. A shorter and more direct way.[49]

Primakov never changed his views which clearly represent the views of today's governing elite. His approach, which enjoyed the support of President Yeltsin, and later President Putin as well as the Russian elites, was based on the doctrine of multipolarity that stems from traditional geopolitics, a doctrine having potentially dangerous implications for Russia.[50] The emphasis on geopolitics implies that Russia's claim to be a great, even global, power is guaranteed by virtue of its size and location irrespective of its internal state of affairs or the qualities of its domestic, economic, and military performance.[51] Primakov, Yeltsin, Putin as well as Foreign Ministers Igor Ivanov and Sergei Lavrov have argued that Russia has global interests and its potential, not just its reality, is what counts.[52]

The doctrine of multipolarity postulates that Russia increasingly lives in and must actively strive for a multipolar world that no one power or bloc, i.e. the United States, can be allowed to dominate or is able to dominate in a hegemonic fashion anywhere, for example, the Middle East. Russia, as a great power because of its potential, if not yet its reality, must play a global role, not just a regional one, and be seated at the "presidium table" of all international affairs. Or, as Leonid Brezhnev and his Foreign Minister Andrei Gromyko stated, no international issue can be decided without Russian participation. More recently, Lavrov has reasserted this line.[53] A consensus duly exists that Russia, in Yeltsin's words, "deserves to be a great power."[54] Unfortunately employing this formulation means that Russia is, in fact,

---

49. Ibid.
50. "Yeltsin Address to Diplomats," *Mezhdunarodnaya Zhizn'*, no. 6 (June 1998), and *The Russian Weekly*, no. 6, July 24, 1998, *davidjohnson@erols.com* (Henceforth Yeltsin, "Address")
51. Gerhard Simon, "Russia's Identity and International Politics," *Aussenpolitik,* English Language Edition, no. 3 (1997): 245-256.
52. Yeltsin, "Address."
53. E-mail from Darrell Hammer, *Johnson's Russia List*, February 5, 1997, Dmitry Trenin, "Transformation of Russian Foreign Policy: NATO Expansion Can Have Negative Consequences for the West," *Nezavisimaya Gazeta*, February 5, 1997, E-Mail Transmission; J. Michael Waller, "Primakov's Imperial Line," *Perspective* 7, no. 3, (January-February 1997), 2-6; "Primakov Setting a New, Tougher Foreign Policy," *Current Digest of the Post-Soviet Press* (Henceforth *CDPP*) XLIX, no. 2 February 12, 1997, 4-7.
54. One should note here that this perception is confined to Moscow and was based on potential not reality yet it is clung to like a fetish.

not a great power. Primakov, in the face of much earlier reformist doctrine to the fact that Russia is now only a regional power, has said Russia is a global actor and conducts an avowedly global policy and has adopted the Brezhnev line.[55]

As expressed by Russian analysts, this globalism derives from two axioms which are held with almost religious certainty across the Russian political spectrum. As General (Retd.) Makhmut A. Gareyev, President of the Academy of Military Sciences and one of Russia's most respected military theorists, writes,

> The main idea of contemporary Russia is that it can, must, and will be reborn and develop as a great power. This is not determined by someone's wishes, but by fundamental objective factors: historical traditions, geopolitical situation in the world, real economic, political, and spiritual needs, which would always manifest themselves and are impossible to 'cancel.' We must be ready to defend this idea.[56]

Similarly, John Loewenhardt reported in 2000 that despite the fact that this status as leading pole in global affairs was then understood to be increasingly more rhetorical than real,

> In one of our interviews a former member of the Presidential Administration said that the perception of Russia as a great power "is a basic element of the self-perception of high bureaucrats." If a political leader were to behave as if Russia was no longer a great power, there would be "a deeply rooted emotional reaction in the population."[57]

Logically, therefore, Russia's future status, if not present weakness, should entail its seat at the "presidium table" of world politics. This outlook still resonates across Russia's political spectrum and is expressed in the term *Derzhavnost',* an inherent, objectively given great power status.

Multipolarity is also based on the second axiom that Russian national interest dictates a policy of countering the United States in all the key regions – Europe,

---

55. Yeltsin, Address; "Ivan Rybkin on Russia's Global Role," *Johnson's Russia List*, July 8, 1997, *davidjohnson@erols.com*; *Izvestiya*, in Russian, January 21, 1998; *FBIS-SOV-* 98-034, February 3, 1998, Mohiaddin Mesbahi, "Russian Foreign Policy and Security in Central Asia and the Caucasus," *Central Asian Survey* 12, no. 2 (1993), 187 for Primakov's globalism and statement that history never nullifies geopolitical values.

56. Gareyev is quoted in Mikhail Tsypkin, "Military Power in Russian National Security Policy," in *The Soviet Empire Reconsidered: Essays in Honor of Adam B. Ulam,* eds. Sanford R. Lieberman, David E. Powell, Carol R. Saivetz, and Sarah M. Terry (Boulder, Colorado: Westview Press, 1995): 204.

57. John Loewenhardt, "Russia and Europe: Growing Apart Together," *Brown Journal of World Affairs* 7, no.1 (Winter-Spring, 2000): 171.

the Middle East, CIS, and Far East – to safeguard Russia's great power status as Washington's equal.[58] One advocate of "limited globalism," Oleg V. Davydov, described it as a policy of accepting that Russia is fated to be a global power and one of the key centers of multipolarity as it develops. But it must also pursue a pragmatic line of engagement where and when its vital interests are involved. Other comparable analyses argue along similar lines.[59] The logical corollary of this belief, dating back beyond the Bolsheviks to the Tsars, is that any Western influence near Russia's "sphere of influence" automatically is hostile and a threat that must be countered.

First and foremost, this policy line aims to appease Russian domestic elites who have wholly internalized this argument. Russian political scientist Egor Kholmogorov has observed that,

> 'Empire' is the main category of any strategic political analysis in the Russian language. Whenever we start to ponder a full-scale, long-term construction of the Russian state, we begin to think of empire and in terms of empire. Russians are inherently imperialists.[60]

This domestic support for the mystique of being a great power (*Derzhavnost'*) allowed Primakov, and then Putin, to use that doctrine to increase support for foreign policy and remove it as an issue in the internal struggle for power. As Foreign Minister and now Secretary of the Security Council Igor Ivanov stressed, after 1998, there is a basic consensus within the Duma and across the elite on foreign policy deriving from the mystique of *Derzhavnost'*.[61]

In the Middle East, Russia also clearly wants to "internationalize" the issue of Gulf security, obtain a role as a recognized guarantor of the area, either through the UN or through a regional alignment, and displace the US primacy there even as it recognizes the latter's strong regional interests.[62] Accordingly, Primakov supported

58. Leon Aron, "The Foreign Policy Doctrine of Postcommunist Russia and Its Domestic Context," in *The New Russian Foreign Policy,* ed. Michael Mandlebaum (New York: Council on Foreign Relations Press, 1998), 23-53.

59. Oleg V. Davydov, "Russia's Foreign Policy in Transition: Prospects and Challenges in the Asia-Pacific Region," *Asian Perspective* 22, no. 1 (Spring 1998): 53-69; Simon, Mikhail A. Alekseev, "Russia's Cold Peace Consensus: Transcending the Presidential Election," *Fletcher Forum of World Affairs* 21, no. 1 (Winter-Spring, 1997), 33-51.

60. Quoted in Boris Rumer, "Central Asia: At the End of the Transition," in *Central Asia: At the End of Transition,* ed. Boris Rumer (Armonk, NY: M.E. Sharpe & Co. Inc., 2005): 47.

61. Aron, op. cit., 23-63; Alekseev, op. cit., 33-51; Lally Weymouth, "What Ivanov Wants," *Washington Post*, October 6, 1998, 23.

62. *Abrar* (Tehran), in Persian, March 7, 1995, *FBIS-NES*-95-052, March 17, 1995, 71-72; AFP, March 21, 1995; *FBIS-NES*-95-056, March 23, 1995, 47-48; Judith Perera, "Russia: Stepping

the removal of US troops from the Gulf. Hence one goal of Russia's earlier support for Iraq may have been to achieve just this objective.[63] Today Moscow still advocates a timetable for the withdrawal of US forces from Iraq.[64] It calls for this withdrawal just as it did then to create a bloc of pro-Russian forces against US and Israeli interests to compel Washington to admit Russia as an equal player with a veto in the peace process and Gulf security.[65] That ambition resurrects much of the previous Soviet policy of a bloc or entente among the former "rejectionist front" of the late 1970s (Syria, Iraq, Iran) to support Moscow's efforts to "crash" the peace process against Israel and the US monopoly of it. This is also a key geostrategic factor driving support for Iran's, Sudan's, and Syria's current conventional and WMD rearmament.

Russian Policy since the War in Iraq

In Iraq, Russia's immediate objective is to ensure that it is present as a player on all key issues. Second, it aims to preserve its ties to Washington even though it was unhappy over the plans for the invasion in 2002-03. Russia's policies before the US-led war in Iraq in 2002-03 already exemplified all these contradictions. Third – and this objective only came into sight as it became clear that America had failed in Iraq – is to use this debacle to forge a new regional order that prevents the US from waging what it considers to be a holy war or a version of Samuel Huntington's inter-civilizational war against Islamic states like Iraq and Iran in Russia's neighborhood.[66]

As Moscow's concerns that an inter-civilizational war might erupt have grown, so has its desire to present itself simultaneously as a Christian and Muslim country and thus a bridge between civilizations. It thus successfully has sought to obtain observer status at the Organization of Islamic Countries (OIC), and key officials like Presidential Advisor Aslambek Aslakhanov tied this status to

Into the Gulf," *Middle East International*, March 20, 1995, 13, Interfax, December 5, 1995; *FBIS-SOV*-95-234, December 6, 1995, 25.

63. Stephen Grummon, Introduction, "Russian Ambitions in the Persian Gulf," *Middle East Quarterly* 2, no. 1 (March 1995), 87-92; Vassiliev, op. cit., 360.

64. Claire Bigg, "Russia: Putin Calls for Withdrawal Timetable for Iraq," *Radio Free Europe Radio Liberty*, August 19, 2005.

65. *Abrar* (Tehran), in Persian, March 7, 1995, *FBIS-NES*-95-052, March 17, 1995, 71-72; AFP, March 21, 1995; *FBIS-NES*-95-056, March 23, 1995, 47-48; Judith Perera, "Russia: Stepping Into the Gulf," *Middle East International*, March 20, 1995, 13, Interfax, December 5, 1995; *FBIS-SOV*-95-234, December 6, 1995, 25.

66. President Vladimir Putin, "Address to Russian Diplomats," June 27, 2006, www. kremlin.ru.

the driving themes outlined above. Russia as a great power and Security Council member cannot isolate itself from major international processes ocurring in the Islamic world. Second, Russia wants to consolidate its position as mediator and go-between in resolving political disputes between countries and civilizations. Third, it is a rival in the Middle East and Islamic world of the US and refuses to play the role of a junior partner to American policy here.[67]

Russian observers viewed their country's push for multipolarity and its overall Middle Eastern policies as signifying visible signs of rivalry with the US. As one 2004 commentary on the meeting of the OIC noted,

> When you consider that a large proportion of the OIC member countries is actually situated in the territory that George Bush described as the Greater Middle East, rivalry between Russia and the United States for influence in the region is patently obvious. It is a striking fact that both the United States and Russia (as successor to the USSR), in building relations with the Islamic world, generally stick to the old strategy. The United States is seeking new ways of exporting cheap democracy, while Russia is still talking about the principles of equality and cooperation. So it was that Sergei Lavrov (Russia's Foreign Minister) assured the OIC foreign ministers in Istanbul that Russia is prepared to "create an order that is truly collective and is built not on the basis of demonstration of the supremacy of a particular religion or system of particular world views, but on the basis of mutual understanding and a joint quest for ways of combating new threats and challenges.[68]

In the Middle East, this multipolarity is supposed to restrain Washington either from acting unilaterally, such as in its threats against Iran, directing the Arab-Israeli peace process, or from being able to enlist states like Turkey on behalf of US policies.

Before the invasion of Iraq in 2003, Russia thus simultaneously sought partnership with Washington, a free hand at home and in the CIS against terrorists, and friendship with Iraq. It was prepared to look the other way if Washington took account of Russian interests in Iraq – and more broadly the Gulf and the CIS – because those interests were both economic and political, served to enrich key political elites in Moscow and validated Russia's stance as a legitimate actor with respect to Iraq's destiny beyond its membership in the Security Council. Those interests included large

67. "Russia Looks to Growing Influence in Muslim World," *Turkish Daily News*, June 23, 2006.

68. Dmitriy Bagiro, "New World Order: Russian Alternative," *Politkom.ru* in Russian, June 17, 2004; *FBIS SOV*, June 17, 2004.

debts of $7-8 billion, large-scale energy contracts to develop Iraqi oil fields, large-scale trade in Russian goods under the notoriously corrupt oil-for-food program that, as we now know, enriched many members of Russia's top elite. Beyond that the Gulf States, in general, have been regarded by two of Russia's most prominent lobbies who need energy – defense industry and the Ministry of Atomic Affairs, Minatom – as fertile hunting grounds for large profitable sales.[69] At the same time, Russian intelligence was furnishing Saddam with the results of Western conversations about Iraq, indicating Moscow's desire to keep a foot in both camps.[70]

Since then the urge to partner with Washington has evaporated, but Putin still seeks to maintain a "strategic dialogue" with it. Meanwhile, the other aims listed above have asserted themselves with greater force. Russia's overriding and ultimate geopolitical aim is to be recognized as an independent great power with a legitimate voice in the settlement of conflicts in the Middle East and Gulf. Not surprisingly, it still advocates its long-standing and infeasible program of a collective security system in the Gulf, undoubtedly with itself as one of the guarantors.[71] Similarly it constantly reiterates its call for an international conference on Iraq.[72] This is mainly so that it can be invited to play a formal role in these fora, not because it has anything positive to contribute to them.[73] Consequently, Moscow hopes that such a conference would elevate its role while constraining Washington's ability to pursue a unilateral agenda in defiance of the UN.

But Russia also fears being excluded from partnership with Washington and its ensuing isolation.[74] Hence its ultimate willingness to sell out Saddam Hussein in 2003 provided Washington recognized and accepted its interests there.[75] However, since Washington ultimately refused to acknowledge Moscow's interests or offer and proceeded alone, Moscow has since sought at every turn to find new partners

69. Cohen, "Russia and the Axis of Evil: Money, Ambition, and US Interests"; Eugene B. Rumer, "Russia's Policies toward the Axis of Evil: Money and Geopolitics in Iraq and Iran," Testimony to the House International Relations Committee, February 26, 2003, wwc.house.gov/international_relations/108/rume0226; Celeste A. Wallander, "Russian Interest in Trading with the "Axis of Evil," wwc.house.internatonal_Relations/108/wall/0226

70. David Harrison, "Revealed: Russia Spied on Blair for Saddam," *The Daily Telegraph,* April 13, 2003, www.telegraph.co.uk.

71. Cohen, op. cit.;. Rumer, op. cit.; Wallander, op. cit.

72. *FBIS SOV*, December 11, 2006.

73. Interfax, *Diplomatic Panorama,* June 29, 2004; *FBIS SOV*, June 29, 2004.

74. Igor Torbakov, "Split Develops in Russia's Policy Community Over Iraq Crisis," *Eurasia Insight*, March 18, 2003.

75. Cohen, op. cit.; Katz, op. cit., "Playing the Angles," 46.

or to try and bring the UN into play as the ultimate authority to whom Washington must harken in regard to its occupation of Iraq and that country's future trajectory. This also includes advocating that any solution to Iraq's destiny involve not only all of its citizens, but also of neighboring states.[76]

Consequently, it is not surprising that since the invasion of Iraq, Putin has consistently sought to subject as much as possible of US activity in Iraq either to UN supervision or to the will of the emerging Iraqi state.[77] Not only does that stand aim to revive Russia's ability to deal bilaterally with the new Iraqi state free from US encumbrance in order to pursue Russian interests like ratification of pre-existing oil leases, it also aims to uphold the power and authority of the UN, and by extension of the Security Council where Russia has a veto. So while Putin openly said that it is not in Russia's interests that the US be defeated in Iraq, he refuses to concede to Washington a free hand to arrange matters there to its liking, and Russian diplomats dragged out negotiations for reconstruction of Iraq for a year.[78] Accordingly, Foreign Minister Sergei Lavrov stated in 2005 that Russia does not want an Iraqi settlement to be based solely on American ideas but rather the interests of all ethnic and religious groups in Iraq should be taken into account.

This strategy also naturally forced Putin to reinvoke multipolarity with France and Germany after 2003, call the invasion illegal and a mistake, and, in a situation reminiscent of Kosovo in 1999, led Russian commentators to make strong attacks on US unilateralism.[79] And since then we see a consistent Russian effort both to retain the ties to Europe and America and to elevate the UN as the ultimate authority of Iraq's destiny. Yet Russia has little to show for its efforts in regard to the acquisition of energy contracts, influence over Iraq's future, or markets for arms sales. Therefore, it is not surprising that Putin now says that differences among states over the issue of Iraq should remain in the past.[80] Moscow may now be opting for greater bilateralism vis-a-vis Iraq as it has lifted the arms embargo and also begun to sell arms, notably the Mi-17 helicopter.[81]

---

76. ITAR-TASS (in Russian), August 15, 2004; *FBIS SOV,* August 15, 2004.

77. *FBIS CHI*, July 1, 2005; *FBIS CHI*, July 3, 2005.

78. Andrew S. Weiss, "Russia: The Accidental Alliance," in *America and the World in the Age of Terror,* ed. Daniel Benjamin (Washington, D.C.: CSIS Press, 2005), 141-143.

79. Weiss, op. cit., 141-144; A. Bessmertnykh, "The Iraq War and Its Implications," *International Affairs* (Moscow), no. 4 (2003): 24-36; L. Skotnikov, "The Use of Force: Legal Aspects," *International Affairs* (Moscow), no. 1 (2004): 41-42.

80. Interfax, *Russia & CIS Diplomatic Panorama,* July 4, 2005; *FBIS SOV*, July 4, 2005.

81. Open Source Committee, *FMN,* "Putin Decree Lifting Iraqi Arms Embargo Receives Mixed

In fact, Russian observers, and now Putin, see the invasion of Iraq as the paradigm of American disregard for the UN and Russia and of its readiness to use force in violation of international law and norms. Therefore, Russia's new policies aim to reduce Washington's opportunities for acting in this manner.[82] America must be resisted, these observers argue, through multipolar avenues like coalitions of states and by reinstalling the UN as the sole legitimate source of the decision to use force in cases other than self-defense.[83] Likewise, Russia must resist US-sponsored policies that could lead to a war between Islam and the West. Such "holy alliances" and inter-civilizational wars are a profound danger to a multi-confessional Rusisa with a growing Muslim population.[84]

This policy direction is not altruistic in nature. First of all, the Russian government is apparently convinced that there is already a civil war in Iraq and that the country's disintegration would have catastrophic consequences.[85] Russia, in fact, is conducting a tango with Islamists defining some as bad and others as good. Moscow may be attempting to get concessions from them to the West to demonstrate its power and capability in the region but its propaganda is relentlessly anti-Western casting doubt as to its real goals.[86] Russia, in fact, wants to be regarded as America's equal and would be happy to shut out other states if it could do so and achieve that status. For example, a foreign policy think tank close to the Russian Administration produced a 2004 strategy for Russo-American relations calling for a strategic objective of a US-Russian alliance where Russia would receive the status of non-NATO ally equal to that of South Korea, Australia, and Israel. Russia and the US alone would set up jointly recognized criteria for the permissible use of force, including preemptive strikes when the Security Council is blocked. Russia would also obtain recognition of its priority in the CIS including US help for protecting Russian minority rights in the Baltic. It would be invited to participate in a program of close cooperation to revitalize Iraq's economy, infrastructure, health, education, and military forces, along with "maximum consideration to the interests

Commentary," *FBIS SOV*, September 1, 2004.

82. Bessmertnykh, op. cit., 24-36; Skotnikov, op. cit., 41-42.
83. None of those arguments, of course, is accepted with regard to Russia's war in Chechnya or to Russia's peacemaking operations in the Caucasus. There is no tolerance for foreign intervention in the normal discourse of Russian politics.
84. Putin, "Address to Russian Diplomats."
85. ITAR-TASS, in English, February 28, 2007; *FBIS SOV*, February 28, 2007.
86. Alexei Malashenko, "The Tango With Islam," *Carnegie Endowment Moscow Center*, www.carnegie.ru/en/pubs/media/76059.htm (accessed on May 4, 2007).

of Russian oil companies in the development of Iraqi energy resources." This would ensure "close cooperation of a future Iraqi government oil export policy with the Russian Federation." Russia would also be invited to participate in a Gulf security system. Agreement should be sought with the US not to obstruct the participation of Russian energy companies in Iran (including in nuclear energy). Neither should Washington object to certain kinds of conventional arms sales to Iran which, of course, would also be guaranteed rights to a full nuclear fuel cycle.[87]

Obviously this is not a program Washington could even begin to think about adopting. But failing that Russia will engage other states and act on its own in order to constrain US options in the Middle East. Consequently, it is not surprising that Foreign Minister Sergei Lavrov warned in May 2005 that if thwarted in Iraq, Russia would seek to enhance its interests throughout the Middle East, most notably in the Palestinian-Israeli process and the overall Arab-Israeli peace process.[88]

Therefore multipolarity, Moscow's chosen mantra, looks like a policy aimed at more than simply constraining the US. Russia clearly also seeks a veto over it while postulating a kind of inherent state of siege in world politics. Russia's and China's emphasis on the UN Security Council, as well as statements such as 'mutual respect, equality, and mutual benefit' and 'the establishment of mutual understanding', imply the desire for both states to have a veto over US unilateralism – something which would be unnecessary if power was more evenly distributed in the international system. In fact, the entire concept of multipolarity implies a virtual veto over the unilateralist impulses of any great power: other powers align against any aggressive power in an effort to preserve the status quo and to ensure that any major changes in the international system require consensus.[89]

Economics and Energy in Russian Relations with the Gulf

Apart from Iran and Iraq, Putin has more recently assiduously cultivated other Gulf States, notably Saudi Arabia which used to be regarded exclusively as the source of Wahhabi and thus terrorist ideologies inside Russia. Russo-Saudi relations have materially changed in the wake of the Iraq war and the continuing price rise in oil and gas. As the price of oil soared above $50 a barrel, the two governments began

87. "Russia's Goal: A Bipolar, not a Multipolar World," *CourcyIntFocus*, February 26, 2004, www.courcyint.com/CIF/CIF 2894.

88. Interfax, *Russia & CIS Diplomatic Panorama*, May 12, 2005; *FBIS SOV* May 12, 2005.

89. Thomas Ambrosio, *Challenging America's Global Preeminence: Russia's Quest for Multipolarity* (Aldershot; Ashgate, 2005), 82.

to approach each other to increase cooperation in stabilizing oil markets. Moscow's Ambassador to Riyadh, Andrei Baklanov cited Saudi approaches to Moscow to cooperate in regulating energy prices and to foster joint policy coordination through the International Energy Forum that would lead to joint measures to ensure the safety of gas and oil production, transportation, and supply.[90]

Similarly, as Saudi-Russian economic and political relations improved, Riyadh's ambassador to Russia stated that his government was looking for increased cooperation in energy affairs.[91] New reports suggest that Russia's oil reserves may actually be twice or three times as large as previously listed so that its proven reserves would go from the listed 70 billion barrels to double or triple that figure. On the other hand, its ability to explore these new holdings has fallen and by destroying Yukos, that industry's most efficient producer, Russia has foregone the foreign investment and transformation needed to impose economic efficiency on the entire industry. Therefore, those deposits may not materialize as marketable oil to anything like their true capacity.[92] If these reports about Russian oil capacity are true, then both states have a compelling interest to collaborate in regulating energy prices to ensure their market share and prevent other energy producers from cutting into that market share thereby touching off a process that would lower prices and their revenues.

In this context, Russo-Saudi common economic interests could foster steps to create a second, albeit possibly informal, oil cartel. Both governments share a common interest in ensuring the safety of their exploration platforms, pipelines, refineries and other energy infrastructures that are favorite targets of terrorist attacks worldwide. Therefore, if they are really to start exploring ideas about joint activities to protect their energy infrastructures, a partnership that goes beyond a cartel could eventually emerge out of it.

At the same time, both states also have common interests in combating terrorism, as they are prominent targets of Al-Qaeda and other homegrown terrorists. The rapprochement in Russia-Saudi relations has evolved over time due to both states' anti-terrorist campaigns and the vagaries of the oil market, as well as the US presence in Iraq. Due to the war in Chechnya, Moscow has taken a prominent role in the global war on terrorism. It has described terrorism as the main threat to its domestic and foreign security, and virtually destroyed Chechnya. Because

90. David G. Victor and Nadejda M. Victor, "Axis of Oil?" *Foreign Affairs*, LXXXII, no. 2 (March-April 2003): 47-61; Lionel Martin, "Moscow and Riyadh: Do Oil, Religion, and Anti-Terrorism Mix?" *Eurasia Daily Monitor*, October 27, 2004.

91. Ibid.

92. Ibid.

of Saudi funding and support to Chechnya through 2003, Moscow continually hammered Saudi Arabia for its alleged support of terrorism.[93] However, following the developments in Iraq in 2003 and 2004 and the continuing state of conflict there, and the rise of terrorism within Saudi Arabia, both sides seemed to reach a rapprochement culminating in a deal whereby Saudi Arabia agreed to subsidize the reconstruction of Chechnya's education system under Russia. However, this deal also represents considerable mutual cynicism on the part of both states.[94] As part of this deal, Saudi banks will allocate funds to Chechnya on the basis of a Saudi delegation's investigation of local conditions even though previous subsidies to Chechnya have vanished without any accounting.[95] Saudi banks will also discuss joint collaboration with Russian banks for purposes of humanitarian reconstruction and even possible investment in the local petroleum industry. This collaboration and Moscow's brazen demand for subsidies or its extortion of funds from Riyadh lest it pose a threat to the Saudis in the global oil market indicates both governments' profound cynicism. Saudi Arabia has abandoned Chechnya and Russia has shown its true interests. Thus this collaboration also clearly constitutes a bribe to Russia to prevent such threats and is fully consonant with the Saudi way of meeting threats.

Indeed, based on our knowledge of Russian banks and funding to Chechnya, we can be sure that very little of this money will actually go to any humanitarian projects be they reconstruction, revival of the oil industry or rebuilding the school system. Rather both the Saudis and Russians must view this as a bribe, laundered under these supposed auspices, to keep Russia from threatening Saudi energy interests in OPEC and certainly owes much to the fact that Russia can now challenge OPEC for market share in the US and Europe. Another motive for this deal may be that since Al-Qaeda's May 2003 attacks in Saudi Arabia, the government has moved more vigorously than[96] before to suppress Al-Qaeda there and no doubt feels that support for the Chechens is now a risk.[97] Saudi Arabia must also be anxious about the growing number of Arab "alumni" of the Chechen wars, including Saudis who participated in the war and in acts of terrorism.

93. Ibid.; Stephen Blank, "Cynicism Personified: Moscow and Riyadh's Collaboration Against Chechnya," in *Unmasking Terror: A Global Review of Terrorist Activities,* eds. Julie Sirrs, Mahan Albedin and Christopher Heffelfinger (Washington, D.C.: Jamestown Foundation, 2005), 113-116.
94. Ibid., 113-116.
95. "Saudi Arabia to Assist Restoration of Education Sphere in Chechnya," RIA *Novosti,* January 15, 2004.
96. President Putin's Press Conference January 31, 2007, www.president.ru
97. Stephen Blank, "Moscow's Cozy Saudi Connection," *Asia Times Online*, September 13, 2003.

They are linked to Al-Qaeda and thus constitute a standing threat to Saudi security.[98] True to the traditions of Saudi foreign policy, it is cheaper to buy off a challenger that is too strong to contend with rather than to confront him. And this mechanism allows Moscow once again to avoid the costs of reconstruction in Chechnya even as it exploits its refraining from threatening Saudi Arabia and OPEC.

More recently, during his February 2007 tour of Saudi Arabia, Jordan, and Qatar, Putin offered all these states major energy deals, arms sales, and even nuclear power, ostensibly for peaceful purposes, but in reality signifying his efforts – and theirs – to balance what they all realize is Iran's refusal to stop its nuclear program and put it under effective IAEA supervision.[99] Russia is even launching Saudi satellites and undertaking major business initiatives with Saudi Arabia.[100] This posture once again reflects Russia's wholly instrumental approach to questions of proliferation of nuclear technologies, discerning no real threat from the spread of nuclear power in the Middle East if it checks Iran and makes it remember who its patrons are. The many reports speculating about possible Saudi nuclear ambitions evidently have made little impression upon Putin and his subordinates. But can we truly argue that Russia, not to mention the Middle East, is safer with many states enjoying nuclear technologies and access to weapons than would otherwise be the case?

Towards a Gas Cartel

A similarly hard-nosed realpolitik is discernible in Putin's recent energy policies in the Gulf. On January 28, 2007 Iran's Supreme Leader, Ayatollah Ali Khamenei concluded meetings with the head of Russia's Security Council, Igor Ivanov, by publicly advocating a "cooperation organization in the gas sector similar to OPEC" with Russia. These talks with Iran came in the wake of meetings held by Russian Energy Minister Viktor Khristenko with Algerian officials where they also discussed possible forms of coordination on production.[101] On February 1, Putin embraced this

98. Brian Glyn Williams, "'The 'Chechen Arabs': An Introduction to the Real Al-Qaeda Terrorists," *Jamestown Foundation Terrorism Monitor*, no. 9 (January 16, 2004); M.B. Nokcho and Glen E. Howard, "Chechnya's Abu Walid and the Saudi Dilemma," *Jamestown Foundation Terrorism Monitor*, no. 9, January 16, 2004; Interfax, January 14, 2004; *FBIS SOV*, January 14, 2004.

99. *Al-Akhbar* (Cairo), in Arabic, February 27, 2007; *FBIS SOV*, February 27, 2007.

100. Riyadh, "Putin Opens Saudi-Russian Economic Forum," *SP*A, Internet Version, February 12, 2007; *FBIS SOV,* February 12, 2007; Interfax, February 12, 2007; *FBIS SOV*, February 12, 2007; Moscow, *VEsti Tv*, in Russian, February 12, 2007; *FBIS SOV*, February 12, 2007.

101. Darbouche, op. cit., 1-7; Marina Pustilnik, "The New Scare: A Russia-Algeria Gas Cartel," *Alexander's Gas and Oil Connection*, Company News CIS/Russia, XII, no. 4, February 27, 2007,

idea, urging large producers to coordinate their actions even as he denied that Russia would organize a cartel.[102] In doing so, Putin overrode the opposition of Russia's Ministries for Economic Development and Trade and for Energy. Putin's statements surprised his government because it had long been trying to foster this "coordination" among gas producers while shunning the public use of the word cartel. Initially, in fact, many officials opposed or deprecated the idea.[103] Similarly, some foreign analysts believe that Russia is seeking what might be called an informal confederation rather than a formal cartel like OPEC. Nonetheless such a "confederation" is not that far removed from a cartel in reality whatever its name might be. This "confederation" groups together several states toward a common purpose or goal like price-fixing and it has a global reach and "virtually irrevocable economic and geopolitical leverage."

> The model of a confederation dictates the formation of a symmetrical (balanced) grouping composed of both key producers and key consumers in complementary economic, political, and security ties. It incorporates members who share a common concept and vision of international energy security, and also a common geopolitical ideology. – they are on the same page on the issue of US-led unipolarity v multipolarity that is they seek an early end to every semblance of the inequitable US-led unipolar order.[104]

However, the idea of a Gas OPEC, coordination among producers, or cartel – which amounts to the same thing, whatever they call it – is not a new one for Russia, Iran or Algeria. Iran first advocated a gas cartel in June 2001 and the term "gas OPEC" entered the lexicon of contemporary discourse in NATO's 2006 warning to its members.[105] Putin advocated a Russian-dominated CIS gas cartel in 2002, and this goal has subsequently driven Russian gas policy in the CIS.[106] In 2006, Putin reiterated this initiative, calling for an energy club at the annual Shanghai Cooperation Organization (SCO) summit where Iranian President Mahmoud

---

www.gasandoil.com/goc/company/cnr70935.htm; Sergey Kulikov, Mikhail Sergeyev, Artur Blinov, and Sergey Sklyarov, "Cartel for Europe," *Nezavisimaya Gazeta* (Moscow), in Russian, January 30, 2007; *FBIS SOV*, January 30, 2007.

102. President Putin's Press Conference January 31, 2007, www.president.ru

103. "Iran Surprises Russia with 'Gas OPEC' Proposal," *Alexander's Gas and Oil Connection*, News and Trends, CIS/Russia, XII, no. 4, February 27, 2007, www.gasandoil.com/goc/news/ntr70977.htm

104. W. Joseph Stroupe, "Russia's Energy Drive, Part I," *Asia Times Online*, April 25, 2007, www.atimes.com.

105. "Iran Surprises Russia With 'Gas OPEC Proposal," op.cit.

106. Sergei Blagov, "Itera Suggests Reviving Zarit Consortium for Caspian Exploration," *Eurasia Daily Monitor*, March 14, 2007.

Ahmadinejad seconded his remarks.[107] Thus neither Khamenei's later remarks nor Putin's embrace of them should have surprised anyone. Indeed, Ahmadinejad's support for close cooperation in the "gas sphere" was part of a readiness to "cooperate closely" with Russia in Iraq, the Gulf, Central Asia and the Caucasus".[108] Iranian politicians welcomed these statements in favor of a cartel because they seemed to provide a more enduring basis for consolidating a longer-lasting Russo-Iranian political relationship in support of Iran's nuclear program and against America and Europe.[109] Similarly Algerian President Abdulaziz Bouteflika also said that a gas cartel was "worth considering."[110] Indeed, his Gas Minister had already called for global cooperation with Russia around the world in other markets in 2006.[111] Inasmuch as there have been several recent Russo-Algerian arms and gas deals, Algeria might well agree to join a cartel, a prospect that causes great anxiety in Europe.[112] Alternatively, Algeria might be manipulating such anxieties in order to secure for itself even more market share and on better terms in Europe as its officials have issued statements opposing a cartel while its president supports it.[113]

In addition, there have long been signs that Russia was considering an energy alliance with Iran. Many Russian articles talk about "synchronizing Russian and Iranian energy and other systems to dominate energy, trade, and transport throughout Eurasia."[114] For instance, when Moscow bought the controlling stake in the Iran-Armenia gas pipeline which could have become a rival for its supply to Western Europe, Alexander Medvedev, Gazprom's Deputy Chairman, said that, "It's

107. NTV in Russian, June 15, 2006; *Foreign Broadcast Information Service Central Eurasia* (Henceforth *FBIS SOV)*, June 15, 2006.

108. Andrei Kolesnikov, "Vladimir Putin Includes Iran in Sextet," *Kommersant*, in Russian, June 16, 2006, *FBIS SOV*, June 16, 2006.

109. Ganji, op. cit.,19.

110. "Gas Opec' Worth Consideration: Algerian President," AFP North European Service, March 13, 2007; *FBIS SOV*, March 13, 2007.

111. "Algerian Minister Calls for Gas Cooperation with Russia," Interfax, March 10, 2006; *FBIS SOV*, March 10, 2006.

112. "A Gas OPEC? Not Likely," *Alexander's Gas and Oil Connection*, Company New CIS/Russia, XII, no. 4 (February 27, 2007), www.gasandoil.com/goc/.company/cnr70930htm; Pustilnik, op. cit.

113. "Algerian Minister Rules Out Gas Cartel," *El-Khabar online*, in Arabic, January 21, 2007; *FBIS SOV,* January 21, 2007; "EU Calls on Russia, Algeria to Reveal 'Intentions' Behind Natural Gas Deal," AFP North European Service, in English, January 25, 2007, *FBIS SOV,* January 25, 2007; Richard Nield, "Gas Attack," *Middle East Economic Digest*, February 9-15, 2007, 4-5.

114. "Russia, Iran Discuss Possibilities of Synchronizing Energy Systems," Interfax, December 11, 2006; *FBIS SOV*, December 11, 2006; "Oran Invites Russian Oil and Gas Companies To Form Joint Ventures," Interfax, December 11, 2006, *FBIS SOV*, December 11, 2006.

a profitable project for us. We hope to use the joint venture to become involved in extraction and development of Iranian gas and possibly help supply gas through the joint venture to Western Europe as well as Pakistan and India."[115] Then Valeri Yazev, Chairman of the Duma's Committee on Energy and someone close to Gazprom, called for a gas alliance with Iran.[116] Similarly, and despite Russo-Iranian denials of a quest for a formal cartel, the Putin-Ahmadinejad meeting at the SCO summit specifically referred to determining gas prices and main transportation flows for natural gas.[117] Once Iran publicly embraced the idea in early 2007, Putin followed suit and publicly endeavored to bring both Algeria and Qatar into it.[118]

Iran's chief motive in raising this issue is evidently political. Khamenei echoed Ahmadinejad's views, saying, "Our two countries can become mutually supportive partners in the spheres of politics, economics, and regional and international questions."[119] Iran suffers visibly from US-imposed sanctions and from its own wasteful energy economy that have led it to import energy. It also seeks Russian support against US pressure and sanctions directed at its nuclear activities. Evidently it was greatly disturbed by Russia's support of sanctions in the UN Security Council vote of December 24, 2006. Furthermore, Iran wants to be able to threaten states with the use of the energy weapon if they obstruct its nuclear program and can only do so with Russian support.

But analysts also discern economic as well as political advantages that both states might derive from a cartel. Russian analysts claim that a cartel would counter Europe's efforts to forge a consumer alliance against Russian price setting and energy blackmail and to divide producers to get a lower price.[120] In other words,

115. Julian Evans, "Gazprom Pipeline Deal Points to Alliance With Iran," *Alexander's Gas and Oil Connections*, Company News CIS/Russia, XI, no. 22 (November 24, 2006), www.gasandoil.com/goc/company/cnr64721

116. Ibid.

117. ITAR-TASS, in English, June 15, 2006, *FBIS SOV*, June 15, 2006.

118. Anatoly Medetsky, "Putin Warms to the Idea of a Gas OPEC," *Alexander's Gas and Oil Connection*, News and Trends CIS/Russia, XII, no. 4 (February 27, 2007), www.gasandoil.com/goc/news/ntr70979.htm

119. "Iran Surprises Russia with 'Gas Opec' Proposal"; Babak Ganji, *Iranian Strategy: Factionalism & Leadership Policies* (Conflict Studies Research Centre, Defence Academy of the United Kingdom, 2007), 19.

120. Sergei Kulikov, Mikhail Sergeyev, Artur Blinov, and Sergei Sklyarov, "Cartel for Europe," *Nezavisimaya Gazeta*, in Russian, February 1, 2007*; FBIS SOV,* February 1, 2007; Igor Tomberg, "Gas OPEC: Economic Advantages and Political Drawbacks," *RIA Novosti,* February 1, 2007, www.en.rian.ru/analysis/20070201/60049415.html

Moscow believes that an energy cartel, particularly in gas, would force Europe to accept its terms for an economic and political relationship with the EU as it is very frustrated with what it perceives as the EU's efforts to dictate prices to it.[121]

In February 2007, during his Middle East tour, Putin again promoted the idea of a gas cartel. And in April, a major meeting of the Gas Exporting Countries Forum (GECF) at Doha discussed these issues. Although reports from that meeting claimed that the idea of a gas cartel had failed to prevail, in fact the conference left open the possibility of creating a cartel. It supported the creation of a "high-level group" or technical committee led by Russia to examine market conditions and address pricing and infrastructure project questions, conclusions that point to developing potential models for cartel pricing.[122] Thus it seems clear that Russia is proceeding steadily, albeit stealthily, towards developing a formula for the GECF that will ensure this "coordination" even if it is not called a cartel.[123] It has also become clear that Russia, Iran, Algeria, and Latin American producers led by Venezuela, Bolivia, and Argentina all supported the cartel, but that Qatar was reluctant to burn its bridges with Washington. Still, it is clearly under considerable pressure to accede to Russia and the other producers. Thus the Qatari government agreed to form a bilateral committee with Russia to coordinate the moves of Gazprom and Qatar Petroleum on foreign markets.[124]

Thus, as of this writing (summer 2007), it appears, based on subsequent deals with Kazakhstan and Turkmenistan in May 2007, that Russia is moving steadily to realize its vision of a gas cartel with those states and Iran.[125] It also is trying to induce Qatar to participate and sign oil deals with it that were undoubtedly negotiated

121. Tomberg, "Gas OPEC: Economic Advantages and Political Drawbacks."

122. Ariel Cohen, "Gas OPEC: A Stealthy Cartel Emerges," *Web Memo no. 1423,* Heritage Foundation, April 12, 2007*;* Mikhail Zygar and Natalia Grib, "Kozyrnoi Kartel: Gazovoi OPK Budet Sozdana v Dokhe Cherez Mesiats," *Kommersant*, April 19, 2007; Sergei Kolchin, "Gas Cartel Looking More Attractive," *RIA Novosti*, April 13, 2007; "Emergence of OPEC's Twin in Gas Industry Is a Matter of Time," ITAR-TASS, April 10, 2007; *FBIS SOV*, April 10, 2007.

123. Cohen, "Gas OPEC: A Stealthy Cartel Emerges."

124. Kolchin, "Gas Cartel Looking More Attractive."

125. "President Putin's Visit to Central Asia – a Propaganda Success," *Eastweek*, no. 19 (84), May 16, 2007, Centre for Eastern Studies, Warsaw, www.osw.waw.pl; Pavel K. Baev, "Putin's Double Triumph Not Yet in Bag," *Eurasia Daily Monitor*, May 14, 2007.
"Excerpts from the answers to journalists' questions following the meeting between the Presidents of Russia, Kazakhstan and Turkmenistan," Turkmenbashy, May 12, 2007, www.president.ru; "Speech at the Talks Between Russia, Turkmenistan, and Kazakhstan," May 12, 2007, www.president.ru; Alexander Vershinin, "Russia Strikes Natural Gas Pipeline Deal," Associated Press, May 12, 2007.

during Putin's February 2007 visit.[126] Clearly a gas cartel represents another example to enhance Russian economic power abroad, further subordinate Iran to Russian ambitions, expand Moscow's profile in the Middle East, and gain great leverage against not only CIS producers, but also Europe and indirectly the United States, forcing them to accept Russian influence to a greater degree in Europe, the CIS, and the Middle East. This "grand design" is wholly consistent with the mainsprings of Russian policy as it has evolved since 1995: the determination to maintain and expand a great power status and profile that requires others to include Moscow in the Middle East's security agenda even though it clearly has no plan for resolving any of the issues there beyond its own participation; second, to reduce US ability to act unilaterally and thus threaten Russia's self-perceived status, if not its material interests; and third, gain leverage to subordinate Iran to its purposes and anti-US agenda while restraining Tehran's capacity for independent, and thus threatening, action in the CIS or the Gulf.

Conclusions and Current Trends

As of mid-summer 2007, it remains to be seen if Moscow can simultaneously pull off its act of seeking to restrain the US vis-a-vis Iran and restrain Iran vis-à-vis its desire for a nuclear weapon. It is clear that Moscow now seeks to construct a kind of solar system in the Gulf where Iran would be its chief client state and be included under Moscow's larger security umbrella through membership in the CSTO, possibly the SCO, and in a gas cartel even if the latter operates under a diferent name.[127] At the same time, the outcome of its Iraq policy also remains unclear because here the initiative depends on the US, Iran, and the various forces who are contending for power in Iraq. Finally, through its provision of arms, offers of nuclear power, and willingness to unite Arab gas producers in a gas cartel, Moscow also seeks to strengthen its presence in the Gulf as a great power whose interests must be considered at all times on major questions of regional security. Thus, while some of the instruments are new, e.g. energy assistance or a gas cartel, Russia's geopolitical ambitions, shorn of ideological predispositions, quite closely resemble those of the Soviet Union. The multiple sources of instability offered Moscow numerous opportunities for fishing in troubled waters, but ultimately those forces also checked and then defeated its efforts to advance Soviet interests throughout the Middle East.

126. Sergei Kolchin, "Gas Cartel Looking More Attractive."

127. Dmitri Trenin, "Russia Leaves the West," *Foreign Affairs* LXXXV, no. 4 (July-August, 2006), 85-96.

While the jury may be out on whether or not Russia eventually succeeds in achieving its present goals, clearly the multiple sources of instability and violence in this part of the world will continue for a long time and serve as a constant temptation for foreign intervention and involvement even as those regional forces simultaneously block realization of those foreign objectives. Even though the US is now learning this, as Russia has in the past, it remains an open question whether they can let the Middle East find its own way or whether the Middle East can find its own way without substantial international intervention in its affairs. However this conundrum plays out, the one thing of which we can be sure is that the Middle East, Gulf, and their interlocutors will continue to live in what the Chinese call interesting times.

Changing Geopolitics of Eurasia and the Gulf Region: Aspects of Continuity and Change

Professor Mustafa Aydin

University of Economics and Technology, Ankara, Turkey

Introduction

The sudden collapse of the bloc system at the beginning of the 1990s and the 9/11 attacks a decade later were defining developments for the geopolitical scenario of both Eurasia and the Gulf. In the Eurasian context, the collapse of the Soviet Union left a vacuum, creating international competition for influence threatening national, regional and global stability. In the Gulf, this same event left the United States as the overarching superpower with an ambition to remodel the region, prompting opposition, resistance and finally, conflicts.

Since the end of the Cold War, geopolitical calculations for both regions have been modified several times. The sudden emergence of new independent states in Central Asia and the Caucasus (CA&C) in 1991, and the swift appearance of widespread local pressure for change in the wider Middle East in the wake of the Gulf War caught the world largely unprepared; the initial reaction was non-committal and disinterested. However, as the decade advanced, this changed dramatically and now both Eurasia and the Gulf play important roles in regional/global geopolitical competitions. Both regions have vast resources of oil and gas, and have continued to be infested with ethno-religious conflicts and/or transnational (terror or otherwise) threats. Even in those countries that have avoided unrest and conflict so far, the competition between outsiders for influence and/or the tension among the domestic stake holders and power

aspirants have threatened disagreements, hostility and possible armed interventions/conflicts within and between states, thereby raising international security concerns that had not existed or had been hitherto suppressed.

During the Cold War, the world's attention was focused on the global balance of power and strategic stability. At the end of the Cold War, since there was no longer a superpower rivalry, world attention turned towards the complexities of regional politics, threats and conflicts that could endanger wider international security. In this context, Eurasia and the Middle East offered dangerous possibilities. Eurasia eventually became the front-line of competition between the US and the Russian Federation (RF), especially over access to the region's hydrocarbon resources. While Russia took advantage of the rising oil prices and the demand for natural gas since 2000, the US, looking for alternative sources to Gulf oil, began paying closer attention to the Caspian Basin. Significantly increasing its economic and technical assistance to the region as well as military presence since 9/11, the US has managed to establish military-security relations with most of the countries in the region.[1]

During the early 1990s, the US and the European states had initially stayed away from Central Asia and the Caucasus, leaving the competition for influence over these regions to Russia, Turkey and Iran. The US had refrained from active involvement until 1995, preferring to support a mixture of what could loosely be called a 'Turkish model' of development and a 'Russian model' of stability. Even after 1995, American involvement was more economic in nature, motivated and prompted largely by the interests of US-based multinational energy and finance companies. However, clashes between the three countries over regional interests, combined with regional conflicts, international pressures and vast energy resources, soon saw the region elevated into a unique geopolitical interest. And by 2001, after 10 years of independence, and as 9/11 and the ensuing US-led operation in Afghanistan unfolded and the region once became the focus of world attention, almost everything about the region had to be re-examined.

The Afghanistan operation, together with other US activities in the region, have clearly underscored the US intention to become one of the more important, if not the dominant, powers in the region. This has changed the geopolitical equation tremendously as the region now hosts and/or borders five nuclear powers (US, RF, China, India and Pakistan) with diverging interests.

1. Mustafa Aydin and Neslihan Kaptanoglu, "Regionalization of Great Power Security; Near Abroad, Broader Middle East, and European Neighbourhood," in *Globalisation and Environmental Challenges: Reconceptualising Security in the 21st Century*, eds. Hans G. Brauch (Springer: Berlin, New York, 2007), 772.

In the Gulf region, the US had become the guarantor of security ever since UK's withdrawal from the region in the second half of 20th century. During the 1970s, it used Iran and Saudi Arabia to ensure stability and to contain threats to the status quo. This ended with the Iranian Islamic Revolution, which, because of fears for its revolutionary expansionism in the region, prompted the US to turn to Iraq to balance it. This strategy, too, came to an end when Iraq attacked Kuwait in 1990, just after ending its eight-year war with Iran. With this, the US moved to an overwhelming presence in the region, together with its bases and soldiers left behind after the Gulf War.[2] Since then the Gulf security framework has been determined by the struggle for dominance in the region between the US and its regional challengers, especially Iran.

Since 9/11, developments such as anti-Arab suspicions in the American psyche, the US-led operation in Iraq in 2003 and the Abu Ghraib prison events have tainted US standing in the region and presented opportunities for Russia and China.

In fact, the RF has been pushing for closer ties with Iran and Gulf Cooperation Council (GCC) members since the mid-1990s. During the Cold War, the USSR was not able to establish a strong presence in the region as the regional countries, following the Saudi example, moved closer to the US. Following the Soviet occupation of Afghanistan, active Saudi (and wider Gulf) financial support of mujahideen fighters strained the relationship further.[3] In the post Cold-War era, international developments have altered regional dynamics and provided possibilities for the RF to construct new political ties with GCC countries: the Russian position against both the Iraqi aggression towards Kuwait in 1990 and the US invasion of Iraq in 2003 was welcomed by GCC countries and facilitated a better relationship.[4]

China, too, was not an important player in the Gulf until the mid-1990s when it became a net oil importing country and thus started to look at ways of establishing closer ties with GCC countries. When China moved into the position of the world's second biggest consumer of oil and its third biggest importer, it upgraded its economic ties in the region and Arab countries became China's eighth largest trading partner.[5] China is also seeking to gain a political foothold

2. Andrew Rathmel, Theodore Karasik and David Gompert, *A New Persian Gulf Security System,* RAND Issue Paper, 2003, 2-3.
3. Marat Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States (CIS*), (Gulf Research Center, Dubai 2005), 9-10.
4. Ibid., 11.
5. Julian Madsen, "China's Policy in the Gulf Region: From Neglect to Necessity," *Power and Interest*

in the Gulf, challenging US control through greater influence in the region, which would complement its global ambitions. Since China does not have a history of colonialism in the Middle East, nor an ambition to transform it like the US, it has been fast in creating connections, helped substantially by its non-confrontational attitude towards countries that the US strives to isolate such as Sudan, Iran and Iraq under Saddam.[6]

Domestic Problems and Threats to Regional Stability

The process of nation- and concurrent state building in the post-Soviet space has been a slow and agonizing experience, involving both domestic and regional rivalries as well as international pressures. To a large extent, Central Asia (CA), except Tajikistan, has thus far avoided major violent upheavals. This relative stability could be attributed to the fact that all of the heads of state in the region have maintained a degree of continuity with the Soviet era, monopolizing power and preserving major institutions. In contrast, the newly emerged Caucasian leaders discarded the Soviet political tradition and the legacy of the old regime, and tried to create their own power bases and institutions. However, as they lacked both the governmental experience and underlying connections to the local elite and power brokers, their challenges resulted in a number of violent clashes and upheavals.

The Gulf countries, on the other hand, have so far avoided open domestic or interstate conflicts, though potential exists both within states, where various grievances ranging from economic inequality to political non-participation remain, and between states where territorial claims and intervention of outsiders creates an unstable environment. Territorial disputes in the region are mainly related to findings of vast natural resources. Before the oil era, the region's tribes were nomadic, moving across the territories according to their seasonal needs. But from the 1930s onwards signing of oil concessions saw the delineation of borders.[7] Just as the USSR demarcated the forthcoming national boundaries in the CA&C, it was British colonial rule that defined the national boundaries in the Gulf region. As some of the borders were not properly demarcated, the ownership of oil deposits and the territories around them prompted disputes.

News Report, October 27, 2006; http://www.pinr.com/report.php?ac=view_report&report_id=575&language_id=1.

6. Ibid.

7. "Territorial Disputes," *Bahrain – A Country Study*, http://www.country-data.com/cgi-bin/query/r-1053.html.

Turkmenistan and Azerbaijan have disputed the ownership of oil deposits in the southern Caspian. Similarly, various disputes exist in the Gulf region: Bahrain and Qatar over the Hawar Islands; Kuwait and Saudi Arabia over the ownership of Qaruh and Umm al Maradim islands, and Iran and the UAE over greater and lesser Tunb and Abu Musa islands. And, just as control of access routes to natural resources or markets exacerbated regional conflicts in the Caucasus, it was the disputes over border demarcation, freedom of navigation and sovereignty of the Shatt al Arab that started the Iran-Iraq war.[8]

However, the biggest threat perceived by Gulf leaders is from the pressures of globalization and the sudden increase in open media sources within their societies. Thus rather than a nuclear Iran or a traditional threat of conventional invasion, internal socioeconomic and political changes are considered to be bigger threats.[9] Another related threat can be found in the Gulf leadership's increasing difficulty in aligning their domestic and foreign policy interests with US strategic concerns, especially vis-à-vis the Arab-Israeli conflict, fight against terrorism and occupation of Iraq. Although they have so far been able to keep their foreign policies fairly detached from diplomatic and political activities surrounding US policies,[10] the deteriorating American image in the eyes of the general public and rising anti-Americanism have forced regional leaders to be careful in their dealings and to not openly appear too pro-US. The threat to domestic stability is more than cosmetic: Al-Qaeda, in its activities, partly aims to replace the Gulf monarchies because of their strong association with the US.[11]

Thus, among the domestic issues that could develop into risks for stability in both Eurasia and the Gulf region, the complexities of ethnic and religious identities, challenges posed by rising fundamentalism, domestic inequalities, and an authoritarian style of governing should be analyzed in further detail.

---

8. Simon Henderson, "Incident in the Shatt al-Arab Waterway: Iran's Border Sensitivities," *The Washington Institute for Near East Policy,* June 28, 2004, http://www.washingtoninstitute.org/templateC05.php?CID=1757.
9. Michael Kraig, "Gulf Security in a Globalizing World: Going beyond US Hegemony," *Yale Global Online,* June 29, 2004, 3, http://yaleglobal.yale.edu/display.article?id=4154.
10. Amy Myers Jaffe, *Post September 11 Update Report: Political, Economic, Social, Cultural, and Religious Trends in the Middle East and the Gulf and Their Impact on Energy Supply, Security, and Pricing* (The James Baker III Institute for Public Policy, Rice University, September 2002), 3.
11. "Transcript of Osama bin Ladin interviewed by Peter Arnett," *CNN*, March 1997; http://fl1.findlaw.com/news.findlaw.com/hdocs/docs/binladen/binladenintvw-cnn.pdf.

Complicated Ethnic and Religious Identities

The preponderance of ethnic and religious identities in the post-Cold War era has put tremendous pressures on existing political and social structures all over the world. In regions where these issues were previously not handled to the satisfaction of local populations, agitation has been more pronounced.

In Eurasia, the newly-independent states, in addition to the challenges of economic and political transition, have had to contend with populations searching for and developing a sense of national identities. In the Gulf, the search for modern individual identities has included ethnic, religious, and political connotations, thus making it more complicated than otherwise necessary. As a result, the countries in post-Soviet Eurasia from the first day of their independence and in the Gulf since the end of the Cold War have faced the complexity of searching for 'new' social and economic models that could help them to define their separate individual 'identities.'

Although Eurasia has a long and rich history, and various levels of identification have been discernible among the people, the individual states as they arose from communist domination especially in Central Asia had no sense of separate identities in the modern sense.[12] Before the Russian conquest, people mainly identified themselves with their family, clan, tribe, locality and, sometimes, religion. The creation of five union republics in Central Asia and three in the Caucasus by Soviet rule complicated the issue. When, in the early 1920s, the central authorities drew the political boundaries of the then union republics of the USSR, they paid no attention to local ethnic or historic quasi-identities. Various territories that had existed for centuries as single social, political and economic units were divided among different republics and many areas that had no previous unity of purpose were allocated to a single republic, causing problems of identity and integration.[13] The product of this 'nationality engineering' was a poisonous mixture of various local, tribal and ethnic groups that easily led to a range of crises in nearly all the CA&C states. During the Soviet era, strict authoritarian control and suppression kept the destabilizing character of ethnic and religious diversity under control. But the root causes of instability were never dealt with, which eventually contributed to the region's turmoil as the forces of destruction were unleashed following the collapse of the USSR.

12. Graham Fuller, "Central Asia's Quest for Identity," *Current History* 93, no. 582, April 1994, 145.
13. *Conflict in Post-Soviet Transitions: Central Asia and the Caucasus* (Report of the Center for Political and Strategic Studies Workshop, August 22, 1997, Bishkek, Kyrgyzstan), http://www.cpss.org/casiacf/bishkek.htm, 2.

Similarly, although a number of proto-national identities have been discernible in the Gulf region for centuries (i.e. locality, tribe, sheikdom, religion, and even ethnicity), identities in the modern sense did not develop until the 20th century. At the end of the colonization process, there emerged a number of states with demarcated borders and corresponding artificial identities. As mentioned above, most of these borders (and matching identities) were determined by the oil interests of the outsiders and mostly forced upon the local populations. Possible tensions among these states and identities were kept in check because of overarching Cold War dynamics. As outside pressure subsided and discussion for different identities and related rights were encouraged by the onset of globalization and its associated forces, there emerged a plethora of demands locally for recognition of individual and group rights in political, social, economic and ethnic areas. The resistance of existing domestic and regional governing structures to these demands led to the emergence of sometimes violent opposition and confrontation, as well as of trans-border linkages and connections.

In the end, both in Eurasia and the Gulf, there emerged a situation where local populations' search for individual and/or group identities left them dissatisfied, disenfranchised, and disappointed. At the same time, the inevitability of the regional governments' attempts to prevent liberalizing ideas flowing from outside made the situation more acute. In addition, the interests and involvement of outside powers, especially the US, and bigger regional states such as Iran and Saudi Arabia in the Gulf, and Iran, Turkey and Russia in Eurasia, further complicated the situation.

The Rise of Political Islam and Religious Radicalism

Although the identity question in Eurasia has mostly been discussed by the largely secular elites, part of the search for a new identity has naturally focused on the role of Islam in the region. Soon after the collapse of the Soviet Union it became clear that the long periods of Russian imperial rule and atheistic Soviet-era indoctrination had failed to eliminate the influences of Islam from the Muslim-populated lands of the former USSR.[14] Islam's position as an important element of individual and collective self-identity in the region guaranteed its survival and, since the late 1980s, emergence as an increasingly politicized vehicle. This led to a dilemma for the secularized elite of the region. Although Islam, if controlled

14. Shreen T. Hunter, *The Transcaucasus in Transition: Nation Building and Conflict* (Washington, D.C.: Westview, 1994); Igor P. Lipovsky, "Central Asia: in Search of a New Political Identity," *Middle East Journal* 50, no. 2 (1996): 211-223.

and exploited properly, offered advantages to the ruling elite, too great a tilt would have unleashed forces that could have ousted secular rulers.[15] As a result, while emphasizing their secular nature, as well as the principle of separation of religion and state, leaderships in the Muslim countries of Eurasia embarked on a policy of cohabitation with a moderate type of Islam while at the same time trying to prevent its political manifestations.[16]

Although Turkey and Iran were the most active countries in Central Asia in the early 1990s, the Gulf countries, especially Saudi Arabia, have been instrumental in fostering the revival of Islam in the region with their financial support, a fact that has sometimes caused open consternation among regional leaders. The Saudis distributed millions of copies of the Qur'an and offered scholarships to Eurasian Muslims to study at Islamic universities in Saudi Arabia and other Gulf States. This, together with support for establishing mosques and prayer houses, and the spread of Islamic printed publications and video and audio cassettes, helped Islam to be "readily accessible to populations previously deprived."[17]

The official connections and activities of Gulf-based charities supporting the religious revival in Central Asia mostly received a guarded response from the region. Leaders of CA&C countries, as well as Russia, were wary of the Gulf's connection with north Caucasian Muslims, especially because of the support to Chechens fighting at the time against Russian rule. However, as the Gulf countries moved their position away from the Chechen conflict in the post 9/11 world, Russia's relations with the GCC states started to improve.[18] Similarly, consolidation of secular CA&C leadership throughout 1990s and the after effects of 9/11 and the continuing Afghan operation diminished the possibilities and extent of Saudi (and Gulf) religious involvement in the region.

In the Gulf, too, religion has long been a natural part of the identity discussion and has taken an even more central place during the 1990s with the involvement of Wahhabism. The leadership, which never had an overwhelming political legitimacy, has tried to use Islam as a common denominator to get their populations' consent.

15. John Anderson, *The International Politics of Central Asia* (Manchester, Manchester Univ. Press, 1997), 155.
16. Shreen T. Hunter, *Central Asia since Independence* (Praeger, London, 1996), 37; and "Islam in Post-Independence Central Asia: Internal and External Dimensions," *Journal of Islamic Studies* 7, no. 2, (1996), 300-301.
17. Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States,* op. cit., 56-59.
18. Ibid., 36, 38 and 41.

Moreover, for the societies that were divided along sectarian lines and for those states with substantial minorities (religious or otherwise), the control of an official version of religion was very important for political survival. However, like in Eurasia, this chosen way failed in its aim of cohabitation and led instead to the emergence of strong opposition groups, which sometimes went overboard using violent means when they were not allowed to express themselves in the political arena by the authoritarian regimes. In the end, religion became the dividing not the uniting factor for the Gulf countries and even a security threat in the form of the connection to transnational terror organizations, such as Al-Qaeda.

Clearly, the strategy of simultaneous repression and cohabitation with religious-oriented groups both in Eurasia and the Gulf have by no means insulated the existing regimes from the challenges of Islam, especially since the secular political institutions have not been allowed to develop. As a result, Islam has become an ideological vehicle for counter-elites trying to mobilize the masses, and interacting with radical fanaticism has turned out to be a dangerous factor to be reckoned with for a number of countries in both regions. Thus, the prevention of both an upsurge in Islamic militancy and the emergence of Islamic-oriented governments in these regions was put forward as a primary objective of not only the US, but also of Russia and the EU to a lesser extent. This was also clearly behind the US strategy after 9/11, when it sought and obtained, cooperation from regional countries for the fight against 'global terror,' a poorly disguised code-word for Islamic fundamentalist radicalism.

Regional leadership, both in CA&C and the Gulf, cooperated with this strategy because they too perceived radical Islam as the major threat to the survival of their regimes. This is not an empty fear. One of the main pillars of political Islam, the ideology behind current Islamic extremism, is to establish "a new political order in the centrality of the *hakimiyyah* concept first in the Muslim countries and then throughout the world".[19] What's more, in the Islamic global order, the existence of nation-states as essential actors of an international system is rejected due to the divisive influence of secular nationalism among the *Umma*.[20] As Islam will be the only nationality for all Muslims, the argument for the existence of a number of independent states in the Muslim world (thus both in CA&C and the Gulf) became baseless.

19. Bassam Tibi, "The Totalitarianism of Jihadist Islamism and its Challenge to Europe and to Islam," *Totalitarian Movements and Political Religions* 8, no. 1, (2007): 41.

20. Sami Zubaida, "Islam and Nationalism: Continuities and Contradictions," *Nations and Nationalism* 10, no. 4, (2004): 408.

Search for Social and Economic Development and Equality

In addition to the challenges of national and religious identities, since the end of the Cold War Gulf countries and Eurasian states have had to contend with populations searching for new social and economic models. Although hydrocarbon resources offered very attractive economic opportunities, uneven development patterns became a significant potential source of instability. Differences in the natural resource bases have already provoked economically driven migration, polarized ethno-sectarian groups and, combined with widespread unemployment, caused increased tensions.

It is also worth considering what effect the wealth resulting from the utilization of natural resources has on regional problems and the potential for confrontation. There are concerns, for example, that those countries gaining most from the exploitation of natural resources are using at least part of their wealth to increase their military spending, thus creating a destabilizing change in the regional balance of power. The redistribution of wealth within societies is another potential source of instability. There are already signs of an emergence of elitist societies around the Caspian Basin along the lines of those commonly found in the Gulf.

The extreme poverty found in parts of Eurasia will also continue to be a destabilizing factor. Since the collapse of the USSR, rapid economic and social changes have left many people in this region with a much lower standard of living than they had and without the social safety net the Soviet regime had provided. These rapid changes and economic pressures have also led to a marked increase in personal corruption, drug trafficking and related criminal activities, with their negative impacts on regional stability. In the Gulf, too, uneven distribution of wealth causes underprivileged (foreign) workers to live side-by-side with extreme wealth and development, thus encouraging growing social grievances and a possible breakdown of social order.

The annual Human Development Index (HDI) of the UNDP clearly highlights Eurasian and Middle Eastern countries as problematic with respect to socio-economic indicators. The UNDP's annual Arab Human Development Report(s) also demonstrate how both rich and poor coexist in the 22 Arab countries and beyond. Unbalanced income distribution, high unemployment levels, the almost non-existent foreign direct investment in non-petroleum related fields, high illiteracy among women, and gender inequality are highlighted as main problems in most of the region while democratic values such as pluralism, political representation and respect for human rights are not enthusiastically embraced by the ruling bodies

in the entire region.[21] According to the 2007 HDI Survey, even though the GCC countries fare much better than the rest of the Middle Eastern Arab countries in all areas (for example, Kuwait, at the top of GCC countries, overall ranked 33 out of 177 in 2007),[22] being surrounded by an instability-inducing regional environment helps create migratory pressures and related problems.

The increasing integration of both the Caspian Basin and the Gulf into the world economy has benefited only ruling elites and/or families and their political or tribal allies. The result is an enormous disparity of income and lifestyles that has become typical of the Arab world and, more recently, is emerging in the hydrocarbon-producing countries around the Caspian. As Tschirgi puts it:[23]

> More important than the obvious differences in comfort separating those who ride in Mercedes cars from those riding in donkey-carts or swelteringly overcrowded buses, are the inevitable implications regarding life-quality and life-chances. [While] members of the affluent minority… enjoy the best of what the modern world offers in terms of luxury goods, education for themselves and their children, health care and all the rest, and more or less realistically count on retaining that privileged position, [t]he rest, not only do not have access to such things, but also cannot realistically aspire to gain it in their lifetimes.

This is an obvious recipe for internal division and social strain that has prevailed for decades in the Arab world and is emerging in the CA&C.

Authoritarian Feudalism

The political ideology that has replaced communism in Eurasia (secular authoritarianism) and its related system (authoritarian feudalism) is also of some concern. For years, the sheikdoms in the Gulf have had regimes which can best be described as non-secular authoritarian feudalism.

---

21. Cagri Erhan, "Human Security in the Middle East: 'Broader Middle East and North Africa Initiative' and Beyond," Mustafa Aydın and Sinem Acikmese (quest eds.), *Perceptions* 10, no. 3, 2006 (special issue on *Redefining Regional Security in Wider Europe and the Broader Middle East*), 153-169.

22. Jasim Ali, "Gulf Countries Should Use Funds to Improve Development Indices," *Gulf News*, December 2, 2007, http://archive.gulfnews.com/articles/07/12/02/10171684.html; and *Human Development 2007 Report: 15 Inequality in Income or Expenditure*, http://hdrstats.undp.org/indicators/147.html.

23. Dan Tschirgi, "The Middle East and Religious Fundamentalism as a Source of Identity-Based Conflict," *International Security Today: Understanding Change and Debating Strategy,* eds. Mustafa Aydin and Kostas Ifantis (Center for Strategic Research, Ankara, 2006), 103.

The leadership in Eurasia concluded early on that a period of authoritarian rule was a necessary stage in the transition from communist totalitarianism to liberal democracy. While the struggle for national identification goes on within each republic, authoritarianism provides a tempting solution as a way of keeping a country together. In the Gulf, the intention to move towards democratization had not even existed until internal and external pressures brought it about after the end of the Cold War. Even then, it became a concept that needed to be managed and talked around, but not fully implemented, thus encouraging long-term trouble by putting a lid on boiling problems.

The fact that the regime generally predates the state and the nation in the Gulf[24] and the Communist era leaders reincarnated themselves as nationalist leaders in CA has created problems for the emergence of modern governance in these countries. An authoritarian regime based on a single ruler, standing at the center of a wider coalition, has become the marker of the typical regime in both the Gulf area and the CA&C. In some countries, a varying degree of political pluralism is sometimes allowed to the extent that it does not challenge the existing political arrangements and power-sharing. While the wider population is generally kept in check with a positive emphasis on apolitical communalization and deeply clientelistic connections to the regime, the leaderships (monarchies in the Gulf and presidents in CA&C) in almost all cases are "constitutionally organized and legitimized,"[25] though the constitutions are generally no more than formal arrangements rendering unchecked powers to absolute leaders.

The lack of political stability and persistent possibility of turmoil, on the other hand, stimulates the reluctance of the governments to adopt democratic values and approaches, undermining human development and good governance in both regions. While democratic rule is accepted in principle and as an ultimate aim in an unspecified future timeframe, the implementation of democratic principles and related human rights is often neglected. In most of these countries, the omnipotent rulers (either shaikhs or presidents) strictly control all the branches of the state and there exists no formal checks and balance system. Although informal constraints on the leadership exist in the form of religious and/or traditional practices and customs, this hardly constitutes or allows an evolving of a modern governing (and democratic) structure.

24. Russell E. Lucas, "Monarchical Authoritarianism: Survival and Political Liberalization in a Middle Eastern Regime Type," *International Journal of Middle Eastern Studies* 36, (2004): 106.

25. Ibid., 108.

Internationally-induced Threats to Stability

When the USSR disintegrated, a simple model for understanding emerging Eurasian geopolitics was put forward. It was essentially a new version of the nineteenth century great game, with Turkey and Iran replacing Russia and Great Britain for influence in the region. This model was overly simplistic as the new great game for the most part consisted of "economic competition for jobs, pipelines, and new markets" as well as political influence and strategic advantages.[26] The states of CA&C, in contrast to the situation in the nineteenth century, were actively seeking foreign investors as well as models and guidance on which to base their development.[27] Although external involvement promised the much needed positive impact on regional conflict resolution by providing investment, creating employment and supplying foreign aid to regional markets, the profit margins that many believe existed in the region's natural resources, combined with geopolitical and strategic factors, lured the external players into a dangerous game, played out within and throughout the region.

In the Gulf, too, international involvement has increased since the end of the Cold War and has become more entrenched since 9/11 with the US taking the lead in creating further international encroachments towards the region. The region has been continually at war or on the brink of it since the end of the Cold War. The 1979 Islamic revolution in Iran, the Iran-Iraq War (1980-1988), the US-led coalition during the Gulf War (1990-1991), the recent US-led invasion of Iraq in 2003, and the continuing Arab-Israeli conflict have all shaped the dynamics of the region.[28] As a result of the complexity of existing international dynamics in and interests towards the region, the Gulf security system today "is not a simple matter of great power hegemony or dynastic regional rivalries," but needs to address wider international complexities, such as the US isolation of Iran and the latter's reaction organized throughout the Middle East in the form of radical Islamic groups and Shia politics, "the ups and downs of Israeli-Arab relations, the possibility of nuclear proliferation, and the economic uncertainties associated with excessive dependence on a single product."[29]

---

26. Report of the CPSS Workshop (June 15-16, 1997, Washington D.C.), *Conflict in Central Asia and the Caucasus: An International Workshop*, http://www.cpss.org/casiacf/workshop.htm, 3-5.
27. Mustafa Aydin, "(In)Security and Geopolitics in the Post-Soviet Eurasia: Regional Threats, Transnational Challenges, and Global Responses," eds. Aydin and Ifantis, *International Security Today: Understanding Change and Debating Strategy*, op. cit., 125.
28. Kraig, "Gulf Security in a Globalizing World," op. cit., 2-3.
29. Rathmel, Karasik and Gompert, *A New Persian Gulf Security System,* op. cit., 6.

International Involvement in post-Soviet CA&C

While most of Eurasia's land mass was controlled for years by and from Moscow, the region since the end of the Cold War has moved away from Russian geopolitical reach and reoriented itself towards "historical preferences and allegiances that were interrupted by Russia's sealing of [the region] to its own advantage."[30] This has caused anxiety, to say the least, among Russian decision-makers, who by the end of 1992 came to the conclusion that "the continuing independence of the [region's] nations and reorientation of their foreign policy, economic and transportation strategies…will considerably undermine Russia's great power status."[31] Losing its monopoly of regional transport and communications due to projects to build oil and gas pipelines and highways southward would also mean the loss of direct access to the region's rich natural resources and strategic minerals. To prevent this eventuality, Russia, since 1992, has been actively pursuing a policy to re-establish economic, political and military control over CA&C.

Though Russia wished to keep its presence and influence in the area, its efforts to restore an exclusive hegemony in the region have been hampered for years by its own economic problems and political weaknesses. While Russia grew restless towards growing foreign presence and influence in the region, its influence continued to decline and its response to all these has become an important destabilizing factor especially in the Caucasus. On the other hand, the idea, aired earlier in Moscow, that Russia should withdraw from the Northern Caucasus without waiting to be kicked out carried within it the seeds of further threats of disintegration and a geopolitical catastrophe for the RF.[32]

Aside from geo-strategic considerations, Russia had two primary reasons for involvement in CA&C. One is to protect ethnic Russians in the region and the other is to maintain access to important resources. While Russia has clear political and economic concerns, it has had problems implementing policies that address those concerns. This has undermined Moscow's effectiveness in securing

30. R. E. Friedman and S. E. Wimbush, "Central Asia and the West; Key Emerging Issues," *Perceptions* 1, no. 1, (March-May 1996): 100.

31. Oumerserik Kasenov, "Russia and Transcaucasia: Oil, Pipelines and Geopolitics," in *Central Asia: Conflict, Resolution and Change*, eds. Roald Z. Sagdeev and Susan Eisenhower (Washington DC: Center for Political and Strategic Studies, 1995), http://www.cpss.org/casiabk/chap6.txt.

32. See Charles W. Blandy, "Prigorodnyy Rayon: The Continuing Dispute – The Triangular Relationship of North Osetia, Ingushetia and Russia," *CSRS Report P26,* (Surrey: RMA Sandhurst, September 1997); and *The Caucasus Region and Caspian Basin: Change, Complication and Challenge* (Surrey: RMA Sandhurst, 1998).

its interests in the CA&C. On the other hand, extensive political, historical and economic ties forged over the years between Russia and the former Soviet republics became important in contributing to the stability of the region.

In the meantime, Turkey was cited early on as an important actor in the region immediately after the collapse of the USSR because of its strong historical, cultural, ethnic and linguistic bonds with the CA countries (plus Azerbaijan). The role Turkey might play in the region was extensively discussed not only within the country but also in the West, whose fear of radical Islam which gradually filled the power vacuum that emerged in the region initially led to strong encouragement to these states to adopt a Turkish model of secular democracy combined with a liberal economy. Turkey too wanted to act as a link to the international community and expected to gain political, economic and psychological dividends.

However, overblown expectations and euphoric pronouncements were soon modified by reality, and Turkey has had to backtrack on some of its earlier pledges, which resulted in disappointment on both sides. Moreover, Turkey's eager moves in the region to forge closer relations made its rivals question whether Turkey was aiming for regional hegemony. Perhaps resulting from this disappointment, since 1995, Turkey has modified its approach with a dose of realism and has increasingly focused on the Caucasus that has proved more promising for partnership than CA.

Iran, on the other hand, has been less of a player in the region. While the majority of the region's Muslims are Sunnis, Iran's population is overwhelmingly Shiite. Its openly theocratic character is unacceptable to the region's secular leaders and its policy of confrontation with the West, to whom the regional countries have appealed for aid and assistance, has led to Iran's limited influence. Consequently, Iran's influence in CA extended only as far as Tajikistan due to ethnic, cultural and linguistic closeness, and Turkmenistan, because of their long common border. Its engagement in the Caucasus has also not been gratifying; Armenia became the only part of the region where it has had some influence: Economic interests and geopolitical calculations, not religion, dominated this complicated triangle.

By the end of 1990s, China, motivated by its increasing demand for energy, became interested in the region and started to invest heavily, especially in the oil sector of Kazakhstan. While trade between China and the CA has flourished, China's development strategy mixing authoritarianism with a gradual transition to a market economy became an attractive model for regional leaders. Further, cooperation with China in the form of the Shanghai Cooperation Organization has helped Central Asians to counter the Russian post-Soviet hegemonic drive while preserving it as a strategic protection against excessive Chinese demands.

The West in general, too, found opportunities for involvement and economic investment in the region. Though European presence has been stronger in rhetoric than actual existence on the ground, the US has become more active in CA&C in recent years. While the original US interest in the region was formulated to "strengthen regional economic [and political] mechanisms, develop east-west energy and transportation processes, and provide support to conflict resolution efforts," 9/11 events have given the US new reasons and provided ample arguments for building its political and military power in the region. In addition to "containing Iran's influence," preventing proliferation of weapons of mass destruction and CA's growing drug trade, and promoting "American business interests and strategic plans,"[33] the US is now also interested in preventing an upsurge of Islamic radicalism as well as controlling the oil-rich Caspian basin and keeping an eye on China. The RF, however, is not happy to see the expansion of western involvement in the region since American influence clearly expands proportionally to the reduction of Russian weight and influence. On the other hand, the perceived decrease in Russian influence and outside attempts to isolate or eliminate Russia in the Caspian region could become counter-productive and at times could turn into asymmetric responses potentially destructive to the stability of regional security.

International Competition in the Gulf Region

The US dominates the region politically and militarily and does not allow the entry of other international actors. The Gulf regimes, acutely aware of their dependence on continued American support for domestic regime survival as well as international security especially against Iranian dominance, go along with this. Despite this overwhelming American political and military dominance in the region, other countries such as Russia, Iran, China and Turkey have all been trying to improve their economic involvement in the region in recent years. Given the historically significant political geography of the region, its strategic significance for international trade, and linkages to the world's major waterways, it is only natural that the region would figure in all of these countries' geopolitical planning.

Although the traditional allies of the USSR in the Middle East received significant amounts of military and economic aid from Moscow during the Cold War, this declined by the late 1980s as the Soviet economy entered into a crisis. In

33. US policies in the region are explored in Mustafa Aydin, *New Geopolitics of Central Asia and the Caucasus: Causes of Instability and Predicament* (Strategic Resarch Center, Ankara, 2000), 44, 61-63 and 66-72.

the post-Cold War era, while Russian foreign policy was transformed and became more pragmatic rather than ideologically motivated, it nevertheless continued to compete with the West around the world in strategically important regions for Russian national interests and security.[34] Among these, Russia's new orientation in the Middle East since the end of the Cold War has involved a disengagement from its traditional allies and "a concerted attempt to construct new, productive relations with the states of the GCC."[35] Yet high level visits between Russia and the Gulf countries, as well as repeated Russian efforts to secure financial support from the Gulf failed to offset its losses from the sanctions against Iraq. What's more, Gulf businessmen continued to eye Russia with suspicion in relation to the safety of their possible foreign direct investment.[36] Thus, during much of the 1990s, economic aspects of the relations between Russia and the Gulf countries remained limited. After 2003, Russia's position in the Gulf countries was enhanced – almost in parallel to a declining American image as a result of the Iraqi occupation and subsequent events – and after a cooperation agreement in the energy sector was signed between Russia and Saudi Arabia in September 2003, Russia's relations with the Gulf countries have started to improve both economically and politically, even including calls for "measures to combat international terrorism."[37]

The arms market constitutes an important area of cooperation between Russia and the Gulf countries, including Iran. Although Russian arms sales are still a distant second to American and British sales to the GCC market,[38] it dominates the Iranian market for obvious reasons. Although the revolutionary rhetoric after the Iranian Islamic Revolution also targeted the USSR (in addition to the US and regional countries), and the two countries opposed each other in Afghanistan for some time, their relations dramatically improved after Khomeini's death in 1989 when Iran moved towards a more pragmatic approach in its foreign policy. Certainly, Iran's need to rebuild its conventional forces following the Iran-Iraq War and its search for an opening in the international arena in view of US attempts to isolate it has forced it to move closer to Russia. However, Russia also finds a valuable ally in

34. Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States*, op. cit., 28-29.

35. Ibid., 30-31.

36. Ibid., 32-34.

37. Ibid., 39-43; and Alexander Shumilin, "The Prince and Putin," *The Moscow Times*, September 10, 2003; http://www.themoscowtimes.com/stories/2003/09/10/006.html.

38. Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States*, op. cit., 44.

Iran in responding to regional security challenges and as a way of approaching the Middle East post-Cold War.[39]

Since then, Iran has obtained most of its arms from Russia, and the latter has gained access to the Gulf through the former. As international competition for influence in the region intensified in the 1990s, Tehran and Moscow worked together on a number of issues and their partnership in wider strategic areas was evident in Russia's announcement in 2000 to resume arms sales to Iran, as well as its decision to assist Iran in building a nuclear power plant in Bushehr.[40]

Meanwhile, Turkey has also tried to improve its relationship with the Gulf countries especially in the economic field. The negotiations to sign a free trade agreement between Turkey and the GCC began in July 2005, at a time when Turkey-GCC annual trade stood at $3 billion, or one percent of the total annual trade of the GCC countries.[41] There are also plans to import natural gas to Turkey from Qatar. Turkey also signed a memorandum of understanding with Iran in July 2007 to use Iran as a transit route for Turkmen gas and agreed to develop Iran's South Pars gas field to facilitate the transport of gas to Europe. While the US has strongly objected to the agreement, negotiations are still continuing between the Turkish and Iranian officials.

Resource Management in the Caspian and the Gulf

The attention of the wider international community has been focused on CA&C since the end of the Cold War, and on the Gulf for a much longer period, in large part because of their rich hydrocarbon resources. The international competition for access to oil and gas reserves and the need to bring them to world markets safely and cheaply has had a complicating effect on regional issues. The realization that the full potential of regional wealth can only be enjoyed widely if energy resources have stable access to international markets motivates regional cooperation and provides incentive for international financial involvement. However, at the same time, competition between countries wishing to control access to regional riches creates possibilities for conflict in both regions, as well as exacerbating existing ones.

The Gulf region contains over half of the world's proven reserves of oil and one-third of the proven reserves of natural gas. Together with the Caspian basin, these figures are 65 percent and 70 percent, respectively. The Gulf countries also

39. Ali A. Jalali, "The Strategic Partnership of Russia and Iran," *Parameters* (Winter 2001-02): 98-99.

40. Ibid., 98.

41. "Gulf Countries, Turkey sign FTA deal," *China Daily,* May 30, 2005, http://www.bilaterals.org/article.php3?id_article=1990.

have the capacity to produce and move their resources into the world markets much more efficiently and cheaply than their competitors.[42] These figures and the crucial importance to the world economy of both regions' energy exports is sufficient to place them at the top of US strategic priorities: "Even temporary disruptions in the supply of oil flowing from the Gulf or increases in oil prices can lead to lasting damage to the American and global economy by boosting inflation and depressing growth, investment and employment."[43] US efforts to prevent a rival power from controlling the region and its energy supplies includes their insistence for the freedom of navigation in the Strait of Hormuz, which embraces 85-90 percent of the Gulf's (some 40 percent of the world's) daily oil exports.[44] It was President Jimmy Carter who declared that an assault on the Gulf would be viewed as "an assault on the vital interests of the United States of America, and (that) such an assault will be repelled by any means necessary, including military force."[45] Even after the 9/11 attacks, the US continued to see the protection of energy exports as its first strategic priority in the Middle East.[46]

The Caspian region, on the other hand, provides much needed alternative hydrocarbon sources to the world market. Although the full development of the region's reserves would take some time, total proven oil deposits in the basin so far are estimated to be between 16 and 32 billion barrels, comparable to the deposits in the US (22 billion barrels) and in the North Sea (17 billion barrels).[47] The region also hosts an estimated 236-337 trillion cubic feet proven natural gas reserves, comparable to the total North American reserves of 300 trillion cubic feet.[48] Yet, none of the littorals of the Caspian Sea have the necessary capital to explore and exploit the regional hydrocarbon resources or the technological capability to extract

42. Lawrence Korb, "The Gulf and US National Security," *Emirates Lecture Series* no. 58, The Emirates Center for Strategic Studies and Research, 2005, 3-4.

43. US Department of Energy Statistics, *US Imports by Country of Origin*, http://tonto.eia.doe.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbbl_a.htm.

44. Korb, "The Gulf and US National Security", op. cit., 5; and Richard Sokolsky and Ian Lesser, "Threats to Western Energy Supplies: Scenarios and Implications," in *Persian Gulf Security: Improving Allied Military Contributions,* eds. Richard Sokolsky, Stuart Johnson and F. Stephen Larrabee, RAND, http://www.rand.org/pubs/monograph_reports/MR1245/MR1245.ch2.pdf, 11.

45. Jimmy Carter, "State of the Union Address," January 23, 1980, http://www.jimmycarterlibrary.org/documents/speeches/su80jec.phtml.

46. US Department of Defense, *The Quadrennial Defense Review Report*, September 30, 2001, http://www.comw.org/qdr/qdr2001.pdf.

47. US Department of State, *Caspian Region Energy Development Report*, April 15, 1997, 3.

48. *EIA Fact Sheet*, 1-2.

oil deposits from sub-sea reservoirs. So, they are in need of foreign investment and expertise.

The countries most interested in exploration and transportation of oil and natural gas in the region are landlocked and have to rely on the cooperation of their neighbors. As each country has a preference about how the oil and natural gas should be transported to market and external powers are trying to exert influence to ensure that the selected routes best meets their needs, the issue assumes an importance quite separate from that of production. Under geopolitical calculations, Russia, in order to recover its political influence in the region, has insisted that the northern pipeline from Baku, Azerbaijan, to the Russian Black Sea port of Novorossiysk should be the main transit route for oil from the Caspian. This would have ensured Moscow's exclusive and strategic control over the region's resources. Opposing Russian insistence on the northern route, the US and Turkey as well as regional countries preferred a western route through Georgia to the Turkish Mediterranean port of Ceyhan. What was at stake was not only oil and gas transit revenues that host countries could extract from pipelines passing through their territories, but more importantly, the pipeline network was seen as one of the key factors in securing and maintaining influence throughout the region.[49]

US support for the western route was also embedded in its wider Eurasian and Middle Eastern strategic priorities. While one of them was to prop up the independence of the newly independent countries of CA&C against the influence of Russia,[50] another was to "exclude Iran from participation in the production of Caspian oil and gas, and to prevent the development of transportation routes or pipelines that would lead from the Caspian region to either the Gulf or the Indian Ocean via Iran."[51] Moreover, the US favored the Baku-Ceyhan route because it would secure Turkey's role as a major player in the region; Turkey's secular, moderate government could serve as a model for post-Soviet states and could check the influences of Iran and Russia in the region.[52] Once the Baku-Ceyhan pipeline

49. Charles W. Blandy, "Oil is Not the Only Stake," *CSRC Report S28*, (Surrey: RMA Sandhurst, February 1997); and "The Caspian: A Catastrophe in the Making", *CSRC Report S32* (Surrey: RMA Sandhurst; September 1997).

50. For discussion of earlier American policy towards CA&C, see US House of Representatives Committee on International Relations Staff Report, *Major Setbacks Looming for American Interests in the Caucasus Region*, September 6, 1996.

51. M. Shimizu (ed.), *IDE Spot Survey: The Caspian Basin Oil and Its Impact on Eurasian Power Games,* (Institute of Developing Economies, Tokyo, 1998), 30.

52. Tyler Marshall, "Route of Caspian Sea Oil Pipeline Debated," *Los Angeles Times*, December 3, 1998.

became operational, its main effect has been to weaken CA&C states' economic and transportation dependence on Russia. Azerbaijan, Kazakhstan and Turkmenistan appeared as new producers in the oil and gas world market and started to use the money they accrued to enhance their political independence. The role of the western states, whose oil and gas companies provide the necessary investment, has increased, like that of Turkey's.

While the world's attention has been focused on regional rivalries over highly explosive issues of oil extraction, transportation and profit sharing, and occasionally on ethnic tensions, the problems created for the ecosystems of the Caspian and the Gulf as a result of extensive exploration has received much less attention. In addition to the rising sea levels, flooding of coastal areas, and increasing saturation and greasiness of the soil,[53] disturbances caused by the hasty exploration of the coastal shelf and the development of offshore oilfields threatens the aquatic life forms with extinction in the Caspian. Similarly, environmental questions surrounding the Bosporus and the Black Sea have also weighed heavily in the choice of export routes for Caspian oil, as the number of tankers, and thus the possibility of accidents and oil leakages, has increased exponentially. Finally, oil transportation also threatens the ecology of the Gulf, and the continuing conflicts around the region do not help the situation on the ground. For example, the largest oil spills in history were seen in the wake of the Gulf War when a total of 11 million barrels of crude was released in January-February 1991 into the Gulf's shallow waters.[54] While these and similar problems necessitate region-wide programs to prevent ecological disasters, political instabilities prevent regional countries both in the Gulf and the Caspian Basin from working together in creating appropriate measures.

Conclusion: Response to Threats and Outlook for the Future

It has often been argued that CA's relative stability during the years of transition since independence has been due, in addition to the continuity of leadership since the Soviet period, to established communal social structures and a tradition of tolerance. However, regardless of the correctness of this assessment, the effort to

53. Blandy, *The Caucasus Region and the Caspian Basin*, op. cit., 25.

54. Janet Raloff and Richard Monastersky, "Gulf Oil Threatens Ecology, Maybe Climate-Persian Gulf Oil Spill," *Science News*, February 2, 1991, http://findarticles.com/p/articles/mi_m1200/is_n5_v139/ai_9861177. Also see, IPR Strategic Business Information Database, "Iran: Persian Gulf under Environmental Threat from War in Iraq," July 4, 2003, http://www.encyclopedia.com/doc/1G1-99808550.html.

define national identities while struggling with post-Soviet economic and political transitions is placing that tradition of tolerance, to the extent that it exists, under great strain. One way to strengthen the culture of tolerance and help cultivate stability is to encourage regional interactions and cooperation. One of the most efficient ways to deal with regional security problems would be an arrangement for a region-wide common political-security organization, with conflict prevention mechanisms. Although CA has tentatively moved towards this end through the establishment of the Shanghai Cooperation Organization, there are various obstacles to be overcome before such an arrangement can be applied to the Caucasus.

Even though various regional efforts (such as ECO, Turkic Summits, SCO, CIS-based institutions, etc.) to present solutions to regional problems have had varying degrees of success, they have not satisfied expectations and have failed so far in addressing region-wide problems. One of the more important problems these organizations faced has been their exclusivity, in that they included some states and excluded others, which encouraged excluded states to work against them. Similarly, projects on the international level (such as EU-related projects of TRACECA, TACIS and INNOGATE; NATO-related projects like PfP and Cetrazabat; OSCE programs, UN projects, IMF and World Bank involvements, etc.) have so far only met with limited success. Besides being too sporadic and indecisive, their content-wise selectiveness has weakened international efforts to deal with Eurasian problems.

In the Gulf region, the most influential institutional setting has been the GCC, established in 1981 between Saudi Arabia, Bahrain, the UAE, Qatar, Kuwait and Oman mainly to protect its members from the threat posed by the Iran-Iraq War and Iranian-inspired activist Islamism. It has nevertheless since developed into a regional common market with a joint defense network. Its members' geographic proximity and their general adoption of free trade economic policies, as well as the security challenges of an unstable regional environment encourage cooperation.[55] Iran has also been suggesting various alternative forms of cooperation in the Gulf region, such as the Persian Gulf Security and Cooperation Organization comprising the six member states of the GCC as well as Iran and Iraq, and a regional free-trade zone. However, these attempts have been mostly ignored by Gulf countries who continue to eye Iran with suspicion.[56] In a similar vein, Iran's suggestion to establish

55. *Global Security*, Gulf Cooperation Council, http://www.globalsecurity.org/military/world/gulf/gcc.htm.

56. Kaveh L. Afrasiabi, "Iran Unveils a Persian Gulf Security Plan," *Asia Times*, April 14, 2007, http://www.atimes.com/atimes/Middle_East/ID14Ak04.html.

a Caspian Cooperation Organization received a cold response from Caspian countries.

Although much has happened since the end of the Cold War, it cannot be argued yet that the evolution of Eurasian or Gulf geopolitics has ended. Since the 9/11 attacks, a new phase has emerged in which the global hegemon (the US) has become more influential and aggressive than it had been hitherto. This carries dangers of further confrontation and contest within (and over) these regions, both among nuclear powers and between regional leadership and their political opponents. Against this backdrop, it is difficult to be optimistic in the short run and there are a number of flash points that may erupt into an open conflict at any given time in both regions. Most of the developments taking place in these regions have a bearing upon distant parts of the world. Certainly, there is too much at stake for the outside world to leave these regions to struggle alone, and the world at large must help them solve their seemingly regional problems. Otherwise, the repercussions could be felt far and wide.

Russian-Iranian Security Links

Ingmar Oldberg

Swedish Defence Research Agency, Sweden

Background

During Vladimir Putin's presidency, which lasted from 2000 to 2008, Russia has become more and more authoritarian, moving away from being an incipient democracy to assuming a very specific, authoritarian Russian form of democracy. Power has been concentrated in the executive, and all serious political opposition has been brought under control or crushed. This development had the support of a solid majority of the population. One explanation and rationale for this support is the wish for stability and security as opposed to disorder, dissolution and terrorism, as exemplified by Chechnya in the 1990s. A complementary reason for Putin's success has been the favorable economic development of Russia since 1999, mainly as a result of booming world market prices for oil and gas, Russia's main export commodities.

Strengthened by this domestic development, Russia has under both Putin and subsequently under his successor, Dimitry Medvedev, adopted a more self-confident foreign policy, asserting its position as one of the great powers of the world, entitled to respect and influence in all international fora. Russia points to the fact that it is not only one of the five permanent members of the UN Security Council and a member of the G8, but also has the biggest territory in the world with the vastest energy reserves. It is the strongest nuclear power besides the United States and heir of the Soviet Union – the great power which defeated Hitler's Germany and after that commanded half of Europe.

One way for Russia to extend its influence is to fight for multipolarity in world

politics, which, in effect, means contesting US dominance (unipolarity). As part of this endeavor, Russia looks for allies around the world, not least in Asia.[1] One such ally, next to China and India, is obviously Iran.

However, at the same time Russia wants to cooperate with European states as its economy has become highly dependent on them. Moscow also wants to avoid conflicts with the United States due to common interests concerning international terrorism, nuclear proliferation and crisis management. These factors are also reflected in Russia's Iran policy as will be shown below.

Russia and Iran since the 1990s

Political Relations

Ever since the Khomeini revolution in 1979, when Iran broke off its ties with the US, the USSR – and after 1991, Russia – has had good official relations with Iran. Iran is often called a strategic partner and a neighbor (despite the geographic distance). At an international security conference in Munich 2007, Putin characterized Iran as Russia's long-time stable partner and said Russia was a friend that Iran can trust.[2] As opposed to the US, Russia has refused to consider Iran as a sponsor of international terrorism, notably with regard to Hizbollah in Lebanon and Hamas in the Palestinian territories. Moscow supported the inclusion of Iran as an observer in the Shanghai Cooperation Organization (SCO) in 2005 as well as its participation in SCO meetings and activities ever since. The SCO in 2005 called for a deadline for US troops in Central Asia and has stated that it supports multipolarity.[3] Furthermore, Russia holds that Iran can play a positive role in stabilizing Iraq, and both states are interested in seeing a withdrawal of foreign troops from Afghanistan, once the Afghans can take full responsibility for their own security. Both Iran and Russia have opposed US plans to create a multinational naval force including NATO units in the Caspian Sea. Instead Russia proposes a naval force only composed by units from the

1. More on this in Oldberg, "Russia's Great Power Ambitions and Policy" and other chapters in *Russia: Re-Emerging Great Power*, ed. Roger E. Kanet (New York: Palgrave Macmillan, Basingstoke 2007).
2. Hannes Adomeit, *Russlands Iran-Politik unter Putin*, SWP-Studie, April 2007, Stiftung Wissenschaft und Politik, Berlin, p. 11 f; President of Russia, "Speech and the following discussion at the Munich Conference on security policy", 10 February 2007, http://www.president.kremlin.ru/eng/text/speeches/2007/02/10/0138, retrieved 15 February 2007.
3. Oldberg, *The Shanghai Cooperation Organisation: Powerhouse or Paper Tiger?*, FOI-R—2301—SE, June 2007, pp. 17 ff.

littoral states, which Russia would dominate by strength of its Caspian flotilla.[4]

After several Iranian officials visited Moscow, Putin in October 2007 – as the first Russian leader since Stalin in 1943 – finally paid a visit to Tehran to attend the second summit of the five Caspian states. On Iranian initiative the presidents decided to create an institutional framework for regional cooperation, starting with regular meetings, on economic, legal and some security issues. They agreed that all shipping and fishing in the sea should be carried out under the flags of the riparian states and all legal issues be resolved peacefully by themselves, a formulation which seems to forestall assistance from other parties. More significantly, the summit declared that the states would never use armed force against each other or allow their territories to be used for attacks against another riparian state. This clause appears designed to stop the United States from using Azerbaijan as a base for attacking Iran.[5]

Concerning the division of the Caspian seabed and its resources, the parties agreed to adhere to the existing rules. Iran in principle wants to divide the sea equally among the five, while the others wanted shares in proportion to the lengths of their coastlines, which would give Iran only 13 per cent. This dispute has even led to Iranian shows of force vis-à-vis Azerbaijan.[6] For Russia, however, this dispute has had the beneficial effect of disturbing Western-supported plans to build pipelines across the Caspian circumventing Russia. At the summit Russia – supported by Iran but opposed by the others – proposed that *all* coastal states must approve of pipeline projects with regard to environmental risks.[7]

However, there are some sources of friction between Russia and Iran. Iran also sees itself as a great power,[8] and Russia is evidently wary of Iranian ambitions in Central Asia where Russia still has a strong influence. Iran has improved ties with Turkmenistan since a new leader came to power there.[9] Early in 2007, Iran suggested that Russia and Iran together should ensure stability in Central Asia

4. Adomeit, p. 11f, President of Russia, Interview with IRNA, October 16, http://www.president.kremlin.ru/eng/text/speeches/2007/10/16/1450; *Eurasia Daily Monitor* (EDM) no. 27,, Jamestown Foundation, February 7, 2007.
5. President of Russia, "Speech at the opening of the Second Caspian Summit", "Answer to a Question," October 16; *EDM*, no. 194, October 19, 2007.
6. Robert O. Freedman (2007) "Russia, Iran and the Nuclear Question: The Putin Record," in *Russia: Re-Emerging Great Power*, op. cit. pp. 203 f; Adomeit, pp. 12 f.
7. President of Russia, "Speech at the Opening," October 16, *EDM*, no. 192, October 2007, *Dagens Nyheter*, October 17, 2007.
8. Mehdi Sanaie, "Problems and Prospects of Iranian-Russian Relations," *Russia in Global Affairs*, no. 2 (2007): 1; http://eng.globalaffairs.ru/printver/1137.html (Retrieved August 15, 2007).
9. *EDM*, no. 124, June 26, 2007.

and the Caucasus.[10] Moreover, Russia dislikes President Ahmadinejad's calls for annihilating Israel, since Russia maintains good relations with Israel and as a member of the Quartet (together with the UN, US, and the EU) tries to mediate between Israel and the Palestinian Authority.[11] However, the main reason for Russia to keep a distance vis-à-vis Iran obviously is Iran's conflict with the United States and its allies on a number of issues, especially the nuclear and military ones, which will be dealt with below. Consequently, Russia and the other SCO members have not accepted Iranian pleas for membership in the SCO. It remains to be seen what will come out of the Caspian organization.

Trade and Energy

In line with political relations, economic relations between Iran and Russia have also developed substantially over recent years. Russia-Iran trade tripled in 2000-2006. Most of it consisted of Russian exports of material for the Bushehr nuclear power station, investments in the Iranian energy sector, as well as weapons and military equipment. Iranian exports consisted mainly of fruits and cars(!). The energy sector is of crucial importance to both states. Russia has proposed an energy club within the SCO and the creation of a "Gas OPEC" which would include Iran – the country with the second largest gas reserves in the world. Within the framework of the Caspian Sea Republics Oil Swap (CSROS), Russian companies deliver oil to Iran via the Caspian Sea, while Iran delivers the same amount to customers at ports in the Gulf. Russian Gazprom owns the company which is building a gas pipeline from Iran to Russia's close ally, Armenia.[12] At the Caspian summit, Putin and Ahmadinejad signed a statement envisaging participation by Russian companies in the development of oil and gas deposits in Iran and coordination of marketing policy in gas export. The latter may serve to bring Iranian gas export under Russian control and defy US economic sanctions.[13] Iran, Turkmenistan and Kazakhstan also agreed on building a north-south railway connection, which Russia supported as it counts on a link-up with the Russian network.[14]

However, also in the economic sphere, there are conflicting interests and

10. *EDM*, no. 27, February 7, 2007.
11. More on this in Oldberg, *The War on Terrorism in Russian Foreign Policy*, FOI-R—2155—SE, December 2006, 30 f.
12. Adomeit, op. cit. 15 ff; Sanaie, op.cit. 4 ff.
13. *EDM*, no. 192, October 17, 2007.
14. President of Russia, "Interview with IRNA," October 16, EDM, 19 Oct. 2007. Iranians have talked about building a canal between the Caspian Sea and the Persian Gulf! (Sanaie, p. 5.

constraints. Iranians have complained that the trade is highly skewed in Russia's favor (1:20). Russia has to a large extent profited from Western embargoes against Iran. Simultaneously, volumes do not amount to more than $2 billion (2006), dwarfed by Russian trade with Turkey ($10 billion) and Israel ($6 billion). Russia and Iran are also competitors in regard to oil and gas. Russia wants to keep its grip on Central Asian energy production and its monopoly on exports via pipelines running through Russia to the West, while Iran wants to expand and build alternative pipelines. Iran notably helped Georgia when the latter was exposed to a Russian energy blockade in 2006, so Gazprom decided to tailor the capacity of the future gas pipeline from Iran to Armenian needs only.[15]

Arms Export and Military Cooperation

Since the 1980s Russia has been Iran's main arms purveyor, selling Tehran arms such as MiG 29s and Su-24MK fighters, helicopters, air defense systems, submarines and up to 2,000 tanks. In 2003, Iran reportedly became Russia's third largest arms customer. In 2000, Russia abrogated an agreement with the United States on restricting its arms trade with Iran and in 2005, Russia started to deliver more sophisticated equipment for submarines and fighters as well as Su-25Ts to Iran. The sale of 29 Tor-M1 missiles, one of Russia's most modern anti-aircraft missiles which could be used to defend Iranian nuclear facilities, upset the US. Furthermore, Russia was suspected of having helped Iran develop more offensive medium-range missiles with a range of up to 3,000 km, which could carry weapons of mass destruction (WMD). On top of this, according to other reports, the Russian arms exporting company Oboroneksport decided to sign a contract for the sale of 250 Su-30MKMs long-distance fighter-bombers (range 3,000 km) and 20 fuel tanker planes with the first delivery in 2007. This would be Russia's largest arms sale in 30 years.[16] Russia also cooperates with Iran in space research by constructing and launching communication and intelligence satellites for Iran in Siberia, cooperation which also has military implications. In 2006, the US imposed sanctions on two Russian military export companies, including Oboroneksport, for violating the Iran Non-proliferation Act.[17]

However, Russia claims that it has only sold defensive weapons to Iran and in

15. Ibidem.

16. DEBKAfile, DEBK reports, 1 August 2007, debka.com/headline_print.php?hid=4449, retrieved 21 August, 2007.

17. Adomeit, op. cit., 20 ff; table of deliveries, 22, *EDM*, no. 152, August 7, 2006, no. 5, January 8, 2007, no. 12, January 17, 2007.

limited quantities. There seemed to be some truth in this, at least until late 2006. Iran's third place in Russian arms exports ($270 million) does not account for more than 5.6 per cent of Russian total arms exports and on average about $50 million in 2000-2006. According to other official reports, Iran falls behind Algeria and Kuwait on the list of importers of Russian arms.[18] It is worth noting that the MiG and Su-24 fighters delivered to Iran were outdated. The number of tanks did not make up for those lost by Iran in the long war with Iraq, and Russia did not deliver more modern attack helicopters and strategic anti-aircraft missiles like the S-300PMU1 or the ballistic missile SS-26 Iskander. Furthermore, China and North Korea have probably helped Iran more than Russia has with missile technology. The Tor-M1 missiles only have a range of 12 km and can only reach targets at an altitude of six kilometres maximum.[19] At the Munich security conference, Putin explained that Russia delivered this system so that Iran would not feel driven into a corner, adding that Russian military cooperation with Iran was minimal and that Russia delivered much less arms to the Middle East than other countries, including the United States.[20] Concerning the reported sale of 250 fighter-bombers it remains to be seen whether Iran can pay for them, allowing for actual delivery. Another unanswered question is where fuel tanker planes could be based to support these bombers.

Russia criticized the US decision in 2006 to build a radar base in the Czech Republic and a missile base in Poland to meet the perceived threat of long-range Iranian missiles. Moscow viewed these planned bases as components of a global system directed against Russia. At the 2007 G8 summit, Putin claimed that Iran only had missiles with a range of 1,600-1,700 km and that these, therefore, could not reach the southern borders of Europe at a distance of 4,500-5,000 km. He assured that Iran "does not even have plans at this point" to produce such missiles, or to attack Europe.[21] He demanded the program be frozen, so long as there was no evidence of an Iranian nuclear or missile threat. At the Munich conference, Putin said he doubted Iran was technologically and economically capable of producing such missiles.[22]

Still, in order to strike a compromise with the US, Putin offered the joint use

18. Adomeit, op. cit., 22 ff.
19. Adomeit, op. cit., 23; *EDM*, no. 12, January 17, 2007.
20. President of Russia, "Speech," February 10, 2007, 9.
21. President of Russia, "Press Conference following the End of the G8 Summit," June 8, 2007, www.president.kremlin.ru/eng, August 14, 2007, 2.
22. On another occasion Putin conceded that Iran might have 2000-2400 middle-range missiles (Vladimir Putin, "I do not rule, I simply do my work," *International Affairs*, no. 2 (2007): 7.)

of a Russian radar base at Gabala in Azerbaijan and said that interceptors could be deployed in Turkey or on mobile platforms at sea.[23] Later Putin proclaimed that if a missile defense system was to be built, it should be done together and he demanded "democratic access" to the system.[24]

The Russian proposal was, of course, berated in Iran, as it implied that Russia agreed there was an Iranian threat. Azerbaijan's endorsement of the proposal also rankled Tehran.[25] However, US officials soon rejected the idea, claiming that the Gabala radar could only be used for detecting missile launches, not to guide interceptors. In October, however, US officials intimated that the missile defense plans in Europe could be downsized, if Iran halted its nuclear and missile programs. Defense Secretary Robert Gates announced that the missile defense would be fully activated only when a real threat emerged in Iran, such as long-range missiles tests, and that Russian inspectors could be invited to the bases. These ideas seemed intended to make Moscow put pressure on Iran. [26] As that had no effect, the US plans proceeded.

The Nuclear Issue

Russia cannot be said to have created or inspired Iran's nuclear program, but it certainly has contributed to it. Russia's nuclear cooperation with Iran started in 1995 when it agreed to finish the construction of a VVER 1000 MW water-cooled reactor at Bushehr. The German company Siemens started (with American approval) to build the reactor in 1974 but deserted it in 1980 when it was 80 per cent ready. In a secret protocol, Russia promised to build a research reactor, to deliver raw uranium, which Iran only has in limited quantities, as well as to build an enrichment facility and train nuclear specialists. Even if President Yeltsin agreed to eliminate the possibility of weapon-grade plutonium production in response to US criticism, Russia's Minister for Nuclear Energy Mikhailov made clear that the delivery of an enrichment plant could be made at a later stage. Mikhailov argued that enrichment is not necessarily conducted for military purposes and that Iran is entitled to enrichment capabilities according to IAEA rules. Mikhailov's successor Adamov said he was sure Iran was trying to build nuclear weapons, but he saw no reason to break off the nuclear cooperation.[27]

In line with this, in 2002, Russia signed and started to implement a 10-year

23. President of Russia, June 8, p. 2.
24. President of Russia, "Interview with IRNA," October 16, 2007.
25. *EDM*, no. 125, June 27, 2007.
26. *EDM*, no. 198, 25 October, 2007.
27. Adomeit, op. cit. 30 ff.

agreement with Iran on nuclear cooperation, which included the construction of six reactors, four of which were to be at Bushehr, and the training of hundreds of Iranian researchers and engineers. In 2006, some 2,000 Russian specialists worked at Bushehr.[28] Russia is also reported to have assisted Iran in uranium enrichment using laser technology. In 2005, Russia agreed to deliver uranium fuel to Iran six months before starting the Bushehr reactor, whereas Iran pledged to return the spent fuel to Russia within five years. According to Greenpeace, this time-frame would allow Iran to derive plutonium for 161 nuclear bombs.[29] In the face of US protests, Putin kept repeating that Iran did not plan to build nuclear weapons. Moscow continued to oppose international sanctions against Iran and instead advocated negotiations. Russian observers also pointed to splits in the Iranian leadership which could be exploited in negotiations, increasing their chance of success.[30] Even when Iran, in April 2007, triumphantly announced it had managed to enrich uranium and proclaimed itself a nuclear power, Russian nuclear experts unanimously slighted the progress as insignificant, and Russia's ambassador to the UN said he saw no reason for punitive measures.[31] Russia was pleased when the IAEA in September 2007 concluded that there were no more outstanding issues regarding Iran's nuclear program and rejected the US view that Iran was only playing for time.[32] The Caspian summit in October 2007 declared in support of Iran that all states have a right to the peaceful use of nuclear power without being restricted. Putin explained that every military action in the region would be unacceptable, and that it was useless to scare the Iranian people.[33]

However, there are some Russian experts who believe Iran is aiming to acquire nuclear weapons. According to a March 2006 study by the prestigious Council for Foreign and Defense Policy (SVOP), the Iranian elite is convinced that, judging by the examples of Pakistan and North Korea, only nuclear weapons can grant Iran the status of a regional superpower and stabilize the domestic situation. SVOP believed that, although the process can be stopped, it is only a matter of time before Iran acquires nuclear weapons. According to some observers, this may take from six months to two years, while others estimate it as five years. Many Russian observers

28. Sanaie,op. cit., 5.
29. Adomeit, op. cit., 38, footnote 109.
30. Adomeit, op. cit., 34 ff, *EDM*, no. 73, April 14, 2006.
31. *EDM*, no. 73, April 14, 2007.
32. Yevgeny Primakov, "US-Iran: Bluffing or Going for Broke," *The Moscow News*, September 13, 2007; *EDM*, no. 181, October 1, 2007.
33. *Svenska Dagbladet, Dagens Nyheter*, October 17, 2007.

do not seem to regard an Iranian nuclear bomb as catastrophic, as long as the regime in Tehran remains stable. Former Deputy Minister of Defense Andrei Kokoshin expressed the opinion that an Iranian bomb is a greater threat to Washington and Jerusalem than to Russia.[34] Such views, in fact, may have emboldened the Iranian leadership in its resistance to Western pressure.

However, it is also true that the Russian leadership became more worried about Iran and ready to cooperate with the West when the IAEA discovered that Iran, since 2005 under its new radical president, had withheld information and proceeded with enriching uranium. Clearly, it is not in Russia's interest to get a nuclear-armed Islamic power near its southern borders, something which Russian officials have at times acknowledged. Putin has stated that Russia's security – like that of the US – strongly depends on promoting non-proliferation of nuclear weapons, their carrier systems as well as other WMDs. Thus, in 2003, Russia agreed with the West that Iran should sign an additional protocol with the IAEA on tighter control of nuclear facilities. In addition, Moscow vowed to finish the Bushehr reactor only if Iran agreed to transfer the spent fuel to Russia. In 2006, Russia proposed forming a joint venture for nuclear enrichment or, more importantly, to transfer spent fuel to Russia for enrichment.[35] The latter proposal won international support as a way to ensure control over Iran's nuclear program, but it would also put Russia in a caretaker position and bring it economic profit. Tehran showed some interest in the proposal but did not give up its own nuclear enrichment program. Therefore, in December 2006, Russia supported a UN Security Council resolution which called on Iran to stop enrichment and imposed economic sanctions, which, however, were relatively mild on Russian insistence. Additional sanctions were possible if Iran did not comply within 60 days.[36] When Iran did not comply, Russia expressed displeasure. Russian officials warned that the Iranian nuclear program could indeed acquire a military dimension and that Tehran was undermining Russia's international credibility. They also began to wonder why Iran needed nuclear power given its vast oil and gas resources and were disappointed with the political development in Tehran.[37]

Furthermore, Atomstroieksport – the Russian company tasked to finish the Bushehr reactor by 2000 – repeatedly postponed the deadline for sending the fuel rods with 100 tons low enriched uranium and starting the reactor. Officials

34. Adomeit, op. cit., 40, *EDM*, no. 73, April 14, 2007.
35. Freedman, op. cit., 204.
36. Adomeit, op. cit., 37.
37. *EDM*, no. 173, September 20, 2006; no. 39, 26 February; no. 52, March 15, 2007.

claimed that Iran was lagging with the monthly payments, and the company fretted that the agreed sum ($1.2 billion) did not cover the mounting costs.[38] In addition, the Russian experts at Bushehr went home.[39] According to a Russian analyst, Tehran withheld payments in order to blackmail Russia into sending the reactor fuel, while Russia was pressing Iran to stop enrichment by withholding the fuel.[40]

However, the primary reason for Russia's continuing delay probably was US protests and warnings. The Iranian authorities denied the charges on lagging payments and some Iranians even accused Russia of playing the Iranian card in order to ingratiate itself with the West.[41] While visiting Iran, Putin assured that Russia would finish the reactor, apologized for the technical delays and reminded Tehran of the agreement that spent nuclear fuel should be returned to Russia.[42] After a US intelligence report concluded that Iran had stopped its nuclear weapons program already in 2003, which confirmed the official Russian view, Russia finally announced in December 2007 that it had started to deliver nuclear fuel to Iran, repeating that this made the Iranian nuclear enrichment program unnecessary.[43]

By way of conclusion, Russian policy vis-à-vis Iran is thus clearly ambivalent, shifting and unclear. Russia tries, on the one hand, to nurture special relations with Iran in order to get political and economic benefits by expressing confidence in Iran's good intentions, opposing or trying to alleviate international sanctions against Tehran, and advocating peaceful dialogue. On the other hand, Russia wants to stay on good terms with the US and the EU, which are worried by Iran's nuclear program and its military implications as well as by Iran's hostile stance towards Israel. To some extent, Moscow is therefore cooperating with the Western states in pressing Iran into concessions and participating in limited sanctions. Still, Russia probably prefers the present situation to any changes, since it can both profit economically from Iran and use it as a way to pose as a great power, when overall relations with the United States have soured.

38. Adomeit, op. cit., 36; *EDM*, no. 173, September 20, 2006.
39. Maybe this was also a result of new signs that the Americans were preparing to attack the site.
40. *EDM*, no. 52, March 15, 2007.
41. Sanaie, op. cit., 6, Adomeit, op. cit., 34, Freedman, op. cit., 211.
42. President of Russia, "Interview with IRNA," October 16, 2007.
43. *The Moscow News*, no. 50, 2007, *EDM*, no. 2, January 2008.

Likely Russian Reactions to an American Attack on Iran

Needless to say, Russia has for long been carefully considering the likelihood of a US attack against Iran and warned against it. Most of the time, an attack has been regarded as unlikely, implying that Russia's Iran policy could continue. Former Prime Minister Yevgeny Primakov has stated that US threats to attack may be a way of enforcing discipline within NATO.[44]

However, when signs of US preparations for an attack have appeared, this has received wide publicity in Russia. In March 2007, First Deputy Minister of Defense and Head of General Staff Yurii Baluevskii cautioned that the US might wound Iran but could not defeat it and that the war might lead to the "downfall of America." Deputy Minister of Foreign Affairs Andrei Denisov bluntly declared that a war close to Russia's borders is unacceptable. A military specialist explained that although the Americans lacked available conventional forces, this did not preclude an attack. Rather, it would force the US to use tactical nuclear weapons in the first wave of attack, which in turn could mean radioactive fallout on Russian territory.[45] This was, of course, seen as a threat.

The Russian reaction to an actual attack will naturally depend on its extent, timing, and success. For instance, the use of nuclear weapons and/or big Iranian casualties would likely lead to stronger condemnations. The reaction will also depend on whether the attack is conducted suddenly and unexpectedly or after prior consultations which include Russia. The failure to predict a sudden war could lead to some soul-searching within Russian intelligence and Foreign Ministry offices, and those who predicted the attack would probably win favors.

Domestic Effects

Russia would most likely react very negatively to a US attack on Iran as a result of the prevailing mood of nationalism, great power thinking as discussed above, as well as growing anti-Americanism due to NATO's eastern enlargement and the war in Iraq. Public condemnations would be made and more or less spontaneous demonstrations at the US embassy would be held in a similar way as when the Iraqi war started. Extreme nationalists would call for measures against US interests, consumer boycotts and so on and for solidarity with Iran. The attack could increase the already existent pressure on US companies working in Russia, for example in the energy sector.

44. Primakov, *Moscow News*, no. 35, 2007.

45. *EDM*, no. 66, April 4, 2007.

The Russian military and security services would be strengthened further and strongly condemn an American attack, which would be seen as an increased threat to Russian security. But they would also closely study how the attack was prepared, carried out and followed through in order to draw lessons. The attack, carried out by sophisticated US weapons, would most likely underpin arguments for more spending on defense and security, especially on air defense and C3I. This would be in line with developments in the aftermath of the attack against Iraq in 2003.[46] Moreover, as noted above, Russia now has the economic means for such increased spending. Extreme Russian nationalists may call for support for Iran, e.g. by sending weapons or volunteers, or by breaking off diplomatic relations with the United States.

Effects on Russian Foreign Policy

Should an attack on Iran take place, this would mean that the Russian efforts at mediation and averting war would have failed and it would be more difficult for Russia to continue the balancing game between Iran and the US. The Russian leadership would most certainly desist from supporting Iran in material ways against the US military as they did in Kosovo in 1999 and Iraq in 2003. The probable success of US high-tech weapons against Iran may also sully the reputation of Russian arms export.

However, as hinted above, Russian officials are most likely to condemn an attack as evidence of general US aggressiveness and disregard of international law. Moscow would especially criticize a US unilateral attack which had not been sanctioned by the UN Security Council (where Russia has a veto right) in line with the previous cases of Kosovo in 1999 and Iraq in 2003. Unless Iran itself has admitted that it has, or is building, nuclear weapons (which is highly improbable), Russia may accuse the US of providing insufficient evidence to justify the attack. The likelihood of Russia making such claim can be underpinned by US misinformation in regard to Iraq's WMD program. Russia may also claim that the opportunities for negotiation and compromise have not been exhausted with reference to the example of North Korea.[47] The US did not intervene militarily in North Korea even though Pyongyang made a point of having nuclear weapons. The six-party negotiations (which included

46. Oldberg, "Ryska lärdomar av Irakkriget", *Internationella studier*, no. 4 (2003): 25 ff; Carolina Vendil Pallin, "Iraq War Prompts Debate on Russian Military Reform," *Jane's Intelligence Review*, August 2004, 54 ff.

47. RIA Novosti, "Russia Concerned by Media Reports of Iran Military Action – Lavrov," September 18, 2007, en.rian.ru/world/, retrieved September 19, 2007.

Russia) in 2007 resulted in North Korea consenting to closing its nuclear reactor in exchange for economic support.[48] The US may respond by lambasting Russia's arms export to Iran and its contribution to Iran's nuclear program. Thus, there are a number of reasons why Russia-US relations could deteriorate.

Russia may further argue that an attack will not split but rather unite the Iranians in their support of President Ahmadinejad and fortify his resolve to acquire nuclear weapons as a way of deterring attacks against Iran. Moreover, Russia may warn (if it has not happened already) that Iran can take countermeasures against US and allied interests in the Middle East, e.g. send troops into Iraq, support insurgency and terrorism in Iraq, Lebanon and against Israel, and disrupt traffic in the Hormuz Strait.[49]

Doubtless, Russia would try to gain political capital from a US attack and take a leading role in restoring peace. Russian officials and media would pay much attention to human losses among the Iranian population, the material destruction and the environmental effects, especially any possible nuclear fallout, which could affect also neighboring countries. Russia could well bring the issue to the United Nations, calling for a sharp international condemnation of the aggressor, an immediate cessation of hostilities and a renewal of negotiations, preferably under the aegis of the UN. Russia could also initiate international humanitarian and reconstruction aid to Iran.

Along these lines, Russia would surely seek cooperation with like-minded countries in Europe in a similar way as it did in connection with the Iraq war in 2003. However, in the Iran case, both Germany and France, now with new leaders, seem to be closer to the US position than to Russia.

Russia will surely remind Europe and the world that after the destruction of Iranian nuclear facilities and military targets there will no longer be any need for a US-sponsored missile defense shield in Europe, especially the planned radar base in the Czech Republic and the missile base in Poland, which Russia sees as threats to itself. Russia will, therefore, demand that the US give up the plans, something which in turn may worry the two base countries.

Russia could furthermore be expected to use an American attack on Iran as an argument for strengthening military integration in the Collective Security Treaty Organization (CSTO), especially with regard to the joint air defense system and command, control and intelligence systems.

48. Cf. Ministerstvo inostrannykh del Rossii, "Stenogramma otvetov Ministra inostrannykh del Rossii S.B. Lavrova," May 30, 2007, www.ln.mid.ru, retrieved August 14, 2007.

49. Such a scenario was commented upon by Primakov in the *Moscow News*, no. 35, 2007.

At the same time, Russia could profit from world attention on the new war by increasing its pressure on Georgia and other post-Soviet states striving to join NATO. In addition, Iran's preoccupation with the war would make it easier for Russia to advance its positions in regard to the division of the Caspian seabed. Iran may also become too weak to compete with Russia for energy resources in Central Asia, for instance in Turkmenistan.

A US assault on Iran is furthermore likely to increase Russian cooperation with China, which is at least as concerned as Russia about US military presence and activities in its vicinity. This, in turn, would probably boost security cooperation in the Shanghai Cooperation Organization (SCO), which includes four Central Asian states but is dominated by Russia and China. The SCO would certainly condemn an attack on Iran, one of its observer countries.

A US attack on yet another Muslim country would also offer Russia an opportunity to improve its position in the Middle East, partly among its old allies such as Syria, and partly among other Arab states, some of which are traditional allies of the United States. Several Arab states see Russia as a counterweight to the United States, one which they can use to their own advantage. Russia does not have any qualms about authoritarian regimes and has no ambitions to democratize countries. Russia has shed its atheistic Marxist-Leninist ideology and been accepted as an observer in the Organization of the Islamic Conference (OIC). It is willing to sell weapons to all states which are able to pay and is interested in cooperation in the energy sector, where it has vast resources and long experience. Accordingly, Russia has improved its relations with Saudi Arabia and Qatar. In February 2007, President Putin visited these two states as well as Jordan (right after having criticized the United States at a security conference in Munich) and signed economic agreements. Saudi Arabia was even offered cooperation in space research and a civilian nuclear power program.[50]

Finally, Russia would be one of the countries benefiting the most from rising oil and gas prices on the world market as a result of the war. With regard to Europe, Russia could boast that it is a stable, reliable and peaceful source of energy in contrast to the Middle East.

In short, an American attack on Iran would give Russia an opportunity to improve its standing and influence in world politics. This would be even more the case if the United States gets bogged down in Iran, adding to its commitments in

50. Mark A. Smith, *Russia and the Persian Gulf. The Deepening of Moscow's Middle East Policy* (Conflict Studies Research Centre, Sandhurst, August 2007), 1 ff; Adomeit, op. cit. 8 f.

Iraq and Afghanistan, and if, on top of that, Pakistan succumbs to radical Muslim forces and breaks with the United States.

Russian Relations with Iran

A US attack on Iran would mean that Russian efforts to mediate and support a country it calls a strategic partner have failed. Since Russia, as noted above, is unlikely to assist Iran materially in a war, the Iranians (and Russian extremists) would be disappointed and talk about deceit and Russian collaboration with the US. The attack would also mean at least a temporary halt to Russian exports of arms and nuclear technology to Iran, even though the resulting financial losses should not be exaggerated.

However, unless the war leads to the fall of the Islamist regime in Iran, which is very uncertain, the regime would probably as soon as possible try to recover its strength. Even if Iran might have felt deserted by Russia during the war, it would not have many options but to turn to Russia for support (though China could emerge as a stronger competitor than before). As noted above, Russia is likely to condemn the attack on Iran in the international arena and would probably be very keen to recover its position in the country, for example by promoting reconstruction there. Out of international considerations Russia may have to keep out of Iran's nuclear sector, thus forfeiting profitable contracts, as well as refrain from exporting offensive weapons to Tehran. However, Moscow can be expected to intensify its efforts to gain a strong position in the Iranian energy sector by taking over Iranian companies and making investments. Iran would then be in a weaker position vis-à-vis Russia than before the war and less able to compete with it, for example in Central Asia.

Russia has probably been Iran's strongest ally since the 1990s and profited from the cooperation without worrying about Iran's nuclear program or military and political ambitions, in contrast to most Western states. Even if Russia would suffer some economic losses from a US attack on Iran, it could also score political points in the international arena at US expense and both retain and expand its economic and political relations with Iran after the war. Russia may thus be in a win-win situation.

The Islamic Vector in Russia's Foreign Policy

Professor Alexei Malashenko

Carnegie Center, Russia

It is now becoming explicitly evident that the principal actors in global politics can no longer avoid Islam as a factor to be taken into account when constructing their strategic level decision-making. We can also reformulate the question as follows: how great is the importance of the religious affiliation of the partner or opponent in formulating foreign policy? "Faith-based diplomacy," Madeleine Albright, former US Secretary of State, believes, "can be a useful tool of foreign policy. … The resurgence of religious feeling will continue to influence world events."[1] Foreign policy has long ceased to be alien to religion. The factor of inter-confessional relations is taken into account in resolving (just as in provoking) conflicts. Finally, the foreign policy course of any country often receives, among other things, religious substantiation, which makes it more comprehensible in the eyes of society.

Such is, above all, the case with the Muslim world. The United States and Europe, as well as Russia and China, for all the selectivity of their approach to every individual Muslim country, always take into account its affiliation with the Islamic community. The reasons for this are as follows:

- the intense political nature which is inherent in Islam;
- each Muslim country's compulsory membership in transnational Islamic institutions;

1. Madeleine Albright, "Faith and Diplomacy," in *The Review of Faith & International Affairs* 4 (Washington, D.C.), no. 2 (Fall 2006), 9.

- observance (at least formally) of Islamic solidarity at both state and public levels;
- presence of a radical religious-political movement.

To this may be added the thesis, which became established in the West at the turn of the century, on the need for democratization of the *entire* Muslim world, which, in turn, is tied in with the need for the reform of Islam. In this broad context, the concept of a Great Near East proposed by the United States (even though it has not materialized), which can easily be interpreted as the Muslim world at large, signals a recognition of the relatively high degree of its homogeneity at the base of which is Islam.

Between the East and the West

For Russia, an additional reason for paying attention to the Islamic factor is that it has not yet made its final geopolitical civilizational choice. Firstly, Russia is unable to inscribe itself in Western Christian civilization. It cannot take up a rightful place in the Western political community, and in the 2000s it ceased to want to take it up at all. Hence, secondly, this prompts Russia to conduct a geopolitical search in the southern and eastern directions, laying stress on its "bi-civilizational" identity. Such a search, however, is also fraught with difficulties: fundamentally, Russia is alien both to the South and to the East. Here a nearly 200-year-old utterance by the Russian philosopher Petr Chaadaev comes to mind – that "we have never moved in concert with the other peoples. We are not a part of any of the great families of the human race; we are neither of the West nor of the East, and we have not the traditions of either."[2]

The intermediate position between the West and the East provides convenient grounds for declaring special relations with the Muslims. To Moscow, dealing with them is easier than dealing with the Europeans and the Americans. Between the Muslims and Russia, there do not arise ticklish issues of the type which come up in its relations with the West such as those concerning the conformity of its political system with the generally accepted democratic standards, the legitimacy of its membership in G8, or its conduct in the Euro-Parliament. Thus, during Vladimir Putin's tour of Muslim countries in 2007, "a completely different scenario was being played out around the Russian president as the Arab world opened its doors to him. There were

2. P.Ya. Chaadaev, *Izbranniye sochineniya i pisma* [Selected Works and Letters] (Moscow, 1991), 25.

no unpleasant topics, and the pleasant ones were numerous – cooperation in energy without conflict, without overtones of suspicion or recrimination; arms trading, … and so on." As the Moscow liberal newspaper *Kommersant* wrote sarcastically in this connection, "It is time to admit what political subgroup Russia belongs to in the world. It is Saudi Arabia, Qatar and Jordan. Not the 'Big Eight.'"[3]

Muslim leaders never raise the subject of human rights, and they did not criticize Moscow for the war in Chechnya as sharply as had been expected. As admitted by Russian diplomats at the Human Rights Commission in Geneva, Russia acted in concert with the Muslim countries, in particular, with Saudi Arabia, and they withdrew the issue of Chechnya. Russia, in its turn, does not urge the Muslims to establish democracy or interfere in their internal affairs, expressing its understanding of authoritarianism dominating everywhere in the Muslim world.

Thirdly, additional significance to the Islamic factor in Russia's foreign policy is lent by the presence in the country of a nearly 20 million-strong Muslim minority the sentiments of which the Kremlin cannot afford to ignore.

Fourthly, the Islamic factor is important in view of the threat of religious extremism. Russia has suffered a large number of terrorist acts, and their perpetrators qualified themselves as mujahideen. Thus, the Islamic factor has turned out to be a reason for cooperation with the West.

Face to Face with Islam

In the early years after the collapse of the USSR, Russia's relations with the Muslim world underwent fundamental changes and could no longer be compared to the Soviet Union's relations with it. Andrei Kozyrev, who then headed the Ministry of Foreign Affairs, while stating the importance of the Muslim direction, in fact regarded it as inert and insignificant, having been inherited from Soviet foreign policy. In a situation of rapprochement with the West, any talks about the development of contacts with the Muslim world would have been out of place.

Moscow excluded the support of national movements from its foreign policy doctrine and abandoned taking independent initiatives in its Near Eastern policy, completely relying instead on its US and European partners. Doing this was relatively simple, since the Soviet Union's role in the Arab-Israel conflict had begun to decrease sharply in 1977 with the beginning of the Camp David process.

In addition, it transpired that the USSR left Russia no serious economic legacy in

3. Sergey Strokan, "Tsena voprosa" [The Price of the Question], *Kommersant*, no. 23 (3599), February 14, 2007.

the Muslim world other than debts that could later on be realized at an advantage.

During his visit to Israel in 1995, Pavel Grachev, who was Minister of Defense of the Russian Federation at the time, underlined the end of the former relations when he agreed to flying around the Golan Heights in an airplane provided by his Israeli counterpart. The irreversibility of Russian foreign policy was accepted in the Near East as a fait accompli. The "diplomatic amazement" expressed by the Arabs with respect to the incident, however, had no impact on Russian-Arab and Russian-Muslim relations.

Nonetheless, Russia's indifference towards the Muslim world did not mean the disappearance of the Islamic factor from its foreign policy. After the collapse of the USSR and the concurrent collapse of the bipolar system, Islam was fully inscribed in the global political environment and the forces acting under religious banners became a subject of world politics.

This was particularly significant for Russia. It is precisely in connection with the Islamic factor that continuity (even though of a sad nature) is to be found in its foreign policy, for rather soon a "Muslim front" emerged in Russia itself: a few years after the Afghan jihad came to an end, a Chechen jihad broke out. Similar to the Afghan war, the war in Chechnya affected Russia's position in the world community and its policy.

Little by little, yet ever more tangibly, the Islamic factor began to affect Russia's relations with its Muslim "near abroad" where, forming a new post-Soviet identity, the Islamic "renaissance" was flourishing, the archaizing of society was in progress, and Islam was being incorporated into the official ideology, leaving an impact on the local leadership (especially in Tajikistan and Uzbekistan). By turning to Islam and striving to bring out their affiliation with the Muslim world, the former Soviet republics distanced themselves from the parent state. Their ruling elites did not dream of becoming fully incorporated into the Muslim community (they would be a foreign element in it), yet an appeal, even though inconsistent, to domestic Islam and relations with co-religionists abroad created an additional opportunity for maneuver in foreign policy. Finally, many of the politicians in these republics counted on exchanging their newly awakened partiality to Islam for economic aid from their co-religionists.

A seething Muslim enclave with a non-Soviet identity and with sporadic manifestations of religious radicalism was being formed along Russia's southern border. Russia could no longer afford to ignore the Islamic component of the region.

One of the scenarios advanced in 1994 by the Foreign Intelligence Service,

then headed by Yevgeny Primakov, assumed a growth in the "Islamic threat" to Russia. Its authors proceeded from the prospect of penetration of Islamism from Tajikistan, where a civil war was underway at the time, and Afghanistan, where the Taliban movement was growing in strength. The year 1994 saw the beginning of the war in Chechnya, which destabilized the situation in the Northern Caucasus, and in 1996 the Taliban came into power in Kabul. Afghanistan turned into a center of international Islamism where extremists from the Central Asian and Caucasian regions perfected their abilities. There developed a "crescent of instability" with one "horn" resting against the Caucasus and the other, against China's Xinjiang.

As a matter of fact, the "rising of the crescent" occurred earlier than that. It was prompted by the Iranian revolution and the war in Afghanistan, where the jihad was internationalized, of which bin Laden's Al-Qaeda became a symbol later on. In some people the war in Afghanistan gave rise to a delusion that Islamic radicalism could be manipulated with impunity while others believed that it would be senseless to wage war against it. All of this concerned Russia, whose frontiers grew restless.[4]

September 11 started nothing new in the relations between the Muslim world and the West, including Russia. The tragedy that happened that day most cruelly demonstrated that relations were in an unsettled phase and that this would continue to be so in the near historical future.

In these conditions, Russia had not only to define its attitude towards the Islamic factor in its most radical form – that is, the Islamist threat – but also to give some thought to the possibility of using this factor in its foreign policy.

The Islamist threat to Russia erupted within the country itself. It was a response to conflicts that developed in its domestic public and political life and to a crisis in people's consciousness. The barrier between domestic and foreign Islam grew largely tentative, and the ties among Russia's Muslims – whether in the Northern Caucasus or, in a lesser degree, in the Volga Area and the Southern Urals – became regular and versatile. In the Russian Federation, a whole variety of charity organizations with an ideological and political bias – such as the International Islamic Relief Organization (IIRO), Jamiat Ihia Al-Turath Al-Islamiya ("Revival of Islamic Heritage Society"), Al-Harameyn ("The Two Holy Places"), El-Hairiya ("Charity"), Benevolence International Foundation, "Qatar," and also such groupings as Hizb ut-Tahrir, Al-Qaeda and the Muslim Brothers – have been and are active, even though today on a lesser scale.

4. *Russia's Restless Frontier* is how my colleague Dmitry Trenin and I entitled our book published in 2004.

Islamism has established itself in the "near abroad." Numerous "antiterrorist publications" appearing in Central Asia aim to create an opinion that the Islamist threat has emerged entirely due to external forces. This approach ignores the internal causes of pro-Islamist sentiments. Social protest finding its expression in a religious form in the absence of real democratic institutions, characteristic of authoritarian regimes, made Islamism the only opposition. As Akezhan Kazhegeldin, former prime minister of Kazakhstan, put it, "Taking to arms in Central Asia are people to whom the newly emerged khans and sultans have not left a legal niche for oppositional political activity."[5]

The threat on the part of religious extremists appears to be real also because, according to their worldview, in terms of its religious affiliation, public consciousness and history, Russia has been regarded as part of the West. This brings to mind certain expressions dating from the days of Ayatollah Khomeini, who characterized the US as the "Great Satan" and the USSR as the "Lesser Satan." Naturally, depending on the political situation and on the stand taken by one Islamist grouping or another, emphasis may be on the noun or on the adjective. Yet one way or the other, the notion of Satan remains even if it is not pronounced aloud for reasons of political expediency. Simplifying this approach, it may be assumed that the radicals of Hamas view Russia as the "Lesser Satan," whereas the followers of Shamil Basayev or the grouping that put Russian diplomats to death in 2006 regard it as the "Great Satan."

After September 11, Russia joined the anti-terrorism coalition. Russia and the West joined forces in the struggle against their common enemy – extremism which threatened to destabilize the world situation, connected with the drug business and illegal arms trafficking and provoking internal and inter-state conflicts. Islamism forced Russia, the US and Europe to cooperate, the more so as it is itself international and ideologically — at least, at the level of slogans — consolidated and it can only be opposed by joining forces (although even then this partnership was overshadowed by clouds gathering around Saddam's Iraq).

The threat of Islamist extremism opened up other non-trivial prospects for Russian foreign policy. It presented a convenient and justified reason for strengthening Russia's military and political presence in Central Asia. The Collective Security Treaty Organization (CSTO) was called upon to act against extremism; a CIS Antiterrorist Center was set up in the region, and there is a corresponding

5. Akezhan Kazhegeldin, *Oppozitsiya srednevekovyu* [Opposition to the Dark Ages], (London/Moscow, 2000), 236.

unit acting within the framework of the CSTO; struggle against terrorism has been placed on the agenda of the Shanghai Cooperation Organization (SCO). In the spring of 1998, Russia made a proposal to Uzbekistan and Tajikistan to form an alliance for counteracting radical Islam (so far, the alliance has not been formed). The fear of being ousted from Central Asia is prompting Russia to resort to minor blackmail, using the Islamist threat, of its post-Soviet partners. Countering terrorism has become a compulsory clause in Russia's agreements with the countries of the region.

How adequate to the size of the threat are these actions by Russia?

International organizations active in the post-Soviet space are unable to prevent the growth of Islamism through the use of force – at least for the reason that, firstly, it is rooted in the internal problems of the participant countries and, secondly, the Islamist radicals' activities are of a guerilla character against which such entities as the CSTO or the SCO, established at the initiative of China in 1996 (known at the time as the Shanghai Five), are powerless. Anti-terrorist exercises look rather like PR efforts. Nor are the few Russian military bases (in 1994, their number was planned to be increased to 30, but Moscow had to abandon these large-scale projects) suited for countering terrorism.

Russia will not risk direct interference in the internal political situation in any country in case a mass movement under Islamic slogans develops there. If a hypothetic conflict breaks out in the Fergana Valley, the main hotbed of Islamism, not a single Russian soldier will enter it. After the Soviet "experiment" in Afghanistan, and the US ones in Iraq and Afghanistan, hardly anyone will risk sending a "limited contingent" there. Russian society will not accept yet another attempt of providing "brotherly assistance."

Vladimir Putin said that "We are not ready, do not want and will not take responsibility for complete settlement of conflicts. We do not want any of the sides to shift the responsibility for the settlement of conflicts to Russia."[6] The President did not specify what conflicts he meant, which makes it possible to assume that he implied both inter-state and internal conflicts.

The time of personal sympathies and antipathies of the Moscow and post-Soviet Muslim politicians has come to an end. The Kremlin prefers dealing with those who clearly accept the rules of its game and are ready to take into account Russia's interests regardless of what place in their worldview, as well as in the official

6. Bakhtiyer Rashidov, *Rossiya v Tsentralnoi Azii: vozmozhnosti i perspektivy* [Russia in Central Asia: Opportunities and Prospects], Fergana.ru Information Agency, http://www.ferghana.ru/article.php?id=4182&print=1

ideology, is occupied by the religious element. Another question is whether Russia is ready for dialogue with Islamists if they become part of the ruling coalitions in Central Asia. The answer is yes because, firstly, Russia does not stand in awe of the Islamization of Central Asia (although this is not mentioned aloud); moreover, its experience of contacts with Tajik Islamists was rather successful. Moscow was instrumental in holding peace talks and signing in 1997 of a peace agreement between the secular forces and the United Tajik Opposition, the backbone of which was the Islamic Renaissance Party of Tajikistan.

Secondly, for quite a long time now, no one has avoided contacts with moderate pragmatic Islamists. A classic example of such contacts is Turkey, which has, since 2002, been under the firm rule of Recep Erdogan, an Islamist technocrat striving for membership in the Council of Europe. Thirdly, a possible, albeit unlikely, alternative to a green revolution may be an orange revolution that is unacceptable to Moscow.

Russia readily accepts the semi-traditional character of the post-Soviet Muslim regimes and is not obsessed with retaining their secular nature. Moscow recognizes with satisfaction their "distinctiveness" and openly expresses skepticism about applying to them a Western model alien to their identity. Such phrases as "specific features of national democracy," and "the need to preserve the civilizational specifics" uttered in Tashkent, Dushanbe and Almaty are a soothing balm on the souls of Moscow's political technologists playing with the idea of a "uniquely Russian path of development" and "sovereign democracy." The Russian elite is keen that these regimes should have an intermediate character with an Islamic component, which facilitates its contacts with local counterparts and its presence in the region.

The Road to the OIC

The ideology of Russia's foreign policy determines the specific character of its relations with the Muslim world. Underlying the recognition of this specific character is the fact that Russia is a multi-confessional, mainly Christian-Islamic, country, which predetermines its affiliation with two civilizations at the same time. Proceeding from this, "Moscow demonstrates its readiness to play the part of a bridge between the West and the Islamic world."[7]

In 2004, a parliamentary association named "Russia and the Islamic World: Strategic Dialogue" was set up at the State Duma. According to State Duma Deputy Shamil Sultanov, its aims are: "Legislative support of the development of

7. Veniamin Popov, "Rossiya namerena prisoyedinitsya k islamskoi konferentsii" [Russia Intends to Join the Islamic Conference], *Otechestvenniye Zapiski* (Moscow), no. 5 (2003), 219.

Russia's relations with Muslim countries and international Islamic organizations, above all with the OIC[8]…, advancement of initiatives aimed to ensure participation in the integration processes of the Islamic world; …creation of conditions for a constructive dialogue between the political and economic elites of Russia and the Islamic world," etc.[9]

Veniamin Popov, Ambassador-at-Large at the Russian Ministry of Foreign Affairs, has noted more than once that "Russia can and must stand for the need of Christian-Muslim dialogue." Islam, Popov wrote, is "the only religion that has created its own inter-state structure – the Organization of the Islamic Conference."[10]

The establishment of special relations with the Islamic countries was furthered by the efforts of Russia – a country with a Muslim minority – to join the OIC as an observer. There had been sporadic contacts with the OIC back in the Soviet times. In particular, the OIC was instrumental in liberating Soviet prisoners of war from Afghanistan. In 1994 and 1997, after the collapse of the USSR, secretaries-general of the organization visited Russia.

In the mid-1990s, the idea of Russia's accession to the OIC was more than once advanced by Yevgeny Primakov, an eminent politician who at different times held the posts of Russia's minister of foreign affairs and prime minister; he made efforts to convince foreign Muslim politicians, who held him in great respect, of the mutual benefit of such a step. In 1997, the question of Russia's joining the OIC was brought up by Nadirshakh Khachilayev, head of the Union of Muslims of Russia, who was a popular Muslim politician at the time. Khachilayev underscored the need for Russia's accession to the OIC by the fact that the Russian Muslims would thus acquire greater rights and raise their status. Khachilayev conducted negotiations in the structures of the OIC and participated in its events where, as a matter of fact, he acted on behalf of the Union of Muslims of Russia, the public political organization that he headed, and not as a representative of Russia.

Foreign policy makers expected to derive substantial benefit from this circumstance. In practice, however, deriving this benefit is not that simple. A rapprochement with the OIC did not bring any particular dividends to the Russian

8. The OIC was established in 1969. Its membership is composed of 57 countries, including two European and two Latin American countries, and also six CIS member states.

9. "Rossia i islam" [Russia and Islam], interview with Sh. Sultanov, Deputy of the State Duma of Russia, *Literaturnaya Gazeta* (Moscow), October 13-19, 2004.

10. "Islamskiy mir i vneshnyaya politika Rossii" [The Islamic World and Russia's Foreign Policy], *Mezhdunarodnaya Zhizn* (Moscow), no. 5 (2005), 77-79.

economy or politics. It was rather in the nature of a symbol, which the Kremlin regarded as an argument in favor of diversification of its foreign policy, which had previously been one-sided in its orientation towards the West.

Some felt that the only particular pragmatic reason for Moscow's desire to get into the OIC was its hope to weaken the negative response in the Muslim world to the war in Chechnya. It is hard to tell to what extent this played a favorable part. Besides, by the time of Russia's accession to the OIC, large-scale hostilities had practically come to an end. In addition, it should be noted that the Muslim community perceived the separatism of the Chechen Republic of Ichkeria in a mostly negative way. Criticism was aimed mainly at the methods of conducting warfare by the Russian army and at killings of peaceful civilians. Despite the support received by the separatists from quite a few national and international radical Islamic organizations, not a single Muslim state (except for Bosnia, the Turkish Republic of Cyprus and the Afghan Taliban) recognized the Chechen Republic of Ichkeria. Such pillars of the Islamic world as Saudi Arabia and Egypt, as well as countries with influential Chechen diasporas – Turkey and Jordan – recognized the integrity of Russia. From Moscow's point of view, during the first Chechen campaign Turkey took an "objective and positive stand."[11] It was only with the advent of an Islamist government in Turkey that its stand became tougher. Iran offered no criticism of Russia.

In 1994, a conference of the heads of state of the OIC rejected a resolution in support of Chechnya proposed by Azerbaijan (at the time, anti-Russian Abulfaz Elcibey was its president) and Saudi Arabia. At the same time, the application of Dzokhar Dudayev, President of the Chechen Republic of Ichkeria, for the accession of his rebellious republic to the OIC was turned down. One indirect indication of how Muslim leaders avoided exacerbation of relations with Russia in connection with the Chechnya issue is the ease with which the Qatari authorities 10 years later, in 2004, extradited the Russian secret agents who had liquidated one of the Ichkerian leaders, Zelimkhan Yandarbiyev, a symbolic figure of the resistance, to Moscow.

Still another evidence of the OIC's goodwill towards Russia is the fact that its representatives, together with a delegation of the League of Arab States, were present at the 2003 presidential election in Chechnya, which was won by Kremlin's protégé Akhmad Haji Kadyrov.

11. David Gudiashvili, "Turtsiya i rossiisko-chechenskaya voina 1994-1996 godov" [Turkey and the Russian-Chechen War of 1994-1996], *Tsentralnaya Aziya i Kavkaz* (Lulea, Sweden), no. 5 (23), (2002), 87.

So the separatist leaders Dzokhar Dudayev and Aslan Maskhadov had every reason to complain of a deficiency of Islamic solidarity. Generally speaking, the Chechnya-Moscow front never became international despite the participation in the war of about 200-300 foreign mujahideen.[12]

However, the "Chechnya issue" was not the main reason why Russia was striving to join the OIC; rather it was Russia's search for its place in the world and its desire to compensate in other areas for its deteriorating relations with the West that propelled its effort. The development of the Muslim vector was entrusted to the Ministry of Foreign Relations; however, the President himself was always ready on occasion to mention the desirability of and need for a Russian-Muslim rapprochement. In 1999, during a visit to Moscow of an OIC delegation headed by Iranian Foreign Minister Kemal Kharrazi, this issue was raised at the topmost level. In April 2003, in a talk with Tajik Supreme Mufti Amonulla Nematzade, Putin directly expressed his view of the possibility of Russia's accession to the OIC as an observer, noting that "Russia is part of the Muslim world to some extent."[13] This view was welcomed both by Patriarch Aleksy and, certainly, by Ravil Gainutdin, head of the Council of Muftis of Russia.

Moscow began to be frequented by OIC missions. In January 2003, Moroccan Abdelwahed Belkaziz, who was its Secretary General at the time, arrived in Russia at the invitation of the Minister of Foreign Affairs. At the Ministry of Foreign Affairs, the office of Special Envoy for Relations with the OIC was instituted. An impressive Russian delegation participated in the OIC summit in Kuala Lumpur in 2003. It was headed by Vladimir Putin and included a pleiad of prominent Russian Muslim politicians – Farit Gazizulin, Minister of Property Relations of the Russian Federation, Dzhakhan Pollyyeva, Deputy Head of the Russian Presidential Administration, the Presidents of Bashkortostan and Kabardino-Balkaria, and Ismail Berdiyev, Chairman of the Coordinating Center of Muslims of the North Caucasus. It also included Akhmad Kadyrov, President of Chechnya. Putin's speech at the summit stressed the importance of inter-civilizational dialogue and impermissibility of Islamophobia.

In 2004, in Istanbul, after the completion of the 31st Session of Foreign Ministers of the Organization of the Islamic Conference, Sergei Lavrov, who

12. True, according to one of the versions, at a meeting of Islamic organizations in Mogadishu, capital of Madagascar, in 1996 there was talk about sending 700 Muslim volunteers from various countries to Chechnya. However, no traces of these *mujahideen* were found in Chechnya.

13. "Rossiya – chast musulmanskogo mira" [Russia: Part of the Muslim World], *Vsyo ob Islame* (Moscow), no. 8 (May 2003), 2.

was present there, said that "Russia and the OIC can do a great deal to prevent a split of humanity on religious or civilizational grounds."[14] This comment is particularly important also because among Russian politicians and top-level officials there are quite a few who believe that such a split has already happened.

However, not all the Muslim governments welcomed Russia's desire to become a member of the OIC. Pakistan took a negative stand: it believed that Russia should not join the main Islamic organization, for it is a Christian country in terms of its culture and political orientation, and its recent history is burdened with wars against Muslims. Therefore, Russia's membership in the OIC can change the entire configuration of that organization. As a matter of fact, however, there was still another, perhaps the most essential, reason for Pakistan's opposition: Islamabad feared that Russia's admittance to the OIC would open the door for Pakistan's enemy – India.[15]

The Pakistani skeptics acted without spirit, whereas countries such as Malaysia, Iran, Syria and, to some extent, Saudi Arabia lobbied Russia's interests; as a result, it obtained the status of an observer at the OIC in June 2005.[16]

The Muslims' "leniency" in their relations with Russia can be explained by their search for additional allies in the face of US expansionism. "In the face of the impending democratization of the Great Near East, which the United States is stubbornly trying to achieve, the Arab elites, apprehensive of destabilization, are looking for another point of support."[17] Russia provides such a "point of support," even if not absolutely reliable, in quite a few conflict situations – from the issues of the Iranian nuclear program to the conflict in the Near East. The Muslims are far from exaggerating Russia's significance, but they are not going to reject additional support.

Russia's observer status at the OIC brought about no fundamental changes in Russian-Muslim relations. Nor did Moscow expect that it would get some exceptional preferences and be received with "open arms" thanks to its membership in the OIC. It only legitimized Russia's "special place" and served as a reminder that,

14. *Riselet-Poslaniye*, Kazan, no. 7(74), (July 2004), 1.
15. In January 2006, India was invited to join the OIC, but this did not happen because of its differences with Pakistan.
16. *Bolshaya Politika*, Moscow, no. 3 (5), 2006, 20.
17. Sanobar Shermatova, "Podruzhitsya a islamskim mirom Rossii legche, chem so svoimi musulmanami" [It Is Easier for Russia to Make Friends with the Islamic World than with Its Own Muslims], *Bolshaya Politika* (Moscow), no. 5 (May 2006), 46.

while it was a Christian country, it absolutely did not conform to the stereotypes of the West adopted in the Muslim world. At the same time, it is difficult to imagine the membership in the OIC, for example, of France where, as a matter of fact, the percentage ratio of Muslims and Christians is comparable to that in Russia (in France, Muslims account for about 10 percent and in Russia, 12 to 13 percent of the population).

Russian politicians are fond of reiterating that Russia, unlike the West, treats the Islamic world with much understanding, "forgiving" it for its extra nervousness. Every time Islam-related controversies arise in Europe or the United States, nearly mentor-like calls to moderation and prudence are heard from Moscow. Thus, during the "cartoon controversy" that broke out in 2006 (the Danish daily *Jyllands-Posten* published cartoons of the Prophet Muhammad that were reprinted by some of the European mass media, which triggered an extremely strong storm of protests throughout the Muslim world), Vladimir Putin expressed his understanding of the Muslims' position and compared the cartoons to child pornography, adding, "if a state cannot prevent such publications, it should at least ask for forgiveness."[18]

The development of the Muslim direction is orchestrated by statements made by anti-US politicians to the effect that the West – be it Washington or the Pope – which wishes to bring it into a clash with the Islamic world and "impedes the development of its relations with Islamic states,"[19] is making efforts to prevent Russia's rapprochement with Islam. Such utterances are characteristic of the so-called neo-Eurasians and members of the Muslim clergy.

In connection with a lecture delivered by Pope Benedict XVI at the University of Regensburg in September 2006, which was considered anti-Islamic in the Muslim world, the Russian President urged all parties to act with "responsibility and restraint" and stressed once again that "Russia is doing everything to promote dialogue between civilizations." During the incident, Moscow's conduct was different from the conduct of other European capitals, where quite a few politicians found a way to express their perplexity about the Muslims' intolerance.[20] German

18. Shi'ite Public Organization "Ahl-Al-Beit," Moscow. http://www.islam.ru/press/world/2006-02-7/?

19. Marat Galiullin, "Sotrudnichestvo vo imya budushchego" [Cooperation for the Sake of the Future], *Musulmanskaya Gazeta*, no. 4 (April-May 2000), 6.

20. At the same time, Russian officials responsible for relations with the Muslim world and keeping track of the situation in domestic Islam have clearly given the Muslim spiritual authorities to understand that they are anything but pleased with the rowdy behavior of "Muslims in the streets" and of certain politicians during the cartoon controversy and after the Pope's lecture. As a result,

Chancellor Angela Merkel regarded the Pope's additional apologies to the Muslims as unnecessary.

However, Russia's policy with respect to the Muslim world is not limited by declarations about the specific character of their mutual relations. Its pretence to special relations with the Muslims increasingly looks like an attempt to revive its fuller-fledged presence in the Muslim world. It reflects Moscow's intentions to restore its status as a state having the right to its own many-sided interests in various parts of the world – and, more than that, having the role of a key player, if not the status of a superpower – by enhancing its significance in the international security system. The Southern (Muslim) direction is becoming one of the priority directions. Moscow is trying to formulate a community out of its own and its Muslim partners' interests.

This approach, on the one hand, seems exceedingly ambitious. On the other hand, considering the mutual chill in relations between the West and the Muslim world, known as an "inter-civilizational conflict," Russia believes that it has a chance to appear in the Muslims' eyes as "*non-West*." As a matter of fact, elements of post-Soviet nostalgia are to be seen in this approach.

However, relations between Russia and the Muslim countries now are devoid of the ideological blinkers they used to have in Soviet times. Despite the residual "great power" discourse, Russia's politics gravitates towards pragmatism; it gives due consideration to potential partners regardless of their ideology and rhetoric. "Russia's new attitude and its renewed sense of power have shaped its moves in the Middle East, particularly in the Persian Gulf, and are part of Russia's goal of playing a more important role within the international system," analyst Dario Cristiani from the Power and Interest News Report (PINR) believes.[21]

The Muslim elites, in their turn – though perhaps not as fast as Moscow would like them to do – are shedding their bias towards the USSR heirs. "Now that communism is more or less dead, the Saudis are more open to concerns and efforts and embraces from Russians," Marshall Goldman, researcher from Wellesley College, notes.[22] In varying degree, such sentiments are becoming common among the other Muslim regimes, including those regarded as conservative.

---

the criticisms by most of the Russian imams and muftis of those who encroached on Islam were reserved and diplomatic compared with those voiced by their foreign counterparts

21. *Power and Interest News Report* (PINR), March 1, 2007. http://www.pinr.com/report.php?ac=view&report_id=624&language_id=1

22. Brian Whitemore for RFE/RL, February 12, 2007, Spero, http://www.speroforum.com/site/print.asp?idarticle=7858

In the Arabian Direction

Shedding the anti-Soviet bias is particularly essential for the development of contacts between Russia and the Gulf countries.

In speaking about the region, some points need to be made. In accordance with definitions adopted in the Soviet times, the "Persian Gulf countries" were considered to include only Saudi Arabia and the other Arab Gulf monarchies. Iraq was included in the Near East and Iran was regarded as a neighbor. Today these well-established notions are changing even though it will take some effort, for the inertia of the old approach is still making itself felt. Significantly enough, in a recently published book by Sergei Luzyanin, the Gulf is regarded separately from Iran and Iraq.[23]

As a matter of fact, the relativity of the boundaries of historical regions has long been evident. The outlines of the so-called Great Near East, the Near East within its habitual boundaries, the Arabian Gulf, Central Asia, and Great Central Asia are growing ever more blurred, which creates preconditions for abandoning old geopolitical concepts and developing new ones.

The Arabian Gulf region seems very attractive to Moscow. Its countries are regarded as a market for Russian weapons, a source of foreign investments, and potential partners in the sphere of oil and gas power industry. Besides, Russia views the energy-producing countries of the region as possible allies in regulating the prices for oil and gas. A significant step in this direction was the idea of setting up a "gas cartel" (it was initially proposed by Iran, but Russia tried to fill it with specific content), a gas counterpart of the OPEC, which would include Russia, as well as Qatar, Iran and Algeria. In Moscow, estimations have been made that Russia's cooperation with the Muslim gas exporters will not only help control its prices but also will, to some extent, limit the freedom of maneuver for consumer countries, in the first place those in Europe.

An analysis of this stillborn project is outside the scope of this article. What is really important in this context is the very fact of the emergence of such an idea in Moscow, which considered it possible to build a united Russian-Muslim "gas front" and draw gas producers into its political orbit.

The idea of setting up a "gas cartel," which was received with skepticism by experts in Russia and with irritation in Europe and the United States, did not get appropriate approval among its potential Muslim participants either. At a meeting of

23. S.G. Luzyanin, *Vostochnaya politika Vladimira Putina* [Vladimir Putin's Eastern Policy], (Moscow, 2007).

Gas Exporting Countries Forum held in Doha, Qatar, in April 2007, no documents pertaining to this idea were signed. In reality, the maximum that could be achieved in this respect was constant exchange of information.

Numerous talks and rumors about a "gas cartel" and a brief yet intensive propaganda campaign staged by Moscow had the reverse effect, for they demonstrated the ephemeral nature of Russia's ideas on the ways of interacting with the energy-producing countries, which gave rise to aversion among their politicians.

In addition, Russia has not established, and can hardly establish, partner relations with oil-producing countries. Even advocates of more active rapprochement with the Muslim world are aware of the impossibility of effective cooperation with it in the field of oil production. "Russia has turned from a second-rate player into one of the principal actors in the world oil market, having become the main competitor of the OPEC and Saudi Arabia."[24] A common or mutually close Russian-Muslim (Russian-Arab, Russian-Iranian) standpoint on this issue is next to improbable. Nonetheless, hopes occasionally arise, accompanied sometimes by propagandist slogans, about a "heap of opportunities" opening up in case of a potential partnership.

Can it be said that Russian energy exports can have a direct effect on its relations with the Muslim world? Formally, no. However, this "no" will not sound so categorical if one is to consider certain nuances and underlying potential problems of the oil business, which are inseparable from politics. For example, the Soviet Union in its day adhered to neutrality during the "oil war" of 1973-1974. And, although the notion of the "Muslim world" did not yet exist on the geopolitical map at the time, it was Muslim regimes that launched a challenge against Western consumers, trying to make their economies dependent on them (this tactic proved to be faulty and harmed the oil producers themselves). The USSR, keeping out of that "war" and continuing oil deliveries, solidarized with the Western countries *in deed*, even though in word it continued to support the "just struggle of the developing countries." (True, things were not limited to rhetoric, and Muslim countries continued to receive Soviet military deliveries regularly.)

The uncertainty of relations between the Muslim world and Russia in the

24. Iskander Batyrshin, "Torgovo-ekonomicheskiye svyazi Rossiiskoi Federatsii so stranami Soveta sotrudnuchestva arabskikh gosudarstv Persidskogo zaliva: sovremenniye tendentsii i potentsial razvitiya" [Trade and Economic Ties of the Russian Federation with the Member Countries of the Cooperation Council for the Arab States of the Gulf: Present-Day Trends and Potential for Development], Moscow State Institute of International Relations (MGIMO-University) of the Ministry of Foreign Affairs of Russia, Moscow 2007, Issue 2 (17), April 2007, 9.

sphere of energy export will always persist. The boundaries of partnership are blurred and changeable. We will look at two areas: (1) interaction with the Organization of the Petroleum Exporting Countries (OPEC), the backbone of which is composed of Muslim countries; and (2) cooperation with individual countries such as Algeria, Iraq, and Libya.

It is known that OPEC is in principle ready for cooperation with countries that are not its members, building it on mutual concessions in maintaining oil prices. In the early 2000s, Russia was present at OPEC meetings as an observer, and after September 11, it agreed to reduce oil supplies to the market. Dr. Faten Alawadhi, OPEC Power Research analyst, believes that "of late we have seen numerous indications of cooperation between the two sides."[25] Today, after crushing the Russian oil oligarchs, who, in the Muslims' opinion, were oriented towards the West, and increasing state influence in the sphere of extraction and export of carbohydrates, the opportunities for Russia's cooperation with OPEC may increase.

How does Russia's interaction in this sphere with individual states of the Gulf proceed? Here the author, following in the steps of Sergei Luzyanin, is speaking about a more habitual – and traditional for the Russian researcher – view of the region.

Back in 1991, the joint venture Petrosakh was founded, with controlling interest held by the Saudi company Nimir Petroleum (according to the Russian-Arab Business Council, it was set up with equal share participation of Nimir and the Russian company Sameko). Although the company invested $100 million in the development of oil fields in Sakhalin, cooperation was suspended in 1997, and subsequently, Petrosakh was transformed into a closed joint-stock company.

In the late 1990s, hopes arose for cooperation with Saudi Arabia – above all, "for that country's great potentials in terms of investment in the Russian fuel-and-energy complex."[26] There was talk about the Kingdom's participation in the development of resources in Russia and the CIS member countries. Moreover, in the spring of 1997, a delegation of Saudi oilmen visited Moscow. However, cooperation on a permanent basis never materialized.

In mid-2002, Russian-Saudi relations received a new, unexpected impetus. This was brought about by an aggravation of US-Saudi contradictions, and also by rumors that began to spread that the United States was allegedly considering the possibility of replacing Saudi oil with Russian oil in creating strategic reserves.

25. Marina Kravets, "Neft 2020: prognoz OPEK" [Oil 2020: OPEC Forecast], *Neftegazovaya Vertikal* (Moscow), no. 2 (2004), 54.

26. S.Z. Zhiznin, *Energetizhekaya Diplomatiya* [Energy Diplomacy] (Moscow, 1999), 122.

Riyadh, seeing the instability in its relations with its principal partner, decided to secure itself and "threaten" the United States with a possibility of expanding its cooperation with Russia. In the autumn of 2002, a multilateral cooperation protocol was signed, a Saudi-Russian "business club" was established, and quite a number of top-ranking Russian officials were invited to visit the Kingdom. The question of the possibility of a visit of Crown Prince Abdullah of Saudi Arabia to Moscow began to be openly discussed. Naturally, talks arose about interaction in the oil-producing sphere. Moscow, however, displayed circumspection and demonstrated through numerous statements, including those made by Minister of Energy Igor Yusufov that it did not intend to compete with the Kingdom in the US oil market, that talk was only about a one-time supply to fill a possible shortage.[27]

Actual cooperation in the oil-producing sphere has not been established to this day. True, the Russian company Lukoil is launching a natural gas exploration and extraction project in Rub al-Khali valued at $2-3 billion; however, the local energy deposits are of low quality and their development does not yield any sizable profits.

Nor has cooperation in the oil-producing sphere been established with the other monarchies in the region, and the prospects for such cooperation remain slim.

Until 2003, Iraq maintained stable relations with Russia. In 1997, Lukoil signed a contract (its contract share amounted to 68.5 percent), but in 2002, the contract was cancelled because of Lukoil's contacts with members of the opposition to Saddam Hussein and with the US government, which later on allegedly guaranteed its resumption after the overthrow of Saddam's regime.[28] Yet even after 2003, Lukoil's prospects look bleak. The company's office has been closed down. The Western Kurna-2 oil field, on which Lukoil pinned its hopes, has turned into a joint project with the participation of the US company, Conoco-Philips. To promote the company's interests, Russia agreed to write off part of the Iraqi debt, yet even after that the country's new authorities showed no particular interest in cooperation with Lukoil.

The position of another Russian company, Stroytransgaz, is not clear either. It has a contract for geological exploration with the new government, but the work has not started.

There is no cooperation in oil production with Iran. True, in 1996 Gazprom, jointly with the French company Total and the Malaysian company Petronas,

27. *Russian Business Monitor*, October 16, 2002.

28. Alexander Zaslavsky, "Rossiiskaya dobycha na Blizhnem Voskoke" [Russian Extraction in the Near East], *Pro et Contra*, no. 2-3 (32), 2006, 46-47.

signed a contract for developing the Southern Pars gas field in the Gulf. The United States insisted on canceling the contract, yet Russia, France, the EEC and Malaysia, through a joint effort, overcame US pressure. However, the work under the contract is not being performed.

Iran is Russia's potential competitor in gas export. The Europeans, apprehensive of Gazprom's monopoly in the Old World markets, expect to weaken it with Iranian deliveries and the construction of a gas pipeline from Iran that will bypass Russia. In 2006, at a time when Russia-Georgia relations worsened, Georgia, afraid of a shutdown of the pipeline from Russia, secured itself by concluding a small contract for delivery of gas from Iran.

In building its relations with the Gulf countries, Moscow has not confined itself to the oil and gas areas alone. In 2007, on the eve of a visit to the region by Vladimir Putin, the Kremlin put forward a proposal on creating a regional security system in the region. This idea was clearly at variance with Moscow's pro-Iranian position. Its inconsistency was noted (in an indirect form) by Kuwaiti Minister for Foreign Affairs, Shaikh Muhammad Sabah Al-Salem Al-Sabah, who remarked in an interview to Russian journalist Yelena Suponina that Kuwait "is against Iran having nuclear weapons."[29] The Arab countries are earnestly afraid that Iran will eventually manage to "enter the final straight" and develop its own nuclear weapons. In addition, it is relatively easy for Iran to purchase missiles capable of delivering them over comparatively short distances. Iran's Arab neighbors are persuaded about the seriousness of this possibility by the fact that the United States is expanding its anti-missile defense system, elements of which are to be deployed in Eastern Europe.

Russia, in its turn, is ready to help the Gulf countries develop their own nuclear power industry. (It should be parenthetically noted that in 2007, Egypt and Turkey made statements about developing their own peaceful nuclear programs.)

Finally, Russia continues to count on expansion of cooperation in the military-technical sphere. Today the sales of weapons to the Muslim countries are markedly less than the sales to Russia's principal partners – China and India. Between 1995 and 2005, Russia's exports of weapons reached $48,695 million, with China and India accounting for nearly 60 percent of this.[30] In 2004, the exports of military-oriented products to the Near East and Northern Africa made only 10 percent of

29. "V sluchaye yadernoi katastrofy v Persidskom zalive nam nechego budet pit" [In the Event of a Nuclear Catastrophe in the Persian Gulf We Will Have Nothing to Drink], *Vremya Novostei*, Moscow, May 24, 2006.

30. Exported weapons from Russia in 1995-2005, http://web.sipri.org/contents/armstrad/at_data.html

their total volume.[31] So far, Russia has been unable to fully enter the Near Eastern market of weapons. The growth in sales is constrained by competition from the Americans and Europeans, whose weapons are superior to Russian weapons in terms of using modern technologies.

In most cases, the sales of Russian weapons have no effect on the strategic alignment of forces inside the Muslim world, as well as between Muslim states and their non-Muslim opponents. At the same time, deliveries of weapons to the Near East and to Iran induce a feeling of strength and lesser vulnerability in certain regimes and Muslim radicals and, in some cases, prompt them to take a tougher political position. The political accent is the most pronounced in military deliveries to members of the so-called "axis of evil"– Syria and Iran – and also to Lebanon's Hizbollah.

Kuwait, Algeria, Yemen, and the UAE conclude contracts for purchasing weapons more often than others. By 2006, Algeria had signed weapons contracts with Russia for a total of $7.5 billion, which ranked it third after China and India.

In the 1990s, among the Gulf countries, Russia's relations with Kuwait were developing rather actively: in 1995-1996, a total of 122 armored personnel carriers were supplied to it. Under a 1999 contract, the UAE received 50 Pantsyr S-1 gun-missile integrated weapon systems from Russia. In the early 2000s, there were rumors about the possibility of a purchase by Saudi Arabia of a large consignment of Russian warplanes. However, the rumors remained rumors: in 2006, the Kingdom signed a 15 billion euro contract with Great Britain for purchasing 72 Eurofighter Typhoon fighter aircraft. (This not so much grieved Russia as it grieved the United States, which hoped to sell its F-15 aircraft to that country.)

In 2007, during his visit to the Kingdom, Vladimir Putin discussed the question of selling 150 modern T-90 tanks to it.

Cooperation in the sphere of space activity is developing, even though slowly. With Russia's assistance, Saudi Arabia has launched seven satellites; in 2005, a small Iranian satellite was launched. (An agreement on sending a Malaysian cosmonaut into space has already been signed. A Turk and an Egyptian may be next among the Muslims.[32])

Despite Russia's efforts to achieve a fundamental improvement in relations with the Gulf countries, in an overwhelming majority of cases, things go no further

31. ARMS-TASS, http://www.armstass.su/?page=article$aid=20735$cid=43

32. *Rossiya i musulmanskiy mir*, no. 59 (2005), 41.

than intentions and wishes. Materials on the subject are filled with such expressions as "signing is expected," "will probably be carried out," "is at present at the stage of consulting," "there is hope for development," and so on.

This is corroborated by statistics on economic relations between Russia and the region. In 2004, total exports from the GCC member countries to Russia amounted to only $20.4 million (out of the total of $164,111.92 million) and imports to these countries, $654 million (out of the total of $99,308.90 million).[33] There are practically no serious investments.

Hindering the establishment of cooperation also are Russia's debts to Kuwait, Saudi Arabia, the UAE, and Oman. An agreement on settlement of debt ($1.9 billion) to Kuwait was signed in 2006, and Kuwait wrote off a debt of $300 million. A similar agreement will probably be signed with the UAE (debt of $500 million). Besides, there is a debt of $250 million to Saudi Arabia.[34]

Intermediation with the Islamists: Hopes Unfulfilled

In the early 2000s, Moscow positions itself ever more often as an intermediary between the Islamist radicals, on the one hand, and the United States and Europe, on the other.

This can be seen in the example of Iran, whose president has declared himself a continuator of the Islamic revolution and his country, as the main bulwark in the clash of the Muslim and Judeo-Christian worlds. Russia has, for the most part, "failed to hear" the extremist accent in Ahmadinejad's utterances and conduct, and has tried to treat him solely as a national leader and not as a religious charismatic. Sometimes, however, the Iranians overstep the bounds. For example, in 2006, Tehran held a Holocaust Denial conference for which it was censured by the Russian Ministry of Foreign Affairs.

In the dispute over the Iranian nuclear program, Russia remained confident that it would succeed in prevailing on Iran to accept its proposals – enrichment of uranium on Russian territory, establishment of strict control over dual-purpose materials, and abandonment by Tehran of a full nuclear cycle.[35] Moscow hoped to play a key part in the dispute, in which it acted as a "patron" of Iran. Several times it seemed that its goals could be achieved. In 2006, a number of Russia-Iran meetings

33. Iskander Batyrshin, *op. cit.*, 16-17.

34. Iskander Batyrshin, *op. cit.*, 6-7.

35. *Iran, Its Neighbors and the Regional Crises. A Middle East Program Report*, (Chatham House, The Royal Institute of International Affairs, 2006), 40.

were held on the eve of which the Kremlin assured everyone concerned that Tehran would, in a little while, agree to a compromise; these hopes, however, proved to be groundless.

From 2006, Russia tried to act as an intermediary with the Islamic Resistance Movement (Hamas), which had won the elections in Palestine. The triumph of Islamist Hamas was a symbolic event. It changed the alignment of forces inside Palestinian society, made Israeli-Palestinian contacts complicated in the extreme, and made the Road Map peace plan, worked out by the Quartet of intermediaries but initiated by the United States, null and void. Moscow, secretly rejoicing at the developments, tried to seize the initiative and return to the Near East as an independent player having its own non-conventional, ready-to-use proposals. Moscow's position seemed both productive and, at the same time, risky on account of Hamas' intractable nature. By its risky endeavor, Russian diplomacy expected to gain recognition in the Muslim world, including in Saudi Arabia. "Saudi Arabia, as a spiritual leader of the Sunni world, is important for Moscow in terms of balancing its relations between Sunni and Shi'a forces, such as Hizbollah and Hamas."[36] As US journalist Steven Lee Myers noted, "Most of all, it is a quest for prestige."[37]

By inviting Hamas leaders for the first time to Moscow in March 2006, the Kremlin expected to play on their desire to acquire certain respectability in the eyes of the world (non-Muslim) community. In the autumn of that year, Russia made still another "fine gesture": neither Hamas nor Hizbollah were included in the list of 17 terrorist organizations compiled by Russia's Federal Security Service. Apart from anything else, it looked like a challenge to the United States whose list of terrorists included both organizations.

In its contacts with the Islamists, however, Russian diplomacy demonstrated confusion and inconsistency. The "handling" of the Hamas men was not unlike a poor version of the Canadian hockey style, the basic principle of which is to push the puck through to the opposition zone and then let what may happen. The "puck" was "thrown in," but the subsequent moves seemed insufficiently considered. Neither the Presidential Administration nor the Ministry of Foreign Affairs had taken any pains to work out a clear-cut line of conduct. This became evident during the ostensibly historic visit of a Hamas delegation to Moscow in 2006. The delegation was headed by Khaled Mashaal, leader of the organization.

36. Victor Yasmann, "Putin Uses Persian Gulf Trip to Boost Russian Role in Arab World," *Anderswelt*, February 13, 2007, (RFE/RL).

37. Steven Lee Myers, "The New Role for Russia in Mideast? It Seeks It?" *New York Times*, September 10, 2006.

Everyone noticed that the program of the visit looked flawed. The visit did not include meetings with top officials (which was quite natural). There were unofficial contacts with State Duma deputies and with diplomats. A semi-confidential conversation with Mikhail Margelov, Chairman of the Committee on Foreign Affairs of the Federation Council of the Russian Federation (as a matter of fact, formerly an Arabist), could not be regarded as official. The meetings were non-binding both on the hosts and on the guests. The most conspicuous – and odd – impression left by the visit was a joint prayer held in the Moscow Cathedral Mosque. It was led by Ravil Gainutdin, head of the Council of Muftis of Russia, who had more than once condemned religious radicalism.

The first Hamas visit was of a symbolic character and left a feeling of bewilderment, for there was no continuation. It did not fulfill the hopes for a softening of the political positions taken by the Islamists, who were expected, for example, to tone down their positions with respect to the non-recognition of Israel. Russia did not succeed in playing the role of an intermediary or in making the Islamists more compliant and thus presenting itself as an independent "soloist" in the Near-Eastern "concert." Moscow saw for itself that the Islamists continued to play their own game and regarded rapprochement with it as little more than an extra trump card in their contacts with the West, and as a precedent (albeit a shaky one) for a dialogue with Europe and probably with the United States. After a noncommittal visit to Moscow, Hamas could say that diplomatically it went beyond the Muslim world. Here an analogy with a visit to Moscow by Iranian negotiators (and with Russian diplomats' visits to Tehran) suggests itself: each time, the result for Russia turned out unsatisfactory.

The disillusionment grew even more after the capture and execution of officers of the Russian Embassy in Baghdad in the summer of 2006. While the hitherto unknown organization that kidnapped the Russians, the Shura Council of the Mujaheddin of Iraq, was not directly connected with Hamas and with Shi'ite Hizbollah, the extremists' violent action looked symbolic: the Islamist radicals regarded Russia as an ally of the West. Not a single Islamist organization found it possible to assist Moscow in liberating the hostages, although the Kremlin and the Ministry of Foreign Affairs hoped to get such assistance.

Yet the contacts between Moscow and Hamas were not broken. Early in 2007, Palestinian Foreign Minister Mahmoud Zahar (Hamas) visited Russia in the course of a journey and met with officials from the Russian Ministry of Foreign Affairs to discuss details of the Middle Eastern settlement with them.

In the summer of 2006, it seemed that Russia would get still another opportunity

to enter a dialogue with the Islamists. This time, with Lebanon's Hizbollah, which succeeded in winning something like a moral victory in the course of a brief war with Israel, gaining unprecedented popularity in Lebanon and becoming an authoritative force in the eyes of Europe.

Hizbollah was not invited to Moscow. Although, if the Kremlin had been more consistent, it might have invited Hizbollah just as well.

The fact that Hizbollah's representatives did not appear in Moscow may be attributed to two reasons. First, Putin did not want any additional aggravation of relations with the United States. Such a move would hardly have been met with understanding in Europe either, which, while sympathizing with Lebanon, was nonetheless not ready to maintain a dialogue with the Hizbollah. Direct contacts with radicals might finally destroy relations with Israel, which were aggravated as it was. Second, and perhaps the most important, the Kremlin was well aware that talks with Hizbollah would most likely yield no result. To ensure success, support was required from Iran, which was capable of making Hizbollah's leader Nasrallah more compliant. Tehran, however, had no use for Russia's intermediation in the Lebanese-Israeli conflict. The Iranian leadership could itself influence Hizbollah's positions, which it did when it recommended that they release the Israeli hostages ("prisoners of war," as Hizbollah liked to describe them). Finally, Hizbollah's leaders did not view Russia as an effective intermediary and preferred contacting Moscow through their Syrian patrons. The latter, in their turn, were not exactly eager to rouse Hizbollah to contacts with Moscow either.

The attempts for dialogue with the Islamists meet with approval from the Russian Muslim community. Yet its leaders cannot help but feel a certain confusion, for they are compelled, in the government's wake, to divide the Islamists into "good" foreign and "bad" domestic ones (or those active in Russia). Radical Muslim ideologists have tried to represent Russia's intermediation as a basis for a strategic consensus with the Islamists and with dictatorial regimes in general. In the summer of 2006, when the war between Hizbollah and Israel was at its height, Geidar Dzhemal, Chairman of the Islamic Committee of Russia, made a statement, consonant with the official position, that "Syria and Iran need the revival of Russia."[38] However, do matters actually stand this way? For, as a matter of fact, both Syria and Iran are seeking favor from the United States and Europe. In this case, they will be able to manage without intermediaries. Libya, whose leader

38. Radio Echo of Moscow, August 2006.

Muammar Qaddafi, after three and a half decades of pursuing an anti-Western policy, changed the general policy line and decided on making peace with the West, got a lot of privileges from its former adversaries.

Having obtained a time advantage through Russia's intermediation, the Islamist radicals will definitely reject its services later on because firstly, they view Russia's policy as a kind of a Fronde, a demonstration before the West of its capability to act independently. Secondly, from their point of view, Russia, which has declared itself the inheritor of the USSR, has a negative attitude towards Islam, which is evidenced by its policy in the Northern Caucasus and, certainly, by its participation – even though it has become nearly formal in the 2000s—in the anti-terrorism coalition. The unveiling in September 2006 in New York City of a monument to the victims of September 11, presented to the city by Russia as a gift, caused irritation in the Near East and in Iran (where a competition for cartoons on the Holocaust was held at the time). Nor was it forgotten that in 2002, having spoken up against military intervention in Iraq, Russia did not dare taking resolute measures and eventually resigned itself to what had happened.

If any one of the Moscow politicians ever entertained a thought about the possibility of "Russian-Islamist blackmail" of the West, it looks rather like a bugaboo after Moscow's futile contacts with the Palestinian and Iranian Islamists. Earlier, the Kremlin had already tried to blackmail its foreign partners with Islamic radicalism. Thus, while demonstrating its solidarity with the US anti-terrorist sentiments after September 11, Moscow at the same time tried to include Ichkeria in the "axis of evil" and the Chechen separatists, in the ranks of international terrorists.

Yet neither then nor later, when relations between the United States and Russia were cool and talk about a new Cold War flared up on either side of the Atlantic, did the Kremlin politicians place a strategic stake on interaction with Islamists of a radical persuasion. This is true even now. Russia cooperates with states and maintains relations with governments – Iran and the Hamas Palestinian government; it has not abandoned dialogue with Hizbollah; and it *had contacts* with Taliban Afghanistan. (But then, who has not had contacts with all of them?) Nonetheless, Islamic radicalism is not identical to the national liberation movements which the Soviet Union had supported just as Russia's official ideology is not a replica of the official ideology of the USSR.

No serious apprehensions have been expressed either in the United States or in Europe regarding steady interaction between Russia and the radical Islamists. As the *Time* magazine wrote, the Americans' attitude towards Moscow's contacts

with Hamas is that of calm, for Hamas has received "the right message about recognizing Israel, renouncing terrorism and adhering to all the obligations the Palestinian authorities had undertaken."[39]

The unreliability of Moscow's hope for "mollifying" Hamas came to light in May-June 2007, when the Islamists split the Palestinians into two separate camps, having tried to establish a kind of a quasi-state in the Gaza Strip. At the time of writing, the future of Palestinian autonomy is as unpredictable as ever before. Russia is faced with a piquant choice: whether it should support the secular, moderate Palestinian movement headed by Mahmoud Abbas, head of the Palestinian administration, or once again risk acting as an intermediary – this time, in the inter-Palestinian strife.

As for Iran, Washington has more than once expressed the hope that Russia would have effective initiatives to constrain Iran and establish control over the Iranian nuclear program. In the United States, however, there also exists an opposite opinion – that Russia's contacts with Iran, Hamas, as well as other forces hostile to the US such as Venezuela and North Korea turns it into a link in the "new axis of evil" posing a direct threat to the United States. This is related to the growing significance in politics of the energy factor, whereby Russia and certain Muslims are inclined to using oil blackmail. According to Richard G. Lugar, Chairman of the US Senate Foreign Relations Committee, "Adversarial regimes from Venezuela, to Iran, to Russia are using energy supplies as leverage against their neighbors. … Energy is becoming a weapon of choice for those who possess it."[40]

Moscow recognizes the political legitimacy of the Islamists if they gain the support of the majority in one country or another. Having excluded Hamas and Hizbollah from the list of terrorist organizations, the Russian leadership demonstrated the selectivity of its approach to different factions of the Islamist movement. However, the Islamic radicals will hardly ever become Russia's strategic allies. Russia's intermediation, if it persists, will sooner or later become unneeded. If it is a success, other countries will then join the negotiations with the radical Islamists and it will become a common cause. In case of failure, it will lose its relevance and even become harmful, for it will foster the Islamists' adventurism rather than moderation.

39. J.F.O. McAllister, "Russia's New World Order," *Time*, July 10, 2006, 22.

40. Senator Richard G. Lugar, Purdue University Summit on Energy Security (August 29, 2006.)

Conclusion

Overall, Russia's approach to the Muslim world remains ambivalent and, despite official statements professing love for Islam, the rapprochement with the Muslim world is a "tactical move" in the words of Leonid Ivashov, nationalist-minded retired colonel general.[41]

It is significant that the parliamentary association mentioned earlier "Russia and the Islamic World" has remained inert and, in fact, limited its activity to making declarations and receiving delegations.

The attempts by Putin's Russia to draw closer to the Muslim world cannot dispel mutual mistrust. Both in Moscow and in the Muslim capitals, mutual sympathy is more often than not regarded as "love for show," as a means to cause confusion and "jealousy" in the West, a "love affair" which on the part of both Russia and the Muslim community is not working out.

Russia's cooperation with the Muslim oil and gas business is of a situational, sporadic and, on the whole, ineffective character. The talks about the possibility of its expansion are reminiscent of the talks, so current in the 1990s, about the advent of "Islamic capital" into Russia, which never materialized. In the coming years, a breakthrough in the sphere of hydrocarbon production can hardly be expected – perhaps, with the exception of cooperation with Algeria.

Russia's interest in cooperation with the Muslim world is determined by political and, to a lesser extent, economic reasons and this interest has an opportunistic and instrumental character. On the other hand, Russia has been unable to find a new, non-Soviet key to the Muslim community. The Muslims continue to entertain a feeling of mistrust towards Russia. It remains alien to them both in political and cultural respects.

Russia's relations with the Muslim world depend on many factors such as:

- general foreign policy doctrine related to the internal situation in the country;
- whether Russian society and its elite want to "attach themselves" to some geopolitical shore or withdraw into isolationism;
- political and ideological trends that will determine the make-up of the Muslim world; and
- the pattern of Muslims' relations with the West.

41. "Udar po Rossii skoro mozhet stat realnostyu" [A Strike on Russia May Soon Become a Reality], An exclusive interview with Colonel General Leonid Ivashov, http://www.utro.ru/

In the final result, Russian-Muslim "friendship" will be determined by how strong Russia is in military-political terms and how economically advanced it will be. These two points will be decisive for its attractiveness as a partner in the eyes of the Muslims.

The Muslim world is also carefully keeping track of the demographic situation in Russia, and some of its leaders seriously believe that their grandchildren will be dealing with Russia as a "half-Muslim" state, and the grandchildren of their grandchildren, as a Muslim state.

In the near future, Russia will not be solidarizing with the Muslim world. Yet even if one assumes that this actually happens by the force of some unforeseen circumstances, its support will play no outstanding part in the contradictions between the Muslim countries and the West as it did in the Soviet times.

Russia's strategic partnership with the Muslim world (although partnership with a group of states taken together as a whole on the basis of their religious affiliation is extremely hard to imagine) will materialize subject to three conditions: (1) Russia's economic and military-political leap forward that would restore its competitiveness with the United States; (2) total radicalization on a religious basis of the entire Muslim community, including the ruling elites of its leading states; (3) reciprocal *superhypertrophy* of the anti-Western bias. In case these three conditions are fulfilled, radical Islam will become an analogy of the national liberation movement in the eyes of the Kremlin and would be able to count on support from Russia, which, in its turn, will be interested in rendering such support. In the foreseeable future, these conditions cannot be fulfilled.

Central Asian Sunni Islamic Extremism and Its Links to the Gulf

Professor Michael Fredholm

Center for Central Asian Studies, University of Stockholm, Sweden

In 1995, Sunni Islamic extremism – of the type usually referred to as Wahhabism – emerged as a disruptive political force in Chechnya. The dynamics of this are well understood. So is the fact that spillover from this conflict has touched the Gulf region, in the form of terrorism as well as unasked-for problems in the relations between Russia and those Gulf States from which the Islamic extremists in Chechnya came. Yet the fact that Sunni Islamic extremism in the same way also has emerged as a political force in Central Asia, and that the extremists there too maintain links to the Gulf, is often forgotten.

The Gulf States will ignore these links at their peril. The phenomenon of Islamic extremism in Central Asia, and its links with the Gulf, carries the same, very real potential as the one in Chechnya to impact upon the security and foreign policy relationships of the Gulf States, and not only with Central Asia but Russia, Europe, and the rest of the world as well. If anything, the extremist links between the Gulf and Central Asia are stronger, and go back further in time, than any links with extremists in Chechnya. So far, the real impact has been minor, yet the potential for further disruptions is significant.

This study aims to assess the importance of the links between the Gulf and Central Asian extremism, as well as to evaluate the kind of impact that these links might cause on the foreign and domestic policies of the Gulf States.

The Power of Escalation

To assess the importance of the links between Gulf and Central Asian extremists, it is advantageous first to examine a chain of events, some well-known, others less so, that illustrate how the Gulf region and Central Asia have affected each other. Some of the following events directly influenced what followed, while others did so only indirectly, or not yet. However, taken together these events have produced an appreciable impact on the Gulf region and its foreign and security policies.

- In 1912, Sayyid Shari Muhammad of Medina established the seemingly first Wahhabi presence in Tashkent and the Ferghana valley of Central Asia.[1]
- In 1947-1948, a Soviet Central Asian cleric named Ziyauddin Khan Ishan Babakhanov, aged 39, studied Wahhabi thought in Saudi Arabia. In 1957, Babakhanov was appointed the official mufti (Islamic leader) of Soviet Central Asia, a position he held until his death in 1982. Babakhanov, in the words of some, was "the first official Wahhabite" in Central Asia.[2] The Wahhabi influence thus survived the Russian Revolution and in the Soviet period, the official clergy frequently displayed signs of Wahhabi or Salafi beliefs, often issuing fatwas aimed at traditional beliefs. Another example of such a Central Asia-trained cleric was the newly-appointed *imam-khatib* (cleric who conducts the Friday sermon and prayer) in Leningrad at the very end of the 1960s or the early 1970s, a recent graduate of the officially recognized Mir-e Arab seminary, who forbid women to participate in funerals and proclaimed that it was a sin to go to the theater.[3]
- By 1983, a group of 22 unregistered Islamic clerics, aged 22-45, in Kulob (then Kulyab) Oblast in Tajikistan came to the attention of the Soviet authorities. They called themselves Wahhabis and studied what Soviet officials referred to as documents advocating pan-Islamic ideas.[4] Many such clandestine groups

1. Ahmed Rashid, *Jihad: The Rise of Militant Islam in Central Asia* (New Haven: Yale University Press, 2002), 45.
2. Bakhtiar Babadzhanov, "Islam in Uzbekistan: From the Struggle for 'Religious Purity' to Political Activism," in *Central Asia: A Gathering Storm?* ed. Boris Rumer (London: M. E. Sharpe, 2002), 299-330, on 306.
3. Yaacov Ro'i, *Islam in the Soviet Union: From the Second World War to Gorbachev* (London: Hurst & Co., 2000), 282.
4. Ibid., 358-9.

were established from the 1970s onwards, often inspired by formal or informal missionaries from the Middle East. The latter regularly visited the Soviet Union as part of the religious, scientific, and technical exchange programs through which the Soviet Union attempted to assist its allies in the Middle East. Others were undergraduate students who attended university in the Soviet Union.[5]

- In or around 1992-1993, one or two Jordanians reportedly named Salahuddin and Isam Abu Mahmud Qiyadati, with the help of two Uzbeks, one of whom had previously studied under a Wahhabi teacher, established the first clandestine cells of the illegal Hizb ut-Tahrir party in Uzbekistan. Cells appeared in Farghona, Andijon, and Tashkent. Other cells were then established elsewhere in Tashkent as well as in the Ferghana valley, whence the movement spread throughout the country and to Kyrgyzstan from 1997 and Tajikistan from 1998.[6]
- In 1995, the Jordan-born Habib Abdul Rahman Khattab (holding dual Jordanian-Saudi citizenship, his full name reportedly was Samir bin Salih bin Abdullah bin Salih bin Abdulrahman bin Ali al-Suelim[7]) arrived in Chechnya with a small group of foreign jihadists, soon after the outbreak of the first Chechen war. Members of the Khattab group claimed already to have fought in places as diverse as Afghanistan, Tajikistan, and Bosnia as well as Abkhazia, Nagorno-Karabakh, and Ingushetia in the Caucasus. Khattab himself claimed to have fought in Afghanistan, Nagorno-Karabakh, and Tajikistan for eight years. In Chechnya, he became the main commander of foreign Islamic extremists.[8] Most importantly, Khattab served as the conduit for various Gulf-based benefactors who supported the jihad in the Caucasus. So was, for instance, the Qatar Charitable Society accused of funding extremism in Russian Dagestan in 1999, and (together with the Kuwait-based Relief Fund for the Sick) even banned in Azerbaijan in October 2001 for this reason.[9]

---

5. See, for example, Michael Fredholm, *Islamic Extremism as a Political Force: A Comparative Study of Central Asian Islamic Extremist Movements* (Stockholm: Stockholm University, Asian Cultures and Modernity Research Report 12, 2006); Michael Fredholm, *Islam and Modernity in Contemporary Central Asia: Religious Faith versus Way of Life-A Story of Four Radical Disruptions* (Stockholm: Stockholm University, Asian Cultures and Modernity Research Report 14, 2007).
6. Fredholm, *Islamic Extremism as a Political Force,* with references.
7. Roland Jacquard, *Les archives secrètes d'Al-Qaida: Révélations sur les héritiers de Ben Laden* (Paris: Jean Picollec, 2002), 294.
8. Igor Dobaev, "Islamic Radicalism in the Northern Caucasus," *Central Asia and the Caucasus* 6 (2000), 76-86, on 79. Dobaev refers to newspaper articles including one by Umar ben Ismail, amir of the Wahhabi *Jamaat* of the Chechen town of Urus-Martan.
9. *Al-Rayah* (www.raya.com), September 20, 1999; *Nezavisimaya gazeta,* April 9, 2002; Turan

- On August 25, 1999, a Saudi citizen and Wahhabi named Zubayr ibn Abdul Raheem, newly-appointed religious leader of the Islamic Movement of Uzbekistan (IMU) and reputedly a descendant of the Mangit family which formerly ruled Bukhara, issued a declaration of jihad against the governments of Uzbekistan and Kyrgyzstan. The IMU had been established in the previous year in Kabul, under Taliban protection.[10]
- On January 16, 2000, a six-man Chechen delegation headed by former acting president Zelimkhan Yandarbiyev met the Taliban leader Mullah Mohammad Omar in Kandahar. As a result of the meeting, the Taliban government formally recognised the Chechen Republic Ichkeria. Yandarbiyev then settled in Qatar.[11]
- In March 2002, Khattab was assassinated by the Russian special services, dying within five minutes of opening a poisoned letter.[12] The death of Khattab – and the subsequent 2003 US-led invasion of Iraq which diverted jihadist activity from Chechnya to Iraq – resulted in a decrease of funds from individual benefactors in Saudi Arabia, Kuwait, and Qatar who reportedly had supported him.[13] Khattab was succeeded by Abd Al-Aziz bin Ali bin Said Al-Said Al-Ghamdi, a Saudi better known as Abu Al-Walid, who reportedly had fought in Afghanistan and Bosnia.[14]
- On February 13, 2004 in Qatar, Chechen separatist ex-president Zelimkhan Yandarbiyev was assassinated, and his 13-year-old son Daud was wounded, by Russian intelligence agents, who had planted a bomb in his car. A radical Islamist, Yandarbiyev had been raising money for the Chechen cause in Qatar.[15] The two Russian agents, employees of the Russian Embassy later acknowledged

(Baku), April 9, 2002; Interfax, April 10, 2002. See also,for example, Steven Emerson and Jonathan Levin, "Terrorism Financing: Origination, Organization, and Prevention: Saudi Arabia, Terror Financing and the War on Terror," Testimony before the United States Senate Committee on Governmental Affairs, July 31, 2003.

10. Fredholm, *Islamic Extremism as a Political Force,* with references.
11. RFE/RL *News,* January 17, 2000; ITAR-TASS, June 2, 2000.
12. See, for example, *The Guardian*, April 26, 2002; Jacquard, *Archives secrètes,* 294.
13. *Jane's World Insurgency and Terrorism* 16, November 21, 2002; ITAR-TASS, April 8, 2004; Andrei Smirnov, "Russian Agents' Return from Qatar May Finally Discredit the Islamic World in the Eyes of Chechnya's Rebels," *Jamestown Foundation Chechnya Weekly* 6: 1 (January 5, 2005).
14. Andrew McGregor, "Amir Abu Al-Walid and the Islamic Component of the Chechen War," *Central Asia - Caucasus Analyst,* February 26, 2003 (www.cacianalyst.org). Other sources claim that Abu Al-Walid instead was a serving officer of the Saudi General Intelligence Service. *Novosti Nedeli* (Tel Aviv), November 28, 2002.
15. AP, February 14, 2004.

as being officers of the special services on counterterrorism duty,[16] were arrested within days, tried and sentenced in June, and then, on December 23, 2004, returned to Russia, where they were released. The extremists did not take kindly to what they saw as a Qatari betrayal; an article posted on the Chechen website Daymokh carried the headline "The Muslim Qatar Made a Christmas Present to the Satanist Putin," while another, posted on the Kavkaz Center website, was simply headlined "They Betrayed Us."[17]

- On April 16, 2004, the Saudi commander in Chechnya, Abu Al-Walid, died, apparently in a Russian air raid.[18]
- On February 16, 2005, a Kuwaiti commander in Chechnya, known variously as Abu Zeyd and Abu Umar, was killed in Ingushetia by the special forces of the Russian security service, FSB. Linked to Al-Qaeda, Abu Zeyd had reportedly fought in Afghanistan and Bosnia before he went to the North Caucasus.[19]
- On June 3, 2006, four Russian diplomats were kidnapped and subsequently killed in Baghdad. A fifth Russian was killed in the attack itself, which was carried out by the Mujahidin Shura Council of Iraq, which hitherto had fought only the US-led coalition.[20] On June 25, a Chechen news report concluded that the murder of the diplomats (who were referred to as "spy-diplomats" and "terrorists and spies") meant that "the judgment of the Almighty" had been carried out "in revenge for the torture, murder, and exile of our brothers and sisters by the infidel Russian government."[21]
- On July 8, 2006, perhaps inspired by the events in Baghdad, Chechen separatist acting president Dokka Umarov was authorized by the Chechen Majlis-ul Shura to use the Chechen "special services" to apprehend and eliminate "international terrorists and military criminals guilty of the genocide of the Chechen people" outside the borders of Chechnya itself.[22]

16. RIA-Novosti, February 26, 2004. Russian Foreign Minister Igor Ivanov acknowledged their identity but denied any Russian involvement in the assassination.
17. Smirnov, "Russian Agents' Return."
18. Kavkaz Center (www.kavkazcenter.com), April 19, 2004; Kavkaz Center (http://eng.kavkaz.memo.ru), April 20, 2004. See also Murad Batal Al-Shishani, "The Killing of Abu Al-Walid and the Russian Policy in Chechnya," *Central Asia - Caucasus Analyst,* May 5, 2004 (www.cacianalyst.org).
19. NTV Mir (Moscow), February 21, 2005.
20. See, for example, *Moscow Times,* June 26, 2006 (www.themoscowtimes.com).
21. Kavkaz Center (www.kavkaz.org.uk), June 25, 2006.
22. Kavkaz Center (www.kavkazcenter.net), July 9, 2006.

- On November 26, 2006, the Jordanian (or Saudi) commander in Chechnya, Farid Yusuf Umeyra, also known as Abu Hafs, was killed in Khasavyurt, Dagestan, in a raid by the Russian security service, FSB. Abu Hafs maintained links to Al-Qaeda.[23]
- On March 4, 2007, a terrorist attack aimed at Russian employees of the Russian company Stroytransgaz took place in Ain Defla, Algeria. The group known as the Al-Qaeda Organization in the Islamic Maghreb claimed responsibility, explaining the attack as a means to fight back against the Russian struggle "against Islam" and the killing of "our brothers in Chechnya."[24]

This list illustrates a tragic chain of events. What began as religious proselytization and missionary activities, undertaken by Muslim leaders from the Gulf region and Jordan, among others, or Central Asian Muslims educated in the Gulf region, led first to increased radicalization among the Muslims following these men, and then, in 1995, to direct participation of Gulf citizens in violence and terrorism on the territory of CIS states (in the same way that their predecessors had involved themselves in Afghanistan during the 1980s). Many died in the struggle without ever returning home, but others, including citizens of CIS states, switched their activities to the Gulf region, only to kill or be killed there in the continuing struggle. So far, the governments of Qatar and Iraq have been directly affected by these events. But the struggle of the Islamic extremists, linking the CIS region with the Gulf, has transcended these bounds and made both regions the theaters of a far greater struggle, as illustrated by the last event in the list and, for that matter, most other acts of terrorism committed in the name of Al-Qaeda and Sunni Islamic extremism.

Central Asian Islam versus Islamic Extremism

A key problem in writing about Sunni Islamic extremism is to define what it is. Some do this from a theological viewpoint, while others, including this writer, study the phenomenon from a political perspective – since the acts of the extremists are political acts, having to do with the here and now as opposed to the after-life. For this reason, the definition of Islamic extremism employed here will be the one

23. *Kommersant,* November 27, 2006. On Abu Hafs, see also Agentstvo Federal'nykh Rassledovaniy website, www.flb.ru, August 3, 2006.

24. Kavkaz Center (www.kavkazcenter.com), March 6, 2007.

proposed by the Council of the Muftis (Islamic religious leaders) of Russia on June 30, 2000. The Council then singled out as extremist those movements that (1) rejected the basic Islamic traditions, (2) claimed the right to brand as "non-Muslims" traditional believers who happened to disagree with their interpretation of Islamic law, and (3) claimed the right to kill "infidels" including traditional Muslims who had failed to side with them.[25] This definition of Islamic extremism subsumes all varieties of political Sunni extremism, whether referred to as Salafi or Wahhabi.

Islam in Central Asia does not constitute a uniform religious, social, or political force. While all titular Central Asian ethnic groups, that is, the nations that states were named after, eventually embraced Islam, the religion did not penetrate the traditional cultures and social systems of these groups to an equal extent. While the sedentary groups generally embraced Islam fully, and often acquired a reputation for Islamic scholarship as well as occasional bouts of fanaticism, nomadic and pastoral groups typically assimilated Islam in a more perfunctory manner.[26]

These different degrees of Islamicization remain visible today. The Tajiks are generally regarded as most Islamic, followed by the Uzbeks. The Kyrgyz, Kazaks, and Turkmens, in roughly descending order, are regarded as comparatively less Islamic in their attitudes.[27] The difference between sedentary and nomadic groups with regard to Islam can also be discerned among the non-titular ethnic groups. So are, for instance, the sedentary Uighurs regarded as far more Islamic than their formerly nomadic neighbours. This traditional ranking in Islamic piety continues to affect the development of Islamic extremism in Central Asia. In newly independent Tajikistan, the influence of Islamic extremism constituted an important factor among those that caused the 1992-1997 civil war. Uzbekistan produced an Islamic extremist guerrilla group, the Islamic Movement of Uzbekistan (IMU), which in its struggle against the secular regime had to relocate abroad and grew into an important part of the terrorist network around Al-Qaida. Uzbekistan is also the Central Asian country that appears to have been most susceptible to Islamic extremist politics in the form of the illegal Islamic party Hizb ut-Tahrir. Meanwhile, Kyrgyzstan has

25. Alexander Ignatenko, "Islamic Radicalism: A Cold War By-Product," *Central Asia and the Caucasus* 1, 2001, 101-112.

26. For further details, see Fredholm, *Islamic Extremism as a Political Force;* Fredholm, *Islam and Modernity,* with references.

27. Alexei Malashenko, "Islam in Central Asia," in *Central Asian Security: The New International Context,* eds. Roy Allison and Lena Jonson (London: Royal Institute of International Affairs, 2001), 49-66, on 51.

been somewhat less affected, but affected nonetheless. Kazakhstan, on the other hand, has been relatively little affected by domestic groups of Islamic extremists, while Turkmenistan so far may have been spared altogether. Among the Uighurs, an established but secular independence movement is currently losing ground to groups of Islamic extremists.

Besides, traditional Islam has lost ground in Central Asia. While the seven decades of Soviet rule by no means eradicated Islam, it certainly went a long way in undermining the authority of local religious leaders and in loosening many religious norms taken for granted when the region was an integral part of the Islamic world. The Soviet system produced a set of values within Central Asian Islam that set it apart from the rest of the Muslim world. Identifying oneself as a Muslim remained important, but Islam became regarded as synonymous with Central Asian customs and traditions (many of them of Sufi origin), not the strict observance of Islamic law and ritual. A person would identify himself as a Muslim because he was, for instance, an Uzbek, not because he considered himself particularly religious. Most Central Asians, Muslim clerics included, thus had a very limited knowledge of Islamic theology. This situation has to a large extent persisted in post-Soviet Central Asia. Islam no longer is, if it ever was, the central factor in life for a majority of Central Asians. Instead Soviet-style secularism seems to have become the norm for most people as they struggle to make a daily living. Yet, a vocal minority has turned its back on secularism, instead embracing Islam in its more extreme varieties.

Modern Sunni Islamic extremism originated in the Wahhabism of Saudi Arabia and was further propagated by the Muslim Brotherhood of Egypt. It had little if anything to do with the traditional, Sufi type of Islam that existed in Central Asia since before the Russian Revolution. However, the Islamic extremism in Central Asia is not pure Wahhabism and reflects in itself the fact that Islamic extremist thought reached Central Asia during several separate periods and from several directions. Many missionaries had only a rudimentary knowledge of the religion they preached, so it is often difficult to define exactly which strand of Islam influenced which particular movement.

There is a sizeable Central Asian diaspora in the Gulf region, or to be specific, a substantial population of Arabicized descendants of this diaspora. Their integration into Arab society was facilitated by the fact that most of their leading members, despite generations spent in Central Asia, claimed Arab origin. Even so, their descendants to this day remember that they came from Central Asia. In Saudi Arabia alone, there is an estimated 160,000 or more Uzbeks and approximately 50,000 linguistically closely related Uighurs. Both groups are regarded as loyal to

the House of Saud, their benefactor. In the early years of Islamic revival in Central Asia, following the introduction of the perestroika period, a number of Saudi Uzbeks went there as Wahhabi missionaries.[28]

A foundation had already been laid in the Soviet period. Two influential Muslim clerics then came to inspire the resurgence of Islamic activities in Central Asia. The first, Muhammad Rustamov Hindustani, can be described as a Deobandi with Wahhabi tendencies. The second, Abdulhakim Qori, was a devoted Wahhabi. Together they prepared the ground for the various Islamic extremist groups that grew out of the 1970s and 1980s.[29]

Although Rustamov had studied at Deoband, India, he had done so before the school appeared to have reached its most radical Wahhabi phase. This soon became evident. The numerous splits with regard to doctrine among these men and their followers show that Central Asian Deobandism and Wahhabism grew increasingly radical as time passed. It became increasingly difficult to distinguish between Hanafism, which at least originally was the publicly claimed doctrine of most of these clerics, and Wahhabism. Each disciple gives the impression of having regarded his teacher as being too soft on doctrine, and in some cases, each disciple came to break with his teacher, publicly renouncing the teacher's views as being insufficiently radical.

Yet, even those Muslim clerics who insisted that they never taught politics, such as Rustamov, typically concentrated their teachings on the works of Egyptian and Pakistani Islamic extremist thinkers such as Hassan al-Banna, Sayyid Qutb, and Sayyid Abul Ala al-Maududi. The Islamic schools also, in emulation of the extremists in the Middle East, soon widened their curricula to include physical training and the martial arts. Again following the example of their Middle Eastern role models, the extremist networks in the 1980s began to infiltrate the state power structures, including law enforcement. They also began to receive funds from a few local supporters, and, at first apparently with the help of Middle Eastern Muslim students in the Soviet Union, began to acquire the means for printing clandestine publications.

A direct genealogical link of thought can be traced from Rustamov, first to one of the early leaders of the Hizb ut-Tahrir in Uzbekistan, then also to one of the

28. Bayram Balci, "Uzbek and Uyghur Communities in Saudi Arabia and Their Role in the Development of Wahhabism in Present-Day Central Asia," in *The Prospects for Democracy in Central Asia,* ed. Birgit N. Schlyter (Istanbul: Swedish Research Institute, 2005), 239-52.

29. For further details, see Fredholm, *Islamic Extremism as a Political Force;* Fredholm, *Islam and Modernity,* with references, on which this section is based.

splinter factions that in Central Asia grew out of the Hizb ut-Tahrir. Yet another genealogical link can be followed from Rustamov and probably Abdulhakim Qori to the Islamic Renaissance Party of Tajikistan (IRPT). One or perhaps two further links can be traced from Abdulhakim Qori to the Islamic Movement of Uzbekistan (IMU). However, at least the latter two or three strands of Islamic extremist thought, and probably all of them, were further radicalized along the way through direct connections with the Middle East.

The Islamic Movement of Uzbekistan

The Islamic Movement of Uzbekistan (IMU) originated in the Islamic movement called *Adolat* ("Justice"), which arose in the city of Namangan in the Uzbekistani part of the Ferghana valley in 1990 as a response to what was perceived as widespread corruption and social injustice exposed by the perestroyka era as well as the resurgence in Islamic activities no longer prohibited by the Soviet government. The movement, funded by sources in Saudi Arabia and therefore inspired by Wahhabism, was led by two young men: Tohir Yuldosh and Jumaboy Khojiyev. In 1990, the movement built the first of several mosques and madrasahs. From November 1991 to the spring of 1992, the movement, which primarily consisted of unemployed young men, went on to organize protest meetings and occupy government buildings. The movement formed its own vigilante religious police force which administered summary justice in the streets. In April 1991, President Islam Karimov, arriving to talk to the militants, was shouted down and Yuldosh even grabbed the microphone from the president's hands. In December 1991, militants occupied the headquarters of the Communist Party of Uzbekistan in Namangan. Among many demands, they demanded that the government immediately proclaim the establishment of an Islamic state, use Islamic law as the only legal system, cease to orient the country towards Turkey, and introduce separate schools for boys and girls. In no time, branches of Adolat rose across the Ferghana valley, in Andijon, Margilan, Kuva, Farghona, and Osh (in Kyrgyzstan).[30]

Adolat was banned in March 1992, and the Uzbekistani government restored order, dissolving the movement. Several Adolat leaders, including Yuldosh and Khojiyev, who now took the name Juma Namangani after his hometown, fled to Tajikistan, where they eventually joined the Islamic Renaissance Party of Tajikistan (IRPT), which by then was preparing to launch a violent civil war in Tajikistan.

30. For further details, see Fredholm, *Islamic Extremism as a Political Force,* with references, on which this section is based.

When the civil war moved against the IRPT, Yuldosh joined the other key IRPT leaders in exile in Afghanistan. He also travelled to Pakistan and Saudi Arabia, and later to Iran, the United Arab Emirates, Turkey, and perhaps the Caucasus as well, to make contacts with other radical groups and to request funding from the intelligence services in these countries. Pakistan's Inter-Services Intelligence agency (ISI) offered continuous funding and a base in Peshawar. Yuldosh remained based there from 1995 to 1998. He also received funds from various Islamic charities and, according to Russian and Uzbekistani officials, the intelligence services of Saudi Arabia, Iran, and Turkey. Saudi Arabia contained a large Uzbek diaspora, the ancestors of which had fled there during the 1918-1928 Basmachi revolts against the Soviet power. Being now committed Wahhabis, they eagerly offered their support to Yuldosh.

When Namangani arrived in Tajikistan, he brought with him some 30 Uzbeks and several Arabs, who had served as emissaries to Adolat from Saudi Islamic charities. These men formed the core of Namangani's force, which within months attracted additional recruits from Uzbekistan, soon totalling some 200, as well as additional Arabs out of Afghanistan. Namangani then volunteered the services of his men and himself, as a subordinate commander, to the IRPT-supported United Tajik Opposition during the Tajik civil war. He also occasionally travelled to Afghanistan to meet the IRPT political leadership. After the Tajik civil war ended in 1997, Namangani became heavily involved in the transportation of heroin from Afghanistan to Tajikistan and onwards to Russia and Europe, at times travelling to Afghanistan himself.

In the summer of 1998, Yuldosh and Namangani met in Kabul to formally establish a new group, the Islamic Movement of Uzbekistan (IMU). Its first terror attack would seem to have been a series of six car bomb explosions in Uzbekistan's capital Tashkent on 16 February 1999, which possibly was an attempt on the life of President Karimov. The car bombs killed 16 and injured more than 130 people. In one alleged IMU document from later in the year, the IMU would seem to take responsibility for the attack, although the group denied responsibility in another document. Uzbekistani intelligence accused Yuldosh of having organized the attacks from the United Arab Emirates. But more violence followed. Having proclaimed a jihad against the governments of Kyrgyzstan and Uzbekistan, from August 1999, a number of raids into these countries followed.

By early 2001, the IMU had bases in Afghanistan as well as Tajikistan. There also seemed to be substantial numbers of clandestine IMU sleeper cells in Uzbekistan. In the summer of 2001, IMU guerrillas were again attacking government forces on

the Uzbek and Kyrgyz borders. Little else was heard of these skirmishes before the September 11, 2001 terrorist attacks on the United States brought further attention to the region. When the Northern Alliance swept through Taliban-controlled Afghanistan, under American air cover, the IMU was swept aside along with its Taliban sponsors. Namangani died in the fighting.

Yet, the IMU to some extent survived the 2001 War on Terror in Afghanistan. The organization has probably regrouped in Tajikistan, where it may easily go into hiding while reforming after the losses suffered during the war. IMU survivors definitely also escaped into Pakistan together with Al-Qaeda. There they took up positions in South Waziristan, being financed by contributions from Arab countries out of an office in Karachi. Approximately 150 remaining IMU fighters led by Yuldosh went into hiding in Wana, Pakistan, where they remained until fighting with locals and Pakistani government troops forced them out and into new positions near the Afghan border.

It is unlikely that the IMU ever received much funding from supporters in Uzbekistan. While Islamic charities often collect funds for extremist groups, such collection would be difficult to organize in Uzbekistan due to the strict controls the state has imposed on mosques and religious institutions. There is, however, reason to believe that Islamic charities elsewhere, particularly in Pakistan, supplied the IMU, in the way they also supplied the Taliban and Al-Qaeda. The Al-Rashid Trust, for instance, run by Mullah Khail al-Rashid, was in 2001 accused of smuggling weapons and supplies, disguised as humanitarian aid, to the Taliban and IMU.

The Islamic Jihad Union

From 2003, the true successor to the IMU turned out to be not the remnant under Yuldosh but the so-called Islamic Jihad Union (IJU; *Islomiy Jihod,* or *Itihaad al-Jihad al-Islami,* perhaps more correctly translated as the Alliance of Islamic Jihad; its original name was *Jamaat al-Jihad al-Islami,* Society of Islamic Jihad, or simply *Jamoat* in Uzbek), as it became known in 2005 in the American and British lists of banned terrorist organizations. By then, the IJU had become known for a series of plots to use suicide bombers in Uzbekistan. The IJU, first known to outsiders simply as the Islamic Jihad Group, is generally believed to have been behind the suicide bombings in Tashkent and Bukhara in March and April 2004 and almost certainly conducted the co-ordinated bombing attacks in Tashkent on July 30, 2004 against the American and Israeli embassies and the office of the Uzbekistani

Prosecutor General, for all of which the IJU claimed responsibility. The core of the IJU consisted of former IMU members who had broken away from Yuldosh to work more closely with Al-Qaida against its global rather than regional enemies. There was also an IJU cell in Kazhakstan.[31]

On the eve of the Andijon affair on May 13, 2005,[32] the IJU posted a statement on the Internet, in which it expressed its support for any uprising against the Uzbekistani government, declared war on the Karimov government, and called on all Muslims to join in the attack. The statement was signed by the amir of the IJU, Muhammad Foteh Bukhoriy, and conveyed by an opponent of the Karimov government in exile, Hazratqul Khudoyberdi.[33]

The United States and Israeli embassies in Tashkent took the threat from the IJU very seriously. In response to a "specific terrorist threat" the two embassies in early June 2005 withdrew non-essential staff from the country.[34]

The IJU has since turned its attention towards Europe. On September 4, 2007, a plot to attack Frankfurt airport and a US air base in Germany was foiled with the arrest of three men, two of them German converts to Islam and the third a German Turk. The group had trained in Pakistan and had links with the IJU.[35]

Hizb ut-Tahrir

The *Hizb ut-Tahrir al-Islami* ("Islamic Liberation Party") was according to official party history founded in 1953 by Shaikh Taqiuddin Al-Nabhani (1909-1977), a Palestinian graduate of Al-Azhar and former member of the Muslim Brotherhood. Nabhani, who worked as a teacher and local Islamic judge among the Palestinians on the West Bank, soon became known for his anti-Western, and in particular anti-British, views. He escaped to Syria when Israel was created in 1948, but in 1950 returned to the West Bank. Until 1951, Nabhani was involved with the secular Pan-Arab socialist Ba'ath party. He was also in contact with

31. For further details, see Fredholm, *Islamic Extremism as a Political Force,* with references, on which this section is based.
32. On the events in Andijon, see Shirin Akiner, *Violence in Andijan, 13 May 2005* (London, June 7, 2005). Her report was subsequently published as Shirin Akiner, *Violence in Andijan, 13 May 2005: An Independent Assessment* (Washington, D.C. and Uppsala: Central Asia-Caucasus Institute & Silk Road Studies Program, July 2005).
33. www.centrasia.ru.
34. Reuters, June 6, 2005. On June 2, 2005, the United States Department of State issued a travel warning due to the sudden terrorist threat.
35. See for example, *Economist,* September 8, 2007.

a number of people who planned a coup against King Abdallah ibn Hussein (1882-1951) of Jordan with the intention of replacing him with a Ba'ath-inspired regime.[36]

Breaking with the Ba'ath Party, Nabhani began to organize his own political party. His dream was then to create an Islamic Caliphate and rid the Islamic world of all Western influences. Nabhani's organization grew rapidly. By 1956, branches were established in Syria, Lebanon, Egypt, Iraq, and Kuwait. The Hizb ut-Tahrir acquired a reputation for involvement in coups against secular regimes, in particular in Jordan but also in Iraq and other countries. The Hizb ut-Tahrir was accordingly banned in most parts of the Middle East. For this reason, its leaders instead established the organization in Europe, in particular Britain. The goal was at first not to establish a branch in a Western country, but to woo young Arabs from influential families, who attended higher education in Britain, so that they upon returning home would work for the party there. This plan failed, but many local Muslims were recruited. Muslim students in British universities form an important segment of the organization's membership. The Hizb ut-Tahrir has branches also in Germany, the Netherlands, France, Belgium, and the Scandinavian countries. London is used as a base for many of the Hizb ut-Tahrir web sites and communiqués and press releases worldwide are generally published from London.

There are several Hizb ut-Tahrir branches in the Middle East and Asia. In 2003, the Hizb ut-Tahrir even announced that a branch had been opened in Iraq, following the fall of Saddam Hussein earlier in the year.

In Central Asia, the party focused its attention on Uzbekistan. Independent analysts with access to a variety of sources, including within the Uzbekistani security service, estimated a total membership there between 6,500 and 7,000 in early 1999 and up to 15,000 in 2003. Unlike the Islamic Movement of Uzbekistan (IMU), which primarily recruited in rural areas, the Hizb ut-Tahrir appears to draw its supporters primarily from the educated urban elite as well as college students, educated but unemployed youth, and skilled factory workers. Most of the arrested Hizb ut-Tahrir members are educated, urban men in their twenties. They are not necessarily deprived or living in poverty. Quite a few, perhaps most, appear to have been introduced to Islam for the first time through the Hizb ut-Tahrir. The party has been banned in Uzbekistan, Kyrgyzstan, and Tajikistan but remains a popular underground movement.

36. For further details, see Fredholm, *Islamic Extremism as a Political Force,* with references, on which this section is based.

In Kyrgyzstan, the Hizb ut-Tahrir is very active in the Osh and Jalalabad regions. Sources within the Kyrgyzstani security service in 2003 estimated a membership of between 1,000 and 1,200. Osh in Kyrgyzstan serves as a center for the dissemination of Hizb ut-Tahrir propaganda; materials are sent from London to Osh over the Internet, where it is printed for distribution to Hizb ut-Tahrir groups in the Uzbekistani cities of Andijon and Tashkent. The Hizb ut-Tahrir has enjoyed high-level support in the Osh region. In September 2002, the chairman of the Kyrgyzstani National Security Service (SNB), Kalyk Imankulov, indicated Tursunbay Bakir uulu as a supporter of the Hizb ut-Tahrir. Bakir uulu, then a leading member of the opposition, was previously the president's special representative for human rights and sat on the Constitutional Council.[37] This writer has personally met officials serving in counterterrorism in Osh who did not hesitate to defend the Hizb ut-Tahrir in public.[38] Several members of the State Commission of Religious Affairs of Kyrgyzstan have also reportedly displayed extremist sympathies, including Sadykjan Kamalov (also known as Sheikh Sadikjan Kamaloddin), who in October 2004 became the head of the Islamic Center in Karasu.[39]

In Tajikistan, the Hizb ut-Tahrir seems to be especially strong in the northern part of the country. The Hizb ut-Tahrir membership is estimated to be a few thousands, at most.

The Hizb ut-Tahrir is since 2000 also gaining popularity in Kazakhstan, at least in the south and in Almaty, Kazakhstan's largest city. There are probably no more than a few hundred members. Occasional reports indicate that Hizb ut-Tahrir members are also active in Turkmenistan, as well as in Russia (Moscow, Tatarstan, and Bashkortostan). The movement even appears to have spread into China (Urumchi and Khotan).

The Hizb ut-Tahrir has also learnt what strategy works best in the modern, media-driven Western world. By assuming the role of an oppressed victim, the party manages to position itself as the persecuted keeper of the faith, truth, and innocence. Being victimised by the secular world, the party aims to show itself as morally and politically superior to the forces of secularism. In other words, the party aims to make use of the current political climate to gain an ideological advantage. Being a victim of the evils of secularism, the party suggests that it is merely waiting for the righteous time when good will defeat evil and truth will prevail over lies, in other

37. Kabar (Bishkek), September 4, 2002; RFE/RL *Central Asia Report* 1: 1, July 27, 2001.

38. Personal statements by the officials involved, spring 2004.

39. Zeyno Baran, *Hizb ut-Tahrir: Islam's Political Insurgency* (Washington, D.C.: The Nixon Center, 2004), 108.

words, the introduction of the Caliphate. This strategy seems to work well. Despite having seemingly few members, the Hizb ut-Tahrir has made headlines throughout the world. In addition, the emphasis on victimhood ensures that the party meets a positive response from sympathetic Western academics and members of the media.

Although the Hizb ut-Tahrir remains banned, its very aura of resistance appears to encourage new recruits to the movement. This, together with the possibility that some of them will move on to violent means to bring an Islamic state into being, means that the Hizb ut-Tahrir remains a strong threat to secular rule in Central Asia. The Hizb ut-Tahrir sees its mission as consisting of three phases: inviting people to Islam, establishing an Islamic state, and finally, expanding the Islamic state through jihad. In the Islamic state, military conscription and training in preparation for jihad would be mandatory for all Muslim men over 15. This shows that although currently advocating non-violent means, the Hizb ut-Tahrir does not rule out the use of violence, especially against the non-Muslim world after the Islamic state has been re-established. Furthermore, although the Hizb ut-Tahrir itself eschews the use of force, it has stated its willingness to rely on outside "assistance" (*nusrah*) from those who are willing to fight for the party's goals.

In June 2001, Hizb ut-Tahrir in a document published in Uzbekistan as *Shahid bo'lish amaliyotlari* ("General practices of becoming a martyr") also stated its belief that suicide attacks with explosive belts, so-called martyr belts, were legitimate in the struggle against unbelievers. The party in addition seemingly reiterated its opinion that it was lawful to blow up or shoot down airliners in order to kill unbelievers. "A Muslim is allowed the use of any methods and means in the struggle against the infidels, if they are employed for the killing of the infidel...If the enemy is destroying our warriors, children, women, and old men by using missile systems, planes, cannon, and other weapons, we should use similar means and, in particular, use explosive substances. In such cases there is no difference whether we shall be killing enemy soldiers or together with them destroying their children, women, and old men," the article concludes.[40] Actual calls for arms against the *kafirs* ("disbelievers," identified as the United States, Britain, and the other Coalition allies in the war against the Taliban as well as the Muslim leaders who support them or prevent Muslims from joining the "world jihad in Iraq") have been noted in Hizb ut-Tahrir leaflets written in local languages in Central Asia (unlike the English-language leaflets produced for foreign journalists and non-governmental human rights organizations, which

40. "Shahid bo'lish amaliyotlari," *Al-Waie* 170, June 2001 (www.al-waie.org). An abridged translation, from which this excerpt is taken, is provided in Vitaly V. Naumkin, *Radical Islam in Central Asia: Between Pen and Rifle* (Lanham, Maryland: Rowman & Littlefield, 2005), 154-5.

typically do not include the radical anti-Semitic or anti-Christian statements that the Hizb ut-Tahrir publishes elsewhere).[41]

The Impact of Islamic Extremism on Central Asia

This writer has argued elsewhere that the impact of Islamic extremism was central to the geopolitical developments of Central Asia during the last decade of the twentieth century - and remains so since.[42] Without the threat from Islamic extremism, it is unlikely, to say the least, that the United States would have devoted so much resources, money, and military power to the Central Asian region. The deployment of American military forces to what increasingly looks like permanent bases in the region (first in Uzbekistan and Kyrgyzstan, then in Kyrgyzstan and Afghanistan) has furthermore polarized the strategic situation between the United States and the two already present great powers, Russia and China. The meeting of these three great powers in Central Asia would not have occurred unless all three had been faced with the threat from Islamic extremism. However, Islamic extremists never succeeded in gaining uncontested control over any state within the region. Even the Taliban did not manage fully to control the territory of Afghanistan. Moreover, since the 2001 War on Terror, Islamic extremists are no longer in control of any state within the region, not even the most fragile of them. The conclusion must be that while Islamic extremism was central to the region's geopolitical developments, this was more through its role as a catalyst in pushing great powers into action than through its actual power.

Islamic extremism also played an important role in the development of authoritarianism, in Central Asia as well as elsewhere. Since almost immediately after independence in late 1991, the impact of Islamic extremism has been central to the retention, and even strengthening, of authoritarianism within the Central Asian state structures. Islamic extremism thereby directly prevented the states within the region from acquiring any increased level of democracy and popular legitimacy. Again, this was attained through its role as a catalyst rather than through the direct participation in government by Islamic extremists.

41. Martha B. Olcott and Bakhtiyar Babadjanov, "Hizb-ut-Tahrir in Uzbekistan: 'Non-Violent Methods of Struggle' or Instigation to Terror?" in *State and Religion in Countries with a Muslim Population,* eds. Zahidulla I. Munavvarov and Reinhard J. Krumm (Tashkent: Scientific and Educational Center of al-Imam al-Bukhari/Friedrich Ebert Foundation, 2004), 163-72, on 169, 171 n.7, 172 n.25. Examples include leaflets dated March 20 and April 13, 2003.

42. Michael Fredholm, *The Impact of Islamic Extremism on the Geopolitics of Central Asia: Afghanistan and the Central Asian Republics in the War on Terror, 2001-2002* (Stockholm, 2004).

While Islamic extremism is a political force in Central Asia, Islamic extremists have not, so far, showed much success in actually gaining political power. Political parties based on Islamic extremist ideology have been banned everywhere except in Tajikistan, but even there they have never done well in elections.

Moreover, Islamic extremism has invariably displayed a very simplistic ideology. There are no indications that any Islamic extremist leaders ever made actual preparations for, or indeed thought about, how to rule their much desired Islamic state, had they succeeded in creating one. Even the Taliban never bothered to build any form of civilian administration, being content with a military chain of command which in itself always remained vague and ill-defined. The often-expressed desire to build an Islamic state purely on Islamic law thus does not inspire confidence in any Islamic extremist movement's ability actually to run such a state.

Rejecting all forms of modernity except weapons of war, the proponents of Islamic extremism remain unable to gain political power in any Central Asian state. An armed Islamic extremist group could, perhaps, gain military power over certain regions, such as happened in Taliban-controlled Afghanistan, but it would still - like the Taliban - reject the means of ruling over any community more politically advanced than a cluster of villages. Neither the IMU in their Tajikistani bases nor the Taliban in Afghanistan ever bothered to rule their domains as anything but militarily occupied territories. They allowed, in most cases, their dependents to go on making a living through whatever means had been put at their disposal by earlier regimes, but they did not make any attempts to build public utilities, maintain the roads, or provide for the population under their control. In short, they had no interest in civil society and despised the means necessary to run a modern state.

Nor will they be given the chance. No present Central Asian extremist group can build a fighting force strong enough to defeat the full military might of the modern secular state. One could perhaps argue that a militarily weak country such as Kyrgyzstan could be overrun by extremists. However, even if this should occur, the argument would be irrelevant, since the very threat from international Islamic extremism would then bring in the forces of far more powerful states, such as the United States, Russia, and perhaps even China. Any overview of the means of coercion and violence available to the parties in such a conflict indicates that the states remain vastly more powerful with regard to the use of force. In the end, the proponents of Islamic extremism will not be able to take power in Central Asia – but they can strike back by assymetric means, that is, terrorism.

The Impact of Central Asian Islamic Extremism on the Gulf Region

The fact that no Islamic extremist movement would seem able to take power in Central Asia does not rule out an impact, from extremist activities, on the states of the Gulf region.

The war in Chechnya already has exposed the Gulf region to loss of life (Gulf state citizens fighting against Russia), at least one bombing (the assassination of Yandarbiyev) and a series of diplomatic crises (notably, between Qatar and Russia). Yet the chain of events outlined early in this study indicates that the links between the Gulf region and extremist movements in Central Asia go back even further in time than those with the Caucasus and may yet result in a situation as bad, or worse, as the one having to do with Chechnya. The war in Iraq obviously brings yet other complications, and the fact that fewer Muslim extremists have volunteered for jihad activities in Chechnya since the jihad in Iraq began brings little consolation, since Iraq simply is so much more attractive as a destination for jihadists. As compared to Chechnya, Iraq provides an environment that possesses more pleasant climate, is less dangerous, feels more familiar in language and culture, and carries a far higher symbolic value to Islam than remote Chechnya. However, since the ancient Islamic centres of Central Asia also carry more weight, in symbolic terms, than the Chechen borderlands, this would be in the region's favor for jihad activities and thus increase the odds for such to grow in intensity.

What might then be the impact of the specifically Central Asian Islamic extremist movements on the Gulf States? After all, links abound between these regions. The Gulf States have supported the Islamic revival in the former Soviet states through the donation of copies of the Koran, funding of Islamic missionaries and teachers, and, from 1990, sponsoring of pilgrims for the *Haj* to Mecca.[43]

Limiting ourselves to the impact of the Central Asian movements, and disregarding here the questions raised by the presence or potential of indigenous extremist movements in the Gulf region, the conclusion must be that the impact of these extremists, through their links with supporters and sponsors in the Gulf region, despite the grave risks of escalation so far appears to be rather limited. There is little chance that these movements, despite their origin on the Arabian peninsula years ago, would be able to extend a substantial physical presence into the Gulf region in the near future. Yet there is a potential impact, and it might turn serious.

First, there is the blowback phenomenon. This problem first came to light after

43. Marat Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States (CIS)* (Dubai: Gulf Research Center, 2005), 12, 55-6.

the Soviet war in Afghanistan 1979-1989. Individual extremists of Gulf origin are trickling back to their native countries after spending a few years on jihad activities elsewhere.

Second, there is the undoubted potential to harm the foreign relations of the Gulf States. Any clear evidence of funding or sponsorship from sources, private or public, in the Gulf region that has supported the terrorist activities of Central Asian extremists elsewhere will bring repercussions in international politics. The potential is not limited to the relations between the Gulf States and the CIS states. As the example of the IJU has shown, the Central Asian movements have a capacity and ambition to commit acts of terrorism in the European Union and the United States as well. Would, for instance, any clandestine support of the IJU in their terrorist activities in Europe come to light, this would have an impact on foreign relations.

Third, the assassination of Yandarbiyev showed that the very presence, as refugees and representatives, of CIS extremists in the Gulf region might result in unwanted diplomatic entanglements.

Fourth, in the same way that the impact of the Islamic extremist movements on the Central Asian states has been geopolitical, in that the phenomenon of Islamic extremism directly brought the military presence of great powers into the region, any increased turbulence in the Gulf may well see an increased risk of great power intervention. While limited great power support might be helpful in fighting terrorism, escalation may reach a point when such forces instead begin to be seen as alien occupation forces – and thus serve to fan unrest rather than prevent it. A well-known case was the presence of US military bases in Saudi Arabia and the extremist reaction to them.

Fifth, as in Central Asia, a steady security threat from extremist groups will encourage the retention, and even strengthening, of authoritarianism within the state structures. As with great power intervention, such means, however well-intentioned and necessary to fight terrorism, may come to be seen as part of the problem rather than the solution.

Keeping these five potential risks in mind, and remembering that there is a general threat from Islamic extremism to the Gulf region, as well as to many other regions of the world, a final and more general conclusion would be that despite everything, there is currently little need to worry overmuch about the threat from the specifically Central Asian extremist movements. With Iraq next door, the Gulf region already has problems with extremism. Yet, as the example of the Al-Qaeda attacks on the US on September 11, 2001 shows, a devastating terror attack is able to radically change foreign policy. Until that date, nobody, least of all the Taliban,

expected the US to go to war in Afghanistan. What would happen if a similar atrocity took place, and the world learnt that it was planned and carried out by members of, say, a Central Asian extremist group with support from and bases in one or the other of the Gulf States? It behoves the Gulf leaders to keep any jihadists, or jihadist sponsors, in line, so as not to invite similar repercussions upon themselves.

The conclusion to be drawn from this assessment is thus that the Gulf States will have to monitor the links from the region to these various extremist movements very carefully. It would hardly be in the interest of the Gulf States to allow a number of individual jihadists, through their support of extremist ideology, to drag their countries into violence and international confrontation even of the limited type that took place in Qatar with regard to the assassination of Yandarbiyev.

Certain steps have, of course, been taken to this effect. On February 27, 2004, Saudi Arabia established, by royal decree, the Saudi National Commission for Relief and Charity Work Abroad, to control and assume responsibility for the distribution overseas of charitable donations from Saudi Arabia.[44] A key reason was obviously to prevent Saudi aid from supporting terrorism. This was a step in the right direction. Even so, more will have to be done. Besides, similar controls need to be imposed on missionary activities as well, since these are closely interlinked with the financial activities of the charities. Every single jihadist war since the one in Afghanistan in the 1980s has resulted in a blowback of violent extremists into the states that funded the fighting and supplied the men. Chances are that a similar blowback – from Chechnya and Central Asia – will be directed against the parent states of the thousands of jihadists born in the Gulf.

44. Embassy of Saudi Arabia, Washington, DC, press release, March 2, 2004.

Gulf States and Chechen Resistance: Between Pragmatic Love and Sincere Hate

Dr. Dmitry Shlapentokh

History Department, Indiana University South Bend, USA

Introduction

It is usually assumed that political marriage is most often arranged between those who have a deep gravitation to each other because of common goals and values. Ideology is seen as the key to understanding political and geopolitical realities. The stress on ideology, or what can be called "discourse," is of French origin and placed in the context of what is usually called "post-modernism." The theory that employs ideology as the explanatory model has been used by the Left for a long time to condemn/explain the modern West. Lately, conservative intellectuals and politicians also have started to employ the theory to explain various events in the modern world. Samuel Huntington's well-known theory about the "clash of civilizations" explains the conflict between the West and non-Western world as the conflict of civilizations with different core values. The present US conflict with Islamic extremists was seen by the White House, and those intellectuals who affiliate themselves with the previous Bush administration and the prevailing trend, as the mortal conflict of "liberty," carried by the US, and "Islamofascism," carried out by Islamic extremists. At the same time, the alliances between the various states are also explained here as stemming mostly from their ideological affinity. This explanation should be taken with a pinch of salt. One, of course, should not discard the importance of ideology in shaping political events. Still, its role should not be over-estimated. Stalinist USSR was first the ally of Nazi Germany and then Western capitalist democracy, despite

clear ideological differences. Later, the radical Mao and the archconservative Nixon struck an actual alliance against the USSR. And recently, at the beginning of the Iraq war, the US relationship with France became quite tense regardless of the same ideological/civilizational background. At the same time, at certain moments, the US relationship with authoritarian Russia had been much better than with democratic France. It is clear that it is the pragmatic consideration of geopolitics rather than ideological abstractions which define the relationships between states; and, if the ideology has emerged at certain points of their relationships as a binding or dividing force, one should still look at real life as the ultimate source.

While pragmatic consideration is the ultimate reason for the unity/disunity among the various states, the same could be said about revolutionary parties/groups. Although they could have quite a negative feeling toward this or that force, they prioritize their goals and engage in a complicated relationship with the outside world. While fighting one of the enemies, they might ally, at least temporarily, with the others. The Bolsheviks in pre-revolutionary Russia had no warm feelings for the Russian middle class. Still, they needed the middle class to help them avoid the tsarist police. They needed wealthy Russians as the source of funds without which they could not operate. At the same time, the Bolsheviks deeply hated the middle class and, upon their victory, dealt harshly with them.

The same could be said about the Chechnya - or, actually, the North Caucasus - resistance's approach to the Gulf States. On the one hand, they need the money for their operations and a safe haven. On the other hand, the life of the Gulf States' elite is quite opposite to theirs. While some of the elite of the Gulf States lives in luxury, the Chechen fighters have lived a life of deprivation which most likely will end in violent death. All of this instills in the Chechen fighters a certain dislike of the Gulf States' elite. This complicated feeling of the Chechen fighters – the desire to be in a good relationship with the Gulf States and a deep dislike of its elite shapes the nature of the image of the Gulf States on the website of their major publisher: the Kavkaz Center. Both positive and negative images are conveyed indirectly through the publication of articles authored by others.

The Kavkaz Center: Key Characteristics

The major source for our study is the internal publication of the rebels' Kavkaz Center, run by Movladi Udugov, the chief propagandist of the Chechen resistance. Therefore, a history/analysis of the Center and a short biographic sketch of Udugov will be presented.

Movladi Udugov was born in 1962 in Grozny, his youth coinciding with the unraveling of Gorbachev's "perestroika." He immediately became engaged in intellectual and political activities that looked subversive even during Gorbachev's era when the general trend in society was more and more toward the complete end of censorship. Yet even at that time, young Udugov was too radical, and the newspaper *Orientir* that he edited was banned by the Chechen-Ingushetia regional committee of the CPSU (Communist Party of the Soviet Union) in 1989. In 1989-1991, he was a member of socio-political organizations in the Caucasus Bart and soon was a member of the Presidium of the Executive Committee of the National Congress of Chechen People (NSSP). "With the promulgation of Chechen independence, he became Pzhokhar Dugaev's 'closest brother-in arms' and rose in the ranks of the Chechen government."[1] He became quite a skillful propagandist. Anatoly Kulikov, who, in the future would be Russia's Interior Minister, would acknowledge and state: "Udugov alone is worth all of the propagandists sitting in Moscow."[2] In 1999, when the Second Chechen War started, Udugov created the Kavkaz Center. Published at present in four languages, it became the most well-known Internet portal of the Chechen, actually North Caucasian, resistance. The Kavkaz Center has provided room for all branches of Chechen resistance ideologists. Still, it is the jihadists who clearly are favored by Udugov; and he proves his jihadist credentials in recent (2006) polemics with Akhmed Zakaev. Zakaev, who lives in Britain, professes moderate and nationalistic views. He stated that the Chechens will win victory over the Russians and create an independent Chechen state fully incorporated into the global community. Udugov has rejected these plans. He stated that he sees no room for the creation of a Chechen state that would copy existing states – Russia or the Western states, it does not matter. The reason for this is that such a state would just have the same repressive and corrupt elite, and the fact that the elite would be ethnic Chechens would make no difference. It is not for such a state that one should fight; instead, it is the Khalifat, the state based on the *Quran* text – implicitly, the just state – that should be the goal of the resistance. It is the attachment to Allah, not ethnicity/blood relation that actually matters according to Udugov. This jihadist viewpoint has also defined Udugov's views on the Gulf States. Here one can see even more dichotomy in the views of the other members of the Chechen resistance. On the one hand, to some of them the elite of the Gulf States represents many of the

1. "Udugov, Movladi Saidarbievich," *Caucasian Knot* (no date given), http:lleng.Kavkaz.memo.ru./persontext/engperson/id/565489. html.
2. "Turkey Says It Will Help Catch Movladi Udugov," *The Jamestown Foundation* 7, no. 8, January 11, 2002.

deviances against which Udugov and similar-thinking people fight. This elite group is perceived as representative of the corrupt pseudo-Muslims who, while pretending to follow the Quran, are actually the enemies of Islam. As such, as the argument goes, they are even more dangerous to real Islam than those who are openly hostile to it, and therefore need to be overthrown.

At the same time, this point of view of the Gulf elite is tempered by pragmatic considerations: the Gulf States have been a source of funding for the North Caucasian resistance of all political hues; and it is the Gulf States where members of the North Caucasian resistance, including Udugov himself, find refuge. Udugov is too shrewd and pragmatic a politician to ignore this. As a matter of fact, these traits – the combination of fatalistic conviction in the total transformation of the universe, combined with shrewd pragmatism – could be found among other politicians in modern world history. Vladimir Lenin is an example. Similar to Lenin, Udugov hides his emotions when he understands that restraint is critical and even praise is needed for the people who might be useful for the cause, even if he dislikes these individuals. All of these contradictory feelings that inspire Udugov has led to a peculiar approach to the Gulf States and related subjects that one can find in the Kavkaz Center.

On the one hand, the Kavkaz Center, in most cases, avoids direct criticism of the Gulf States. Moreover, most of the articles that Udugov reprints from other sites and publications have positive information about the Gulf States. And, if this or that author, or possibly Udugov himself – one can hardly verify the authenticity of the authors of the Kavkaz Center – wrote an article about the Gulf States, it was presented in quite a positive light. On the other hand, the Kavkaz Center has sent an unmistakable signal to its readers about the real feelings of its editors and authors, Udugov first of all, toward the Gulf States and their elite. This is done in an indirect way. The Kavkaz Center republishes articles from other mass media or the Internet that often provides quite negative information about the Gulf States.

The Gulf States as Chechen Protectors against the Russian Government

The major reason why the Kavkaz Center, and thus a considerable number of Chechens, approach the Gulf States positively – or at least see some positive aspects in them – is that they could find a safe haven in these states. The role of the Gulf States as a safe haven became important even when these states ceased to be the only or major source of funding for the Chechen resistance. While the desire to please their Gulf hosts is the major reason why the Kavkaz Center published

the articles about the tolerance of the rulers of the Gulf States, there was another reason. This was an attempt of the Chechen government to get Chechen fighters to a safe haven and provide them the opportunity to praise their Gulf hosts and display the ugliness of the Russian government, which, in this interpretation, has become the very embodiment of terrorism.

The publications of the Kavkaz Center implicitly acknowledge that a considerable number of Chechens, including those who belong to the leadership of the movement, have at times found a safe haven in the Gulf States. This was, for example, the case with Movladi Udugov. The Kavkaz Center informed its readers at one point that, according "to reports of different Arab newspapers," he is at present in the territory of one of the small states of the Gulf. "During the last several months, Movladi Udugov is constantly traveling between Qatar and the United Arab Emirates, constantly changing his place of staying in these countries."[3] These Chechens have lived, as was implied, peacefully in these Gulf States. Still, the Russian authorities could not leave them alone. In fact, by harassing them – and this is implied by informing readers about Udugov's involuntary shuttle-type travel – the Russian authorities also implicitly violated the laws of the Gulf States. This was most emblematic in the murder of Zailamkhan Yanderbaev. Yanderbaev lived peacefully in Qatar with his family. He, as the Kavkaz Center implied, had abandoned any fight with the Russians and was a peaceful civilian. Yet, the Russian government was not stopped by this, and Russian agents killed the former president of Chechnya.[4] It was emphasized in the publications here that by killing him, Russia committed an act of international terrorism.[5] There was, however, a silver lining as far as the Kavkaz Center was concerned as those who murdered Yanderbaev were not able to cover their tracks and were apprehended by Qatar officials. By arresting them, Qatar demonstrated its respect for the law and the efficiency of its state machinery. This was opposed to, according to Kavkaz Center, the Russian reaction which demonstrated not just its vile nature but also its inability to behave rationally.

The prompt and severe punishment of the murderers demonstrated clearly – at least as the Kavkaz Center implied – the deep respect for the law and commitment to protect the peaceful Chechen community in Qatar. The Kavkaz Center reported that the Qatar court "sentenced two Russian intelligence agents to life in prison for assassinating the former Chechen president in Doha." The murderers of Yanderbaev

3. "Udugov Was Sitting in Prison Due to Theft?" Kavkaz Center, January 14, 2007.
4. "The Poison Puzzle," *New York Times*, December 17, 2004; Kavkaz Center, December 17, 2004.
5. Iliya Milstein, "Punishment for the Fatherland," *Chechenpress* (Grani ru), February 18, 2005.

received a tough sentence, and this pleased the contributors to the Kavkaz Center. "Speaking to *Al Jazeera*.net, Chechnya's representative in Denmark, Ousman Ferzaouli, welcomed the judgment."[6] As far as Russia was concerned, it was written that upon receiving the news of the arrest of the murderers, "Moscow was in a panic when it resorted to outright banditry of unprecedented scale, by taking two Qatar citizens hostage, the first Qataris they came across. But unluckily, the hostages were Olympic wrestlers; and even the FSB Chief, Patrushev, was unable to charge them with 'international terrorism.'"[7]

According to the Kavkaz Center, the irrational nature of Russian authorities could be seen by the fact that upon receiving news about Qatar's arrests of the murderers, Igor Ivanov, the Minister of Defense, and Dmitry Rogozhin, the nationalist, advocated military force to free the arrested agents.[8] The very fact that Russia was humiliated was extremely pleasing to the Chechens. In fact, despite their dislike of the US, it is Russia that looms large in their minds; and the humiliation or harming of Russia was so important for those writing for the Kavkaz Center that they were ready to forgive the Gulf States' collaboration with the Americans if it would harm Russia.[9]

While the protection of the Chechens against the Russian authorities may be the major reason why the Kavkaz Center has constructed positive images of the Gulf States and its elite, it is not the only one. The suffering of the Palestinians is extremely important in Muslim, and, especially, Arab discourse, and implications that the Gulf States are, indeed, concerned about the Palestinians provides an additional touch to the Gulf States elite's positive image.

The Gulf States as Supporters of the Palestinians

The Kavkaz Center's policy is not explicitly anti-Semitic, or even anti-Israeli. In fact, it does not pay much attention to the struggle of the Palestinians. Moreover, for a long time, the Kavkaz Center has published materials from Boris Stomakhin, either an ethnic Russian or even a Jew, who compares Israelis and Chechens. In his

6. "Russian Terrorists Get Life Terms," Kavkaz Center, June 30, 2004.
7. "Musa Exchange Takes Place, but on Qatar's Terms," Kavkaz Center, May 19, 2004.
8. "Russia Threatens Qatar with War," Kavkaz Center, March 13, 2004.
9. For example, the Center also reported with delight that the US pressed the Gulf States, together with others, to lower the price of oil. While low oil prices would be, of course, in the interests of the US, they were also portrayed as being in the interests of the Gulf States and other oil-producing nations, for it would enable them to dominate the oil market and leave Russia out in the cold. See M. Tutayev, "Eleven Dollars for a Barrel of Oil," Kavkaz Center, December 21, 2002.

view, both nations have a lot of similarities. They are small nations who have been engaged in a long struggle for independence against much stronger enemies: while the Chechens are fighting against the Russians, the Israeli Jews are fighting against the Arabs. In both cases, these nations are fighting for their very survival, for their enemies are determined to eliminate them. The contributors to the Kavkaz Center also proclaim that Putin's regime is anti-Semitic, and they reproach the leaders of the Russian Jewish community for fraternizing with Putin. In the view of these contributors, these leaders are soiling the reputation of the Jewish community in general and the Russian Jewish community in particular. They pointed out that the Jews have suffered a lot through persecution and, thus, as it was implied, are sensitive to the suffering of others. One contributor to the Kavkaz Center pretended to be surprised by Russian Jewish leaders who fraternized with a man who, by murdering Chechen women and children, could well be compared with the Nazi butchers who killed Jewish women and children. The Kavkaz Center's rather positive approach to the Jews has a variety of reasons. To start with, the Chechen resistance, at least the nationalistic part of it, still dreams about separation from Russia. They still believe that by destroying Kadyrov and his crew, whom they regard as just Russian quislings, they would create a truly independent Chechen state, fully recognized by the international community. The positive views toward Jews are seen as an admission ticket into the European community. The other reason for, if not praising Jews and Israel, at least ignoring them, is quite opposite to what inspired some nationalist-minded Chechens. Indeed, quite a few of the members of the Chechen resistance have actually followed the jihadist trail, with the dream of the creation of a global caliphate. The Palestinians' struggle for national liberation with a sort of parochial concern was of no interest for these jihadists with global ambitions. Still, with their intellectual and, of course, political flexibility, they could praise the anti-Israeli struggle if it was needed to present themselves positively; for, indeed, concern for the Palestinians is quite important for the Arab street. As a matter of fact, it is only this concern for Palestinians and consequently the hate for Israel that is the glue that keeps together Arabs from the various Arab states. Understanding the importance of the Palestinian cause, contributors to the Kavkaz Center have also portrayed the Gulf States' elite as ardent supporters of the Palestinian cause. Of course, this was true only when the contributors to the Center wanted to construct a positive picture of the Gulf States.

As such, there have been regular articles published by the Kavkaz Center praising

the Gulf States for condemning the Israelis' mistreatment of the Palestinians.[10] This is especially the case when Gulf newspapers have compared Israeli actions with those of the Nazis.[11] Regarding the Gulf States' support of the states that confront Israel as their sacred duty, the Gulf States are seen as ready to forget their disagreements with this or that Arab state if it was needed to forge Arab/Muslim unity against a common enemy. This is cited with reference to the example of the Gulf States' relationship with Syria. While it is argued that it is true that the Gulf States have had their disagreements with Syria, they did not want the present-day Israeli-Lebanon War to lead to an Israeli attack on Syria.[12] As such, the Gulf States are viewed as implicitly supporting Syria against international pressure.[13]

Finally, the Gulf States' positive approach to the victims of Israeli and American aggression is underlined. While Qatar hosts the US Military's Central Command for the region, it at the same time hosts Al Jazeera television, and "the station has gained a reputation as an unusually independent voice in a region where many news media are heavily government influenced or controlled."[14] In this context, the Gulf States, especially their people, are not seen as lost for jihad, and "Al Zawahari urged Islamists in various countries, including the Gulf Arab states, to "help those fighting in Somalia."[15]

The Gulf States as a Rising Nuclear Power

The moral dimension of the Gulf elite goes along with other important notions: the Gulf States are scientifically and economically developed. In this context, one of the factors from which the positive image of the Gulf States evolves is that they would finally become a nuclear power that would confront the US. The Gulf States are also seen as possibly joining Iran in its nuclear ambitions.

The Kavkaz Center has controversial views on Iran, and these depend on Iran's relationship with two major powers with which the Chechen resistance has the

10. "Arabs Lift Palestinian Financial Blockade," Kavkaz Center, (Agencies), November 13, 2006.
11. "Arab Press: Israel Guilty of New Holocaust in Qatar," Kavkaz Center, (Agencies and Middle East Online), July 31, 2006.
12. "Next War on Syria?" Kavkaz Center, (*Al-Jazeera*), July 29, 2006.
13. "Syria Calls for Backing of Arab League," Kavkaz Center, (*Al-Jazeera* and Agencies), November 1, 2007.
14. Dar Al Hayat, "Al Jazeera: Stock Exchange Realities for War Reports," Kavkaz Center, May 19, 2007, http://english.daralhayat.com/.
15. "Al-Qaeda Issues Message on Somalia," Kavkaz Center, (*Al-Jazeera*), May 19, 2007.

most irreconcilable conflict: Russia and the US. When there is a sign that Iran is moving in the direction of reconciliation/cooperation with these two powers, the Kavkaz Center started to publish articles quite critical of Iran. On the other hand, if Iran is showing signs of conflict with these two powers, the Kavkaz Center starts to see Iran positively. These views on Iran are deeply connected with the approach to Iran's nuclear program. The Kavkaz Center has never openly protested Iran's striving for nuclear weapons. Still, in the case of the negative views of Iran, the country's nuclear program tends to disappear from the narrative of Center articles, so as to imply that Iran plainly could not produce nuclear weapons, regardless of its claim. Yet, when Iran is seen in a positive light, it is emphasized that Iran could indeed create nuclear weapons. While the Kavkaz Center's views on Iran are controversial and vacillating, depending on the geopolitical arrangements, it still has a tendency to publish mostly positive views of Iran. And when Iran is discussed in connection with the Gulf States, the latter are also mostly presented in a positive light. The nuclear ambitions of all sorts, as far as they are related to both Iran and the Gulf, are seen here mostly as a phenomenon to be supported. In the context of this image, Iranian/Gulf nuclear ambitions have two scenarios. One implies that a nuclear Iran would be a sort of benign imperial state under whose umbrella the Gulf States could live, possibly having access to nuclear weapons. The other scenario implies that the Gulf States could emerge as an independent nuclear power that could well defend their interests against the US and its proxy, Israel.

The first scenario would both prevent the US from dominating the Middle East for exploitative purposes and, as is implied, could well provide the Gulf States, together with others, needed nuclear technology. According to an article published by the Kavkaz Center, the US wish to dominate the Gulf and the entire Middle East stands in contrast to Iranian ambitions to emerge as a nuclear power. As such, Americans, especially the neo-conservatives, are against a nuclear Iran not because they are afraid that Iran could engage in preventive nuclear wars or nuclear terrorism but because they understand that a nuclear Iran would not be pushed around and the US would need to share with Iran influence in the Middle East and the Gulf. In fact, some realistic-minded American politicians believe that this might be the only choice. And it is what the neoconservatives try to prevent by all means possible.[16] In this approach to Iran, the neoconservatives actually follow the designs of a broad segment of the American elite, which tries to present Iran as a danger for the Gulf States. But, according to the report, this

16. "It's Not about Nukes," Kavkaz Center, (*Al-Jazeera*), May 13, 2006.

is sheer demagoguery and no one actually believes it.[17] Accordingly, it is argued that Iran would be neither deceived nor cajoled by the US, but will ultimately rise as a mighty but still benign nuclear power. It would, in this case, remain a benevolent empire, playing a role that some American pundits, such as Zbigniew Brzezinski, attached to US policy in the beginning of the post-Cold War era. The empirical power exists here not so much as a force to extract tribute or to benefit from its dominant position in some other way but just to help in the development of the weaker states and protect them from potential international predators. This scenario also implies that Iran might share its nuclear know-how with other countries of the region. In the context of this scenario, while both Iran and the Gulf States could be in possession of nuclear weapons, they would not use them, for the US and Israel would not dare to attack either Iran or the Gulf States. The nuclear know-how in this case would be applied exclusively for peaceful purposes as argued by the Kavkaz Center.

The other scenario implies that confrontation would be open and the states of the Middle East, including the Gulf States, would engage in building nuclear weapons to confront the US and its proxy, Israel. According to an author of an article published by the Kavkaz Center, President Bush launched the war against Iraq on the grounds of depriving it of nuclear weapons. But actually, he, and the US in general, had only one goal: to impose American domination over the world. While the Americans asserted that they attacked Iraq to prevent the spread of nuclear weapons, their action would actually lead to the spread of nuclear weapons worldwide. The point is that the non-nuclear states would understand that it is only nuclear weapons that could save them from US aggression. This would be the case with North Korea. And a nuclear North Korea would lead Iran to develop nuclear weapons. "The next country to forge a nuclear program for sure is Iran" and "some Gulf states may follow Iran and announce their desire to join the nuclear club as well. And it would be quite reasonable, if you consider the outright pro-Israeli policies of the US, which threaten the very existence of the Arab States."[18] The Kavkaz Center thus implied that the Gulf States have already taken a step on the nuclear road. "Leaders of six Gulf states announced that they would develop a joint nuclear program for peaceful purposes."[19]

17. Charles Pena, "92,000 More Soldiers," Kavkaz Center, (antiwar.com), January 20, 2007.
18. Ahmad of Ichkeria, Council of Caucasus Journalists, "Prospects of Settlement during the War," Kavkaz Center, May 21, 2003.
19. "GCC Announces Plans for Joint Nuclear Program," Kavkaz Center, December 12, 2006.

Gulf States as a Powerless Sympathizer of Arab Cause

While one of the positive images of the Gulf States implies that they are powerful and even could be nuclear, the other, also positive, image of these states implies quite a different picture. In the context of this picture, the Gulf States have not always behaved as they should, but this is not due to their ill will or lack of moral scruples, but because they are too powerless to face and resist the US military machine. Some contributors to the Center point out that Americans never do anything really good for the people of the Gulf and that they think only about their own interests. They see the US involvement in the first Gulf war, during which the Americans had expelled Saddam's forces from the Gulf, from this perspective. The Americans asserted that they had always confronted Saddam Hussein's regime and always were on the side of the people whom Saddam oppressed. For example, they claimed that they liberated Kuwait from Saddam, and that their conflict with Saddam was mostly due to his oppressive nature. These American assertions, however, are absolutely baseless, for the US and its ally, Britain, supported Saddam during most of his reign and, thus, were directly responsible for much of the regime's brutality.[20]

Some contributors pointed out that it would be naïve to assume that the US "liberated Kuwait." Actually, the US government had very pragmatic interests – oil – and "appropriated everything for its own needs."[21] And, therefore, Americans are absolutely unconcerned with the fact that their "liberation" actually brought much harm to the people of Kuwait; in fact, this has much exceeded the benefits of any US actions. This is underscored by the article's statement that "Both Americans and British have used radioactive ammunition in their recent wars, including the war in the Gulf, from which many civilians suffer."[22] It is also stated that a US nuclear submarine also polluted the Gulf.[23] Not only did the Americans and their allies pollute the environment and doom thousands of Gulf residents to die from disease, the author of the article claimed, but they also made the people of the Gulf suffer from the consequences of US aggression. Elaborating on this point, the Kavkaz Center published a report from Reuters that pointed out the importance of the

20. Robert Fisk, "This Was a Guilty Verdict on America as Well," Kavkaz Center, (*Independent*), November 6, 2006.
21. Ahmad of Ichkeria exclusively for Kavkaz Center. "Russians Prepare Guerilla War for Putin," Kavkaz Center, March 12, 2003.
22. "America, Britain Used Atomic Ammunition in Afghanistan," Kavkaz Center, (Jihad Unspun), January 16, 2003.
23. "US Submarine Forced to Leave Persian Gulf," Kavkaz Center, (*Fars News*), April 1, 2007.

Gulf States for the coming US-led war in Iraq. "About 280,000 US and British troops are in the Gulf region, many of them in Kuwait, poised to invade Iraq."[24]

While the residents of the Gulf became unwillingly, as it is implied, involved in US aggression against Iraq, they started to suffer from the outcome of the war. "Kuwait television reported that several oil wells near Basra had been set afire by Iraqi troops."[25] As the war continued, the situation continued to be essentially the same. At the beginning of the Iraq War, the innocent residents of the Gulf States suffered because of their countries' proximity to Iraq. These Gulf citizens shared the fate of the innocent Iraqis. Conveying the idea on March 29, 2003, the Kavkaz Center quoted Reuters: "A huge explosion racked the center of Kuwait city on Friday in what appeared to be an Iraqi missile attack; and dozens of people were feared killed in an air raid on a Baghdad market as the United States unleashed one of the heaviest bombardments of the war."[26]

It was suggested that the people of the Gulf States were actually on the side of the Iraqis. Their implicit support for the Iraqis could already be seen during the first Gulf War when the nationals of the Gulf States felt a deep sympathy for those Arab soldiers who were humiliated. This image was conveyed by the information that during the first Gulf War, according to representatives of Al-Jazeera, "in the Gulf, everyone has been watching images of Iraqi prisoners kneeling in humiliation."[27]

While elaborating on Gulf States' weakness in the context of a positive image, the Kavkaz Center could find an excuse for the Gulf States to host US forces. The Gulf region is of strategic importance to the US and, therefore, it would not abandon the Gulf States; and, as implied, the US is too mighty to make it possible for Gulf rulers to openly resist it.

In the view of those whose articles are published on the Kavkaz Center site, it is oil that makes the Gulf States so important to the US. The US behaves as a traditional colonial power.[28] However, another interpretation on why the control of Gulf oil is so important for the US is because of broader geopolitical implications.[29] In this line of argument, the US elite understands very well that

24. "US Attacks Baghdad," Kavkaz Center, (Reuters), March 20, 2003.
25. Ibid.
26. "A Huge Explosion Rocked the Center of Kuwait City," Kavkaz Center, (Reuters), May 19, 2003.
27. "Baghdad Pounded, Stiff Iraqi Resistance Continues," Kavkaz Center, (Islam Online), March 25, 2003.
28. "New US Lie: 'Islam-Fascism,'" Kavkaz Center, (Al-Jazeera), September 2, 2006.
29. "Read This Article," Kavkaz Center, (*Dar al-Hayat*), May 6, 2007.

time is running out for America and that Europe is emerging as the most serious competitor in economic power; therefore, the Americans are trying to do their best to prevent the European rise. Most American oil does not come from the Gulf; it is Europe and Asia that strongly depend on Gulf oil. Thus, the Americans' desire to control access to Gulf oil is plainly to prevent the rise of economic competitors.[30] Still, the US is seen as being unable to block its competitors from getting oil.[31]

The crucial importance of the Gulf region for the US implies that it would not abandon the former regardless of anything, including the outcome of the Iraq war. In fact, the Kavkaz Center published an article based on the findings of the Iraq Study Group. According to the article, the US is striving for global predominance and control over the Gulf; and, implicitly, the states of the Gulf are an essential part of this plan. Given that the Gulf is of crucial importance to the US empire, even if the US would move its forces from Iraq, it will still maintain significant forces in Kuwait, Bahrain and Qatar.[32] This view, according to Kavkaz Center articles, is shared by the most influential American neoconservatives such as Richard Perle, "one of the founders of the Project for The American Century." According to an article, he believes that, "The need for a substantial American force presence in the Gulf transcends the issue of the regime of Saddam Hussein. Perle and other neoconservatives regard the events of September 11 as a great excuse to strike against Iraq and ensure American counter-attacks against countries 'harboring the terrorists.'"[33] And, this, of course, ensures an American presence in the Middle East, including the Gulf States. The importance of the Gulf region is also stressed by the British, America's major ally. British experts stated that the US would hardly abandon the Gulf whatever the scenario. The reason is that "long-term access to Persian Gulf oil is essential to the US because of its increasing dependence on imported oil." The experts also "warn that a US withdrawal would be a foreign policy disaster greater than the retreat from Vietnam."[34] And, for this reason, it is implied, the US would never abandon the Gulf States.

Finally, it is argued that among Asian sources there is the same line of

30. "Oil Used Again in Another US False Campaign," Kavkaz Center, (Al-Jazeera), May 15, 2007.
31. F. William Engdahl, "USA Out-flanked in Eurasia Energy Politics?" July 24, 2006, www.engdahl.oil.geopolitics.net.
32. "The Iraq Study Group Report: Has the Empire Really Failed?" Kavkaz Center, (Zmag Org), December 27, 2006.
33. John Pilger, "A New Pearl Harbor," Kavkaz Center, (Hidden Agendas), May 19, 2002.
34. "War in Iraq Could Last for Decades," Kavkaz Center, (Agencies), November 23, 2005.

arguments about the Gulf's crucial importance for US national interests. While the US would withdraw from Iraq, it would still try to do its best to maintain its control over the Gulf region.[35] Thus, the conclusion becomes clear here. The Gulf States are too important for the US to abandon but Americans must even provide them with some degree of limited freedom in their foreign policy. The Gulf States should therefore not be blamed for not supporting the right cause, plainly because they can do little in confronting the awesome US military machine. Thus, the Gulf States have emerged in some Kavkaz Center publications as a positive force, and there are several ways in which the Gulf States' image has been constructed in such a way. On the one hand, they protect the Chechens and care about the Palestinians, and, as one of the cluster of images suggests, they may even emerge as nuclear powers ready to face the US. On the other hand, the very presence of the powerful US, excuses Gulf States' policies and while they might not always behave in the way they should, they are portrayed as having no choice. This positive image addresses the pragmatic needs of members of the Chechen resistance, e.g., the need to find a safe haven and source of financing. Still, this pragmatic attachment also hides a much more negative point of view.

The Gulf States as Traitors to the Muslim Cause

Similar to the positive image, the negative image of the Gulf States could also be construed from the articles available at the Kavkaz Center. There are actually two directions in which these negative images have been employed. First is the affiliation of the Gulf States with Saudi Arabia, which is presented as quite a negative country. The other negative image is constructed around the Gulf States themselves. In all of these cases, the Gulf States are depicted as the willing collaborators of the US and their reservation in regard to US aggression is seen not as a result of their genuine concern over Arab/Muslim causes but because the leaders of Saudi Arabia and other Gulf States were not sure that the US elite would be successful and were concerned that the fallout of America's ill-conceived designs could well have negative implications for them. The characterization is one of the Saudis as US stooges who, while pretending to be Muslim, actually help Muslims' mortal enemy. Thus, the association/affiliation with the Saudis made this or that country a mortal enemy of Islam. Thus, when the Kavkaz Center wants to construct a negative image of the Gulf States, it chooses to affiliate them with Saudi Arabia.

35. Michael T. Klare, "US Goes from Imperial Offense to Defense," Kavkaz Center, (Atimes.com), November 17, 2006.

It is further argued that the Gulf States and other Arab countries of the region, even those who were friendly to the US, discouraged the latter from invading Iraq. This was the clear message to US Vice-President Dick Cheney during his visit to the Middle East in January 2002. Indeed, "from Yemen through Saudi Arabia and the Gulf to Jordan, he heard the same, clearly expressed public message from every government: 'Do not go to war against Iraq. We do not support it and cannot advise it.'" And the Gulf States were among those who sent the strongest message. Indeed, in "Bahrain, the tiny island nation in the Arabian or Persian Gulf that serves as a local base for the US Fifth Fleet, Crown Prince Salman bin Hamad Al-Khalifa gave Cheney a humiliating public lecture … criticizing the US obsession with Iraq at the expense of dealing with the Israeli Palestinian crisis." "Cheney also faced an embarrassing report ... from the Qatar-based increasingly popular and influential al-Jazeera television network that Saudi officials had described his … meeting with the Desert Kingdom's effective ruler, Crown Prince Abdullah bin Abdulaziz al Saud, as 'confrontational.'" Still, the Saudis are not so much against the US-led invasion as one could assume at first glance, the Kavkaz Center said. Actually, they "would be only too happy to see Saddam Hussein toppled. But they dare not say so publicly. And, more important, even when this is the case, they have no confidence in the competence and determination of the current US government to carry out and complete the job. Cheney, they said, failed to assuage any of these concerns."[36] In fact, it was implied here that the Gulf States' rulers could be seen as being not much different from the Saudi elite and could be swept away by popular uprising. Fearful of their possibility of an ignominious end, the other Gulf rulers, similar to the Saudis, while actually helping the US aggression, try to pretend to be on the side of the oppressed.

The Americans regard both the Saudi and other Gulf region elites as their potential quislings who would help to extricate them from the Iraq quagmire according to the Kavkaz Center, but they would be of no use to them. Elaborating on a possible way that the Gulf elite could have helped the Americans, the author of one of the articles published by the Kavkaz Center pointed out that the US elite had different plans immediately after victory. Some realist-minded members of the US elite proposed at the time that a deal could be reached with Saddam's generals which would put them in charge as American puppets. Others, however, prevailed. It was a view of those who advocated "hard power," direct control. "Now, they understand that direct control over Iraq will be impossible. Therefore, they are

36. "Cheney's Mideast Fizzle," Kavkaz Center, (United Press International), March 24, 2002.

in search once again of puppets who will maintain control over the Middle East for them. The rulers of the Gulf States are among those in whom the US puts its hopes, but they would likely be unable to do this, for the masses are strongly against the Americans." Indeed, "Even the most pro-U.S.-Arab regimes in the region – Saudi Arabia, Egypt, Jordan and the Gulf states, which do Washington's bidding – permit virulent denunciations of western policies in the media to keep their own citizens at bay."[37] All of these public protests – as it is implied – demonstrate clearly that the Gulf/Saudi elite, while anxious to help their American masters, could not do much because of the pressure from below. Moreover, they could even permit the public manifestation of anti-Americanism as a way to hold on to their power. The Saudi/Gulf States' and their American masters' unholy symbiosis would not be covered by the Saudi/Gulf elite's pretense that they are good Muslims, the article said. And they would be destroyed by true Islamic forces.

Elaborating, the author of one of the articles published by the Kavkaz Center pointed out that, in fact, it is no one but bin Laden who called for the overthrow of these regimes. In bin Laden's letter to the Americans, which the Kavkaz Center reprinted, he stated that the Americans are guilty because they support their government, which has committed many crimes against Muslims. And it was the American armies that "occupy our lands in the Arabian Gulf and have the fleets which insure the blockade of Iraq." In bin Laden's view, the Saudi/Gulf elite is the same or even worse than open infidels and they should be swept away. And he said, "We call upon you to end your support of the corrupt leaders in our countries. Do not interfere in our politics and method of education. Leave us alone or else expect us in New York and Washington." He implied here – and his views are clearly supported by the editor of the Kavkaz Center who placed his message on the Kavkaz Center site – that the Saudi/Gulf elite could not be reformed but could only be destroyed. In fact, they did not understand any language but that of force; and here they are quite similar to their American masters. "America does not understand the language of manners and principles, so we are addressing it, using the language it understands."[38]

The Gulf States' association with the Saudis and, implicitly Americans, makes them also potential targets of attack; something that is understood by even impartial Western observers. In this context, the Kavkaz Center published an article where an observer stated, "Britain's embassies in the neighboring Gulf states of Bahrain and

37. "The War is already Lost," Kavkaz Center, (Uraknet), December 20, 2006.

38. "Letter from Usamah Bin Laden," Kavkaz Center, (Waagiah.com), May 19, 2007.

Qatar warned British nationals of a high threat of attacks against Western targets in those countries.[39]

Thus, the negative image of the Gulf States is, in many ways, constructed in connection with the negative image of the Saudis. Still, another presentation of a negative picture of the Gulf States' exists independently from that being used to portray the Saudis. Here, it is argued that regardless of any affiliation with the Saudis or even their generous help or provision of a safe haven for the Chechen resistance, quite a few members of the Chechen resistance – nationalists and jihadists – have actually very negative feelings about the Gulf states' elite and could well act against them in case of possible future complications.

Gulf States' Negative Image

The negative image of the Gulf States as portrayed out of the Kavkaz Center is connected to several events. The most important two were, first, the war with Iraq and, second, Israel. When the Kavkaz Center tried to underscore the positive/neutral image of the Gulf States, it published articles which emphasized that Gulf citizens and even Gulf rulers are powerless in dealing with the mighty US and actually supporting Iraqi resistance in the depth of their hearts. At the same time, when the Kavkaz Center wanted to present a negative image of the Gulf States in their relationship to the Iraq War, the emphasis was of a different nature. First, it stated that the Gulf States had chosen the wrong patron and the US is hardly as powerful as it looks. Secondly, and this image emerged after the beginning of the war, the US could, indeed, prevail. Still, as was argued, joining the US would be the wrong decision, for this would imply support of those who are the mortal enemy of Muslims. It suggested the support not just of the US but also of Israel.

The Kavkaz Center paid considerable attention to the US war with Iraq, starting with the preparation for the war. Already in the fall of 2002, articles published in the Kavkaz Center informed the readers that the US and British forces are concentrated in the Gulf for the invasion of Iraq.[40] As the war started, the image of the Gulf States once again reappeared in a negative context. The Americans used the Gulf States as the launch pad for attacking Iraq, and US

39. "Saudi Bombing Strikes near Royals' Homes," Kavkaz Center, (Al-Jazeera and agencies), November 9, 2003.

40. Raymond Whitaker and Andrew Bancombe, "US Trains Local Force to Join Iraq Invasion," Kavkaz Center (*Independent*), November 11, 2002.

forces, for example, "had launched a new artillery attack near the Iraq-Kuwait border."[41]

When the US assembled its forces in the Gulf in preparation for what seemed an inevitable attack, the Kavkaz Center, on occasion, published articles that presented Saddam Hussein's regime as a formidable foe that the US would not be able to master. A. Sardali, a contributor to Kavkaz Center, implied that the Gulf and other states had played a role in preparation for the US war with Iraq as in this way they would not suffer as a result of the war. This, the contributor said, was an illusion and they, just as their American patrons, would face a powerful Iraqi state. Indeed, Iraq had not just a powerful army but also powerful security agencies, such as the Main Directorate of Military Intelligence (MDMI), Directorate of General Intelligence (DGI) and Department of Special Security (DSS). The Iraqi intelligence had sent thousands of their agents to the US to engage – as it is implied – in subversion of various types. "At the same time, the DGI and MDMI are preparing to destabilize the situation in the countries of the region that support the USA. The MDMI was very successful in collecting information on secret preparations in neighboring Arab countries for the war against Iraq," the article continued.[42]

When the army of Saddam Hussein started to crumble, a new approach emerged and the Kavkaz Center tried to place the Gulf States in the context of an image whereby the US might, indeed, be a strong power and defeat Saddam Hussein but supporting the US plainly meant supporting the enemies of the Muslim cause. Moreover, the very fact of US aggression itself indicated the degeneration of Islamic regimes. A certain Sadia Masroor stated that the very fact of the US attack meant that quite a few regimes that proclaimed themselves to be Muslim had ceased to be such. Indeed, many Arab leaders had abandoned Islam, and "the Arab leaders' failure in averting the unjust war in the Gulf is duly accredited to their shoddy attitude in world affairs."[43] The Gulf States were implicitly included in the rank and file of these regimes. It was implied here that while paying lip service to support Muslims, in general, and Palestinians, in particular, in their fight against the Americans and Israelis, the Gulf elite actually helped Israel. The implicit support of Israel, it was said, could be seen by the fact that during the Israel-Lebanon War, American planes

41. "US Attacks Baghdad," Kavkaz Center, (Reuters), March 20, 2003.

42. A. Sardali, Council of Caucasus Journalists, "War for No More Than Six Weeks?" Kavkaz Center, February 11, 2003.

43. Sadia Masroor, "Embracing Islam – the Blessing for Mankind. In Word and In Deed," September 3, 2006.

flew from Gulf bases with weapons for Israel.[44] And the Gulf States as well as other countries have done nothing to prevent the Israelis from massacring Palestinians.[45]

Much of the writing went further and stated that while the Gulf States have implicitly supported Israel and its Nazi-type dealing with Palestinians, their brother Muslim people including the Gulf States' ruling elite would attempt to silence those who tell the truth. For example, it was said that "Sister Yvonne Ridley, a senior editor with Al-Jazeera's newly launched English website in Doha, Qatar, has been sacked by her Gulf bosses" because "her outspoken views are well-known, especially those praising and supporting Palestinian martyrdom operations. She has endeared herself to the Muslim world and recently converted to Islam."[46] In addition, while supporting the Americans and Israelis, the Gulf States were also ready to cooperate with Putin, who is seen here as acting in cahoots with both American and Israeli leaders. Here the Kavkaz Center published an article that informed the readers that Putin had "visited the Gulf states where, among other questions, he will be discussing the struggle against international terrorism."[47]

The Gulf States, as portrayed in these negative images, have not only collaborated with the sworn enemies of Muslims but at the same time confronted those states that are seen as representing Muslim interests such as Iran. In this context, Iran has emerged as the true leader of Muslims. One of the authors of articles published by the Kavkaz Center, informed readers that "Iran has recently urged Arab Gulf nations to force the US military out of the region and join Iran in a new security alliance, an offer that has been mostly ignored by the Gulf states." Not only have the Gulf States rejected Iran's call but they "could be used as a launch pad for attack on Iran."[48] Facing the constant rejection of the Gulf States to join hands in fighting the true enemies of Muslims, it is suggested and argued that the Iranians realized that regimes in the Gulf States are in reality anti-Muslim and are installed by the US. Consequently, Ahmadinejad pointed out that it is the Americans who prevent Iraqis from electing a truly popular government and they also "create tension in the Persian Gulf region."[49] In the end, it is concluded that

44. "War is Terrorism with Bigger Budget," Kavkaz Center, (American Free Press), August 4, 2006.
45. Musa Stone, "Business Is More Valuable Than Arab Solidarity," April 21, 2002.
46. "Al-Jazeera Sacks Yvonne Ridley," Kavkaz Center, (The Muslim International Newsletter) from Dr. Air ali-amirali@ilaam.net, November 19, 2003.
47. "What Does Putin Go to the Near East for?" Kavkaz Center, (Natpress), February 13, 2007.
48. "US Ex-Generals Reject Iran Attack," Kavkaz Center, (Al-Jazeera), February 7, 2007.
49. "Iran's President: Israel Serious threat to Islamic world," Kavkaz Center, (Agencies) May 19, 2007.

Gulf States themselves represent legitimate targets, according to the Kavkaz Center. Bin Laden has threatened those countries that helped the US. "He also threatened others, such as those Gulf states that allowed their territories to be used as a launch pad for attacks against Iraq, especially Kuwait."[50] Zawahiri made a similar call and warned that the Gulf and Israel would be the next targets of Al-Qaeda.[51]

Conclusion

The various Chechen resistance groups have a contradictory, actually mutually exclusive, image of the Gulf States. It is due not only to the bifurcation of the Chechen resistance basically into nationalists, whose goal is a creation of independent Chechen state as part of the international community, and jihadists, who look at the Chechen resistance as part of a global "permanent revolution," if one were to employ Trotsky's famous expression. It is also due to all of the groups' connections with the Gulf States. On the one hand, in many ways, these groups emerged due to financial help from abroad, including the Gulf States. The most important positive aspect of the Gulf States – and in this respect they apparently looked quite differently from that of Saudi Arabia – is that they had provided a safe haven for the Chechen community. Not only did this make it possible for Chechen resistance to collect money from local communities but also provided important back-up for those Chechens who, for various reasons, decided to drop out from the fight and live as private citizens.

On the other hand, the life of the Gulf is something that is absolutely foreign to Chechen fighters regardless of their philosophical/religious or political affiliations. For all of the members of the Chechen resistance, especially for the dedicated core, financial incentives to fight Russians or for universal Khalifat play a secondary role in motivation. It is the spirit of sacrifice for the cause that is most important. The resistance fighters' philosophy, shaped by a long struggle, has also attained a sort of quasi-socialist mentality, which is based, of course, on Islam. It leads to the despising of earthly possessions, as has often been the case with similar groups engaged in a long, open-ended conflict. This is a different attitude from that experienced in the Gulf States.

The deeply conflicting positions of the Gulf States in the minds of the Chechen resistance fighters could well be compared with the position of other revolutionaries throughout modern history, who were also in need of wealthy sympathizers. One,

50. "Bin Laden Widens Anti-US War," Kavkaz Center, (*Al-Jazeera*), May 19, 2007.

51. Kavkaz Center, (AFP), May 19, 2007.

for example, could compare the position of the Chechen resistance to that of the Bolsheviks who had wealthy sympathizers in pre-revolutionary Russia. The Bolsheviks were anxious to receive funds from these people, without which they could not engage in revolutionary activities. The Bolsheviks also were anxious to enlist middle class public opinion to protect them against the repressive policies of the tsarist government. At the same time, the Bolsheviks deeply hated the middle class; and upon their victory dealt harshly with it. The same feeling of love/hate and hate/love is shared by considerable numbers of the Chechen resistance, at least judging by the publications of the Kavkaz Center. The very contradictory feelings toward the Gulf States lead to certain specificity in their treatment at the Kavkaz Center. The editors of the Kavkaz Center rarely place articles on Gulf States authored by journalists directly for the Center. In most cases, the Gulf States are touched upon only in articles published elsewhere and republished by the Kavkaz Center. This is especially the case with articles that present the Gulf States in a negative light. The implication of these ambivalent positions of Chechen resistance to the Gulf States is clear: as long as the Gulf States are useful for the resistance, its members would avoid direct help to those who are the enemies of the Gulf elite. Yet, if and when the Chechen resistance regards the Gulf regimes as useless or even dangerous to them, the situation could change overnight.

Russian Arms Trade with the Gulf Monarchies

Mikhayil Barabanov

Moscow Defense Brief, Russia

The Gulf region is one of the main new markets that have opened to Russian arms exports since 1991. The Soviet Union provided significant quantities of arms to Iran and Iraq; but of the conservative Arab regimes, Kuwait was the sole Soviet partner in this sphere of activity. The other "oil monarchy" governments for political reasons were strongly set against cooperation with the USSR. The USSR established diplomatic relations with the majority of members of the Gulf Cooperation Council (GCC) only in the last years of its existence: with Oman in 1985, Qatar in 1988, Bahrain in 1990, and with Saudi Arabia only in 1991.[1]

Decisive factors promoting improved relations between Moscow and the GCC countries included the elimination of communist ideological expansion as an element of Soviet foreign policy, the withdrawal of Soviet forces from Afghanistan, and the Iraqi invasion of Kuwait in 1990, which forced Kuwait's Gulf allies to seek the broadest possible international support and to isolate Iraq from the USSR. The position adopted by the USSR, which amounted to de facto support for the anti-Iraq coalition, prompted the Arab monarchies to pay greater attention to the USSR. Subsequently, the USSR established diplomatic relations with Saudi Arabia and initiated military-technical cooperation with many of the states in the region.

1. The USSR maintained diplomatic relations with Saudi Arabia from 1926 to 1938.

Soviet Arms Deliveries to Kuwait up to 1991

Kuwait was practically the only Arab monarchy of the Gulf to maintain broad relations with the USSR before the late eighties. This reflected the relatively close alignment of the foreign policies of the two states on a range of issues, as well as the traditional drive of Kuwait, wary of the Iraqi threat, to secure support not only from the US, but from the USSR – then Iraq's close ally – with the intent of diversifying its levers of influence over its northern neighbor. Moreover, Kuwait and the USSR signed a trade agreement in 1985 granting each other most favored nation treatment for navigation and trade purposes. Kuwait was also the sole GCC country to purchase Soviet arms.

Military-technical cooperation between the USSR and Kuwait began in 1977. Over the course of the next 10 years Kuwait received 33 9K52 Luna-M (FROG-7) tactical rocket systems along with a corresponding number of 9M21F tactical rockets with a maximum range of 68 km,[2] 60 122 mm D-30 towed howitzers,[3] 20 9A33B Osa (SA-8) self-propelled low-altitude surface-to-air missile (SAM) systems with 550 9M33 surface-to-air guided missiles,[4] 9K32M Strela-2M (SA-7) man-portable anti-aircraft missile systems with 700 9M32M missiles, and 9K34 Strela-3 (SA-14) man-portable anti-aircraft missile systems with 200 9M36 missiles.[5] The largest contract was concluded in 1988 for the delivery of 245 BMP-2 infantry fighting vehicles valued at about $300 million, along with 2340 9M111 Fagot (AT-4) guided anti-tank missiles.[6] The delivery of BMP-2 occurred in 1989-1990, with the majority arriving before the Iraqi invasion.

According to Soviet data, the total value of Soviet military deliveries to Kuwait from 1977 to 1990 was $625.8 million.[7]

With the exception of 42 BMP-2, practically all of Kuwait's Soviet-made arms were lost in August 1990 upon the invasion of the Iraqi army. In response to Iraq's occupation of Kuwait and the UN Security Council resolution 661, the USSR government temporarily suspended all military-technical cooperation with Kuwait.

2. *Voenno-tehnicheskoe sotrudnichestvo Rossii i Kuvejta,* www.grani.ru/War/Arms/m.10920.html, (accessed October 3, 2002).
3. Ibid.
4. SIPRI Database, *Transfers of Major Conventional Weapons,* armstrade.sipri.org/arms_trade/trade_register.php.
5. Ibid.
6. Ibid.
7. *Voenno-tehnicheskoe sotrudnichestvo Rossii i Kuvejta,* www.grani.ru/War/Arms/m.10920.html (accessed October 3, 2002).

In May 1991, with the liberation of Kuwait, these restrictions were removed.

Aside from Soviet arms, in 1989 Kuwait ordered 200 M-84AB main battle tanks from Yugoslavia, a modification of the T-72 produced there under Soviet license.[8] The Soviet Union had a policy against the export of its more modern T-64 and T-80 tanks, while the "cheap" export version of the Soviet T-72 tank did not meet modern fire control system requirements. Kuwait likely acquired the T-72 clones from Yugoslavia because the M-84AB was superior in this respect. Only 15 M-84AB tanks were delivered before the invasion, and the rest were delivered in late 1990-early 1991 to the Kuwaiti divisions in Saudi Arabian territory.[9]

Russian Arms Deliveries to Kuwait

During the course of the war in 1991 the Iraqi forces were forced from Kuwait, but the regime of Saddam Hussein remained in place. Thus Kuwait continued to sense a potential threat from the north and maintained its alliance with the US as well as seeking additional support from other influential countries. Even in January 1991, during the Iraqi occupation, Kuwait had agreed to loan the USSR $1.1 billion over seven years (with the actual transfer from the Kuwaiti Foreign Trading Contracting and Investment financial corporation to the USSR Vneshekonombank).[10]

After the collapse of the Soviet Union, this same foreign policy orientation led the Kuwaiti government to ramp up its military-technical relations with post-communist Russia. In February 1993, the two parties signed a memorandum of understanding in the military sphere, which allows for the delivery of Russian arms to the Gulf state and joint consultations in case of threats to the stability and security of Kuwait itself or the region as a whole. In essence, this agreement is analogous to other agreements aimed at deepening military relations signed by the US and West European countries with the Arab monarchies from the 1950s to the 1990s.[11] Joint Kuwaiti-Russian naval exercises took place under this agreement in December 1993.

In August 1994, Russia signed the first comprehensive contract for the delivery of 122 BMP-3, its most modern infantry fighting vehicle (Kurgan Machine-

8. The batch of 200 vehicles included 15 M-84 AVK command tanks and 15 M-84ABI armored repair and recovery vehicles.
9. M-84 MBT, *Jane's Armour and Artillery, 2006-2007*.
10. T. Fomchenkov, "Kuvejt voz 'mjot den' gami i tovarami," *Rossijskaja Gazeta*, May 31, 2006.
11. A. Dzhibraev, "Rossijskaja politika na Aravijskom poluostrove," *Vneshnjaja politika sovremennoj Rossii*. – M., 2000.

Building Plant), and 27 9A52 Smerch 300 mm multiple launch rocket systems (Motovilikhinskie Plant and Shtamp Plant in Tula).[12] The BMP-3 were equipped with 1250 9M117 Arkan (AT-10) guided anti-tank missiles of the 9K116-3 Basnya missile system (Tula Machine-Building Plant).[13] According to some accounts, the package also included the delivery of 80 man-portable 9K111 Fagot (AT-4) guided anti-tank missiles.[14] This may also have included 460 9M111 anti-tank guided missiles, the delivery of which was noted by some Western sources.[15] The total value of these contracts amounted to $762.6 million.[16]

As of May 1996, the Russian MOD established a permanent representation with the Kuwaiti MOD. And from 1999 to 2002, Kuwait apparently paid the Russian MOD over $3.5 million for the services of 10 military advisors. [17]

In 2000, the Russian state-owned company Promeksport signed a $12.9 million contract for the delivery of parts for the Smerch multiple launch rocket system, and in January 2001, another state-owned company, Rosoboroneksport, concluded an agreement to deliver from 2001-2002 ammunition for the Smerch multiple launch rocket system and the BMP-2 and BMP-3 infantry fighting vehicles for a total price of $156.7 million.[18]

In 1994, a contract was signed for 122 BMP-3 infantry fighting vehicles, four of which were delivered that year with the remainder in 1995 (91 units) and 1996 (27 units).[19] However, according to Kuwait's submission to the UN Register of Conventional Arms, the country had 142 BMP-3.[20] It is possible that another

12. *Voenno-tehnicheskoe sotrudnichestvo Rossii i Kuvejta,* www.grani.ru/War/Arms/m.10920.html (accessed October 3, 2002).
13. SIPRI Database, *Transfers of Major Conventional Weapons,* armstrade.sipri.org/arms_trade/trade_register.php.
14. Delegacija Kuvejta projavila interes k rossijskim BMP-3, *ARMS-TASS*, March 19, 2003.
15. SIPRI Database, *Transfers of Major Conventional Weapons,* armstrade.sipri.org/arms_trade/trade_register.php.
16. *Voenno-tehnicheskoe sotrudnichestvo Rossii i Kuvejta,* www.grani.ru/War/Arms/m.10920.html (accessed October 3, 2002).
17. Ibid.
18. Ibid.
19. United Nations Register of Conventional Arms. Official Report of the Russian Federation for 1994-1996, disarmament2.un.org/UN_REGISTER.nsf.
20. United Nations Register of Conventional Arms. Official Information of Kuwait for 2005, disarmament2.un.org/UN_REGISTER.nsf. According to the SIPRI database, all 142 BMP-3 were received by Kuwait in 1994-1997. SIPRI Database, *Transfers of Major Conventional Weapons,* armstrade.sipri.org/arms_trade/trade_register.php.

20 vehicles were delivered within the framework of the aforementioned package agreement signed by Rosoboroneksport in 2001, although these deliveries were not announced by Russia.

While it is evident that Kuwait's procurement of Russian arms had a clear political dimension, namely to secure Russian support in case of a conflict with Iraq, we should also note that for the first time Kuwait also began to purchase arms from another permanent member of the UN Security Council: the People's Republic of China. From 2000 to 2003, China supplied the Kuwait army with 54 PZL45 155 mm self-propelled howitzers, the same number of PCZ45 ammunition re-supply vehicles on the same chassis, and 10 command posts and fire-control vehicles on armoured carrier chassis for a total cost of $387 million.[21]

During the visit of Kuwait Defense Minister Jaber Al-Mubarak Al-Sabah to Russia in September 2002, an agreement on further military cooperation was reached. The minister emphasized that Kuwait carefully considers all commercial offers "of interest to its armed forces presented by Russia." Moreover, he said that Kuwait is interested in Russia's most advanced military technologies and modern weapons. However, since then not a single significant contract for the sale of Russian arms to Kuwait has been reached. This is due largely to the elimination of the Iraqi threat after the US and UK occupation of Iraq in the spring of 2003.

The unpaid 1991 Soviet debt to Kuwait was another factor affecting relations with Russia. It was not until May 2006 that an intergovernmental agreement on the debt's settlement was reached. Of the total $1.7 billion owed, Kuwait agreed to cancel interest penalties amounting to $400 million, and Russia agreed to pay the principal of $1.1 billion in cash over the course of five years. The interest of $600 million would be paid over the course of five years in the form of "mechanical-technical products," taken to mean arms deliveries.[22] However, there has been no published evidence of any actual contracts under this agreement, or of any transfers of Russian armaments.

Over the past few years Russia is believed to have offered Kuwait deliveries of air defense systems and BMP-3M modified infantry fighting vehicles, as well as modernization of previously delivered BMP-3 vehicles.[23] Also, under the auspices of Rosoboroneksport, Uralvagonvod of Nizhniy Tagil and the Serbian company

21. SIPRI Database, *Transfers of Major Conventional Weapons*, armstrade.sipri.org/arms_trade/trade_register.php.

22. Сообщение ПРАЙМ May 30, 2006.

23. "Rosoboroneksport" vnov' predlagaet Grecii amfibijnuju versiju boevoj mashiny pehoty BMP-3F, ARMS-TASS, October 5, 2006.

Yugoimport-SDPR have developed a project to modernize the Yugoslav M-84AB main battle tanks delivered to Kuwait, (the Kuwait Army has 149 of these tanks).[24] The total cost of the contract to modernize the Kuwaiti M-84AB tanks is estimated at $300 million. A Serbian prototype of the modernized M-84AB1 tank was presented to the Kuwait army in 2005, but the Defense Ministry has not yet decided on a modernization program. In 2007 the Croatian company Djuro Djakovic, which before the break-up of Yugoslavia assembled the M-84 tanks, made a competing offer to modernize Kuwait's M-84AB to the M-84D, using West European systems and components.[25]

Russian Arms Deliveries to the United Arab Emirates (UAE)

It is generally thought that Russian military-technical cooperation with the UAE began with the contract for BMP-3 infantry fighting vehicles concluded in 1992, just a few months after the collapse of the Soviet Union. As far as one can judge, the same dynamic was at work here in the purchase of arms from Moscow as was the case with Kuwait; namely, to draw the USSR, and then Russia, into the system of defense against potential threats. For the UAE, these included not only Saddam's Iraq, but Iran as well. Since then the UAE has become the leading importer of Russian arms in the Gulf region. However, as far back as 1987, the UAE army had purchased a set of 9K310 Igla-1 (SA-16) man-portable anti-aircraft missile systems from the USSR.[26]

Negotiations on the delivery of BMP-3 to the UAE began right after the end of the first Gulf War, and the testing of four vehicles was conducted in Abu Dhabi in August 1991.[27] The first contract in 1992 envisaged the delivery to Abu Dhabi of 250 BMP-3 infantry fighting vehicles produced at the Kurgan Machine-Building Plant, and were the first BMP-3 to be exported. It is worth noting that at the time of writing the armed forces of the USSR and the CIS had received but 200 units of the BMP-3, and its production for domestic use had stopped entirely, due to the shortage of defense funding in Russia.[28] To arm the BMP-3, Abu Dhabi also placed an order for 2500 Arkan (AT-10) guided anti-tank missiles of the 9K116-3 Basnya

24. United Nations Register of Conventional Arms. Official Information of Kuwait for 2005 // disarmament2.un.org/UN_REGISTER.nsf.
25. Allarmy-world.blogspot.com/2007/05/300-million-dollar-deal-for-djuro.html.
26. KBM aktivno sotrudnichaet s armiej OAJE, ARMS-TASS, August 4, 2006.
27. N.A. Zhurnavlev, Proryv BMP-3 v OAJE // www.niistali.ru/article/article_01.htm.
28. The production of BMP-3 for the Russian army was renewed only in 2004.

guided weapon system, produced by the Tula Machine-Building Plant.[29]

A larger contract for the delivery of 402 BMP-3 for the army of another emirate, Dubai, followed in 1994.[30] Nothing has been published as to the delivery of 9M117 Arkan missiles, but one might assume that a similar proportion to the Abu Dhabi contract was in fact ordered, i.e., 4020 missiles assuming 10 missiles per vehicle.

The total number of deliveries of BMP-3 to the UAE has never been published officially, and unofficial sources are often contradictory. According to the data presented by the Russian Federation to the UN Register of Conventional Arms, 653 BMP-3 units were delivered to the UAE, according to the following schedule:[31]

1992 – 80
1993 – 95
1994 – 118
1995 – 122
1996 – 25
1997 – 69
1998 – 82
1999 – 32
2000 – 30

In addition, the Kurgan Machine-Building Plant also delivered command vehicles and BREM-L Beglianka armored recovery and repair vehicles. The quantity of such vehicles was not provided to the UN register, but the available data shows that the total number of BMP-3 vehicles is 815 units, allowing one to conclude that the number of special-purpose vehicles delivered was 162 units, thus making the UAE the world's largest user of BMP-3.[32] These orders in fact saved the Kurgan Machine-Building Plant, the leading Russian producer of armored equipment, from closure during Russia's economic crisis of the 1990s. While the total value of all contracts for the BMP-3, related vehicles and armaments has never been officially published, it is generally estimated in the Russian press as surpassing $1 billion.[33]

29. SIPRI Database, *Transfers of Major Conventional Weapons,* armstrade.sipri.org/arms_trade/trade_register.php.
30. Ibid.
31. United Nations Register of Conventional Arms. Official Report of the Russian Federation for 1992- 2000, disarmament2.un.org/UN_REGISTER.nsf.
32. "Kurganmashzavod" nameren rasshirit' sotrudnichestvo s jemiratskoj armiej, ARMS-TASS, February 12, 2005.
33. R. Aliev, Harakteristika rynka vooruzhenij Obedinjonnyh Arabskih Emiratov, Eksport

The BMP-3 delivered to the UAE differ from the standard Soviet version in that they are equipped with French thermal imagers. The Kurgan Machine-Building Plant, together with other Russian firms, has been engaged in mid-life repairs to the BMP-3. According to Kurgan Machine-Building Plant executives, negotiations are underway with the UAE to establish a joint venture offering turnkey full repairs of all versions of the BMP-3 fleet.[34]

The UAE army highly values the performance of the BMP-3, and in 2004 undertook a so-called "program for modernization to 2012" that envisages, in the first phase, the modernization of the BMP-3 in five aspects: the installation of an automatic gearbox, an automatic anti-tank missile loader, a rear-view chamber, updated fire-control and driver observation systems, and fume reduction systems. The Kurgan Machine-Building Plant presented the UAE army with a BMP-3 refurbished along these lines, and which also came with air-conditioning, in early 2005. In addition, the UAE military was offered an even deeper modernization of the BMP-3, including a new, more powerful engine and a commander panoramic sight, developed by the Belarusian firm Peleng.[35] Other versions offered include BMP equipped with an explosive reactive armour kit and passive (Shtora) or active (Arena-E) countermeasures systems.[36] However, the UAE has yet to conclude any contracts with Russia on the modernization of its BMP-3 vehicles.

The high quality of the powerful armaments on the BMP-3 (including 30mm and 100mm guns and Arkan guided missiles) influenced the plans of the UAE army to install BMP-3 turrets (developed by the Tula Instrument Design Bureau) on a range of other fighting vehicles. Under a 2005 contract worth $15.8 million, the Belgian company Sabiex developed a project to re-equip Dubai's fleet of Italian OF-40 Mk2 (a version of the German Leopard 1) tanks as heavy infantry fighting vehicles equipped with BMP-3 turret. The firm has built a prototype and in 2008 plans to establish a joint venture in the UAE with the local Bin Jaber group to remake all of the UAE army's 36 OF-40 Mk2 tanks and three armored recovery and repair vehicles based on the same chassis into infantry fighting vehicles.[37]

In 2007, the Finnish group Patria presented a prototype modification of the

Vooruzhenij, no. 2, 2007.

34. "Kurganmashzavod" nameren rasshirit' sotrudnichestvo s jemiratskoj armiej, ARMS-TASS, February 12, 2005.

35. Ibid.

36. OAE obdumyvajut vybor varianta modernizacii BMP-3, predlozhennyj "Kurganmashzavodom," ARMS-TASS, July 9, 2004.

37. R. Pengelley, "UAE Prepares to Test Prototype ICV," *Jane's Defense Weekly*, May 21, 2007.

AMV 8x8 wheeled armored carrier, designated AMV-L and designed to meet UAE requirements, and equipped with a BMP-3 turret. Patria is apparently marketing this vehicle for the UAE army together with the Bin Jaber Group.[38] An earlier proposal would have had the BMP-3 turret installed on the Turkish ACV-S infantry fighting vehicle, of which the UAE army has 128 units, and on fast attack boats. Apparently, the Kurgan Machine-Building Plant and the Tula Instrument Design Bureau participated in all of these projects to "proliferate" the BMP-3 turret in the UAE.[39]

In 1996, Rosvooruzhenie concluded a contract to deliver six 9A52 Smerch 300 mm multiple launch rocket systems (Motovilikhinskie Plant and Shtamp Plant in Tula). By our estimates, the value of this contract could be up to $100 million. The units were shipped in 1999[40] but further developments in this area were delayed until 2006, due to the fact that the UAE decided to acquire the US HIMARS multiple launch rocket system (with GMLRS and ATACMS guided missiles).[41]

In 1997, Rosvooruzhenie was contracted to deliver 40 Dzhigit twin-round tripod-based launchers to the UAE for mounting on jeeps and firing 9M313 and 9M39 missiles of the 9K310 Igla-1 (SA-16) and 9K38 Igla (SA-18) man-portable anti-aircraft missile systems, respectively. The contract was fulfilled in 1997-99 by the Kolomenskoe Machine-Building Design Bureau and the Degtyarev factory in Kovrov.[42] According to some reports, the Dzhigit launchers were initially developed by the Kolomenskoe Machine-Building Design Bureau for the Emirate's military.[43] In the UAE, the Dzhigits were mounted on Nissan Patrol jeeps and were later adapted to fire 9M338 missiles of the new 9K338 Igla-S (SA-24) man-portable anti-aircraft missile system – such missiles were also sold to the UAE.

The UAE also requested an adaptation of other missiles' firing systems, as well as remote launch control systems.[44] Another project using launch modules with Igla-S system 9M338 anti-aircraft missiles on a Marlin remotely-controlled weapon

38. R. Hughes, "IDEX: UAE Considers AMV Option, " *Jane's Defence Weekly*, February 28, 2007.
39. "Kurganmashzavod" nameren rasshirit' sotrudnichestvo s emiratskoj armiej, ARMS-TASS, February 12, 2005.
40. SIPRI Database, *Transfers of major conventional weapons* // armstrade.sipri.org/arms_trade/trade_register.php.
41. C.F. Foss, "United Arab Emirates to Acquire HIMARS," *Jane's Defence Weekly*, October 4, 2006.
42. Kolomenskoe KBM rasshirjaet sotrudnichestvo s OAJE, ARMS-TASS, February 12, 2005.
43. N. Novichkov, V. Shvarev, "Kolomenskoe KBM na mirovom rynke oruzhija," *Rynki vooruzhenij*, no. 1, 2006.
44. KBM aktivno sotrudnichaet s armiej OAE, ARMS-TASS, August 4, 2006.

station mount made by the Italian company OTO Melara was also understood to be part of this request. This system would be mounted on a range of UAE Navy craft, including the Baynunah corvette project currently under construction, though the status of this joint development is not clear. For now, Strelets quadruple tube launchers with the same Igla-S system 9M338 missiles are on offer by the Kolomenskoe Machine-Building Design Bureau to the UAE army for mounting on various vehicles.[45]

In 1999, the Tula Instrument Design Bureau delivered a batch of 9K129 Kornet-E (AT-14) anti-tank missile systems with 9M133 guided anti-tank missiles. The Russian press reported on technical problems that arose during the fire testing of Kornet-E systems in the UAE.[46] Nevertheless, the UAE clearly maintained its interest in the system. In 2004, at the Paris arms exhibition, the Kolomenskoe Machine-Building Design Bureau demonstrated the quadruple launcher Kvartet with the Kornet-E system 9M133 guided anti-tank missiles mounted on the French Panhard VBL light-armoured vehicle. It is thought that this version was designed specifically for the UAE. However, it is not clear whether the Kvartet was really delivered for mounting on the 24 VBL vehicles then acquired by the UAE. Nevertheless, it is known that a batch of Kvartet was purchased by the UAE and mounted on HMMWV vehicles of American production. The system is also meant to be installed on Nimr vehicles.[47]

In February 2007, Rosoboroneksport signed a contract worth over $50 million to deliver a batch of infantry armaments including small arms, ammunition, RPG-29 Vampir anti-tank rocket launchers and an additional number of Kornet-E anti-tank missile systems.[48] Earlier reports in 2006 told of negotiations relating to the delivery of the 120 mm 2B16 Nona-K towed combination mortar/gun.[49]

Beginning in 2001, in fulfilment of three contracts, the KamAZ automobile plant delivered about 1000 KamAZ-4326 double-axis all-wheel drive trucks to the UAE armed forces. The first batch of 200 vehicles was shipped in July 2001;[50] a

45. N. Novichkov, V. Shvarev, Kolomenskoe KBM na mirovom rynke oruzhija, *Rynki vooruzhenij*, no.1 , 2006.
46. M. Kozyrev, "Arabskie Emiraty zakrojutsja 'Pancirem," *Kommersant*, May 26, 2000.
47. KBP Instrument Design Bureau 9P163-2 Kvartet Launcher with Kornet-E ATGM, *Jane's Armour and Artillery* Upgrades 2006-2007.
48. Rossija vooruzhit Obedinjonnye Arabskie Emiraty, ITAR-TASS, February 22, 2007.
49. A. Hlopotov, Rossii est 'chem gordit'sja // www.vif2.ru ot July 25, 2006.
50. Na vystavke vooruzhenij v Abu-Dabi KamAZ predstavit tri modeli polnoprivodnyh gruzovikov // www.autogazeta.com/news.php?id=11541.

second contract was apparently concluded in 2002 for about 500 vehicles; and the third, in 2004, was for "more than 300."[51] The total cost of these deliveries, by our estimates, was about $40 million. A repair center and parts warehouse was supposed to be established in Abu Dhabi, but even representatives of the car plant have given contradictory information so it is unclear what the reality of the situation is.[52] However, in 2007 the communications director of KamAZ, Vladimir Samoilov, said that "We plan to open a service and sales centre in the UAE."[53]

According to published reports, the UAE is highly interested in the Iskander-E (SS-26) short-range ballistic missile system with a maximum range of 280 km.[54] It is worth noting that the UAE now has six old Soviet 9K72 Elbrus (SS-1C Scud B) short-range ballistic missile systems with a maximum range of 300 km, acquired together with about 30 R-300 missiles from North Korea.[55] In August 2006, it was announced that the UAE is conducting negotiations with Russia to acquire Club-M mobile coastal defense cruise missile systems for an estimated $250-$300 million. This could involve the delivery of two or three self-propelled launchers, each of which carry four or six anti-ship cruise missiles (evidently, the 3M54E missiles with supersonic third-stage, Western designation SS-N-27B).[56] However, no information as to the conclusion of such a contract is available.

Naval cooperation has thus far been limited to the delivery to the UAE in 1994 of two Project 11770 Serna "air-lubricated" high-speed utility landing craft built by the Volga plant in Nizhny Novgorod. However, these craft were not retained by the military and were transferred to civilian service in 1998.[57]

Likewise, Russian aviation has yet to show any success in the UAE. Negotiations on the possible delivery of 24 Sukhoy Su-39 (Su-25TM) attack fighters concluded with no results in the early 1990s.[58] In the mid-1990s, the Sukhoy Su-35 fighter (Sukhoy designation T-10M) participated without success in the international air

51. APMC-TACC, February 13, 2005.
52. I. Safronov, "OAE ne speshat zatovarivat>sja rossijskim oruzhiem," *Kommersant*, February 16, 2005.
53. KamAZ nameren rasshirit' svoe prisutstvie na blizhnevostochnom rynke, ARMS-TASS, February 20, 2007.
54. A. Hlopotov,, Rossii est 'chem gordit' sja, www.vif2.ru ot July 25, 2006.
55. UAE, Jane's Sentinel Security Assessment 2006-2007.
56. A. Grickova, K. Lantratov, "Rossija obespechit ohranu poberezh>ja OAE," *Kommersant*, August 24, 2006..
57. UAE, *Jane's Fighting Ships 2006-2007.*
58. *World Defence Almanac 1992-1993*, Military Technology, Issue 1, 1993.

force competition held by the UAE for a new fighter, losing out to the Lockheed Martin F-16 Block 60 offered by the US. In November 2005 the deputy director of the MiG Russian Aircraft Corporation, Vladimir Vypriazhkin, said his company was negotiating to establish the licensed production of a new MiG-AT trainer jet in Egypt and the UAE,[59] though in the end this proposal did not make the list of UAE tenders for basic and advanced trainers in 2006.[60]

On the whole, Russia has captured a well-defined place on the UAE arms market and earned a degree of trust on the part of the military elite of this country as a reliable supplier of arms. This gives Russia some hope for continuing and deepening relations with the country in the military-technical sphere. In November 2006, Russia and the UAE signed an intergovernmental agreement on military-technical cooperation. According to Mikhail Dmitriev, the director of the Russian Federal Service on Military-Technical Cooperation, the signing of this agreement marks a qualitatively new period in Russia's cooperation with the UAE and should provide a new impetus for cooperation in the military sphere. "We look with optimism at the development of bilateral relations," he said. "We have new opportunities to examine projects of mutual interest." The agreement envisages the creation of an intergovernmental commission to evaluate specific proposals. In particular, projects relating to the delivery of Russian arms and ammunition for the land forces, the development of the UAE air defense systems, and space research are currently being examined. In the future, both countries are looking to sign an agreement in the sphere of protecting secret information and intellectual property.[61]

Russian Engineering Design for the UAE: Nimr, Pantsyr-S1 and other projects

The UAE is among the pioneers of emerging international military-technical cooperation, such as the financing of the design of new types of weapons and equipment by the companies of more developed nations. For instance, in the 1980-90s the country financed the creation by the British GEC-Marconi (later Alenia Marconi systems, the project is now being carried out by MBDA) of the Al Hakeem family of guided air-launched weapons, with ensuing deliveries to the

59. Rossija i OAE podpisali soglashenie po VTS // ITAR-TASS, November 13, 2006.
60. M.J. Gething, "IDEX: UAE Selects Shortlist for Flight Training Contest," *Jane's Defence Weekly*, February 28, 2007.
61. Rossija i OAE podpisali soglashenie po VTS // ITAR-TASS, November 13, 2006.

UAE Air Force,[62] and the development by Italian firms of electronic warfare systems especially for the UAE under a 1999 contract.[63]

The great potential of the Russian military-industrial complex together with the relatively low cost of its services naturally attracted the attention of the UAE, leading to the agreements to develop the Nimr off-road vehicle and the Pantsyr-S1 (SA-22) self-propelled anti-aircraft gun-missile system.

The UAE army's High Mobility Tactical Vehicle program is meant to create an all-wheel drive two-axle light vehicle, analogous to the American HMMWV, and will rely on domestic industries for its production. The contract for the creation of a vehicle with the Arabic designation AB17 Nimr (Tiger) was concluded in early 1999 with a consortium that included the Jordanian King Abdullah II Design and Development Bureau (KADDB) and Bin Jabr Enterprises. The latter initially figured as a joint Russian-UAE venture, with the GAZ automobile plant from Nizhniy Novgorod holding a 50 percent stake. Engineers from GAZ and the Industrial Computer Technologies engineering firm (a subsidiary of GAZ) were the de facto designers of the Nimr, designated GAZ-2975. Sub-contractors included the Arzamas Machine-Building Plant and the Sokol Aviation Factory. The UAE provided financing to the tune of $60 million.[64] Three prototypes were made in 2000; an armored version and a 6x6 version were later created as well. The vehicle was to be assembled in the UAE at Advanced Industries of Arabia (AIA), established by KADDB and Bin Jabr, and in Jordan, with plans to produce up to 12,000 non-armored vehicles and 2,000 armored versions. In early 2005, the UAE army awarded AIA a contract worth $41 million to deliver 500 vehicles, but before the end of the year the contract was put off. A later announcement held that serial production of the Nimr was to begin in October of 2006, but it is still not clear whether any have been produced in the UAE.[65] In 2007, Bin Jabr continued to advertise the vehicle in several versions, offering it for export to India, for instance. The Tiger was developed in Russia as the GAZ-2330 and produced in small batches for law enforcement agencies and is planned for mass production for the army.

The creation of the Pantsyr-S1 air defense system by the Tula Instrument Design Bureau was one of the most important military R&D projects in Russia for a foreign customer. The order for the development of the 96K6 Pantsyr-S1 self-propelled short-

62. Hakeem (PGM-500, PGM-2000), *Jane's Air-Launched Weapons 2006-2007*.

63. G. Beretta, Armi italiane: nuovi affari in Medio Oriente, unimondo.oneworld.net/article/view/57536/.

64. GAZ-2975 'Tigr,' ahh.ru/modules/news/article.php?storyid=210

65. Nimr/Tiger SAS, *Jane's Military Vehicles and Logistics 2006-2007*.

range anti-aircraft gun-missile system was awarded in 1990 to the Design Bureau by the Air Defense Forces command of the USSR. The system was meant to provide cover for the S-300P (SA-10) air defense systems and air defense radar stations. It was later seen to be of benefit to the land forces as well as air defense, and was subsequently offered to both. The systems armaments included two 2A72 30 mm cannons and 9M335 guided air defense missiles with a maximum range of 12 km. According to the Russian military, in 1995 the first version of the Pantsyr-S1 mounted on a vehicle chassis and equipped with fire-control radar developed by Fazotron-NIIR proved during testing to fall short of requirements. As a result, and under conditions of funding cutbacks, the Air Defense and Land forces lost interest in the system and in the end it was offered by the Tula Instrument Design Bureau for export, with a chance for further development at the expense of a potential customer.

The UAE showed interest, but set extremely high technical requirements for the system, which required the development of a new system, including a new combat module with 2A38 30mm guns, new 57E6-E anti-aircraft missiles with an expanded 18 km maximum range, and new surveillance and target tracking/missile guidance radars. In May 2000, the Tula Instrument Design Bureau (having the right to export its production independently) signed a contract with the UAE government for $734 million (50 percent of which went to paying Russian state debt to the UAE) to develop and deliver 50 Pantsir-S1 systems (24 for the KamAZ-6350 four-axle wheel chassis and 26 for the GM-352M1E tracked chassis). According to the agreement, over the course of two years (to the end of 2002), the Design Bureau was to have completed development work on the Pantsyr-S1, and then, over the course of three years (2003-05) deliver 50 systems in three batches (12, 24 and 14 units),[66] as well as 1500 57E6-E air defense guided missiles to match.[67] To conduct the required R&D, the UAE paid Russia $100 million in advance.[68]

These deadlines were missed due to delays in R&D work at the Design Bureau itself and problems with the development of a new target tracking/missile guidance radar. To address this latter problem, the Tula Instrument Design Bureau concluded an agreement with Fazotron-NIIR from Moscow to develop the new 1RS2-E Shlem double-band radar. Fazotron, however, was not only late in providing the Shlem radar, but failed to meet a range of tactical-technical requirements, which led the Design Bureau to annul the contract.

66. "Gubernatorskij pancir," www.pryaniki.org, January 9, 2006.
67. SIPRI Database, *Transfers of Major Conventional Weapons,* armstrade.sipri.org/arms_trade/trade_register.php.
68. I. Safronov, "Tunguski" vmesto masla, *Kommersant*, February 15, 2005.

The Tula Instrument Design Bureau was charting virgin territory in designing a new multifunctional phased array MRLS target tracking/missile guidance radar, in cooperation with the Russian company RATEP. In 2003, an additional contract was signed, committing the UAE to pay another $66 million for the modification of the Pantsyr-S1, and providing an extension of the delivery date to 2007-09. Thus, the total value of the contract rose to $800 million. Moreover, all systems will now be mounted on the German MAN four-axle wheel chassis. Should the project succeed, the UAE has announced its readiness to order another 28 Pantsyr-S1 systems in 2009-10.[69]

The new system began live testing in the spring of 2006 and was presented to the UAE military at the end of 2006, with the delivery of the first 12 serial systems planned for the end of 2007. Another 24 systems will be transferred to the customer in 2008, and a further 14 systems in 2009.[70] The Tula Instrument Design Bureau is itself producing the Pantsyr-S1 at its Shchelovskiy Val plant.

The problems the company faced in its development of the Pantsyr-S1 system were among the reasons the Russian government dismissed the hitherto permanent director of the Tula Instrument Design Bureau, Arkady Shipunov, in 2006. Nevertheless, the job was successful in the end, and the UAE received the most advanced short-range air defense system in the world, one that has great potential, including for further export. Not surprisingly, the Tula Instrument Design Bureau was able to conclude contracts worth $1.8 billion for deliveries of Pantsyr-S1 systems to Syria and Algeria even before the deliveries to the UAE had begun.[71] The Russian armed forces have also renewed their interest in this system, developed with foreign financing, and plan to acquire a significant number of units.

There is great interest in further cooperation between Russia and the UAE to create national air defense systems. The press has noted on several occasions that the UAE is interested in the S-300PMU-1 (SA-10) and the S-300V (SA-12) long-range air defense systems, but, according to the Western media, among other sources, the acquisition by the country of the S-300 system in the 1990s was blocked by the Americans.[72] Since 2002, Rosoboroneksport and the Almaz-Antey Air Defense Concern have been in negotiations with the UAE to conclude a contract worth $4

69. K. Lantratov and I. Safronov, Rossijsko-arabskaja druzhba dostigla zenitok, *Kommersant*, June 30, 2006.

70. D.C. Isby, " UAE Confirms Modified Pantsir S1 Delivery Schedule," *Jane's Missiles and Rockets, May 2007*.

71. A. Nikol' skij, Krepok li 'Pancir'?, *Vedomosti*, September 21, 2006.

72. E. Suponina, Araby zhdut ot Rossii oruzhija, Vremja novostej, February 16, 2007.

billion for the creation of air defense systems on the basis of a new type of medium and long-range air defense missile, based on the new Russian S-400 (SA-21) air defense system.[73] News of the renewal of such negotiations appeared repeatedly in 2005,[74] and they apparently continue to this day. The possibility of introducing a Russian air defense missile weapon system without extensive development of a compatible UAE air control radar system is an important factor. According to some sources, the US is categorically opposed to any such deal and affirms that Russian and Western systems are not compatible.[75] It is likely that the successful conclusion of the Pantsyr-S1 system will increase the chances of coming to an agreement on the creation in Russia of even more powerful air defense systems for UAE.

Russian Deliveries of Arms to Oman, Bahrain and Qatar

Russia's military-industrial cooperation with Oman, Bahrain and Qatar has not developed broadly. In our view this is due to the almost complete orientation of the local political and military elite towards the West and the absence of any serious political stimulus towards development of relations with Russia, including in the military sphere. The US and the UK continue to be the main suppliers of arms to these three states. The unresolved issue of Russian debt to Qatar poses an additional complication.

The first Russian delivery to Oman had a dubious outcome: in 1992, six T-72S main battle tanks produced by Uralvagonzavod were sent to that country.[76] Rather than these vehicles being used by Oman's armed forces it is suspected that they were taken by the intelligence service of some Western country with the purpose of studying modern examples of Soviet and Russian armaments.

The Russian press later sporadically reported on the maintenance of certain "contacts" with Oman in the military-technical sphere, but no details were ever forthcoming. It would appear that a few insignificant batches of arms and ammunition for the land forces were delivered. In 2005, Oman received on contract from the Tula Instrument Design Bureau a batch of 9K129 Kornet-E (AT-14) anti-tank guided missile systems with series 9M133 anti-tank missiles.[77] Moreover, it was then

73. K. Lantratov, "Chetyre milliarda v pol'zu Rossii," *Kommersant*, October 7, 2002.

74. I. Safronov, "Tunguski" vmesto masla, *Kommersant*, February 15, 2005.

75. T. Ripley, F. Christopher Foss, "Power Drive," *Jane's Defence Weekly*, February 7, 2007.

76. United Nations Register of Conventional Arms. Official Report of the Russian Federation for 1992, disarmament2.un.org/UN_REGISTER.nsf . The type of tanks is pointed out in a range of Russian publications of the first half of the 1990s.

77. Oruzhejnaja perestrojka: Interv' ju pervogo zamestitelja Federal' noj sluzhby po voenno-

reported that Oman made inquiries regarding the possible delivery of the Bastion (SSC-5) coastal defense missile system, which would have included the use of the PG-10 BrahMos supersonic anti-ship missiles produced jointly by Russia and India.[78] However, there have been no reports of the conclusion of any such agreement.

The only significant known contracts with Qatar and Bahrain are the delivery to these countries of the newest all-wheel Mustang family drive trucks produced by KamAZ. In 2004, Rosoborneksport supplied Bahrain with 40 KamAZ-4350 double axel trucks for $1.1 million, and Qatar with 500 KamAZ-6350, KamAZ-5350 (6x6) and KamAZ-6350 (8x8) for a total price of $20.1 million.[79] It would seem that these purchases were motivated by the low prices of the Russian trucks relative to similar offerings of Western suppliers.

There were reports in the Russian press in 2006 that Qatar was negotiating with Russia on the possible acquisition of a batch of 122 mm BM-21 Grad multiple launch rocket systems, as well as a few Beriev Be-200 amphibious aircraft.[80]

Future Military-Technical Cooperation between Russia and Saudi Arabia

Until recently Russia and Saudi Arabia had not maintained any sort of military relations; even political relations between the countries have been cool. The ultra conservatism of the Saudi regime and Saudi views of Russian actions in "Muslim" Chechnya are the main reasons for this. Some shift in Saudi policy towards Russia became evident after the events of September 11, 2001, when the West came to view Saudi Arabia with more suspicion with respect to the latter's position as a willing or unwilling source of Islamic radicalism. In its attempts to define alternatives to its pro-Western orientation, including in the military sphere, the Saudi rulers began to foster relations with Russia. They showed interest in purchasing Russian arms, especially since the US, the main supplier of arms to Saudi Arabia, has traditionally maintained a policy of limiting Saudi access to the most modern types of arms, for fear of creating a threat to Israel.

Like Kuwait and the UAE, Saudi Arabia has shown greatest interest in the

tehnicheskomu sotrunichestvu Aleksandra Denisova, *Ekspert*, no. 46, 2005. Type of system: author's information.

78. I. Safronov, "Tunguski" vmesto masla, *Kommersant*, February 15, 2005.

79. S. Sokolova, KAMAZ vyezzhaet na eksporte, Vremja & Den'gi, June 7, 2005. See also: S naputstviem ot Rosproma, Voenno-promyshlennyj Kur'er, August 31, 2005.

80. M. Zygar, Katar obeshaet Rossii dostat' tela diplomatov, *Kommersant*, October 19, 2006.

acquisition of Russian tank technology. Over the last few years, Rosoboroneksport has been conducting negotiations on the possible sale to Saudi Arabia of 150 T-90S main battle tanks. In August 2005, one T-90S tank was successfully tested in Saudi Arabia, covering a range of 1500 km during test firing. President Vladimir Putin's visit to Saudi Arabia in February 2007 included discussions on military-technical cooperation. The main points of discussion included the possible delivery of 150 T-90S tanks for $1 billion as well as a batch of BMP-3 infantry combat vehicles and armored personnel carriers (probably the BTR-80A). Sergey Chemezov, the Director General of Rosoboroneksport, made an official announcement to this effect.[81] However, this contract has not yet been signed.

According to the estimates of the Center for Analysis of Strategies and Technologies (CAST), "this deal would have a greater importance than the mega-contracts in the military-technical sphere with Venezuela ($3 billion) and Algeria (over $7 billion), because it would not only crack open the biggest market in the world but also give Russia's relations with the most important Islamic state a new dimension, including on security matters."[82]

It has also been reported that Saudi Arabia is interested in the S-300PMU-2 (SA-20) and S-400 (SA-21) air defense missile systems, the Tor-M1 (SA-15) and Pantsyr-S1 (SA-22) air defense system, the Mi-17 helicopters, and special forces armaments.[83] However, one must presume that the path towards concluding any such deliveries to Saudi Arabia will be long and difficult for Russia.

Summary

The Soviet Union and the Russian Federation were never leading suppliers of arms to the markets of the six conservative oil monarchies of the GCC, which has maintained pro-Western orientations. The USSR sold its arms to Kuwait alone among these countries and on the eve of collapse penetrated the arms market of the United Arab Emirates. After 1991, Russia continued military cooperation with Qatar and intensified its relations with the UAE, but scored no such victories with the remaining countries, including the wealthiest, Saudi Arabia.

The total value of contracts for the delivery of Russian arms to the GCC states can be estimated at $3.6 billion, of which the UAE accounts for $2.5 billion and Qatar for $1 billion, with no more than $100 million going to the remaining four

81. A. Nikolaeva, A. Nikol'skij Priveredlivye shejhi, *Vedomosti,* February 13, 2007.

82. Ibid.

83. A. Kuzar, Mesto vstrechi – Persidskij zaliv, Krasnaja Zvezda, February 16, 2007.

countries – an entirely insignificant proportion of military sales to this group of states. Suffice to note that, according to the research arm of the US Congress, the six GCC states signed contracts for the purchase of arms totalling $39 billion from 1998-2005, of which $21.6 billion was from the US.[84] To this one could add that Saudi Arabia alone contracted with the US and France arms purchases worth $13 billion.[85] Thus, Russian deliveries to the region are quite insignificant in terms of their dollar value.

This becomes even more apparent if we recall that the principal deliveries to the UAE from Russia took place in the 1990s (BMP-3 vehicles and the Smerch multiple launch rocket systems), while the number of contracts concluded after 2001 is really quite small, and by our estimates worth no more than $300 million in total.

One must therefore speak not of an increase, but rather of the decline in the role of Russian arms deliveries to the Arab Gulf region in the new century. The ongoing delivery to the UAE of the Pantsir-S1 air defense system is currently the most important agreement being implemented. Deliveries of the BMP-3 vehicles have finished, and new contracts for armoured equipment or for the modernization of previously delivered M-84AB tanks or BMP-3 have not been secured. Moreover, since 1992, Russian exports of arms and military equipment to the GCC have been almost exclusively for the land forces. The relative cost of such equipment is in principle quite low. Russia's inability to promote its aviation technology (currently the most expensive type of armament) to the six states is the main factor determining the relatively low figures for its arms trade with the Arab Gulf region.

At the same time, the GCC markets are extremely important for Russia. Although our estimates put the total volume of Russian deliveries to these states at only 5 percent of total Russian arms exports over the past 15 years, one must not forget either the political importance of these deliveries, or the high purchasing power of the GCC states. In economic terms, arms deliveries to these states is highly profitable, and the prestige value to Russian suppliers of purchases by these respectable, Western-oriented "oil monarchies" is very high. Finally, Kuwait and the UAE have hastened to purchase the most advanced Russian defense systems, like the BMP-3, and in volumes that played a direct role in the survival of the producers of these systems – the Kurgan Machine-Building Plant and the Tula Instrument

84. "Conventional Arms Transfers to Developing Nations, 1998-2005," Congressional Research Service, Library of Congress, 2006.

85. M. Barabanov, Obzor sovremennogo sostojanija blizhnevostochnogo rynka vooruzhenij, Eksport Vooruzhenij, no. 2, 2007.

Design Bureau. The creation of the Pantsyr-S1 by the Tula Instrument Design Bureau, financed by the UAE, in spite of all the associated problems, was uniquely valuable to Russia, allowing for the creation of a cardinally new type of armament for both export and internal military use, all paid for with the money of "rich Arabs."

It would seem that Russia's position as a supplier of arms to GCC countries remains uncertain, and is presently at a critical juncture. The best scenario for Russia, after the pause of recent years, would be to secure a new wave of contracts with the countries of the region. This would require new, large-scale commissions from Kuwait and the UAE (including deliveries of new equipment and modernization of old), as well as a historical breakthrough to the defense market of Saudi Arabia. Agreements to create an air defense system for the UAE on the basis of the S-400 air defense missile system, to modernize the BMP-3 already purchased by the UAE and Kuwait, the acquisition by Gulf States of modern Russian supersonic anti-ship missiles, and the purchase by Saudi Arabia of T-90S tanks, BMP-3, armored personnel carriers and Russian air defense systems would be key to Russian success in this area. The opportunities for space cooperation with GCC states are also important for Russia.

In any case, Russia will remain for the foreseeable future a secondary and niche supplier of arms to GCC states, behind the three big Western suppliers – the US, UK and France – in terms of the dollar value of deliveries.

To a large extent, the future of Russia's military-technical cooperation with these countries continues to depend on political circumstances. Paradoxically, the recent worsening of relations between the regime of President Vladimir Putin and Western countries can only increase the interest of Gulf States in cooperating with Putin's Russia. Leading GCC players such as Saudi Arabia and the UAE are clearly troubled by the excessive influence of the US on their armed forces and determined to diversify their sources of military supply and defense policy options as a whole. This tendency is evident in the purchasing policy of the UAE, whose purchase of the BMP-3 was clearly motivated by a desire to diversify its sources of armaments. The same intent has been demonstrated by Saudi Arabia, and by turning to Russia for arms purchases (or even the threat of such purchases), the conservative Arab regime is able to put pressure on Western countries with the aim of securing more favorable treatment in terms of military cooperation, including access to more modern Western arms.

Thus, Russia's current "anti-Western drive" makes it a more attractive partner for the most valuable and rich potential importers of arms on the Arabian Peninsula. One might expect the Russian leadership and the politically sophisticated Rosoboroneksport to take full advantage of this situation.

Section III

Economic Relations and Energy Issues

Comparative Economic Policies and Development Strategies between Russia, the CIS and the Gulf States

Dr. Vladimir Kukushkin

Institute for African Studies, Russian Academy of Sciences, Russia

Introduction

A comparison of modern economic policies and development strategies within a group of selected countries embracing Russia/CIS and the Gulf States has revealed many similarities, including some common problems, tasks, methods, and instruments. Originally, one of the main purposes of the research was to shed additional light on a widely discussed issue: the so-called "curse of natural resources," or rather the three such "curses" most often mentioned by contemporary economists and political scientists.[1] At present, a vast majority of researchers and mass media

1. The notion that there may be such a "natural resource curse" is based on the empirical finding that resource-rich economies, on average, experience lower growth rates than resource-poor economies. (Jeffrey D. Sachs and Andrew M. Warner, "Natural Resource Abundance and Economic Growth," National Bureau of Economic Research Working Paper no. 5398, Cambridge, Mass., NBER, 1995 /revised 1997 and 1999); Jeffrey D. Sachs and Andrew M. Warner, "The Curse of Natural Resources," *European Economic Review* 45, no. 4–6 (2001): 827–38. In the first of the above papers, the two authors report a robust negative relationship between real GDP growth per capita and the ratio of resource exports to GDP in a sample of 97 developing countries during the period 1970-1989. One explanation for this is that the large windfall revenues from natural resources tend to give rise to rent-seeking behavior and fights over the distribution of these revenues, which in turn impede growth, as productive resources are drawn into non-productive activities. A second explanation is that resource rents tend to be volatile, which is bad for growth. A third explanation is that of "Dutch Disease," the hypothesis that windfall revenues from natural resources give rise to real exchange rate appreciation, which in turn reduces the competitiveness of the manufacturing

in the Russian Federation (RF) and elsewhere are debating the question: Are most of the emerging market economies rich in natural resources doomed to the vicious circles of prosperity followed by crises and poverty, determined principally by the cyclic movements of the world market prices of their primary commodities, or will at least some of these countries be able to profit from their governments' experiences and enter a new much-aspired for stage of sustainable, modern socio-economic development? As the volatility in question is inherent in the system, it can hardly be overcome permanently in any other way but through implementing complex and consistent structural reforms, mostly by means of diversification.

The paper investigates the main points relating to the oil- and/or gas-exporting states' participation in the regulation of the economic activities, their relations with the local private businesses and foreign investors in the CIS and the Gulf States, as well as the budget revenues from hydrocarbon resources and their allocation for development and modernization. The author concludes that up to the late 1980s and early 1990s the situation in the overwhelming majority of the developing, former "socialist" oil-exporting countries on the whole followed the main trend characteristic namely, massive nationalizations and the state investment boom after the price revolutions of the 1970s followed by deep, long socio-economic and political crises in the periods of relatively cheap hydrocarbons. However, since the late 1990s and up to the present, upsurge in the prices of oil, gas and their derivatives, and consequently in the state budget revenues, contrary to many expectations has not hindered liberal economic reforms, which were previously forced and crisis-induced, in some of the hydrocarbon-exporting states.

In this context the accumulation of temporary foreign exchange surpluses (in a variety of stabilization and/or other specialized state funds) and their rational timely spending have again (as after the first oil price revolution in the 1970s) acquired principal importance, but this time on a much more spacious geographical landscape. Since that period of not very distant economic history, the dissolution of the former Soviet Union, and "pushing" of the CIS hydrocarbon exporters' economies into the market system has made the world economy more uniform to an extent that fosters international comparisons between oil- and gas-exporting countries. Up to the early 1990s, the centrally planned economies, including their energy resources and quasi-financial sectors, seemed to develop mostly according

sector. (Nienke Oomes and Katerina Kalcheva, "Diagnosing Dutch Disease: Does Russia Have the Symptoms?" International Monetary Fund WP/07/102, April 2007, 5-77.)

to János Kornai's paradigm of inherent constant "shortage".[2] That institutional structural shortage almost completely precluded any spontaneous accumulation of medium- and long-term surpluses within the absolutely dominating national state sectors apart from "planned" strategic reserves predominantly for emergency and geopolitical purposes, besides mostly unlawful,"leakages" of state resources into the "grey and black, then illegitimate" sectors and economic activities.[3] Since the early 1990s, the majority of the "ex-socialist, supply-restricted" models have been transformed into the "demand-restricted" market ones, in the face of their new legal, and other institutional framework components. Consequently their financial systems and streams have got rid of some formal "mathematical, abstract, accounting" features, and acquired more "economic, real" essence. The latter embraces the issues of monetary savings, real capital formation, government budgets, spending, and their balancing instruments..

The modern situation of relatively more expensive hydrocarbons from their exporters' points of view has also revitalized some of the 1970s-early 1980s issues combining natural resource utilization and finance. To put it in a nutshell, they may be reduced to a "triple option" for economic strategies (three preferences more often than not mutually exclusive): 1) fossil fuels in the ground; 2) money in the banks (including all kinds of financial and other assets abroad); 3) accelerated spending (on fixed capital formation, investment in human resources, etc. i.e. "productive, rational" conversion of oil and gas via the export proceeds therefrom into national development). Hence within this paradigm also inevitably followed revival of the "absorptive capacity" issues.[4]

For the vast majority of oil and gas exporters, including Russia together with the other CIS members, as well as Iran, Iraq, Oman, Yemen,UAE (mainly Abu Dhabi) and more uncertainly for modern Saudi Arabia, the absorptive capacity is evaluated rather highly, at least in theory, and in the medium- to long-range perspective. For this majority the strategic choice naturally focuses on the third variant. The

2. János Kornai, "Economics of Shortage," *Contributions to Economic Analysis* (Amsterdam: North-Holland Pub Co,1980), 131.

3. Those issues were discussed in some detail, e.g. in: V. Yu. Kukushkin, *Economic and Cultural "Realities": Eclectics, Collisions, Systems? – The Issue of Social and Cultural Inversions* (Saratov: Saratov University Publishers, 1997), 126-142 (in Russian).

4. The same author discussed the recent history of those problems, and their theoretical reflection, e.g. in: V. Yu. Kukushkin, *Resource Utilisation and Rent Formation in the Petroleum Industry of the Arab States: Problems and Estimates, The Issues of the Contemporary Soviet Arab Studies*, vol.1, *Modern Political and Socio-Economic Problems of the Arab Countries* (The Armenian Academy of Sciences Publ., Erevan, 1988), 167-174.

second variant, including the assets in stabilization funds, then acquires mostly auxiliary, intermediate functions. It is reduced predominantly to the guarantees of appropriately chosen, ideally non-inflation-generating rates of development, and may be defined generally as of "functional," not "structural" importance. The first variant as such remains practically of no independent consequence in this case.

The minority of the most resource-rich states (in per capita terms) with significantly lower absorptive capacities, comprising the UAE, Kuwait, and Qatar, have again to seriously compare and choose between the first and second variants. For them both strategic choices acquire "structural" importance. So an important argument for keeping restrictions on foreign participation in the oil industries may be derived from here.

True, modern economic strategies and, more so, policies differ. An obvious increase of state control over energy businesses and hydrocarbon resources in Russia compares with the list of economic sectors from which foreign investors remain excluded under the acting Foreign Investment Law by the Supreme Economic Council (SEC) of Saudi Arabia.[5] The same is true about most other states of the Gulf. For instance, though Kuwait passed the "Foreign Direct Investment Act" in 2001, which really opened a number of new fields to foreign businesses, up to 2007, it has not endeavored to change the constitution, which still forbids foreign ownership of Kuwait's mineral resources in the oil sector as well as foreign investment in upstream oil development.[6] Alternatively, the latest oil and gas prices and budget surplus upsurges did not change Qatar's policy of active foreign investors' direct involvement in the national gas-export projects, which comprise the complete industrial technological chain, thus enabling the delivery of the principal Qatari hydrocarbon resource to the overseas import markets and consumers.[7]

At the same time, even the trends of strengthening and/or keeping state monopolies in some strategic fields (i.e. energy) do not mean automatic curbing

5. This Saudi "negative list" starts with the clause on "Oil exploration, drilling and production," Exclusive Activities List of Foreign Investment. In accordance with the Supreme Economic Council Resolution No. 11/21 dated 17/11/1421 (H). Saudi Arabian General Investment Authority (SAGIA), http://www.sagia.gov.sa.

6. *2007 Index of Economic Freedom*, 242, http://www.heritage.org/research/features/index/downloads/Index2007.pdf; http://www.eia.doe.gov/ emeu/cabs/Kuwait/Full.html November 2006.

7. The shares of foreign participants in Qatargas 1-Qatargas 4 tend to remain leveled at 35-30 percent for the period 1996-2010 (the years indicate first LNG cargo deliveries according to the respective projects). "Delivering LNG to the World," Qatargas, 21, http://www.qatargas.com/uploadedFiles/final %20brochure.pdf

of private activities in others. Judging by the Russian President's 2007 address to the Federal Assembly, a greater proportion of export revenues, based on the oil and gas rents, should be allocated, among other goals, to stimulate private businesses in various sectors of the Russian economy.[8]

Russian economic growth and investment accelerated notably in early 2007. For the first time in years it was not confined nearly overwhelmingly to the extractive and other natural resource-based industries. Almost all sectors of the economy reported a considerable increase in their rates of growth relative to the same period in 2006.

Sectors servicing the domestic market like trade (13.6 percent growth) and construction (23.7 percent) continued to boom. More surprising to many economic experts has been the strong growth in industry (7.5 percent) and, particularly, manufacturing (12.5 percent) during this period. Manufacturing posted very impressive growth relative to the same period in 2006. The 12.5 percent growth in the first four months of 2007 represents a sharp break from the steady downward trend in manufacturing growth rates in recent years, which occurred in the context of the rapid real appreciation of the ruble, low investment rates, and high capacity utilization. Machine building was responsible for an even stronger contribution to high manufacturing growth in early 2007. An unprecedented increase in investment demand can be associated with a major jump in orders for machinery and equipment, electro technical and optical equipment, and transportation equipment. The increase in orders for mechanical equipment was particularly strong: 52.5 percent in January-April 2007, which can be compared to a decline of 41 percent during the same period of 2006. A good part of this demand might be associated with large state companies, including the electricity giant, RAO UES (Russian joint-stock company United Energy Systems). The production of hydroelectric turbines, for example, increased by 2.7 times in the first four months of 2007, compared to a considerable decline reported a year ago. The same tendencies can be observed in the production of other electricity generating machines. The production of specialized machines and equipment grew by 17.9 percent during the first four months of 2007, as

8. "… the nature of the economic tasks at hand today call for adjustments to the Stabilization Fund's functions and structure, while continuing to pursue a conservative financial policy. In this respect, in my Budget Address, I proposed a new procedure for using the financial resources obtained through oil and gas revenues… the money in this Fund should be spent on raising the quality of life of our citizens and developing our economy. This Fund should help bring greater prosperity for our people both now and in the future." Annual Address to the Federal Assembly, April 26, 2007, Moscow, http://www.kremlin.ru/eng/text/speeches/2007/04/26/1209_type70029_125494.shtml.

compared to 6 percent increase a year ago. The production of specialized machines for oil processing, ferrous and non-ferrous metallurgy expanded very quickly.

Experts point to several important circumstances which are still precluding from extrapolation of the above favorable trends too far ahead. First of all, at least some of the factors supporting manufacturing were temporary in nature, including in several instances the very low base for statistical calculations and (e.g. in the case of booming demand from the construction industry) an unusually warm winter of 2006-2007. A no less serious drawback is connected with the underlying reason for the boom. In general, much higher investment demand for machines and equipment has been coming primarily from natural monopolies, resource-oriented firms, metals and construction. So there still remained an unresolved issue of whether the turnaround in Russian manufacturing was sustainable. The data on industrial growth from April suggested that the first quarter of the year was indeed exceptional. Industrial output in April 2007 was only an estimated 4.6 percent higher than in April 2006, although manufacturing remained 7 percent higher, primarily due to continued strong performance in machine building. The factors that have restrained growth in manufacturing in recent years were still present. The real appreciation of the ruble should again be quite significant in 2007. Parts of manufacturing that service domestic demand with limited competition from imports may continue to thrive in Russia's booming domestic market, but the key task of achieving export competitiveness outside of resources and metals will remain difficult in the current environment.[9]

Since the second half of 2004, the Russian economy has settled into a recognizable pattern of economic development. Inflows from resource exports have ignited domestic demand, which has fuelled recent economic growth. As capacity constraints slowed expansion in the energy sector, economic growth has become increasingly concentrated in sectors that service the domestic market, particularly in goods and services that cannot be easily substituted by imports. At the same time, Russian enterprises in competition with foreign producers have been feeling the increasing pinch of ruble appreciation in rising production costs and wages. Growth in "tradable" areas of manufacturing is slowing, and labor is moving to other sectors. Outside natural resources and metals, Russia still has few comparative advantages on international markets.

If current trends continue the most probable prospects for Russia's development over the medium and longer term are evaluated as the following. On the one hand,

9. "Russian Economic Report 14," *The World Bank in Russia: Economic Review*, June 2007, 2-3, http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/RER14_eng_full.pdf

in the absence of a sharp fall in energy prices, current growth patterns might be sustainable over the medium term. In addition to ample remaining resource wealth, the Russian domestic market is sufficiently large and geographically spread to support a significant variety of economic activity that is, to one degree or another, naturally sheltered from international competition. While a stronger ruble creates increasing challenges for non-resource-based enterprises competing in world markets, it also makes servicing the Russian domestic market more profitable relative to opportunities in other countries. The recent sharp increase in foreign investment to Russia reflects this fact. Of course, sustaining current patterns of economic growth would still imply addressing major medium-term challenges in areas like infrastructure, energy, and labor supply. Yet, these and other challenges could conceivably be addressed through policies and reforms that do not change the basic pattern of economic development in the country.

On the other hand, the current path of economic development not only leaves Russia highly vulnerable to fluctuations in energy prices, but likely constrains longer-term growth well below its potential. Countries with high levels of resource dependence (defined as the share of resource-based exports in GDP or in total exports) have often performed relatively poorly in terms of economic growth, stability, corruption, human capital development, and other indicators, i.e. they have been susceptible to the aforementioned "resource curses".[10] Resource abundance itself is not necessarily a disadvantage for economic growth, but resource dependence does indeed appear correlated with low long-term growth.[11] On the flip side, a growing literature in development economics demonstrates that success in achieving comparative advantage on international markets in manufacturing and tradable services, particularly in knowledge-intensive and technologically-sophisticated products, can be associated with rapid economic growth.[12]

The current high priority of the Russian government to promote diversification,

10. For a summary of this research through 2001, see for example, R.M. Auty, *Resource Abundance and Economic Development: Improving the Performance of Resource-Rich Countries*, Research for Action 44 (United Nations University/World Institute for Development Economics Research: Helsinki, 1998); R.M.Auty, *Resource Abundance and Economic Development* (Oxford: Oxford University Press, 2002).

11. Potential advantages of resource abundance for growth as well as some other arguments, contesting the "resource curses" paradigm are discussed and illustrated in G.A.Davis, J.E.Tilton, "Should Developing Countries Renounce Mining? A Perspective on the Debate," Report prepared for the International Council on Mining and Metals, (London, UK: ICMM, 2002).

12. See, for example, J.Hausmann, J. Hwang, and D Rodrik, "What You Export Matters," mimeo, Harvard University, 2006.

develop competitive industries outside the resource sectors, and cultivate a knowledge-based or "innovation" economy is, therefore, both understandable and commendable. Indeed, the prospects for maintaining rapid growth in Russian GDP and living standards depend greatly on the realization of this goal. The government has been developing a series of programs and policies aimed at achieving competitive industries outside resource-based industries and igniting the innovation economy. This strategy consists primarily of selective interventions by the government to promote particular sectors of the economy or particular geographical areas, including special economic zones, IT parks, state venture funds, a state development bank, tax incentives, training programs, export promotion, and direct government participation in some sectors of the economy. This emerging strategy represents a certain shift in emphasis away from the classical liberal economic objectives of creating a level playing field for private initiatives and entrepreneurship, and toward "industrial" or "regional" policy where the objective, on the contrary, is to create special conditions for the priority development of certain sectors, regions, or firms. The logic behind this strategy is the perception that market forces alone are pushing Russia down a path of resource dependence and low international competitiveness, and that government intervention is required to remedy this problem.[13]

While there is general agreement on the need for diversification and for policies to foster innovation, there remains considerable debate about the appropriate policies for achieving these objectives, and the potential role for industrial policy in particular. The recent world experience with industrial policy is highly mixed, and mostly negative. If selective intervention to support specific sectors did play a constructive role in East Asian industrial development, its key contribution appears to be in promoting the adaptation and imitation of foreign technologies, as opposed to innovation per se. As Russia is still at a stage of industrial development where it might profit significantly from the imitation and adaptation of foreign technologies, it is sometimes argued that active industrial policy might therefore play an important role in promoting modern competitive industries outside of the resource sectors in certain cases.

Going by historical experience, however, it should be noted that Russia has at least three major disadvantages. First, in contrast to the earlier period (1950s-1970s) when East Asian economies made the greatest use of selective industrial policy, world markets have become highly integrated international production

13. "Russian Economic Report 13," *The World Bank in Russia: Economic Review*, December 2006, 12-13, http://ns.worldbank.org.ru/files/rer/RER_13_eng.pdf

networks, where private firms must coordinate with suppliers and buyers in several locations and respond to orders in real time. This makes a centralized approach to fostering industries both more difficult and less necessary. Second, the current policy constraints imposed by multilateral accords, such as the World Trade Organization (WTO), essentially rule out many of the selective interventions employed in earlier years. Finally, and perhaps most important, the first stage of the Asian miracle was based on low labor costs, which fetched a comparative advantage in labor-intensive products. The government could play a natural coordinating role in identifying such products, and in supporting complementary networks and institutions around the development of their associated industries. In Russia, on the contrary, labor costs are already relatively high, which implies the need for immediate specialization in higher value-added industries. Under these circumstances, the centralized determination of areas of potential comparative advantage is considerably more complicated and risky. Russia has much to gain from more effective technological absorption and imitation, which can be achieved through better integration with world markets. Yet, it is difficult to identify particular constructive roles for industrial policy to support this endeavor in the case of Russia.

For this reason, and also due to Russia's considerable human capital endowments, political priorities have focused understandably on exploiting Russia's knowledge and educational base for stimulating the "innovation economy," which has become a prime source of high value-added employment in many countries in recent years. The Russian state might play a specific role in stimulating innovative activity through programs such as matching grants or participation in private venture funds. The fact that entrepreneurs typically do not expropriate the full value of their innovations or worker training programs justifies at least some government support in these areas. Nevertheless, the experience of other countries in this area strongly suggests that an innovation economy thrives primarily on dynamic decentralized processes in the context of fierce international competition. Economic systems as diverse as the United States and China have succeeded in fostering vibrant innovative activity in their countries through the creation of strong incentives and opportunities for entrepreneurship, market entry, market exit, and exposure to international and domestic competition. While Russia has made some progress in creating such an environment during 15 years of economic transition, this agenda remains highly incomplete. Furthermore, recent trends toward greater centralization and expanding government participation in the economy could even hinder future progress in this area. The vision of such a Russian "national economic model" may be consistent with a continued resource-oriented path of development, but it is

unlikely to deliver much success in developing a highly competitive or innovation economy in Russia.[14]

By official estimates, the rate of aggregate output growth of the base industries and sectors (often used as a proxy for GDP growth) amounted to 8.8 percent in the first quarter of 2007, as compared to 4.2 percent for the corresponding period of 2006. The investment boom has continued during 2007 – another year of high economic growth in Russia.

Contrary to some expectations, Russia's balance of payments has strengthened still further due to high capital inflows in the first half of the year. This has created challenges for macroeconomic policy. Money supply growth was reaching record levels, and less of the monetary expansion was being sterilized by accumulation in the Stabilization Fund than in the past. Inflation has remained under control in Russia at the time of writing (in 2007).

The Russian government has approved and submitted to the Duma (a Chamber of Russian Parliament – the Federal Assembly) its first three-year budget, which represents important progress in increasing the horizon of budgetary planning. It has also changed the rules for the management of surplus oil revenues, and will divide the Stabilization Fund into a Reserve Fund for insuring the budget against fluctuations in oil prices and a Fund for Future Generations, which will be invested in longer-term assets. But issues and controversies persist over the investment strategy and potential uses for the Fund for Future Generations.[15]

These amendments in the principal economic policy instruments proved that federal government has been making some important progress in budgetary reform, particularly in the development of longer-term strategic budgeting. Following amendments to the Budget Code, the Russian government submitted to the Duma the first three-year (2008-2010) medium-term federal budget for the Russian Federation. The preparation of this budget involved substantial work on a registry of federal expenditure liabilities and a division of functions between ministries, agencies and budget organizations. Federal targeted (investment) programs and national priority projects are incorporated completely into the budget according to functional and organizational classifications. Three-year budgetary projects took into account statements of intent and performance from ministries, federal agencies, and federal services as a first step toward the development of performance-based budgeting. For future years, federal expenditures are divided into baseline

14. "Russian Economic Report 13," op. cit., 13-14.

15. "Russian Economic Report 14," op. cit., 2-3.

priority outlays that are pre-allocated according to specific budget obligations and conditionally approved general expenditures that will be allocated only during the future process of confirming the yearly budget.

World experience with medium term budgetary planning suggests that the development of such an effective instrument in Russia will require some time and effort. Nevertheless, the process itself of preparing the three-year budget, and of taking stock of federal expenditures, priorities, and investment programs, was most likely very valuable for increasing the effectiveness of budgeting in Russia. The budgetary process has suffered from an excessive myopic focus on the yearly budget to the detriment of a longer-term vision and the multi-year finance of priority projects.

Recent amendments to the Budget Code also have major implications for the management of surplus oil revenues (Stabilization Fund resources). Under the new amendments, the Stabilization Fund will be split into two funds in 2008: a Reserve Fund and a Fund for Future Generations. Surplus revenues from both oil and gas will accrue to these funds (as opposed to only oil revenues in the past). The Reserve Fund will ensure the budget against fluctuations in energy prices. It will hold surplus revenues up to 10 percent of GDP and will be invested in safe and liquid assets such as government bonds. Additional surplus revenues will accrue to the Fund for Future Generations, which will be invested in a diversified portfolio that includes longer-term and riskier assets such as blue chip stocks.

A yearly "oil and gas transfer" to the budget from oil and gas revenues (present or past) will be used to finance the non-oil deficit of the federal budget (the deficit that would exist in the absence of oil and gas tax revenues). The draft three-year budget plan sets the oil and gas transfer at 4.9 percent of GDP for 2007, 6.1 percent in 2008, 5.3 percent in 2009 and 4.5 percent in 2010. After this time, it should amount to 3.7 percent of GDP. The Budget Code also restricts the non-oil and gas federal budget deficit to less than 4.7 percent of GDP. By implication, deficit finance of the annual budget cannot amount to more than 1 percent of GDP.

Much uncertainty still surrounds the Fund for Future Generations. According to best practices in other oil-producing countries, this fund would be invested in longer-term foreign assets that would, over the medium term, provide the country with a major source of budgetary revenue that is independent of oil and gas. One proposal is that this fund could also be used to capitalize the Russian pension fund, which is experiencing mounting deficits that would otherwise continue to widen in the medium term. In his recent address to the National Assembly, the President suggested that parts of the Fund for Future Generations (aka the "National Welfare Fund") could be used for current projects or for covering pension fund deficits.

Furthermore, it has been suggested that part of the Fund for Future Generations may be invested not in foreign assets, but in domestic Russian corporate stocks. This would partially negate the Fund's purpose as a means of sterilizing surplus energy revenues and creating a source of income for the country that is independent of oil and gas. It would also add to already substantial inflationary pressures in the country[16]

Major changes in Russia's balance of payments are altering the overall macroeconomic picture, and are creating new challenges for macroeconomic policy. While rapid import growth is shrinking Russia's current account, capital inflows have much more than compensated for this decline, thereby pushing the balance of payments surplus to further record highs and exerting new upward pressure on the ruble. The big story of early 2007 was the pick up in capital inflows, which has much more than compensated for the weaker current account, and led to a record accumulation of foreign reserves. In the first quarter of the year, the strong capital account reflected acceleration in foreign borrowing by corporations ($24 billion), much of which can be associated with financing bids for the privatization tenders of remaining Yukos assets. While the corporate sector experienced strong inflows in Q1 2007, the banking sector actually experienced net outflows, which followed large inflows in the second half of 2006.

April and May brought still new record capital inflows to Russia that far exceeded expectations. Preliminary estimates place capital inflows at $17 billion for April alone, and the Central Bank was projecting about $45 billion in inflows for the first five months of the year. $8 billion alone in recent inflows came from an IPO of Vneshtorgbank. The gross reserves of the Central Bank mushroomed from $303.7 billon at the beginning of 2007 to $338.8 billion at the end of the first quarter of the year, and over $400 billion by the end of May. Thus, despite a weakening current account, the balance of payments continues to strengthen, and the pace of reserve accumulation in Russia has accelerated notably. This raises a number of questions for the conduct of macroeconomic policy.

Inflation remained largely under control in early 2007, although the government was facing a challenge to keep it under control within the 8 percent annual target. According to preliminary data, CPI inflation for the first three months of 2007 amounted to 3.4 percent, as compared to 5 percent during the corresponding period of 2006. Thus, lower inflation in early 2007 should not be considered a breakthrough in the reduction of core inflationary pressures. Preliminary estimates suggest that consumer prices in April 2007 grew faster than a year ago (0.6 versus 0.4 in 2006).

16. "Russian Economic Report 14," op. cit., 9-10.

Given the mounting balance of payments inflows and limited monetary instruments for sterilization, keeping inflation in check promises to be a difficult task for the Russian government and Central Bank. As in previous years, the accumulation of large fiscal surpluses in the Stabilization Fund remains a primary means of sterilizing the large inflows. In the past, most of these additional inflows came as a result of sharp increases in oil prices. In this case, the Stabilization Fund is an automatic stabilizer, as the majority of additional oil revenues due to higher prices accrues to the government through high marginal taxes and is then accumulated in the Stabilization Fund. The strong growth in balance of payments inflows in 2007 was not due to higher oil prices, however, but to capital inflows, which are not sterilized through the Stabilization Fund.

Money supply growth in Russia follows a similar path to reserve accumulation, as foreign exchange purchases are the primary source of money emission in the economy. Until the spring of 2006, the Stabilization Fund grew largely in parallel with foreign reserves. During this time, accumulation in the Stabilization Fund represented about half the amount of growth in gross foreign reserves, i.e. more than half of the additional monetary expansion from the purchase of foreign reserves was effectively sterilized by the Stabilization Fund. Since this time, capital inflows, which are not absorbed into the Stabilization Fund, have become an increasingly important source of reserve accumulation (and money supply expansion). Correspondingly, the relationship between accumulation in the Stabilization Fund and reserve accumulation between April 2006 and April 2007 has become much weaker, and averaged only 33 percent. From March-May 2007, accumulation in the Stabilization Fund amounted to only 15.2 percent of reserve accumulation. At the same time, as indicated above, money supply growth has accelerated.

While the pick up in growth has so far helped to absorb additional liquidity in the Russian economy, the implications for stabilization policy in Russia of the weakening of its automatic stabilizer in the form of the Stabilization Fund are potentially serious. As the pressures are coming from the balance of payments, the most obvious policy response would be to allow a more rapid nominal appreciation of the ruble. Since the end of 2006, the ruble appreciated in nominal terms by 1.7 percent against the US dollar, although it depreciated by 0.4 percent against the Euro. If the pressures for the real appreciation of the ruble are not relieved through nominal appreciation, then significant inflation for relatively non-tradable goods and services will be exceedingly difficult to avoid. In the Russian case, however, more rapid nominal appreciation carries important risks as well as benefits. The danger is so called "leakages" from the capital account. Expectations of rapid nominal

appreciation can potentially attract even more foreign capital to Russia, which could potentially swamp the stabilizing effect of this policy measure. Speculative capital flows in the last few years appear to be closely connected to nominal exchange rate appreciation. While maintaining overall stability on currency markets, various options that would allow more flexibility (nominal appreciation) are nevertheless worthy of consideration in the present situation.

The sterilization of capital inflows through other policy measures in Russia is quite difficult. The domestic bond market is still very small in relation to the size of inflows. The Central Bank has already increased reserve requirements for commercial banks from 3.5 to 4.5 percent (4 percent for ruble deposits of households) as of July 1, 2007. Further increases in reserve requirements might help absorb excess liquidity in the event that the recent pace of foreign inflows does not slow. Increasing interest rates is another potential means of tightening liquidity, but has the same risks as nominal appreciation for attracting more capital inflows. Regardless of the specific choices made in monetary policy, the unexpectedly high balance of payments inflows should make 2007 another year of rapid real exchange rate appreciation. By the end of April, the ruble had already appreciated in real terms by 2.3 percent, and the pace of this appreciation should increase.[17]

Recent Policy Initiatives

Economic policy initiatives in Russia have become particularly focused on two major speeches of President Vladimir Putin: the Budgetary Address on March 9, 2007 and the Address to the National Assembly on April 26, 2007. The budgetary address stressed the importance of maintaining restrictive fiscal policy in the presence of inflationary pressures, of developing institutions for medium-term budgeting, and of realizing the current reforms in inter-budgetary relations and local self-government that delegate more expenditure autonomy to lower levels of government. The Address to the National Assembly focused on policies to realize key development objectives in the country, including the availability of housing, infrastructure, innovation, diversification, and the pension system. On the latter subject, the President proposed not only increasing average pensions by at least 65 percent during 2007-2009, but also introducing a scheme to stimulate the development of a savings-based pension system in Russia: 1,000 state rubles for every 1.000 rubles of individual savings in a volunteer pension fund. For the

17. "Russian Economic Report 14," op. cit., 5-8.

realization of development objectives, the President proposed the creation of a number of state funds and development organizations. He also remarked that the new "Fund for Future Generations" would be better named the "National Welfare Fund," as proceeds should be spent on both current and future generations. He indicated that support for the deficit-ridden pension system would be a proper function for the "National Welfare Fund."

Some of the proposed costs entailed by the major important proposals for government programs have already been incorporated into the draft three-year budget discussed above. Other costs are to be covered by receipts in 2007 from Yukos and a one-off transfer from the Stabilization Fund to the budget. The question of affordable housing received special attention: A 250 billion ruble fund for construction and renovation is to be set up in 2007. This includes 100 billion for relocating people out of dilapidated housing. The capitalization of state development institutions and road construction are to receive 300 billion and 100 billion rubles, respectively, in 2007. The Address also surprised many specialists in its proposal to devote 130 billion rubles (50 billion of which was already included in the draft Budget) for the capitalization of a Nanotechnology Support Fund. The commitment of this amount to a single branch of science is unprecedented in Russia.[18]

The first half of 2007 demonstrated further development of some early 2006 trends, which proved that the Russian government's attention has turned increasingly to the question of diversification. The Ministry for Economic Trade and Development has taken the initiative in the preparation of a new package of laws, or amendments to laws, with the overall goal of stimulating investment and economic activity in manufacturing, particularly in innovation-oriented sectors. The measures include changes in tax rules (more favorable amortization write-offs, tax breaks for innovation-related activities), increasing state finance for science and R&D, subsidized credits for exporters, more favorable conditions for importing modern equipment, the creation of a state development bank, state support for training programs, the creation of special economic zones in port cities, state-supported venture funds, special programs for the development of particular sectors. This package of laws represents a further development in the government's determination to create more favorable conditions for particular priority sectors and territories.[19]

Increasingly tense economic relations between Russia, the EU, and other G-8

18. "Russian Economic Report 14," op. cit., 10-11.

19. "Russian Economic Report 13," op. cit., 11.

countries have again raised some uncertainty about the date of Russia's accession to the WTO. Russia has stated that it remains committed to completing the accession process, and the EU and US have given indications that they continue to support Russia's membership.[20]

Priorities of Economic Reform in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia has carried out some broad-ranging reforms over the last few years to achieve sustainable economic growth, create more job opportunities and enhance the citizens' standard of living. In recent years, economic growth has been reinforced and the private sector's performance has improved remarkably.

Steps have been taken to encourage employment of Saudi labor force. The stability of prices and exchange rate has been maintained. The state's fiscal balance has improved greatly and the balance of payments current account has recorded surpluses during the last few years. Some of the main areas in which economic reforms in Saudi Arabia are concentrated very closely coincide with or completely match those in Russia, and the other CIS oil- and gas-exporting countries.

Diversification of the Saudi economy remains at the top of the national strategy.

Promotion of the private sector's role in the development process has been given a high priority to diversify the economy and reduce reliance on oil. The contribution of the private sector to the aggregate GDP stood at 44.6 percent, and its contribution to the non-oil GDP amounted to 65.9 percent during 2005 (at constant prices). It is expected that the privatization program adopted by the government would substantially enhance the performance of the private sector. To achieve this aim, a number of programs have been launched, including a project to encourage small and medium enterprises (SMEs). The main element of this project is to encourage commercial banks to finance these enterprises.[21] For example, the government and the commercial banks are jointly funding, in equal shares, a loan guarantee scheme with a total capitalization of SRl 200 million to cover loans to eligible SMEs. The scheme, which began operation in 2005, is expected to incorporate guarantee ceilings of SRl 1.5 million and 75 percent of the underlying loan. The state-owned SIDF (Saudi Industrial Development Fund) will manage the

20. "Russian Economic Report 14," op. cit., 11.

21. *Saudi Economy 2005-06*, 42nd Annual Report of Saudi Arabian Monetary Agency (SAMA), August 2006, 36.

scheme, which, depending on the advice of a new Board of Advisors, may or may not include interest rate caps.[22]

According to the experts of SAMA, the recent success of expanding Saudi private sector was manifested by the increase in the Kingdom's non-oil exports since 2000, recording an average growth of 30.2 percent over the three years of 2003-2005.[23]

At the same time, IMF advisors pointed to several issues and obstacles in the way to further stimulation of private activities. For example, despite the overall robustness of the banking system and the support infrastructure for its operations, banks' intermediation of domestic assets has remained limited until recently. Banks appeared reluctant to finance SMEs and the expansion of commercial banks into mortgage financing was constrained by uncertainties in collateral registration and enforcement. At least two banks up to 2006 offered housing finance loans on both "conventional" and Sharia-compliant terms. These schemes were essentially unsecured, as it was not possible to enforce and repossess residential housing collateral pledged for a mortgage. The banks had to rely for some security on liens on the borrower's salary, and any cases involving repossession had to be referred by the Banking Disputes Committee to the Sharia court, which reportedly did not allow repossession on grounds of compassion. A workable and effective framework for collateral enforcement could foster a major expansion of the market-based financial system.

Among the recent positive trends, IMF experts underlined the unfolding comprehensive reforms to deepen financial markets and access to financial services, in support of accelerated growth and employment opportunities. The new Capital Market Law (CML) and Cooperative Insurance Companies Control Law (CICCL) are critical pieces of platform legislation that will substantially change the landscape of the provision of financial services.[24] The CML was issued on July 31, 2003 and the Capital Market Authority was established to regulate and control the capital market and other developments related to raising medium- and long-term capital. The CICCL has been promulgated to regulate insurance and reinsurance business. On April 11, 2005, the Installment law was approved. In the light of these developments and encouraging prospects of the economy, the Saudi capital

22. "Saudi Arabia: Financial System Stability Assessment," including Reports on the Observance of Standards and Codes on the following topics, Monetary and Financial Policy Transparency, Banking Supervision, and Payment Systems. IMF Country Report No. 06/199. Washington, D.C., June 2006, 11.

23. *Saudi Economy 2005-06*, op. cit., 36.

24. "Saudi Arabia: Financial System Stability Assessment," op. cit., 24-25.

market has continued to enhance its position and strength.[25] These laws, however, can be supported by broader institutional reforms that could also help accelerate the development of the financial sector.

Developments of Privatization

As SAMA experts point out, privatization is one of the most significant, strategic pivots of the Saudi Arabian Eighth Development Plan. The plan emphasizes the need to privatize more activities, facilities and public services and to accelerate the pace of privatization. Privatization is one of the most important mechanisms to broaden the participation of the private sector in economic development that will create a competitive environment, increase efficiency, and reduce the impact of fluctuations associated with the volatility of government revenues. The Kingdom has been keen to create the appropriate environment and opportunities to activate and maximize the developmental role of the private sector through the provision of advanced technological environment and motivating legislations. Significant achievements in the area of privatization embrace the telecommunications sector, the electricity generation sector, and several other sectors which give the private sector promising investment opportunities and enhance its role in economic and social development. The following are enumerated by SAMA as the most prominent privatization developments:

Saudi Telecommunications and Information Technology Authority (STIT) has recently completed a comprehensive study on the telecommunications market and information technology in the Kingdom to identify market needs of telecommunications and information technology services and consider the best options for opening the country's market for further services and developing them. It has also strived to prepare the policies, conditions and specifications for the issue of more licenses for fixed telephone and mobile telephone and to set transparent and fair criteria for assessing applications for new licenses. New licenses for providing fixed and mobile telephone services were to be issued in 2006-2007. Privatization of the Saline Water Conversion Corporation (SWCC) started in November of 2002 when the Council of Ministers issued Resolution No.219 (dated 11/11/2002), approving a list of utilities, types of activities, and services targeted for privatization including saline water conversion. In pursuance of this resolution, the SWCC conducted some studies for its privatization and submitted them to the concerned

25. *Saudi Economy 2005-06*, op. cit., 37.

authorities. A directive was issued for conducting further studies. So, the SWCC formed a team to consider procedures required for its privatization and restructuring. A work plan and a timetable were prepared for conversion from a government entity into commercial one working on a commercial basis. Contracts have been made with four consultation offices for the consideration of strategic, technical, financial and legal aspects for the privatization of the Corporation. The SWCC, under the supervision of the Privatization Committee of the Supreme Economic Council, will manage the executive program for privatization. The program includes the determinants of the State's general policy, appropriate regulatory frameworks and steps and timetable for implementation; it will identify and address obstacles to implementation, if any, besides restructuring the Corporation. Then a preliminary plan for the privatization of the Corporation was to be set, including the proportion to be sold, method of sale and the timetable to complete the process.

In cooperation with the World Bank, the privatization of the General Organization for Grain Silos and Flour Mills was studied and recommended. Further communications with several consultation offices were intended to select the most appropriate requirements of the first phase of privatization and encourage the participation of the private sector on the basis of Build, Operate and Transfer (BOT) for mills sector, which represents the first plan towards full privatization. A law firm was chosen and entrusted with managing the relations between the Organization and the would-be investor during the first phase of privatization, through preparation of the documents for the participation of the private sector in the establishment and operation of the mills. As of 2006, the Office was preparing the final form of the initial draft of contract documents to be signed by the Organization and the would-be investor. On May 10, 2006, the Council of Ministers approved the privatization of the Saudi Arabian mining company Ma'aden and offering it for public subscription at the end of 2006. The Resolution provided for offering 50 percent of the company's shares for public subscription after the completion by Ma'aden of agreements and procedures needed for the purpose. The Public Pension Agency and the General Organization for Social Insurance were to be allocated 5 percent of the shares each in case of their desire to participate in the subscription. The value of the public subscription was to be determined in agreement between the Minister of Petroleum and Mineral Resources and the Minister of Finance, the Chairman of the Public Investment Fund, subject to the financial position of the company upon flotation of the shares for public subscription. The surplus resulting from sale of the shares owned by the government was to be paid to the Public Investment Fund.

Following the success of offering 30 percent of the share of the Saudi Telecommunication Company and 50 percent in the National Company for Cooperative Insurance's capital (full share of the Public Investment Fund) for public subscriptions, government shares in other companies were envisaged for gradual sale to avoid destabilizing the Saudi share market.

As of 2006, the Saudi government shares in the capital of some Arab and Islamic investment companies were prepared for sale to the private sector, according to the Council of Ministers' Resolution issued on November 19, 2001, authorizing the Public Investment Fund to sell the shares. In this connection, the Saudi Board of Chambers of Commerce and Industry, and the chairpersons of the boards of directors of companies owned equally by the Saudi government and some governments of the Arab and Islamic countries were addressed. Work was underway on evaluating the value of these companies' shares, reviewing their contracts, and considering procedures for their classification in the capital market of the host State in preparation for selling the whole or part of the government's shares in these companies which include: Saudi Egyptian Company for Reconstruction, Saudi Egyptian Company for Industrial Investments, the Saudi Syrian Company for Industrial Investments, Saudi Tunisian Company for Development Investment, Saudi Pakistani Company for Investment, Saudi Bangladeshi Company for Investments, and the Moroccan Company for Development Investment. Also preparations were made to invite consultants for examining options for privatization of several Saudi government hotels in compliance with the Royal Order No. 10231/mb, dated September 21, 2005.

Within the framework of its continued efforts to develop and regulate the electricity sector in the Kingdom, the Authority for Regulating Electricity and Co-Generation was assigned to carry out the following programs in 2006-2015:

- Separation of power transmission activity from the generation and distribution activities, and establishment of a national power transmission company to manage, transmit and operate the electric power system (to be completed by 2007).
- Nomination of a "main buyer" who will purchase energy produced by all electricity power generation stations, sell it to distribution companies and key subscribers, collect the income and pay for generation, transmission and distribution companies (to be completed during 2007).
- Application of the principle of competition in the field of power generation and ending monopoly through the distribution of power generation stations owned by the Saudi Electricity Company to a number of competing companies on the

basis of equal production costs and the prohibition of hegemony in any region (to be completed during 2008).

- Opening of competition in the field of distribution, and provision of electric power services to consumers as from 2010.
- Commencement of creation of an electricity market in which electric power, capacity and other services are traded competitively on a daily or weekly basis subject to the principle of supply and demand (to take place during the period from 2011 to 2015).[26]

Improvement of Investment Environment for Foreign Business

The open economic system adopted by the Kingdom has contributed to creating a favorable environment for lucrative investment. To attract more foreign investment, the Kingdom has recently updated the Foreign Investment Law, the Income Tax Law and the Competition Law. Moreover, it has opened more sectors to foreign investors, such as the gas and telecommunications sectors. In 2005, the Saudi Arabian General Investment Authority (SAGIA) issued licenses for 642 foreign and joint venture projects with an investment capital of SR202 billion, including 174 licenses for industrial projects (SR 77.9 billion) and 466 licenses for service projects (SR 124.3 billion).

Reforms of Saudi Labor Market and Diversification Issue

Creating job opportunities, especially for the youth and recent graduates from educational institutions, is among the challenges that face the Saudi economy. This is due to the increase in the population growth rate and lack of flexibility in the labor market. According to SAMA statistics, the Saudi labor force accounted for just 11.63 percent of the total labor force in the private sector at the end of 2005.[27] This data reflected one of the most serious long-standing dilemmas which the Saudi economy has been facing. The private sector, which is characterized in the national economic strategy as a most important pillar of diversification and reducing dependency on the hydrocarbon industries, for the majority of sectoral GDP relies extremely heavily on the immigrant labor. Until recently, both the professional skills and the personal preferences revealed by the greater part of Saudi nationals

26. *Saudi Economy 2005-06*, op. cit., 40-43.

27. *Saudi Economy 2005-06*, op. cit., 37.

predetermined concentration of over 70 percent of the indigenous workforce in the state sector (including, to a large extent, various levels of government) under the prevailing economic, cultural, and other conditions.[28] In view of the negative effects of mostly structural unemployment at the economic and social levels, the Kingdom has initiated reforms in the labor market. These have been concentrated on achieving a relative balance between the number of national and foreign labor force through restructuring the Labor License Regulation, linking education to labor market requirements and improving the mobility of labor force, simplifying the employment and training of citizens and encouraging them to work in the private sector through the Human Resources Development Fund, established in 2002. The Fund, in coordination with UN Industrial Development Organization (UNIDO), organized a training program to develop and train employers, to qualify those willing to establish their own businesses instead of being job seekers.

A more recent principal instrument for modernizing legal infrastructure in this field is the New Labor Law issued by Royal Decree No. M/51 dated September 27, 2005 that came into effect from April 23, 2006. This Law replaced the previous Labor and Worker Law and cancelled all rules contradicting it. The new Labor Law aims at realizing the interests of the concerned parties in the labor market and ensuring fair and equal protection of the rights of laborers and employers. The following are the most important features of this Law:

- Replacement of expatriates with national workers because a citizen has the right to obtain a job, subject to the conditions provided for in the Law.
- The new Law required that all firms of various types of activity with any number of employees attract and employ Saudis as well as provide the means to ensure their continual employment, provide appropriate opportunities for them to improve their fitness for work through instruction, training and qualifying them for tasks entrusted to them. The Law also requires that the percentage of Saudi employees working with an employer shall not be less than 75 percent of total employees. The Minister of Labor may reduce this percentage temporarily in case there are no citizens meeting technical or educational qualifications, or if certain job vacancies cannot be filled by Saudi nationals.
- The Law allows the employment of women in all areas that comply with her

28. This set of problems was analyzed in detailed by T.C. Niblock, "A Complex Issue of Economic Reform in Saudi Arabia," in *Arabia Vitalis: the Arab East, Islam, Ancient Arabia* (Moscow, Russian Academy of Sciences, Institute of Oriental Studies, 2005), 129-147 (in Russian).

nature, provided that she has the right to maternity leave for four weeks prior to the probable date of delivery and six weeks after giving birth. It also requires the employer, who employs 50 female employees and more, to provide a convenient place where babysitters are available to care for working women's children under the age of six years.

- The Law includes an essential amendment to the part regarding labor dispute settlement bodies in terms of composition and powers. It also stipulates the formation of a supreme commission composed of several departments to settle disputes, so as to accelerate the consideration of labor disputes.

Efforts have continued to maintain monetary and financial stability for achieving sustainable economic growth. Inflation has remained under control and the exchange rate has been stable for a long period. The average inflation rate, as shown by the Cost of Living Index, has remained well below 1.0 percent during the 10 years 1996-2005. This was attributed to well-regulated liquidity growth rate and adequate availability of goods and services due to the growth of the non-oil GDP and openness of the Saudi economy. The exchange rate of the Riyal has also been maintained at SR 3.75 per US dollar since 1986. Stability in the Riyal's exchange rate has facilitated business planning projects and, thereby, encouraged investment activity in general.

Efforts are being made to seek larger markets by liberalizing economic activity and supporting competition and commercial initiatives. To this end, good economic integration has been achieved among GCC countries that would enhance regional and international trade. It is expected that the Kingdom's accession to WTO, which was completed at the end of 2005, would create more growth opportunities for the Saudi economy as a result of the benefits of external openness and increasing trade with member countries of WTO, in addition to the comparative advantages of the national economic sectors which would enable them to benefit from available opportunities in the world markets. For example, opening the services activities to foreign investment is expected to guarantee increased inflows of funds, FX, transfer of technology, expertise and diversification of services providers. The best example of this is joint-stock Saudi foreign banks and companies, which have become the most committed institutions implementing Saudization and a main channel for technology, transfer of knowledge and provision of job opportunities to Saudis. In short, opening the services activity to foreign investment should double the domestic value added, increase the contribution of the private sector to GDP, and enhance its growth potential and sustainability.

In pursuance of the attention paid by the prudent leadership of the Kingdom to continue raising the competence of government institutions and improve their performance, the Council of Ministers' Resolution No. 40 was issued on March 27, 2006 approving Controls of E–Government Interoperability. The Resolution aims at providing government services to citizens, residents, investors, and businesses in a record time, with the least possible effort and with high efficiency. This should have a significant, positive effect on the process of economic and social reform, especially due to expected increase in the transparency of different administrative centers and agencies at a wide variety of levels.

Among the salient provisions of the resolution are the following:

- Government authorities shall classify their information and data in accordance with unified guiding standards set by the e-government interoperability program.
- All government authorities shall adopt the applications of telecommunications and information technology in the performance of all their internal work and services provided. Each government authority shall use e-mail and electronic means of communication in its work.
- Each government authority shall provide comprehensive information about its services and the procedures for accessing them. It shall also provide electronic forms necessary to obtain those services. It shall publish its regulations, executive rules and public issues on its web site or through other suitable electronic communication channels.[29]

Kuwait: How Should the Fiscal Surpluses Be Used?

In modern economic history, Kuwait has been the first, and perhaps the most characteristic of an oil-exporting state with rather limited indigenous absorptive capacity. At present, the Kuwaiti authorities face the challenge of managing the large fiscal surpluses efficiently. Kuwait has built up sizable investments abroad, despite the setback of the 1990–91 Gulf War. Committed to proper utilization of the fiscal surplus, the Kuwaiti government contributed an additional 5 percent of revenues (in addition to the statutory contribution of 10 percent of all government revenues) to the Reserve Fund for Future Generations (RFFG) in 2004-05 and is likely to do the same in future. The fiscal surplus was also utilized to pay back a part of the amount borrowed out of the RFFG in the aftermath of the Gulf War and the

29. *Saudi Economy 2005-06*, op. cit., 38-45.

government plans to expedite the repayment of the remaining amount. The assets are likely to be built up at a faster pace in the coming years because of higher oil revenues. According to the IMF staff estimates, accumulated public sector savings are projected to reach 300-400 percent of GDP over the next 4-7 years (2005-2011), contributing about 15-20 percent of GDP per annum in implicit returns and, thereby, greatly strengthening Kuwait's fiscal position even in the event of a decline in oil prices. However, fundamental decisions will have to be made on how to allocate the available funds between productive uses.

Despite the very high level of savings, the level of domestic investment in Kuwait is still rather low and public investment is lagging far behind that of other oil-exporting countries in the region. There appears to be room for further boosting capital expenditure for infrastructure development, health and education. Efficient government investment in infrastructure and human capital would also contribute to inter-generational equity by enhancing the economy's long-term growth potential. However, such needs are not likely to be excessive given that Kuwait has already built up good quality infrastructure. The fiscal surpluses could also be used to recapitalize Kuwait's social security system (Kuwait Public Institution for Social Security – KPISS), which has accumulated significant actuarial deficits in the past. KPISS suffers from a serious structural imbalance because of excessively generous benefits and very low contributions. The last actuarial evaluation of the KPISS done in 2001 indicated that funds of the basic system would be depleted within the next 15 to 25 years if no corrective measures were taken. The actuarial deficit of KPISS has continued to increase since the last valuation, the cumulative actuarial deficit growing from KD 5.5 billion in 1998 to around KD 7 billion in 2004. Therefore, any recapitalization operation should be linked to a fundamental and much-needed reform to guarantee the system's long-term viability.

Finally, a large part of the projected fiscal surpluses should continue to be used in further accumulating financial assets to ensure fiscal sustainability over the long term and to take account of inter-generational equity issues with regard to the inter-temporal distribution of Kuwait's oil wealth. Even though the country's large natural resource endowments will generate significant government revenues over a long time, economic policy in the long run would need to address the transition to a situation where the oil resources/revenues would be depleted. Investment income from financial savings, if appropriately built up, would help Kuwait to preserve public sector wealth and maintain public services in future.[30]

30. "Kuwait: 2006 Article IV Consultation—Staff Report"; Staff Statement; Public Information

The current non-oil sector growth momentum in Kuwait is attributable to the optimism associated with the oil price outlook and private sector dynamism observed across the GCC region. The authorities agreed with the IMF staff that a critical mass of structural reforms, including amending outdated laws and regulations, would need to be implemented in order to sustain the growth momentum and promote a more market-friendly business environment. In this context, the IMF staff supported the authorities' intention to legislate the Competition Law and implement a legal framework for mega projects under the public-private-partnerships (PPP) program. The staff also encouraged the authorities to: implement the remaining recommendations of the 2003 World Bank report on "Administrative Barriers to Investment," including updating of the Labor Law which dates from 1964; eliminating the discretionary power in the system for the registration of companies; and continuing the customs administration modernization. The authorities acknowledged that creation of a market-friendly environment would also entail the long-awaited parliamentary approval of the Privatization Law. The IMF experts encouraged the authorities to consider market-based pricing of publicly-provided goods and services, particularly for electricity, petroleum products, and water to improve resource allocation, encourage private sector participation in these activities, and reduce fiscal subsidies.

Kuwait implemented various measures aiming at greater market access and competition and allowing for a broader private sector role in the economy. Some progress has been made in private sector participation in the sectors previously dominated by the state, particularly in telecommunications, airlines, and infrastructure development. However, there is a need to cast these measures in the context of a comprehensive reform strategy, because e.g. several draft laws including the privatization and competition laws aimed at promoting a more market-friendly business environment have been awaiting parliamentary approval for a long time due to a lack of political consensus. A definitely powerful economic stimulus is that Kuwait does not levy a tax on individual income or domestic business income. Nevertheless, foreign-owned firms and joint ventures are the only businesses subject to corporate income tax, which can be as high as 55 percent. The National Assembly recently rejected a proposal to cut the corporate tax rate to 15-20 percent in line with other GCC countries, but other proposals to reform the tax code were still being considered. Kuwait is open to some types of foreign investment,

Notice on the Executive Board Discussion; and Statement by the Executive Director for Kuwait. April 2006 IMF Country Report No. 06/132, 14-15.

but there are significant restrictions. Foreign investors may own 100 percent of investments in infrastructure projects such as water, power, waste water treatment, or communications; investment and exchange companies; insurance companies; information technology and software development; hospitals and pharmaceuticals; air, land, and sea freight; tourism, hotels, and entertainment; and housing projects and urban development. But as has been mentioned, foreign investment in the upstream petroleum sector remains restricted. At the same time, the freedom of monetary and financial operations certainly enhances investment climate under which residents and non-residents alike may hold foreign exchange accounts, and there are no restrictions or controls on payments, transactions, transfers, or repatriation of profits. The government retains stakes in a number of commercial banks, acquired after the 1982 stock market crash, but maintains its intent to divest these assets. Kuwait also has three government-owned specialized banks that provide medium- and long-term financing. Foreign investors are permitted to own 100 percent of Kuwaiti banks, subject to approval. The government has permitted foreign banks to open branches under the 2004 banking legislation, but stern restrictions still apply.[31]

The IMF staff supported the Kuwaiti authorities' efforts to foster foreign direct investment (FDI) by amending the FDI Law of 2003 in line with international best practices. The proposed amendments include: making the Foreign Investment Bureau an independent and fully operational body; creating a comprehensive "negative list"; and allowing international arbitration.

Another priority – sustaining private sector-led high non-oil growth to absorb the rapidly growing Kuwaiti labor force and diversify the economy – remains a major challenge. The authorities are aware that sustaining the current growth momentum will require a flexible application of the Kuwaitization policy and intensified efforts to raise the skills of the Kuwaiti labor force. The policy has been in place since October 2003, entailing the training of unskilled Kuwaiti nationals and enforcing quotas by imposing penalties to increase the proportion of nationals in the economy. It aims at increasing the proportion of Kuwaitis employed in the private sector by establishing targets (proportional to the workforce) that the non-governmental companies must observe. The proportion varies from sector to sector. Nongovernmental companies not complying with the established limits are not allowed to conclude contracts or do business with the government. Although

31. *2007 Index of Economic Freedom*, 242, http://www.heritage.org/research/features/index/downloads/Index2007.pdf

more than 85 percent of the Kuwaiti national labor force is employed by the public sector, the percentage of Kuwaiti nationals who found jobs in the public sector has declined from 72.3 percent in 2003 to 59.5 percent during January–November 2005. Providing employment in the public sector to alleviate unemployment pressures, as has been done in the past, raises reservation wages for private sector jobs and reduces the incentives for acquiring skills needed for private sector jobs. Accordingly, the IMF staff urged the government to limit public sector hiring to essential areas, establish links between public sector wages and productivity, and rationalize public sector benefits. The staff encouraged the authorities to consider positive incentive schemes rather than negative incentives to achieve Kuwaitization goals. These positive incentives include: (a) enhancing the current education and training programs; (b) establishing job matching and job counselling programs; and (c) providing low-cost funds to nationals to start their own business. Otherwise, the apparent lack of a comprehensive strategic plan for non-oil sector development and piecemeal reform efforts, in part due to difficulties in reaching a political consensus, may undermine realization of Kuwait's national objectives and its relative economic performance may fall behind other GCC countries.[32]

Oman: Diversification, a Top Priority

Oman represents one of the most advanced regional diversification models. Prompted by the maturation of its oil fields and the volatility of oil prices, the Omani government has made diversifying the country's economy a top policy priority. In the 1980s, this effort hinged on developing a domestic manufacturing base, but more recent initiatives have focused on the exploitation of Oman's other natural resources, fortunately rather diverse, particularly its natural gas reserves. Oman has large mineral and metal deposits, including silica, dolomite, copper, and gold. In 2003, the government revived a five-year-old plan to build a $2.5 billion aluminium smelter, which is to begin operation in 2007.[33] Oman's real GDP grew by an estimated 4.5 percent in 2004 and 3.8 percent in 2005, while non-hydrocarbon sectors exceeded the average pace almost by 1.8 and 1.6 times consequently showing growth of 8 percent in 2004 and 6 percent in 2005, driven by manufactured exports, construction, and services, including tourism. Oman's efforts to diversify the economy also include Omanization, a program designed to

32. "Kuwait: April 2006," op. cit., 9, 13, 18-20.

33. Oman Energy Data, Statistics and Analysis - Oil, Gas…April 2007 – http://www.eia.doe.gov/emeu/cabs/Oman/Full.html

increase the percentage of Omani citizens working in the private sector. At present, Omani nationals constitute only about 15 percent of private sector employment. (So evidently the labor market situation and reform efforts in this field are similar in the Saudi and Omani cases.) The IMF-IBRD consultants praised the Omani authorities for their strong emphasis on training and education and encouraged them to put a temporary freeze on further increases in Omanization quotas until training was well advanced.

The government also has constantly maintained attempts to attract foreign investment, particularly in light industry, tourism, and electric power generation. Foreign investment incentives include a five-year tax holiday for companies in certain industries, an income tax reduction for publicly-held companies with at least 51 percent Omani ownership, and soft loans to finance new and existing projects. Privatization efforts were stepped up with a 2004 law removing limits on foreign participation in privatized companies, partially privatizing the state telecommunications company (Omantel), and licensing a second mobile telephone company.

Oman became a member of the World Trade Organization (WTO) in October 2000, and the reforms associated with membership have helped to further reduce the barriers to entry faced by foreign firms. Movement continues towards an eventual customs union among the Gulf Cooperation Council (GCC) states.[34]

Macroeconomic Policies and Reforms in the UAE

The outward-oriented development strategy of the United Arab Emirates (UAE) and prudent financial policies have resulted in impressive economic growth over the years and led to a large accumulation of external financial assets. This success has been underpinned by Abu Dhabi's prudent management of its oil wealth and Dubai's strong push for economic diversification. All indications point to the fact that the liberal economic policies the UAE has followed thus far will be broadened and accelerated in the period ahead.

The major emirates (Abu Dhabi, Dubai, and Sharjah) intend to leverage the favorable economic environment to carry out reforms accentuated on fostering more private sector participation. Dubai passed a property law which allows 100 percent foreign ownership of properties in pre-designated areas, while working with the private sector to provide infrastructure and other services that are traditionally provided and financed by the public sector. Sharjah has established a number of

34. "Oman Focuses on Economic Diversification and Job Creation," IMF Survey 35, no. 3, (February 6, 2006): 35.

industrial free zones and also benefited from attracting new small and medium-sized enterprises that are rapidly expanding. Abu Dhabi has embraced utility privatization, rationalized its fiscal policy through outsourcing of public expenditure, and has recently announced a very ambitious medium-term development plan that will be carried out jointly with the private sector.[35]

Capital markets in the UAE have posted strong growth in 2005, driven by ample liquidity, strong macroeconomic growth, low interest rates, and strong corporate performance. The Dubai Financial Market (DFM) and Abu Dhabi Securities Market (ADSM) indices gained 132 percent and 69 percent, respectively, in 2005. The overall UAE market led the region's capital markets in terms of both market capitalization and market activities, including volume and value of shares traded. The UAE also led the region in terms of the largest number of IPOs. Nevertheless, as of end-April 2006, both the DFM and ADSM saw sharp corrections, declining by about 55 percent and 40 percent, respectively, since their peaks in November 2005. These corrections in the UAE bourses were due to market overvaluation together with liquidation of existing positions to fund subscriptions for IPOs activity. The high demand for IPOs was the result of under pricing of IPOs by the Ministry of Economy (MOE), which by law sets the prices of IPOs for both state-owned and private companies at a nominal value of the company's shares, rather than through accurate assessment of the fair market value of the company. The MOE also sets prices for subsequent offerings by public companies, usually at a substantial discount. As a result, IPO prices were set artificially low, leading to substantial oversubscription and considerable market volatility.[36] The above fluctuations proved that the regulatory structure of the capital markets and intermediary activities were potential sources of fragility in the financial sector. Many parts of the relevant legal regime governing securities markets activities in the UAE need to be updated. The authorities have agreed for a full assessment of the capital markets regime in the UAE against the standards set by the International Organization of Securities Commissions. Also, officials at the Dubai International Financial Center (DIFC)

35. "United Arab Emirates: 2006 Article IV Consultation—Staff Report"; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the United Arab Emirates. IMF Country Report No. 06/257 July 2006, Wash., D.C., 4.

36. The 2 IPOs (finance and telecommunications companies) issued in March 2006 were over-subscribed by 500 times and 165 times the shares offered. Bids were $74 billion (about 60 percent of 2005 GDP), and $109 billion (about 85 percent of 2005 GDP), respectively. The simultaneous IPOs attracted more than $180 billion from investors (compared to IPOs of $809 million), creating a liquidity crunch that triggered a sharp correction in the DFM of almost 12 percent on March 14, 2006. See "United Arab Emirates: 2006," 11.

agreed to an assessment of the DIFC's legal regime and of the operations of the Dubai Financial Service Authority.[37]

The emirate of Abu Dhabi plans to continue to outsource most of its non-core budgetary activities and reduce the size of its government. It is expected that an additional 20,000 jobs will be outsourced to the private sector in 2006, resulting in a significant reduction of about 40 percent in its public work force. The authorities also intend to eliminate agricultural subsides by 2008. Plans are underway to have the private sector play a bigger role in the management and provision of power generation and health care.

On the federative level, there persisted an issue of weak overall coordination between the federal and emirates' governments. Each emirate continues to implement its fiscal policy independently with little consideration to overall macroeconomic implications. To improve overall fiscal assessment and analysis, officials at the federal and emirates' level agreed that there is a need to improve fiscal transparency by adopting international standards of classification for expenditure and revenue statistics.

The UAE authorities were planning to increase development expenditures significantly in 2006 and over the medium-term. Key government entities such as the Abu Dhabi National Oil Company, Dubai Ports Authority, and Dubai Aluminum Company (DUBAL) have massive investment plans to further increase the capacity of upstream activities in the petrochemicals sector, upgrade infrastructure in airports and ports, and set up new manufacturing plants in the metals sector. Over the

37. The Company Law needs to be amended with respect to the pricing of the public issues of securities. Subscription prices for new offerings should be set by the market through professional underwriters based on an appropriate valuation of the company. Also, intervention in pricing of subsequent offerings by currently listed companies should be restricted to a limit on the discount of the market price. Rationing of subscription allotments may no longer be necessary once IPOs have been priced appropriately and according to the true value of the company. Also, the authorities should only permit IPOs for companies that have had audited balance sheets for at least two years. Public floating of securities needs to be increased to promote deeper and liquid markets. In a deep market, large blocks of stocks can be traded quickly without unduly affecting the market price of the stocks. A wide distribution of shares among a large number of active traders helps increase liquidity. In the UAE, many public companies with significant numbers of shares outstanding have relatively few shareholders. The high government participation in the ownership of the shares of public companies has also resulted in fewer shares being available for trading in the market. Moreover, requirements that force founding shareholders to subscribe to a significant portion of a company's equity for long periods of time have resulted in few shareholders holding a significant number of shares outstanding. Finally, the pre-emptive rights of existing shareholders to subscribe prorate on any new issue reduces the opportunity for wider ownership of these companies. See "United Arab Emirates: 2006," 20-21.

medium-term, the total investment in Dubai is conservatively estimated at $200 billion. Similarly, about $160 billion worth of projects are planned for Abu Dhabi. A major $25 billion investment plan for upgrading both upstream and downstream production capacity is underway in Abu Dhabi. In 2006, the federal government development expenditures were to increase ten fold on health and education and by 400 percent on public housing.[38]

In Abu Dhabi, massive investments in natural gas production and infrastructure will – in combination with gas imports from Qatar – satisfy the country's rapidly rising domestic gas demand for electricity generation and petrochemical feedstock and create new potential for the export of condensates and natural gas liquids. Development of Abu Dhabi's petrochemicals sector is being accelerated through investment plans to produce ethylene, polyethylene, and other products.

Part of the planned projects in Dubai will be carried out by Dubai Holding, which is a privately held company owned by the Ruler of Dubai**.** It is a conglomerate of 66 companies that operate within seven clusters, which comprise real estate investments in Dubai, international properties, equities, telecommunication, hotels, and properties in industrial city, health city and a theme park. It has an aggressive growth strategy and is pursuing investment opportunities both domestically and internationally. Various real estate projects in the Middle East and North Africa are in the pipeline and it is also looking to increase its investments via private equity deals in Asia, especially in China and India.[39]

The Key Issues of Iran's Modern Economic Strategy

In the Gulf region, Iran is evidently the country with the greatest number of economic problems most closely matching those of Russia and the other CIS hydrocarbon exporters. The scope of the Iranian state in various socio-economic dimensions determines the country's huge, rather gigantic absorptive capacities, especially in the medium to longer term, as well as the constant need to manage present national resources thriftily and look for new ones, no matter how favorably the situation in the world oil and natural gas markets develops.

The main challenge faced by Iran is the need to attain and sustain higher rates of growth to provide employment for its fast growing labor force while lowering inflation. Every year approximately 750,000 Iranians enter the labor market for the first time, putting enormous pressure on the ability of the economy to create

38. "United Arab Emirates: 2006," op. cit., 13-14.

39. "United Arab Emirates: 2006," op. cit., 15.

jobs. Attempts to support economic activity and job creation through fiscal and monetary stimuli until recently have resulted in persistent double-digit inflation, which undermines the objective of achieving high sustainable growth rates over the medium term. Against this background, IMF experts stress the three principal sets of modern problems for Iranian authorities to focus on:

- Adjustments in fiscal, monetary, and exchange rate policies that are necessary to achieve a significant reduction in inflation.
- The need to address the distortions caused by extensive administrative controls on prices and rates of return (interest rates), as well as large subsidies, particularly those on energy products.
- The authorities' structural reform plans, including their decision to reinvigorate the privatization program.

IMF advice has concentrated on the need to reduce the non-oil fiscal deficit and enhance fiscal transparency, improve the effectiveness of monetary policy, and accelerate structural reforms. On the fiscal side, the authorities have made progress in strengthening the tax administration and improving transparency, and have established the Oil Stabilization Fund (OSF) to address oil price volatility. However, containing current expenditures and phasing out subsidies have proven difficult, as the authorities continue to face strong political pressure to increase spending in order to promote growth and reduce unemployment.

On the structural front, several important reforms were implemented during 2000-01 and 2002-03, including exchange rate unification, trade liberalization, tax reform, and a new foreign direct investment (FDI) law. Significant changes have also been introduced in the financial sector through the adoption of a number of the 2000 Financial Sector Assessment Program (FSAP) recommendations. Progress has been slow, however, in the areas of privatization and subsidy reform.[40]

The government's economic priorities have been reassessed after the change of administration. Structural reforms introduced during 2000/01–2002/03 fostered the integration of Iran into the global economy. Since the administration of President Ahmadinejad took office in 2005, the focus of economic policies has shifted toward reducing social and regional disparities. This new approach has entailed using

40. "Islamic Republic of Iran: 2006 Article IV Consultation—Staff Report"; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Iran. March 2007 IMF Country Report No. 07/100, 6.

much of the additional revenue from high oil prices to finance higher government spending. The economy experienced robust growth in 2005-06, but unemployment remained high. Real GDP growth is estimated at 5.4 percent in 2005-06, boosted by high oil prices, a weather-related recovery in agriculture, and strong fiscal and monetary stimuli. Oil GDP growth was modest owing to capacity constraints, while non-oil GDP growth was broad-based, reaching 6 percent. The tensions associated with the nuclear issue, however, had some adverse effects on private investment, particularly FDI. The unemployment rate increased to 11.5 percent in 2005-06, before declining to 10.2 percent in the first half of 2006-07. Inflation decelerated through April 2006, but later increased markedly. End-of-period inflation declined from 16.7 percent in 2004-05 to 10.2 percent in 2005-06, owing mainly to a fall in food prices associated with a bumper harvest and a slower rate of depreciation of the currency. After declining further to below 7 percent in April 2006, the 12-month rate of inflation increased, reaching 14.7 percent in November.

The fiscal stance in 2005-06 was highly expansionary**.** The original 2005-06 budget sought to reduce the non-oil fiscal deficit by raising revenue and keeping government expenditures constant relative to GDP. However, two supplementary budgets passed by parliament contained additional appropriations to cover higher gasoline imports and food subsidies, bring teachers' salaries in line with those of other civil servants, and improve rural infrastructure. As a result, despite the large increase in oil revenue, the consolidated surplus of the central government and the OSF (commitment basis) declined from 1.7 percent of GDP in 2004-05 to 1.1 percent in 2005-06, with the non-oil deficit widening from 15.2 percent of GDP to more than 20 percent over the same period.[41]

The fiscal expansion was projected to continue in 2006-07**.** Notwithstanding a projected increase in non-oil revenues associated with a strong performance of direct taxes, a further increase in both current and capital outlays would result in a roughly balanced overall fiscal position (commitment basis) in 2006-07, with the non-oil deficit rising further to 21 percent of GDP. The original budget for 2006-07 was modified in October 2006 to cover the rising cost of gasoline imports, and a bill before parliament envisages a further increase in the budget appropriations for wages and salaries and the execution of investment projects. Substantial resources were withdrawn from the OSF during 2005-06 and 2006-07 to finance government spending as well as net lending to the private sector. (The OSF can lend up to 50 percent of its balance in foreign currency to the private sector via the domestic

41. "Islamic Republic of Iran," March 2007 IMF Country Report No. 07/100, 7-8.

banking system.) As a result, reserves in the OSF rose by only $1.2 billion in 2005-06, reaching $10.7 billion at the end of that fiscal year. OSF reserves are expected to increase further to $12.4 billion by end-2006-07. A large portion of the additional expenditures committed in the last budget amendment for 2005-06 was shifted to 2006-07, which is expected to increase the pressures on monetary policy. Due to this deferred spending, the fiscal outturn on a cash basis for 2005-06 was considerably better than that on a commitment basis. As these resources are spent, a considerable injection of liquidity is expected to take place.

Structural reforms slowed during the initial months of the current administration, but the government recently decided to provide new impetus to the privatization program. Following the amendment of Article 44 of the constitution, in July 2006 Iran's supreme leader Ayatollah Khamenei issued an executive order to privatize 80 percent of the state-owned companies over the next 10 years excluding the upstream oil sector, crucial infrastructure, and some banks. The program has a strong social orientation, as part of the shares of a significant number of enterprises will be allocated to the poorer segments of the population.

Under a new Capital Markets Law, the authorities have established a Security and Exchange Commission, and regulations are being developed on investment banking, mutual funds, and supervision of investment companies.

Iranian authorities indicated that their policies and reform strategy continue to be guided by the main directives contained in the Fourth Five-Year Development Plan (FFYDP), adjusted in light of the higher oil revenues. Specifically, the authorities stated that their main policy priority was to use the additional oil revenue to sustain growth and job creation, with particular emphasis on the expansion of the activities of small- and medium-size enterprises, the reduction of economic disparities among regions, and meeting the social needs of the population. The authorities also noted that special attention will be given to the completion of a large number of investment projects.[42]

Public Enterprises and Privatization in Iran

Iran's economy is state-dominated. A large number of state enterprises and quasi-state institutions (*bonyads*) are engaged in economic activities in virtually all sectors. Purely private firms are currently found mostly in agriculture, domestic and foreign trade, small-scale manufacturing, and mining. The private sector's role in large-scale economic activity remains negligible.

42. Ibid., 11.

An initial effort toward privatization began in the late 1980s – largely through stock market offerings. A second wave of reform in the late 1990s sought to create a more attractive investment environment and included a new privatization program. However, complicated regulatory and legal structures and weak political support prevented effective implementation of this program. The executive order issued in July 2006 has given new impetus to privatization. As mentioned earlier, excluded from privatization are the upstream oil sector, crucial infrastructure, some banks, and a few entities in the insurance, utilities, and transport sectors.

The current privatization program has a strong regional and social orientation. Priority access to subsidized financial support will be accorded to less developed and deprived regions, which will receive some 30 percent of total privatization proceeds. In the case of a significant number of small profitable enterprises, some 40 to 100 percent of the shares will be allocated to the poorest segments of the population (justice shares). The shares will be sold to holding companies or mutual funds, on behalf of the poor, at a 50 percent discounted price and with a 10-year repayment period. The government will retain 20 percent of the shares in the enterprises, and the remainder will be offered on the Tehran Stock Exchange (TSE). Foreign investors will be permitted to participate within a 10 percent limit, with approval of the Ministry of Economic Affairs and Finance. A number of other companies will be offered fully at the TSE.

About 19 enterprises have already been identified for privatization. Of these, 15 small-sized firms have been fully given away as justice shares, and four large firms have had 40 percent of their shares distributed as justice shares; another 40 percent will be offered to the private sector at the TSE.

The program envisages an annual privatization rate of 20 percent of state-owned companies, beginning with small-sized firms. State-owned banks will be privatized in the next two to three years, and the program as a whole should be completed by the end of the Fifth Five-Year Development Plan, in 2014-15.[43]

Problems of Reforming Iran's Subsidy System

Iran's social safety net reaches a significant portion of the poor, through direct cash transfers, housing, and health and social security coverage among others. The country also maintains extensive subsidies, including on energy, food, and bank credit. Implicit and explicit energy subsidies alone reached 17.5 percent of GDP in 2005-06, while total subsidies are estimated at over 25 percent of GDP.

43. Ibid., 12.

Subsidy Reform

Phasing out energy subsidies has been on the government's reform agenda since the inception of the Third Five-Year Development Plan (1999/00–2003/04). However, little progress has been made to date. Since 2005, the government has been working on a four-pronged strategy to phase out these subsidies involving the introduction of a nationwide rationing scheme, a major upgrading of public transportation, the conversion of vehicle engines from gasoline to natural gas, and a phased increase in domestic fuel prices. The first phase of this strategy was expected to start at the beginning of 2006-07, but there have been delays in deploying the rationing scheme. The government intends to reduce other subsidies (including those on wheat, sugar, agricultural machinery, and fertilizers) gradually, by replacing them with cash transfers.[44]

Trade Reform

No significant reforms in the Iranian trade system are expected in the near future.

Despite substantial progress on trade liberalization in recent years, Iran's simple average tariff is still around 25 percent and tariff dispersion remains high. The authorities indicated that no further trade liberalization measures were envisaged before the negotiations for accession to the World Trade Organization (WTO), which have been halted for political reasons, could be resumed. They identified the more favorable treatment given by WTO members to other WTO countries and competition from Asian countries in textiles and manufactures as the main obstacles faced by Iranian exports.[45] Nonetheless, in broader perspective, further trade liberalization by lowering high tariff rates and reducing tariff dispersion, regardless of WTO accession negotiations, would certainly be important to strengthen external competitiveness.[46]

Some Conclusions for the Gulf Region

According to the IMF group experts, with whom the author agrees to a large extent, the current favorable conjuncture provides a unique opportunity for the

44. Ibid., 14.

45. Ibid., 17-18.

46. Ibid., 21.

Gulf region's oil and gas exporters to implement policies that can address the twin challenges of diversifying oil-dependent economies and providing employment to a rapidly expanding labor force. In this context, the ambitious investment plans of the members of the GCC totalling over $700 billion during 2006-10 should make a major contribution. For the region's hydrocarbon exporters more generally, a greater role for private investment in the non-oil sector will be key to balancing growth and providing increased employment opportunities.

While a stable macroeconomic environment remains an important precondition, a number of other reforms could play an important role in increasing private investment in the region. The main reforms required include improvements in the business environment, including the reduction of complex regulations and barriers to entry and exit, better access to finance for small and medium enterprises, improved trade facilitation including increased efficiency at customs and ports, and document processing to complement trade liberalization measures already undertaken, and better overall institutional frameworks. In addition, measures to improve the quality of education in schools and vocational training programs could help align the skills mix of the labor force with the needs of the private sector.[47] Many of the above reforms are being worked out or about to be launched. For example, active continued coordination among the GCC countries ahead of the envisaged monetary union is ongoing. In the area of legislation, GCC countries have agreed on a common trademark law and are working on common anti-dumping and subsidies legislation. Deliberations are continuing on the necessary institutional and legal changes needed for the monetary union. In the trade policy area, at the GCC level, a free trade agreement (FTA) with the EU was being negotiated at the time of writing. Negotiations on other FTAs are also underway with a number of countries. On a bilateral basis, the UAE is negotiating a FTA with the United States. The authorities indicated that in future all FTAs would be negotiated at the GCC level.[48]

Conclusion

The long discourse upon the issue of natural resources being a "blessing" or "curse" resembles some more general arguments in favor of alternative scientific approaches to socio-economic development, i.e. determinist versus indeterminist. The interdeterminist approach dates back at least 260 years to the famous treatise

47. "Spillovers and Cycles in the Global Economy," *World Economic Outlook April 2007,* International Monetary Fund. Washington, D.C., (2007): 78-79.

48. "United Arab Emirates: 2006," op. cit, 19.

of Montesquieu,[49] who was among the first to formulate the problem theoretically and explicitly. Among his successors were Jean-Jacques Élisée Reclus, Lev Ilyich Mechnikov (Russian geographer and sociologist), and Karl August Wittfogel,[50] to mention but a few.

Those who tend to evaluate the socio-economic roles of natural resources outside the developed market economies "pessimistically" belong primarily to the most ardent and strict adherents of the determinist school in social sciences. They include well-known personalities in the "neoclassical, liberal" group among contemporary Russian economists and political scientists (Yegor T.Gaydar,[51] Sergey I. Illarionov, and others).

On the contrary, some of their "optimistic" opponents support "the possibility to effectively combine the development of mining industries with the post-industrial growth."[52] The author of this paper does not in the least pretend to take up the role of an arbitrator in the above theoretical discussion. To his mind, suffice it to note that at least some of the resource-rich states in the Gulf region and the CIS, whose modern development strategies are analyzed here, seem to draw rational conclusions from recent experiences, and thus have started to get free of the presumed "misfortunes" of their natural resource abundance and financial windfalls.

---

49. Montesquieu (Charles-Louis de Secondat, baron de La Brède et de) developed rather "moderate" geographical (or more definitely "climatologic") determinism. His great treatise *De l'esprit des loix, ou du rapport que les loix doivent avoir avec la constitution de chaque gouvernement, les moeurs, le climat, la religion, le commerce, etc.* ("On the Spirit of Laws…") was first published in Geneva in 1748 and dedicated, among other principal topics, to the political influence of climate.

50. The latter two scientists belong to the most renowned and consistent representatives of "hydrologic" determinism, judging by their respective principal works, *Civilisation and the Great Historical Rivers* (first published in 1889 in French, then in 1898 in Russian), and Karl Wittfogel; *Oriental Despotism. A Comparative Study of Total Power* (New Haven: Yale University Press ,1957).

51. Generally, the reasons for the above "pessimism" are explained by extra obstacles, which seriously complicate any changes in politico-economic strategies for the resource-rich developing market economies. As Yegor Gaydar persistently maintained, in cases of "resource-rich countries, which achieved relatively high per capita incomes while implementing import-substituting industrialization model, the dismantling of that model, and switching on the market regulation mechanisms invariably involve deep economic crises lasting for many years" See "Anomalies of Economic Growth," *Voprosy Economiki*, no.12 (Moscow 1996): 26-27 (in Russian).

52. The more so, the same expert stressed that, "initially, at the stage of extensive growth, mineral resources were acting as powerful acceleration factors in socio-economic progress regardless of a country's dominating socio-economic system." V. Smirnov, "Mineral Resources Based Complex in the Structure of Russian Economy," *Voprosy Economiki*, no.4, (Moscow, 1998) 144 (in Russian).

The Changing Geopolitics of Energy: Growing Oil and Gas Links between China, Russia, Central Asia and the Gulf [1]

Mehmet Öğütçü and Xin Ma [2]

Overview

China's dependency on imported energy has surged in recent years and is expected to grow at a similar or increasing rate in the coming decades, driven by an unprecedented industrialization and urbanization process. As a result, the Chinese leadership feels increasingly insecure and vulnerable as greater dependency has exposed the country to the risks of global supply disruptions, chronic instability in energy-exporting regions, and the vagaries of global energy geopolitics. As access to sustainable and secure energy at a reasonable cost is perceived by the leadership as critical for China's continued development, political endurance, and social stability, the energy issue has become a matter of "high politics" of national security and no longer just the "low politics" of domestic energy policy.[3]

Securing energy resources is no doubt a highly political matter. This was the case for Japan before the Second World War. It is also the case for China today with its growing energy demand. Like other governments with a long history of central planning economy, the Chinese government believes that security is too important

1. The term 'energy' means oil and gas for the sake of this article, which has a much higher geopolitical influence than other forms of energy.
2. This paper represents the authors' personal views and not those of any organization they are associated with.
3. China's quest for energy security since it became a net crude importer in 1993 and dethroned Japan as the world's second largest consumer of oil a decade later has driven the Middle Kingdom to the world's principal hydrocarbon producing and exporting regions.

to be left entirely to the markets. Instead, it combines government approaches with market measures to secure the needed energy as demonstrated by the ambitious shopping behavior of the Chinese national oil companies and the high-profile energy diplomacy conducted by the government. This is, undoubtedly, going to have a profound impact on the international market, particularly on the major energy exporters, namely the Gulf, the CIS, and Africa.

This paper attempts to analyze the expanding energy linkages of China, one of the most dynamic major consumers, with the Middle East, a leading petroleum producer, and the CIS, a core non-OPEC emerging producer, not only because they are well established oil exporting regions, but also because of their geopolitical relevance to China as key players in a possible energy corridor linking China with the Gulf at some point in the future. The paper concludes that the economics and geopolitics of energy supply for China dictate different approaches to each of these regions: with the CIS territory, it needs to ensure that the energy is transported across the ocean though China could be vulnerable to potential maritime disruption in the event of serious international disputes, while the Gulf offers more flexible commercial arrangements.

China takes different economic and geopolitical approaches towards Russia and the Central Asian/Caspian producers. Compared to Russia, seen as relatively unreliable, Central Asian hydrocarbon resources seem more promising and accessible for China, although funding problems and political calculations plaguing all pipeline projects pose a problem.[4] Furthermore, China's extending its Central Asian land routes from Kazakhstan and Turkmenistan and then down to northern Iran is seen as a visionary Sino-Arabic oil passage to the Gulf ports.[5] China is also willing to join the northern line transportation for its expected stake in Siberia and the Russian Far East through some oil swap options between China, Kazakhstan and Russia. Similar natural gas projects are under progress or consideration linking China to Central Asia and Russia.

These corridors could eventually position the Middle Kingdom at the centre of a "Pan-Asian Global Energy Bridge" that will connect existing and potential suppliers (i.e., the Gulf, Central Asia, and Russia) with the key consumers (China, Japan and Korea). If successfully implemented, this will not only largely improve the energy security of China, but also will enhance Beijing's geopolitical influence in this area.

4. Petroconsultants, October 1998, 51; G. Kemp, R. Harkavy, *Strategic Geography and the Changing Middle East* (Washington, D.C.: Carnegie Endowment for International Peace, 1997), 131.

5. Xiaojie Xu, "The Oil and Gas Links between Central Asia and China: A Geopolitical Perspective," *OPEC Review* XXIII, no.1, (March 1999): 48.

As the international energy sector has undergone significant changes since the beginning of this century due to the emergence of new players and the changing dynamics among all players, the resultant energy scene requires adjustments to make room for new players in the marketplace and develop effective, "win-win," collaborative mechanisms to promote confidence. Energy security concerns need to be addressed from the standpoints of both consumers and producers. Otherwise, geopolitical rivalry and tough competition for scarce resources will likely intensify, leading to "zero-sum" confrontations.

Changing Dynamics in International Petroleum Sector

The international petroleum sector is undergoing serious transformation due to the emergence of new powerhouses, such as China, or old players equipped with new powers, such as Russia, Central Asian countries and the Gulf countries, and an increasing concern about energy security from both consumer and producer perspectives. The changing nature of the international petroleum market thus requires new mechanisms and new forms of partnerships among players.[6] Major consumers and producers are now interacting with each other, taking active measures to conduct energy diplomacy, establishing new strategic partnerships with a view to changing rules in a way that will better serve their national interests.

The profound changes in the world of energy, still underway, could be summed up as follows:

First, the increased international petroleum prices have, together with many other factors, shifted power significantly to oil-producing countries, especially a few large ones, where the majority of remaining reserves are located, such as the Gulf, Russia, and Central Asia.[7] This power, coupled with the huge financial assets accumulated by those producers in a high price environment, has fuelled the international ambitions of these countries and led them to seek change in or reshape

6. Ernst&Young, *Partnership in the Oil and Gas Sector: New Models, New Agendas* (2007), 1-19. Mandil, *The Energy Future International Oil and Gas: Financial Review 2007*; M. Crisell, Euromoney International Investor.

7. Despite four years of high oil prices, market tightness is likely to increase beyond 2010 as global oil demand will grow from an annual 2 percent average over the next five years to 2.2 percent. The increase will largely be caused by faster growth in Asia and the Middle East. At the same time, non-OPEC supply will decrease, partly because of delays on major oil projects but also because supplies are nearing a peak. While biofuel production is expected to double over the next few years, it will still only account for 2 percent of global oil supplies by 2012.

the traditional rules of the game for the benefit of their national interests.[8] Some of them, such as Russia, not only host a large share of world petroleum reserves, but also have the political will to use energy as an instrument to advance their economic and political interests.[9] Aware of their increasing power, many of the resource-rich countries have either re-nationalized their oil industries or established strategic control through further transfer of power into the hands of governments.[10]

Second, there is increasing concern about the security of energy supply on the consumers' side. Due to increased demand and depletion of domestic reserves, major oil consumers will have to rely more on imported oil and gas from a few politically-unstable regions such as the Middle East, Africa, Russia and Central Asia, through long-distance pipelines and vulnerable sea routes.[11] This, combined with the fact that the international oil market, is less stable and more prone to disruption because of natural disaster, terrorist attack and isolated geopolitical acts has increased the vulnerability of these consumer countries.[12]

Third, although the OECD countries are still the largest oil consumers, the current increase in demand for oil and gas is mainly driven by rapid economic development in developing countries such as India and China, which account for one third of the world population but only consume 17 percent of world energy. Different from OECD countries, these newly emerging major oil consumers are less supportive of free market principles and their national oil companies are controlled and

8. C. Mandil, 2007. *The Energy Future International Oil and Gas: Financial Review 2007*. M. Crisell, Euromoney International Investor PLC 1-3.P1

9. B. Lo and A. Rothman, "China and Russia: Common Interests, Contrasting Perceptions," Asia Pacific Strategy, Asian Geopolitics Special Report, CLSA Asia-Pacific Markets (2006).

10. See "The New Seven Sisters: Oil and Gas Giants that Dwarf the West's Top Producers," *Financial Times*, March 12, 2007. A recent study measuring the shift in power in global energy markets revealed that seven major state-controlled energy corporations from non-OECD countries (i.e. Saudi Aramco, Gazprom, PDVSA, China's CNPC, Iran's NIOC, Petrobras of Brazil and Petronas of Malaysia) presently control over 30 percent of global oil and gas production and over 30 percent of reserves, while the original seven (now four) OECD-based energy blue chips which have dominated global energy markets since World War II (i.e. ExxonMobil, BP, Chevron, Shell) now control just 10 percent of production and 3 percent of reserves.

11. According to EIA, the world oil demand could reach to 99 million barrels per day in 2015, and 116 million per day in 2030, up from 84 million per day in 2005.

12. In "Energy Security and Climate Change – Assessing Interactions," the IEA puts forward a methodology for countries to assess the vulnerability of their energy systems. OECD and developing Asian countries become increasingly dependent on imports as their indigenous production fails to keep pace with demand. Non-OPEC production of conventional crude oil and natural gas liquids is set to peak within a decade. By 2030, the OECD as a whole will import two-thirds of its oil needs, compared with 56 percent today.

supported by their governments. In order to access these new and prosperous markets, government-to-government relationship is not only necessary but essential.

Fourth, a rising security of demand concern in major oil-producing countries may prevent large-scale investment from happening. To meet the rising energy demand, huge amounts of investment is needed.[13] Due to environmental pressures, consumer governments around the world are seeking to reduce their consumption and reliance on traditional fossil fuels given that the energy sector is the main contributor of greenhouse gas emissions. The rising uncertainty about future consumption levels for conventional energy increases the security of demand concern of major oil-exporting countries and impedes much-needed investment.[14]

The Challenge of Energy Security in Asia

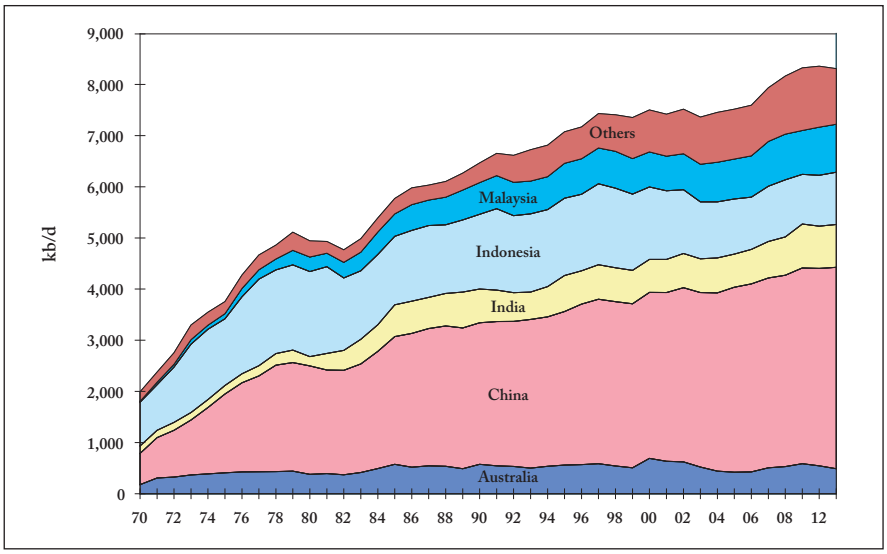
In this emerging global energy picture, Asian nations face a number of major challenges with regard to energy security and these significantly impact the world energy scene.[15] The growing influence of China on Asian, CIS and Middle East/Africa energy markets is the number one factor. This country's rapidly growing energy sector will have a significant impact on energy consumption and security patterns not only in Asia, but the world over. China's influence is predictable inasmuch as its energy demand is expected to increase phenomenally in the future. But how it will secure supplies to meet its growing energy needs and what impact those choices will have on its neighbors is less certain.

Current estimates show that Asia accounts for about a quarter of world demand for oil, but only 10 percent of supply. This resource gap is most pronounced in Northeast Asia. Japan has no significant domestic oil or gas fields and has to import 99 percent of its oil requirements. North Korea, South Korea and Taiwan are similarly vulnerable. Indonesia, Malaysia, and Vietnam have been significant oil and gas exporters to other parts of Asia. Yet surging domestic demand is limiting

13. Yet, countries and companies are less willing to commit to long term investment because of an uncertain future. According to International Gas Union, current annual investment on energy is around $14 billion, while to recover each barrel of oil consumed, an annual $40 billion investment is needed. The IEA projection of investment in the energy sector to 2030 is $23 trillion. This huge investment will not happen without a significant improvement of institutional framework and effective partnership.
14. Javier Blas and Ed Crooks, "Drive on Biofuels Risks Oil Price Surge," *Financial Times*, June 6, 2007, 1.
15. "Asia's Energy Security and the Role of Japan: A Diplomatic Perspective," http://www.bakerinstitute.org/Pubs/workingpapers/jescgem/aesrj11/aesrj.htm, November 2, 2004.

their ability to alleviate broader regional oil shortages. After 2010, there are only a few countries in the region, such as Papua New Guinea, Brunei and Vietnam, that will be able to export oil. Even though there is potential for huge new finds in China, Vietnam, and the Spratly Islands, this is likely to be offset by declining output from mature fields in Indonesia and China.

Figure 1: Historical Data and Projections for Crude Output in the Asia-Pacific Region



Source: Fereidun Fesharaki, FACTS Global Energy[16]

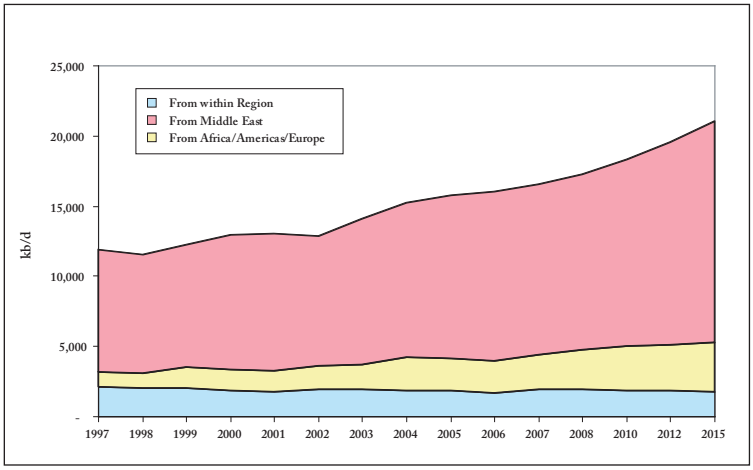
The ultimate long-term solution to East Asia's energy insecurities lies inevitably in the Middle East. Saudi Arabia, Iran, and Iraq together hold nearly 43 percent of the world's proven oil reserves, and 21 percent of global natural gas.[17] As a result, the region's oil imports from the Middle East are set to increase rapidly. In 1971, Asia, including the OECD Pacific region, accounted for only 14 percent of total world oil demand. Today, its share has doubled to more than 30 percent and made Asia the largest oil-consuming region in the world. Oil demand in the region is expected to grow at an average annual rate of 4.0 percent from 1997 to 2020, from some 19 mbd in 1997 to over 28 mbd in 2010 and over 37 mbd in 2020. Over the same period, the region's crude oil production is expected to decline to about 5 mbd.

16. Presented at 5th Joint OPEC-IEA Workshop "Asian Oil Demand: Outlook and Challenges," Bali, Indonesia, May 17-18, 2007.
17. Kent Calder, "East Asia and the Middle East: A Fateful Energy Embrace," http://www.silkroadstudies.org/new/docs/CEF/Kent_Calder.pdf

Accordingly, the region's oil import dependence will grow from 69 percent in 1997 to 80 percent in 2010 and 87 percent in 2020.

Thus, rising absolute levels of Asia's oil imports will triple the flow of oil eastward from the Gulf, across the Indian Ocean, through the Straits of Malacca and across the South China Sea to East Asia's major oil consumers. An accident in the Strait of Malacca would certainly affect the whole of Asia. Any disruption in the sea-lanes off the Spratly Islands would also significantly affect China, Taiwan, South Korea, the Philippines, and Japan. Security of these important "choke points" is, therefore, vital to most of the countries of Asia.

Figure 2: Asia Pacific: Crude Imports By Source



Source: Fereidun Fesharaki, FACTS Global Energy[18]

In this connection, the special influence of China over the security of these choke points needs to be looked at since this has specific pertinence to the question of the free movement of oil shipments to Southeast and Northeast Asia. The US navy dominates the Sea-Lanes of Communications (SLOCs) in Asia and the Indian Ocean through which a growing share of China's oil supply will flow in the future. This aggravates fears about what the Chinese view as US global "hegemony" and increases the sense of vulnerability regarding oil and gas flows vital to China's long-term strategic room for maneuver, its economy, and its social stability.

Outside of the Middle East, China's pursuit of oil could undercut US security interests on multiple fronts: In the South China Sea, China is involved in territorial

18. Presented at 5th Joint OPEC-IEA Workshop "Asian Oil Demand: Outlook and Challenges," Bali, Indonesia, May 17-18, 2007.

disputes with Malaysia, the Philippines, Taiwan, Vietnam and Brunei over access to energy in the Spratly and Paracel Islands. In the East China Sea, where rich oil and gas reserves are believed to exist, rivalry is developing between China and Japan over access to energy resources. China has already begun exploring for gas reserves on its side of the East China Sea.

The Japanese government claims that some of the reserves are actually on its side of the demarcation line and has accused China of attempting to extract hydrocarbons from its waters. It also allowed its own oil firms to drill in the disputed territories – a move considered a provocation by China. Another source of tension is access to Russian oil. For many months, China and Japan have been involved in a bidding war over a major pipeline deal to deliver Russian oil from Eastern Siberia. China's plan calls for a pipeline running to the Manchurian city of Daqing, while Japan is insisting on a pipeline that would run to Nakhodka, the Russian coastal area opposite to Japan.

The two major chokepoints for Asia's supplies are the Strait of Hormuz exiting the Gulf and the Malacca Straits between Indonesia and Malaysia entering the South China Sea. In 2003, roughly 15 mbd passed through the Strait of Hormuz, with around 10 mbd of that headed to Asia through the Straits of Malacca. Another one mbd from Africa passes through the Straits of Malacca. As a result, more than 50 percent of Asia's daily oil supplies must transit the narrow Malacca Straits.[19]

Besides alternative energy, another area is the potential for joint strategic oil reserves and coordination of energy procurement on the international markets. Japan and South Korea hold emergency stocks, but few other countries in Asia are prepared for a sudden disruption of their energy supplies. A few other countries carry some stored oil such as Taiwan, which at present holds 60 days of stocks, and Indonesia, which has 34 days oil storage. China is also building a national stockpile as part of its emergency preparedness system.

Clearly, Asia will want to hedge its future bets on the volatile global energy future. While deepening ties with strategic Middle Eastern energy producers such as Saudi Arabia, Iran, and potentially Iraq, Asia will simultaneously want to diversify its conventional oil and gas supplies away from that turbulent region, to the extent that it realistically can. China, in anticipation, has been consorting with African oil producers such as Angola and Congo, while all three major Northeast Asian countries – Japan, China, and South Korea – have been courting Russia as well.[20]

19. "World Oil Transit Chokepoints," Energy Information Administration, US Department of Energy, April 2004.

20. "East Asia and the Middle East: A Fateful Energy Embrace," *The China and Eurasia*

India consumes about one barrel of oil per person, China two, and the US 28 barrels per person annually. As developing Asia modernizes, the oil supply to meet its aspirations for a mobile, affluent lifestyle will have to come from the Middle East, that region's ceaseless troubles notwithstanding.

China's Energy Economy

China is increasingly a major player to reckon with in the international petroleum sector. Its oil consumption has more than doubled in the period between 1995 and 2005 from 3.7 mbd to 6.9 mbd. Strong demand from China is believed to be one of the reasons behind the surging international oil price as the country's oil demand increase accounted for 33 percent of the world oil consumption increase and 71 percent of that of the Asia Pacific from 2000 to 2005.[21]

Table 1: China Oil Demand and Supply Projections (ml tons per year)[22]

	2010	2015	2020	2025	2030
Demand Projections					
IEA (2004)	375		503		636
EIA(2006a)	450	540	660	780	920
China Energy Development Report (2003)	310	350	400		
Supply Projections					
IEA (2004)	168		137		112
EIA(2006a)	172	167	162	162	167
China Energy Development Report (2003)	170-190	180-200	170-190		

Not only is Chinese oil demand growing fast, its dependency on import is also increasing quickly. The country became a net importer of oil in 1993 and is now the second largest oil importer after the US. Despite the efforts of the Chinese government to increase energy efficiency and conservation, dependence on imported

Forum Quarterly, · November 2005.

21. "BP Statistical Review of World Energy 2006" (Retrieved January 21, 2007, from http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390).

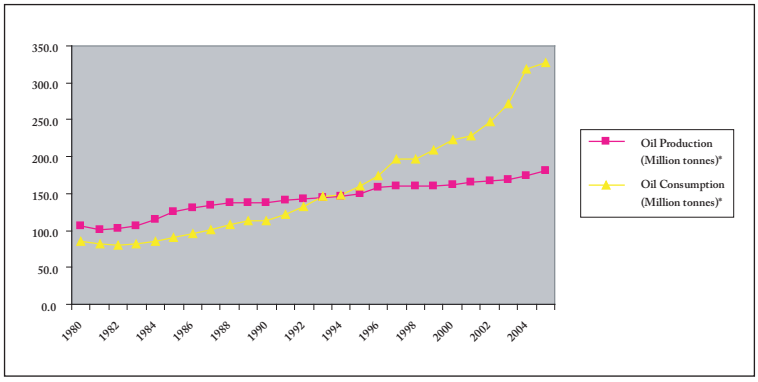
22. H.H. Oliver, "Reducing China's Thirst for Foreign Oil: Moving towards a Less Oil-Dependent Road Transport System," China Environment Series 2006 (Woodrow Wilson International Centre for Scholars): 41-58. (2006): 42.

oil, currently around 58 percent, is still expected to increase due to the fast growing transportation sector. It is forecast that the oil consumption in China and India is going to surpass that of the US by the end of this decade.[23]

Today's import volumes reflect certain disequilibrium in the country's outward-oriented development path. The ultimate constraint on self-sufficiency in oil, however, is the extent of China's own resources. Present prospects are not particularly encouraging. Offshore oil, the most promising source in the short term, will not satisfy more than 10 per cent of demand. The most reliable onshore fields in the northeast are aging and their output will, at best, stabilize. That leaves Xinjiang and its Tarim basin, which is believed to have very large reserves but has not yet lived up to its promise.[24]

The massive import requirement, a reality today, is likely to be even larger in the future unless a breakthrough can be achieved to move away from oil. The International Energy Agency (IEA) predicts that by 2030, Chinese imports will grow to 12 mbd - triple the existing level,[25] equal to US imports and more than the Saudi production - impressing upon China the need to ensure a stable supply of oil.

Figure 3: Oil Production and Consumption (1980-2005) [26]



A similar story could be told of natural gas as an option though it remains a marginal fuel in the Chinese energy system because of its cost implication for the

23. Ernst&Young, *Partnership in the Oil and Gas Sector: New Models, New Agendas*, op. cit. C. Mandil, *The Energy Future International Oil and Gas: Financial Review 2007*, op. cit. M. Crisell, Euromoney International Investor PLC 1-3.
24. Mehmet Ogutcu, "China's Worldwide Quest for Energy Security,", IEA, Paris, 2000.
25. Interfax, "China to Triple Crude Imports by 2030 - IEA," *China Energy Report Weekly* VI, no. 4 (2007).
26. "BP Statistical Review of World Energy 2006," op. cit.

power industry and residential electricity. China is presently largely self-sufficient in natural gas[27] but this is only because it uses so little: gas represents less than 3 percent of China's total energy consumption compared with a global average of 23 percent. However, the government has embarked on an ambitious policy to increase gas use to help replace coal, to diversify overall commercial and household energy use, and provide cleaner-burning fuel in accordance with environmental needs. According to the recent Eleventh Five Year Plan, the proportion of natural gas in the overall energy consumption will increase to 5.3 per cent by 2010 and 12 percent by 2030.[28]

Table 2: China's Crude Oil Import (Unit: thousand ton) [29]

Region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ME	7.764	11.962	16.782	16.668	16.904	37.650	33.860	34.392	46.365	55.789	59.852
A	1.709	1.927	5.907	2.191	7.249	16.949	13.546	15.797	22.182	35.301	38.343
AP	7.081	8.215	9.412	5.468	6.832	10.613	8.683	11.850	13.854	14.162	9.664
EWH	401	513	3.370	2.995	5.629	5.054	4.168	7.369	8.726	17.595	19.803
TOTAL	16.955	22.617	35.470	27.323	36.614	70.265	60.256	69.408	91.126	122.846	127.662

*ME: Middle East; A: Africa; AP: Asia Pacific; EWH: European and West Hemisphere

Faced with mounting environmental problems and starkly rising oil imports, China could well decide to accelerate the building up of both its domestic gas delivery system and its gas imports, in a grand national switch toward clean-burning fuels. China's gas pricing policy remains a major hurdle for further development of the natural gas sector.

China became a net gas importer in June 2006[30] and its dependency on imported natural gas is set to continue to increase significantly. According to the different sources of projections, the demand for import may vary from 44 to 170 bcm by 2020, 50 to 70 percent of its total natural gas consumption.[31]

27. EurasiaGroup "China's Overseas Investments in Oil and Gas Production," Eurasia Group (2006),: 1-26.
28. H. Guan, "Energy Plan: Reliance on Coal and Oil to be Eased," *China Daily,* 2007.
29. C.R. Tian, "Review of China's Oil Imports and Exports in 1999," *International Petroleum Economics* 8, no. 2 (2000); C.R. Tian, "Review of China's Oil Imports and Exports in 2004," *International Petroleum Economics* 13, no. 3 (2005).
30. EurasiaGroup "China's Overseas Investments in Oil and Gas Production," op. cit.
31. E. Downs, "Energy Security Series-China," The Brookings Foreign Policy Studies, December 1 (2006):11. The real import figure will depend highly on government policy towards natural

China is also already importing LNG, but has yet to decide definitively whether to facilitate such imports by investing in a large network of LNG terminals and delivery systems in the East and South of the country. China signed its first-ever long-term LNG supply deal five years ago with Australia, but has balked at paying the higher world prices which have prevailed in most markets since then. But with power production far outpacing this year's first half GDP growth of 11.5 percent and rising pressure to reduce greenhouse gas emissions, Chinese officials now see a pressing need to secure long-term gas supplies.[32]

LNG supplies will come largely from the Gulf and Asia, including Australia, Indonesia, Malaysia, Brunei, and East Timor, but China will also likely rely on a growing volume from the Gulf, including Qatar, Iran, Oman, and probably Yemen. Gas imports via pipeline from Russia's East Siberian Irkutsk, Sakha regions, Kazakhstan, Uzbekistan and Turkmenistan are under consideration.[33] Consequently, a significant portion of China's gas needs will have to be transported largely from the same volatile regions from where oil imports are sourced – the Gulf, Central Asia and Russia. As in the case of oil, this too raises the question of gas supply security.

Energy Security Measures: Search for Expanded Oil and Gas Links

For the Chinese government, uninterrupted and affordable access to stable energy is critical for continued economic development and political survival.[34] Hence, China's leadership has responded to the energy security challenge with both domestic reforms and global policies. Domestically, efforts are underway to maintain production in the traditional north-eastern oilfields while boosting production in western China where prospects for growing production are better, the so-called "stabilize the East, develop the West" policy. Offshore oil development also has been high priority in both the South China Sea and the East China Sea, although with relatively modest results. The domestic oil industry also has been repeatedly restructured to try to boost competition and efficiency, and oil pricing has been

gas, especially price and investment policy. Currently, the central government, while aspiring to promote natural gas, insists that the gas must be affordable because of the developing nature of the Chinese economy. In the absence of supportive policies to keep gas cost competitive (vis-à-vis coal in power generation), it may be difficult for gas demand to reach levels called for in the central government's projections.

32. "Fuel Needs Force China back to Gas Markets," *Financial Times*, September 3, 2007.

33. Mikkal E. Herberg, "Asia's Energy Insecurity: Co-operation or Conflict?" http://www.nbr.org/publications/strategic_asia/pdf/sa04_11energy.pdf

34. D. Zweig, "The Foreign Policy of a 'Resource Hungry' State," RUSI presentation, 2005.

brought more closely in line with global and regional oil markets.

Nevertheless, domestic oil production is unlikely to rise significantly in the foreseeable future and, therefore, imports are set to continue growing relentlessly.[35] The leadership has realized that oil import dependence will only grow; this has led to an increasing feeling of vulnerability because of heavy reliance on Middle East oil and insecure transportation routes, more so after 9/11 and the US invasion of Iraq.[36] It is not only that the US presence and actions in the region are a matter of concern to the Chinese government,[37] but also that more than four-fifths of Chinese oil import is transported through the high-risk Malacca Straits.[38]

A variety of other factors aggravate China's sense of insecurity. Beijing has a strong sense of exclusion from the global energy management institutions, such as the IEA, and also sees itself as dependent on global oil markets that are dominated by the US and the major international oil companies. High oil prices and a growing fear of long-term global oil supply "scarcity" are feeding this sense of insecurity and the compulsion to try to unilaterally secure its future oil and gas needs by direct state intervention.

China's emergence as a major oil importer has occurred both relatively recently and quite rapidly. It testifies to the nation's success in growth and development. Quite naturally, the habits of thought inherited from the recent era of energy self-sufficiency still persist in Beijing, but Chinese leaders have quickly and effectively grasped the essentials of dealing with energy security issues in an import-dependent environment.

China is responding with a broad range of energy strategies internationally to try to guarantee greater supply security and reduce vulnerability to potential supply and price shocks. The basic strategies include developing domestic resources to the maximum possible, promoting greater energy conservation and efficiency,

35. G. Christoffersen, "Angarsk as a Challenge for the East Asian Energy Community. Northeast Asian Security: Traditional and Untraditional Issues," Renmin University of China, Beijing, 2004, 3. Energy security of supply was put into the tenth five year plan for the first time.

36. Eurasia Group (2006). China's Overseas Investments in Oil and Gas Production, Eurasia Group: 1-26.P2. The East-West Center forecasts that by 2020, 80 percent of China's oil imports will come from the Middle East. Other significant shares of China's oil imports will come from Russia by pipeline and rail, from Central Asia by pipeline and rail, and from Africa by tanker.

37. B. Boekestein and J. Henderson, "Thirsty Dragon, Hungry Eagle: Oil Security in Sino-US Relations," IPEG Papers in Global Political Economy no. 21 (2005), 34; G. Christoffersen, "Angarsk as a Challenge for the East Asian Energy Community. Northeast Asian Security: Traditional and Untraditional Issues," op. cit.

38. D. Zweig, "The Foreign Policy of a 'Resource Hungry' State," op. cit.

creating strategic reserves, seeking foreign technology and investment, establishing reliable and secure oil trading channels, making strategic investments in upstream production facilities abroad, and formulating a naval and maritime military strategy to protect the sea-lanes from the Gulf and through the South China Sea to China. These are the classic moves of nations which have found themselves in a position of import dependency in the past. In fact, one can argue that China already has moved farther and faster to take advantage of inward investment in its energy industries than did Japan for its energy sector at an analogous stage of development.[39]

On balance, these efforts reflect a "zero sum" energy supply strategy which is deeply neo-mercantilist and competitive. It is built on efforts to gain more secure direct national control of overseas oil and gas supplies by taking equity stakes in oil and gas fields, promoting the global expansion of the three national oil companies, CNPC, Sinopec, and CNOOC, and promoting development through state-to-state deals of new oil and gas pipelines to channel supplies directly to China.

China's state-owned oil companies recognize the benefits of equity share in overseas companies, including American ones, and have thus set about an acquisition policy as part of their strategy for energy security. And under the "equity oil" arrangements whereby the Chinese oil companies split the production output with the host government, China is entitled to buy the oil at a relatively cheaper price and such a set-up involves lesser risk than buying oil on the international oil market.[40]

Equity position acquisition, above all, is an alluring option for China to secure supply without exposing itself to competition largely dominated by major international companies in order to gain exploration rights.[41] Furthermore, the equity option also reduces, if not eliminates, market price risk because it enables the investor to predict exactly how much oil it will receive and at what cost over the life of the field.[42]

In spite of equity ownership as a measure for energy security, the possibility

39. X. Xiaojie, "China and the Middle East: Cross-Investment in the Energy Sector," *Middle East Policy 7*, no. 3 (2000).

40. Erica S. Downs, "The Chinese Energy Security Debate," *China Quarterly* 177 (March 2004): 35.

41. Amy Myers Jaffe and Steven W. Lewis, "Beijing's Oil Diplomacy," *Survival* 44, no. 1 (Spring 2002): 126.

42. In the long run, the price is generally lower than that in the international market because the buyer, as an equity owner, usually produces and transports his oil below the market clearing price. It also enhances safe and stable supply as the equity ownership eliminates the need for middlemen, such as other oil companies, between the oil in the ground and the consumer, who could cut off supply.

of major supply disruption continues to exist in the minds of Chinese leaders. This is because of the transport routes used for delivery of imports. The seaborne oil import, largely through the strategic chokepoints of the Straits of Malacca and the South China Sea, are beyond Chinese reach, while the land-based pipelines through Kazakhstan can potentially be held hostage to adversarial elements and antagonistic policies of other countries.[43]

However, owning oil fields provides no real energy security. It does not cushion against a rising cost of energy because no one country is large enough to determine the market price. Neither does it ensure access, because getting oil where it is needed depends largely upon shipping lanes policed by the US Navy. It's an illusion that ownership ensures either volume or price. Oil is an internationally traded commodity. The key is having secure lines of supply from the Middle East.

China's energy strategy is of concern to other Asian countries, particularly Japan. Predictions of rising demand have led to speculation that the Gulf countries will not be able to meet the rapidly growing Asian oil demand and therefore will have to pick among potential customers. Tokyo is concerned that its current stable energy supply from the Gulf might be jeopardized by China's expanding presence in the market in "a war for energy resources." Another concern is that China, which will increasingly view energy imports as a matter of life or death, will be tempted to launch its own antagonistic campaign to command the sea-lanes, thereby jeopardizing the Asian security balance. Yet, neither of these two concerns is a realistic threat in the foreseeable future.

For sure, Beijing wants to avoid, to the extent possible, relying on sea-lanes controlled by the US military for transport of energy to China because, if US-China relations worsen, especially if the Taiwan issue makes bilateral relations tense, China may have no other alternative but to increase its naval projection power in the long run to counter the US domination of sea-lanes. Considering its current financial situation and military capability, however, the likelihood that China will be able to control sea-lanes from the Gulf in the next decade or two is very dim.[44]

If oil and gas are likely to be easily accessible,[45] then it makes no sense for

43. Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, "The Strategic Implication of China's Energy's Needs," Adelphi Paper 346 (London: Oxford University Press, 2002), chapter 2.

44. "Asia's Energy Security and the Role of Japan: A Diplomatic Perspective," http://www.bakerinstitute.org/Pubs/workingpapers/jescgem/aesrj11/aesrj.html, November 2, 2004.

45. However, as the IEA recently reports, the world's oil reserves are estimated at 1.35 trillion barrels and even as much as 2.3 trillion barrels inclusive of oil sands and oil shells. Thus, there is no need to fear exhaustion of energy for the time being. Moreover, OPEC's oil production capacity,

China to spend billions of dollars to increase its naval projection capability in order to secure oil and gas, especially considering that such a military expansion would cause unnecessary friction with China's neighbors. Still, if China pursues military expansion, it may be difficult to tell whether it is due to concerns about energy security or because it desires to be a hegemonic power in the region.

The strategic regions for securing China's oil and gas supplies in the future include the Middle East, the CIS region (Russia and Central Asia/Caspian) and Africa.[46] The expanding links with these regions, which allow China to make trade-offs, are discussed below.

China and the Middle East: Energy First

The Middle East remains the principal supplier of China's imported oil needs and will continue to be so in the foreseeable future. Traditionally, Beijing considered the region too distant for significant political engagement and investment and, instead, limited its efforts to convincing Arab capitals to sever their ties to Taiwan and establish diplomatic relations with the People's Republic.[47] But, this era of passivity has come to an end with China realizing its growing dependency on energy supplies from the region since 1993.

China is a relatively new player – it was not until 1990 that Beijing established ties with all of the GCC countries. Energy has not been the only agent that is driving China's diplomatic offensive there; Beijing is also seeking to gain a political and economic foothold in a region that increasingly resents the US presence.[48]

The Iraq debacle has dashed China's hopes of developing large assets in Iraq, where the world's second-largest reserves are located. CNPC initially signed a $700 mn production sharing agreement in 1997 for the al-Ahdab field with the government of Saddam Hussein. This was later frozen because the Chinese company could not start work while UN sanctions were in place. Since last November, Beijing and Baghdad have resumed negotiations on al-Ahdab, with the

especially in the Arabian Gulf, is sufficient to meet the rapidly growing demand from Asia. The Gulf is expected to produce 55.5 mbd by 2020, more than 2.5 times the 1991 production level and in line with reasonable forecasts of demand.

46. X. Xiaojie, "China and the Middle East: Cross-Investment in the Energy Sector," op. cit.

47. Deng-ker Lee, "Peking's Middle East Policy in the Post-Cold War Era," *Issues and Studies* (August 1994): 69-94.

48. Jin Liangxiang, *Middle East Quarterly* (Spring 2005).

new Iraqi government seeking to include the use of more advanced technology in the new contract. It is also looking to revise CNPC's shareholding in the project. CNPC presented the Iraqi government in June 2007 with a revised proposal to develop the field, taking into account the Iraqi government's requests.[49] Production from the field, which has estimated oil reserves of 600 mt (4.4 billion barrels), will be earmarked for a power station due to be built at Kut and a small refinery planned for the area.

China was also pursuing rights to a far bigger prize – the Halfayah field, which could produce 300,000 barrels a day. Together, those two fields might have delivered quantities equivalent to 13 percent of China's current domestic production. However, the Iraqi invasion and its aftermath have reshaped China's basic conception of the geopolitics of oil and added urgency to its desire to lessen dependence on Middle East supplies. It has reinforced China's fears that it is locked in a zero sum contest for energy with the world's sole superpower, leading it to step up its search for new sources.[50]

Today, the priority for CNPC seems to be regaining its development rights in Iraq. Rumors of an imminent breakthrough on the development rights have surfaced from time to time, even as negotiations continue. When Iraqi Oil Minister Hussain al-Shahristani embarked on an Asia-Pacific tour in October 2006, China was, unsurprisingly, on his three-country itinerary. Chinese energy officials and companies took this opportunity to revive the Ahdab oil field deal. Iraqi President Jalal Talabani too visited Beijing in 2007 seeking new areas of cooperation. CNPC's hopes of beginning work on the al-Ahdab oil field in Iraq depend on the country's draft hydrocarbon law to be passed by parliament. Any revision or change on a contract signed during the former regime should be subject to matching it with the new oil law. Iraqi officials have reportedly also invited Sinopec to build refineries; however, no specific proposals have been made.

Gulf: The Biggest Source of China's Crude Oil Imports

Relations between China and the Gulf are booming not only in hydrocarbon production and trade but also in cross-border investments. A $500 million port development in Tianjin is funded by Dubai-based DP World. A $5 billion refinery in Guangdong province will be built by Kuwait. A huge crude oil tank farm on

49. Platts Commodity News, July 18, 2007.

50. Peter S. Goodman, "Big Shift in China's Oil Policy," *Washington Post Foreign Service*, July 13, 2005. *Alexander's Oil & Gas Connections*, October 28, 2006.

Hainan Island is planned by Saudi Arabia. These projects and others have come out of the Gulf's growing economic relationship with China, which has become a major buyer of energy from the countries doing the investing.

In turn, China is boosting its investments in the Gulf to lock in a steady stream of oil and gas. This is the beginning of a long-term trend of investors from the Gulf region investing in China and other dynamic Asian countries, and will continue to grow. The strengthening Gulf-China bond comes amid a strain in US-Arab relations since the September 11 attacks. Trade between the six Gulf States and Asia doubled between 2000 and 2005, reaching $240 billion. Gulf investments in China totaled around $20 billion in 2006.[51]Those investments look set to grow dramatically, especially if high oil prices continue to fill Gulf treasuries. The six Gulf Arab countries plan to invest nearly $250 billion in Asian markets, including China, over the next five years.

As the breakdown of China's crude oil suppliers below indicates, the Gulf region figures prominently as the largest source. Its importance will no doubt grow further in the future as China is projected to import two-thirds of its oil needs from this region by 2030.

Table 3: China's Crude Oil Import (Unit: thousand ton) [52]

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Saudi Arabia	339	231	500	1.808	2.497	5.730	8.778	11.390	15.176	17.244	22.179
Oman	3.653	5.655	9.033	5.793	5.021	15.661	8.140	8.046	9.277	16.348	10.833
Iran	931	2.311	2.757	3.620	3.949	7.001	10.847	10.630	12.389	13.237	14.273
UAE	368		48	515		431	650		864	1.344	2.568
Iraq			239	607	974	3.183	372	537		1.307	1.170
Kuwait			69	282	330	433	1.460	1.070	907	1.254	1.646
Qatar			81			1.599	1.326	458		142	343
Total	7.286	10.192	14.724	14.623	14.771	36.038	33.574	34.132	40.616	52.880	55.017
Percent of total import	43	45	42	54	40	51	56	49	45	43	43

This is not surprising because the region sits on one of the world's largest hydrocarbon reserves – 57 percent (715 billion barrels) of the world's crude oil reserves;

51. Jim Krane, "Oil Ties China, Gulf Economies," Doha, April 11, 2007.

52. C. R. Tian, "Review of China's Oil Imports and Exports in 1999," op. cit.
C. R. Tian, "Review of China's Oil Imports and Exports in 2004." op. cit.

it has a 27 percent share of the world's oil production.[53] The Gulf oil production is expected to reach about 26 mbd by 2010, and 35 mbd by 2020, compared to about 25.1 mbd in 2005.[54]

China and the Gulf form a 'natural market of oil' due to one party's rich oil reserves and the other's increasing energy demand, especially in the short run.[55] Gulf oil also has an advantage in terms of price due to the low cost of exploration and production. Central Asian and Russian oil and gas sources are believed to be less competitive. Investment in these regions also takes long to yield results; substantial quantities will not be available before 2013.[56]

Like the CIS region, the Gulf countries too are seriously concerned about security of demand. Although well-established as major suppliers of the US and the EU, the region faces the multi-squeeze of a mature OECD market, competition from CIS and Africa, and the negative impact of regional political and security instability.[57] The Asian market is of critical importance to the future of the Gulf region. Most of the production increase in the Gulf will be targeting the Asian markets, particularly China and India.[58]

In order to ensure its future economic security, the Gulf region needs to make three realignments: from public to private sector, from closed to open economies, and from oil-oriented to more diversified economies. Currently, the

53. The Arabian Gulf, a 600-mile-long body of water which separates Iran from the Arabian Peninsula, is one of the most strategic waterways in the world due to its importance in world oil transportation. At its narrowest point (the Strait of Hormuz), the Gulf narrows to only 34 miles wide. The vast majority (about 90 percent) of oil exports from the Gulf transits through the Strait of Hormuz, located between Oman and Iran. Its possible closure would require use of longer alternate routes (if available) at increased transportation costs.

54. EIA, "Persian Gulf Oil and Gas Exports Fact Sheet," May 14, 2007 from http://www.eia.doe.gov/emeu/cabs/pgulf.html.

55. P.K. Beng and V. Y. W. Li, "China's Energy Dependence on the Middle East: Boon or Bane for Asian Security?" *The China and Eurasia Forum Quarterly* 3, no. 3 (2005): 12-19.

56. X. Xiaojie, "China and the Middle East: Cross-Investment in the Energy Sector," op. cit.

57. However, the biggest challenge to the Gulf countries as a reliable oil and gas supplier is the threat of Islamic extremism to oil and gas production, infrastructure, and the possibility of blockage of sea-lanes, lack of further investment and perceived instability in consumer countries and therefore a switch off from the region. The recent instability in Iraq and the possible deterioration of Iran's nuclear crisis could worsen consumer countries' expectation relating to the region and persuade them to switch to other newly developed regions of the CIS and Africa.

58. H. Lee and D. A. Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," Environment and Natural Resources Program, Belfer Center for Science and International Affairs, John F. Kennedy School of Government, Harvard University (2007): 1-34.

Gulf is in a most uncertain situation, with security at serious risk, although the possibility of an oil-producing Gulf country collapsing for internal reasons is remote.[59] Even if this happens, the incoming regime would have nothing but oil revenues to rely on, making it unlikely that such a scenario would disrupt long-term oil supply.

China and the Gulf do not share boundaries or legacies of a bitter history.[60] They have a booming trade and cross-border investment relationship with each other: The Chinese export cheap manufacturing goods, infrastructure and labor that the Gulf needs, while the Gulf provide water technology, oil and gas supply, and petrochemical investment. China is the largest exporter to the Gulf and the only major country that has maintained balance in its trade with the region.[61] In July 2004, the six GCC finance ministers visited China where they signed a "Framework Agreement on Economic, Trade, Investment, and Technological Cooperation" with China[62] and agreed to negotiate a free trade agreement under a China-GCC Forum.[63]

China is not only investing in and trading with the Gulf, it is also getting strategic investments from the region to help upgrade its own energy infrastructure. As mentioned earlier, Dubai-based DP World is funding the $500 million development of a port in Tianjin, while a $5 billion refinery in the Guangdong province will be built by Kuwaiti investors. Indeed, China will likely continue to be a magnet for Gulf investment. Gulf countries view China and India as among their most critical customers in the 21st century. It was telling that after taking the throne in 2005, Saudi King Abdullah made his first overseas trip to China, and not to his traditional consumer of oil, the US.

Beijing views the Middle East not only in terms of its value as a source of oil but also in the context of its huge potential as an oil services market. Early in 1979, Chinese services companies entered the GCC markets. By 2001, China had signed

59. http://www.bakerinstitute.org/Pubs/workingpapers/jescgem/aesrj11/aesrj.html (15 of 20)2/11/2004.

60. H. Lee and D. A. Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," op. cit. China's import is about to double in the next decade.
P. K. Beng and V. Y. W. Li "China's Energy Dependence on the Middle East: Boon or Bane for Asian Security?" op. cit.

61. G. Magnus and P. Burnett, "A Route to Riches on the New Silk Road," *Financial Times*, 2006, 15.

62. "The Joint Press Communiqué between the People's Republic of China and The Cooperation Council for the Arab States of the Gulf (GCC)," Ministry of Foreign Affairs of the People's Republic of China, July 7, 2004.

63. P.K. Beng and V. Y. W. Li, "China's Energy Dependence on the Middle East: Boon or Bane for Asian Security?" op. cit.

almost 3,000 contracts in all six GCC states for labor services worth $2.7 billion.[64] The overseas construction arm of CNPC moved into the Kuwaiti market in 1983, and a major business expansion took place in 1995 when the group won an oil storage reconstruction project in Kuwait. Since then, China has expanded into oil services in Egypt, Qatar, Oman and other parts of the Arab world.[65]

China's anxiety over the 'rise in Islamic terrorism' in the Gulf and its possible impact in its Xinjiang-Uyghur Autonomous Region is another reason for closer cooperation with Gulf governments.[66] The Gulf needs China for diversifying its import sources and for the purpose of entering new markets. For them, China is a convenient counterweight to the West in the region.[67] Besides, China also represents an important door for the Gulf States to establish themselves in the fast-growing Asia market, which traditionally has been neglected by them.[68]

Iran Ties: It's All about Gas

Iran is viewed in Beijing as key to China's outreach to the Gulf in energy and geopolitical terms. Since many of the projects with Central Asian countries may take years to become operational, in the present and immediate future, Iran remains a key producer for China.

Iran is one of the few countries that allow the Chinese to invest in its upstream sector. It is estimated that China's investment in Iran could increase to $100 billion over 25 years. China has ignored the US sanctions on Iran, which "penalises foreign companies for investing more than $20 million in Iran."[69] Whereas in 1994, Iran accounted for just one percent of China's total imports, in 2006 alone China's oil imports increased by 25 percent in gross volume. Iran already supplies 15-17 percent

64. X. Xiaojie, "China and the Middle East: Cross-Investment in the Energy Sector," op. cit.
65. Anwar Yusuf Abdullah, director, Department of Energy, GCC General Secretariat, "Sino-Arab Energy Cooperation: Problems, Approach and Outlook," speech at the Seminar on International Energy Security and Cooperation, Shanghai, June 24-25, 2006.
66. H. Lee and D. A. Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," op. cit;. S.P. Matthews, "China's New Energy Focus: Strategic Partnership with Saudia Arabia" (Retrieved May 25, 2007, from http://www.bakerbotts.com/files/Publication/8dd9a398-bd08-4c27-9309-44436ff39c81/Presentation/PublicationAttachment/86d1ad0a-fe3c-46c4-a2e6-4499134a953b/ChinasNewEnergy.pdf.).
67. H. Lee and D. A. Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," op. cit., 13.
68. Ibid., 14.
69. J. P. Gundzik, "The Ties that Bind China, Russia and Iran," *Asia Times Online*, 2005.

of annual Chinese oil imports, and the interest in an overland pipeline from Iran to China, fanciful as that may seem, makes clear that Iran's role in China's energy policy will only continue to increase for the foreseeable future.

China and Iran have a wide range of economic and energy linkages. Their bilateral trade reached $8 billion in 2006[70] from $1.2 billion in 1998. The two countries signed a general agreement to enhance strategic cooperation in the oil and gas sector and other economic fields.[71] In Iran, China intends to become involved in everything from exploration, to drilling and pipelines in order to meet its own increasing energy needs. Collaboration extends beyond energy, as there are presently more than 100 Chinese companies working in Iran, in sectors such as dam and ship building, steel production and development of seaports and airports. In addition to extensive arms trading, Iran receives machinery and consumer goods from China, as well as labor intensive services in the construction of power plants, highways, and mass transportation infrastructure. Services cover refineries upgradation, pipeline and engineering services such as drilling.

China also plans to buy substantial amounts of LNG from Iran.[72] The heart of Iran's gas reserves lies in the gigantic South Pars field, which accounts for 50 percent of Iran's and 8 percent of the world's natural gas reserves. South Pars is strategically located between Bushehr to the west (where Russia is helping Iran to build its first civilian nuclear power station) and the Gulf port of Bandar Abbas to the east. South Pars at its full capacity could deliver 28 bcf of gas a day. But not all of its 19 blocks have been negotiated for exploration. Iranian participation stands at 60 percent. Joint ventures are common; for instance, the LNG operation is shared at 50 percent each by the National Iranian Oil Corporation and TotalFinaElf.

However, China has realized that Iran has a lot of challenges with LNG and that if it really does want additional volumes it has to buy from top-tier suppliers at market rates. For Iran to be a credible LNG supplier, much more foreign investment is needed. South Pars' enormous strategic importance is that its production will be exported to Asian countries – after the construction of a pipeline to the Pakistani border and then to India, pumping 150 mcm of gas a day.

Sinopec is involved in the Zavareh-Kashan Block 205 exploration since 2004, as well as in one of the largest undeveloped oilfields, the Yadavaran oil

70. D. Wood, "Iran's Geopolitics Obscures a Strong Case for Nuclear Power Based on its Long-term Oil and Gas Capabilities," *The Global Oil-Gas-Energy Law Intelligence* 5, no. 2 (2007).

71. T. Masuda, "The Middle East Situation and Energy Security: A Historical Perspective of Asia," The 28th Annual IAEE International Conference, Taipei, 2005, 3.

72. G. Magnus and P. Burnett, "A Route to Riches on the New Silk Road," op. cit.

field. In addition to LNG, the Yadavaran deal will provide China with 150,000 barrels per day of crude oil.[73] In 2006, Sinopec secured another project in Iran, the Garmscar onshore oil block. Zhuhai Zhenrong Corporation, a Chinese state-owned trading company, too secured a 25-year LNG deal with Iran which enables it to import 110 million tons of LNG. Sinopec signed another LNG deal worth about $100 billion for a further 250 million tons of LNG from Yadavaran field over a 25-year period.[74] CNOOC's 25-year LNG deal in 2006 stipulates taking charge of the construction of gas to LNG conversion facilities, transportation and marketing.

The projects linking Iran and China via land-based pipelines are far-fetched at the current juncture, but the swap deals are a reality. However, when the political realities allow, Iran is keen on getting the Caspian and Central Asian oil to the Gulf and establishing closer political and economic ties with the region. The combination of oil and gas transit and trade could establish Iran as regional power in Central Asia. With oil transiting from Central Asia to Iranian Gulf ports, Iran would strengthen its position in the Gulf, essentially in relation to Saudi Arabia, and potentially also in relation to Iraq.[75]

Iran has long seen the need, and opportunity, for offering swap deals to its landlocked Central Asian neighbors, but Tehran's reliance on Russia for nuclear technology supplies, strategic support in the UN Security Council, and weapons exports, has led the country to keep a very low profile in the region. As the relationship with Russia has cooled somewhat recently and Iranian President Mahmoud Ahmedinejad wants to break Iran out of its international isolation, his pursuit of a leading role in the Caspian Sea region has been intensified accordingly.

Iran announced plans for constructing a larger pipeline from Iran's Caspian Sea port of Neka to Tehran, increasing its overall oil swap capacity from 150,000 b/d to 1 mbd.[76] The move is a way to strengthen Iran's regional position among its Central Asian and Caucasian neighbours by positioning itself as a viable transit country in a region where Russia dominates most of the current export routes. It will allow easy access to crude for northern Iran, while the oil supplies shipped to Neka will be swapped for crude of a comparative quality at one of Iran's Gulf oil

73. K. Wu and S. Han, "Chinese Companies Pursue Overseas Oil and Gas Assets," *Oil and Gas Journal*, 2005.

74. J. P. Gundzik, "The Ties that Bind China, Russia and Iran," op. cit.

75. Wu Lei, *Zhongguo Shiyou Anquan* (Beijing: China Social Science Press, 2003), 121-6.

76. "Iran: New Iranian Pipeline to Raise Oil Swap Capacity for Central Asian, Caucasian Neighbours to 1 mil. b/d," Global Insight, August 28, 2007.

terminals. Iran is also contemplating extending a north-south pipeline down to the south-east Gulf of Oman port of Jask.

Among Central Asian countries, Kazakhstan and Turkmenistan figure prominently in Iran's strategic thinking as countries that are already being linked to China for oil and gas supplies. Iran has developed strong energy and trade ties with Kazakhstan, having signed so far about 60 agreements to consolidate, expand and diversify bilateral relations. Although Iran has a 2-3 percent share in Kazakhstan's total trade turnover, it will likely rise even more if the current trend continues. Bilateral trade volume between the two countries rose from $700 million in 2004 to $900 million in 2005 and $2 billion in 2006.

The port of Amirabad in northern Iran is a vital point in Iran-Kazakhstan economic relations. Every year some 1.2 mbd of oil is exported from Aktau to Iran via this port. In return, Kazakhstan sells Iran a good amount of wheat through barter deals amounting to $1 billion. Joint ventures help promote bilateral trade including in oil and gas. Kazakhstan is considering building a refinery in one of the northern provinces of Iran, probably in Mazandaran. This will make transfer of Kazakh oil to Iran easier. Iran, too, is working on the establishment of a $5 billion petrochemical facility in western Kazakhstan. A proposed pipeline from Kazakhstan to Iran via Turkmenistan is under discussion. The pipeline would have a crude capacity of 1 mbd, a length of 1,600 km, and require $1.2 billion in investments.[77] Although this route is one of the shortest and cheapest, US opposition and sanctions against Iran are likely to keep this project shelved for some time.[78] There are also new projects aimed at linking some Turkmenistan gas production to the Gulf (particularly the UAE) via Iran through swap deals.

Iran is trying to use the Shanghai Cooperation Organization (where it is an observer) for advancing its energy and political goals. Yet, its accession to this regional club is unlikely in the short to medium term. Although there is some support for Iranian inclusion from Russia, China has shown itself to be considerably cooler to the prospect, unwilling to strain relations with the US. With the threat of more stringent international sanctions against Iran over its nuclear development program growing, the strategic importance of Iran's neighbors also increases. However, for the Central Asian states, markedly weaker than Russia and China, taking Iran's hand for deeper relations will need some convincing.

77. IRNA, Tehran, March 14, 2006.

78. Michael Pinskur, "As China Tries to Secure the Future of Its Energy, It Finds Itself in a Precarious Position between Iran and the US," *The Power and Interest News Report (PINR)*, March 14, 2006.

China and Saudi Ties

A key component of China's strategy to guarantee access to Gulf oil is the special relations that it has cultivated with Saudi Arabia.[79] Saudi Arabia is China's largest trading partner in the region comprising the Middle East and Northern Africa. And China is one of the most important markets for Saudi oil.[80] Currently, the country supplies 14 per cent of China's oil imports, or 450,000 barrels a day.

The fact that Beijing was the first destination on King Abdullah's list for foreign investment speaks volumes not only about the rising profile of China in global politics, but also about a growing intimacy between the two countries. China has been working hard to improve its relations with Saudi Arabia, the world's biggest oil exporter. It was in 2004 that the two countries decided to hold regular political consultations at the same time that Sinopec signed a deal to explore gas in Saudi Arabia's vast Empty Quarter.

It is instructive to note that Saudi Arabia's ties with China have been on the upswing at a time when its relationship with the US has come under strain. While China has emerged as the Saudi Kingdom's largest customer, the US share in Saudi oil exports has been going down after peaking in 2002 at 1.7 mbd. Saudi Arabia's traditional share of the US oil market has been a function of the country's "strategic relationship" with the US,[81] a tie that many think has been weakening for some time now, especially in the aftermath of the September 11 attacks and the Iraq war.

China's ties with Riyadh go back to the mid-1980s when it sold intermediate range ballistic missiles. Since then, the relations have grown closer. The two nations established diplomatic relations only in 1990, but interactions expanded quickly. Bilateral trade increased 10 times from 1990 to 2000, driven mainly by Chinese purchase of oil.[82] High-level visits of Chinese leaders to Saudi Arabia culminated in a 1999 "strategic oil partnership" between the two countries. In 2006, King Abdullah visited China, and the Chinese President reciprocated only a few months later. A large number of energy cooperation pacts were signed during the visits, on hydrocarbon, power, and developing China's strategic reserves in Hainan Island.[83]

79. S. P. Matthews, "China's New Energy Focus: Strategic Partnership with Saudia Arabia," op. cit., 2.
80. *China Daily*, January 24, 2006
81. "Saudi Arabia Looks East: Woos China and India," *PINR*, February 22, 2006.
82. S.P. Matthews, "China's New Energy Focus: Strategic Partnership with Saudi Arabia," op. cit., 5.
83. G. Magnus and P. Burnett (2006). "A Route to Riches on the New Silk Road," op. cit.; Interfax,

Saudi Arabia has only recently been slightly surpassed as a top crude oil exporter to China by Angola.[84] It may soon re-establish its dominant position as a recent announcement implies China is going to increase oil imports from Saudi Arabia by 44,000 bpd in 2007.[85] The recent growth in Chinese oil imports from Saudi Arabia has less to do with politics than with technicalities. Saudi oil tended to have too high a sulphur content for Chinese refining capability. The Chinese government has turned the impediment into advantage, though, as it gives Beijing an opportunity to engage the Saudis not only politically but also economically.

Sinopec, in partnership with Saudi ARAMCO, signed a 2004 natural gas exploration and development agreement in *Ar-Rub'al-Khali*, the so-called "Empty Quarter" in which Sinopec maintains a four-fifths share.[86] Both Beijing and Riyadh are also working jointly to establish capable oil refineries.[87] In 2005, Sinopec secured a 50 percent stake in the Polyolefin Project in Yanbu District of Saudi Arabia, which requires the company to invest up to $760 million.[88] Saudi Arabia's long-term interests in China's downstream business were realized in 2007 when the Chinese government approved the Fujian Petrochemical JV, a refinery to process mainly sour Arabian oil. This is a very unusual concession by the Chinese government, which tightly guards its domestic oil market.[89]

In the face of rapidly developing Sino-Saudi ties, the fear in Washington is that continuous deterioration in Saudi-American relations or, in the longer run, a regime change in the Kingdom, could drive the Saudis to end their reliance on the US as the sole guarantor of their regime's security and offer China an expanded role.

"Special Report: Summary of China's Oil Industry in 2006," *China Energy Report Weekly* VI, no. 4 (2007): 22.

84. S.P. Matthews, "China's New Energy Focus: Strategic Partnership with Saudi Arabia," op. cit., 5.

85. Interfax, "China to Increase Crude Imports from Saudi Arabia by 44,000 bpd-MOFCOM," *China Energy Report Weekly* VI, no. 2 (2007): 6.

86. "Natural Gas Exploration and Development Agreement upon Section B in Ar-Rub' al-Khali signed among Sinopec, Saudi Arabia ARAMCO Petroleum Co. and the Ministry of Petroleum of the Kingdom of Saudi Arabia," Sinopec Corporation (accessed January 31, 2005).

87. "Zhongsha Jingmao Hezuo Xianzhuang," Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in Saudi Arabia (accessed January 31, 2005).

88. Interfax, "China and Saudi Agree to Expand Energy Collaboration," *China Energy Report Weekly* IV, no. 44. "The project is expected to have an annual production capacity of 400,000 tons of polypropylene and 400,000 tons of polyethylene after 2008."

89. Interfax, "Sinopec, ExxonMobil and Aramco Sign Contract on a Petrochemical JV in Fujian," China Energy Report Weekly VI, no. 7 (2007).

China and Other Middle Eastern Countries

China pursues active energy (and political) diplomacy with other Middle Eastern countries. Of particular importance are the Chinese operations in Sudan, which began in 1995. After a decade of continuous investment, CNPC was able to boost Sudanese oil production to 250,000 barrels per day.[90]

Another key country is Yemen, a country whose production of approximately 400,000 barrels per day makes it a modest player on the international oil markets. Yemen is also seeking investment to exploit its potential as a major exporter of LNG, another area of growing Chinese interest.[91] Sinopec has agreed to expand its growing presence in the Yemeni market, having already signed a $72 million contract in January 2005 to further its oil prospecting and production operations in the eastern region.[92]

Given its geographical location on the south-western side of the Arabian Peninsula and across the shore from the Horn of Africa, adjacent to the Red Sea chokepoint known as the Bab al-Mandab and busy shipping lanes connecting the Suez Canal in the north and stretching to the Arabian Sea and Indian Ocean, Yemen is also part of Beijing's efforts to project power in the region. China's strong ties to Sudan and expanding relations with Kenya are a critical component of this strategy. As demonstrated by its presence in the Panama Canal Zone and the Suez Canal, China places a premium on establishing footholds in or near strategic communication and commercial chokepoints across the globe. Yemen's position adjacent to these strategic gateways fits this larger pattern of Chinese strategic thinking.

Yemen sees a potential for greater Chinese investment, which would provide a needed boost to its fledgling economy.[93] China is now Yemen's largest trading partner. Trade between both countries has been growing at an annual rate of 20.7 percent since 1999. This includes a 100 percent increase in Yemeni exports to China and an over 400 percent increase in Chinese exports to Yemen.[94]Yemen also views an emerging China as a counter-weight to US pressure and involvement in the region.

Trade between China and Syria surged 55 percent to $1.4 billion in 2006 from

90. "Zhongguo Sudan Jingmao Hezuo Gaikuang," Ministry of Commerce of the People's Republic of China, May 2003.

91. *Yemen Times*, April 5, 2003.

92. *Yemen Times*, April 9; *Arab News*, September 10, 2004.

93. *Yemen Times*, March 10, 2005.

94. *Yemen Observer*, April 4, 2006.

2005. By the end of 2006, Chinese companies had signed project contracts worth $819 million. China's entry into Syria is not only to do with energy but to position itself strategically in this key country. Syria announced it would welcome more Chinese investment in energy, electricity, and infrastructure, and proposed a China Industrial zone and a China Telecom Park to be built in the country. Sufian Allaw, Minister of Oil and Mineral Resources of Syria, said that Syria needs Chinese investment especially for oil exploration and the installation of natural gas pipelines because Syria has recently discovered a new oil field.[95]

Russia – A Major Future Supplier to China (and Northeast Asia)

Northeast Asia promises both a large energy demand and abundant energy resources (in Russia). The most critical issue for the three major energy-importing countries in Northeast Asia – Japan, China, and Korea – is their high dependency on imported oil, especially from the Middle East. New supplies of Russian oil and gas would provide an important alternative source and help consumers in this region to achieve the policy target of energy diversification. Another common interest of these countries is the diversification of their energy sources from oil to natural gas.

Handled carefully, the emerging Russian option will perfectly suit their energy security objectives. In this pursuit, the reserves in the eastern region of Russia are critical as opposed to trade between West Siberia and Europe which has dominated the trade scene. With a few exceptions, there is, however, no infrastructure at present to bring eastern Russian oil and gas to the Pacific markets.[96] It is however encouraging to see some private sector proposals and business interests in this region to build oil and natural gas pipelines, electric power links, and other types of cross-border energy trade.

Russia is enormously rich in natural resources, accounting for 10 percent of the world's crude oil and 30 percent of gas production.[97] Russia also has a range

95. "Syria Open to More Chinese Investment in Energy, Infrastructure," Xinhua News Agency, July 10, 2007.

96. For example, China, the largest possible consumer of energy in this region, still lacks the infrastructure for major domestic gas usage. The country needs natural gas transportation and urban distribution networks. The electricity grid systems have to be expanded and modernized further to meet the rapidly growing demand. Japan also lacks a domestic natural gas pipeline network with its regionally segregated gas markets. Kovykta gas, without infrastructure to cross the sea, may not reach Japan in the foreseeable future, while the LNG supply from Sakhalin II field would be economically competitive and most probably will start beyond 2007.

97. Ernst & Young, *Overview of the Oil and Gas Industry in Russia*, 2007, 1-37. Oil Reserve (proven

of opportunities to import gas on commercially attractive terms from Central Asian/Caspian countries through established pipeline networks.[98] Energy is the cornerstone of Russia's economic performance and political influence as oil and gas accounted for 63 percent of total exports in 2005 and 37 percent of state budget revenues.[99] Energy also provides critical leverage for Russia to re-establish political and economic influence in Europe and Eurasia, and re-establish the country's position as an energy superpower, as President Putin has often put it.

The China-Russia relationship has improved significantly in many areas including energy, trade, military and transport. Russian diplomats say bilateral trade with China could surge 20 percent annually and hit $20 billion this year and $60 billion by 2010.[100] But stalemate in many ambitious programs and fresh problems with oil supplies cast a shadow over official optimism. In the eyes of the senior Chinese political and energy negotiators, Russia has lost its credibility. They do not have confidence in Russia, particularly after how the Pacific oil pipeline deal was concluded in favor of Japan, a country actively rivalling China every step of the way.[101]Although many energy projects have been discussed since the early 1990s, the reality is that not much is happening.

The Asian market accounts only for a marginal share in Russia's export, and business to Asia has just been initiated – the first gas deliveries to Japan may start in 2008 and to China in 2011.[102] The excessive reliance on a single EU market[103] is not

---

at the end of 2005): 60 billion bbl; production is 9.55 mb/d, consumption 2.75mb/d, export 6.8 mb/d in 2005. "BP Statistical Review of World Energy 2006" (Retrieved January 21, 2007, from http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390).

98. Ibid.

99. *The Future of Energy Security* (Washington, D.C.: The Brookings Institution, 2007): 1-64.

100. Russia wants Beijing to buy more of its manufactured goods so that Moscow does not become only a source of raw materials for China. And while Russia is China's main arms supplier – providing everything from destroyers to nuclear submarines – Moscow is more reluctant to sell items, including military aircraft and missile systems, which Beijing could use against it in a land war.

101. Sergei Blagov, "Russia Tangles with Japan and China," Asia Times Online, September 1 2004, http://www.atimes.com/atimes/Central_Asia/FI01Ag01.html (October 30, 2005).
See also James Brooke, "Japan and China Battle for Russia's Oil and Gas," *New York Times,* January 3, 2004.

102. Ernst&Young, *Overview of the Oil and Gas Industry in Russia*, op. cit., 1-37.

103. Note that Turkey is Gazprom's second largest customer after the EU. It is heavily dependent upon Russian natural gas and this dependence is expected to exceed two-thirds by 2010. Last year alone, Turkey received some 20 bcm of Russian gas in comparison with Western Europe, which imported 50 bcm during the same period. Besides being a big importer of Russian gas, Turkey is also a lucrative market of consumption for Russia – especially in light of the two currently

perceived to be sufficiently secure for Russia.[104] To ensure security of demand, Russia needs to establish access to the booming Asian energy markets,[105] as announced by Russia's Energy and Industry Minister, who wants to increase exports to the Asian markets from the present 3 percent to one third of the country's export.[106] To do so will require large amounts of investments in the poorly-developed Eastern Siberian oilfields and eastbound pipeline, the East Siberia Pacific Oil Pipeline, to a Pacific deepwater port.[107]

However, the uncertainty of domestic politics, fiscal and legal regimes, together with lack of political commitment, impedes these investments from happening. Negotiations are slow and less fruitful especially on oil deals.[108] For more than a decade, Russia has been pondering about different consumer countries, routes of pipelines, and ways of financing and operating pipeline projects. Russia's specific energy policy towards Asian countries is still ambiguous.[109] Oil export to Asia still takes place via railway at the moment which costs much higher than pipeline options.[110]

One particular obstacle is that Russia's long-term production capacity may be possibly insufficient to meet commitments to both the EU and the Asian market because investment is not enough and reserve replacement rate is low.[111] There are several high-profile attempts to link the natural gas and oil resources in East Siberia and the Far East Russia with the growing demand in Northeast Asian countries in partnership with Asian NOCs.[112]

---

functional gas pipelines. The Turkey-Russia foreign trade turnover alone has reached $20 billion and has the potential for continued growth.

104. L. Wang, "The East Energy Diplomacy of Russia and the Sino-Russia Energy Cooperation," *Modern International Relationship* 8 (2006): 8-20.

105. *The Future of Energy Security*, op. cit.

106. L. Wang, "The East Energy Diplomacy of Russia and the Sino-Russia Energy Cooperation," op. cit.; J.S. Maxie, "The New Eurasian Energy Architecture: Will Russia Deliver" (Presented to Harriman Institute-Columbia University PFC Energy).

107. *The Future of Energy Security*, op. cit. "It is likely that Russia will connect Asia market with 'production and infrastructure' of West Siberia in the short run, this may cause the concern of competition between the East and the West."

108. *The Future of Energy Security*, op. cit.

109. *The Russian Federation*, The Brookings Foreign Policy Studies Energy Security Series (Washington, D.C., The Brookings Institution, 2006): 1-33.

110. *The Future of Energy Security*, op. cit.

111. *The Future of Energy Security*, op. cit., 27.

112. Relatively new to the equation is the strong interest of Asian state oil companies, such as India's

Gazprom has traditionally maintained a clear focus on Europe as its major export market and on European Russia as its domestic market. In recent years, though, the company has turned its attention to eastern Russia, developing a master plan for gasification of the region and seeking to use political influence to achieve its goals. The past few months have seen a significant shift in the structure of the Russian gas industry in eastern Russia, with two of the three major gas projects in the region, run by international companies, forced to relinquish control to Gazprom.

The first was Sakhalin II: Gazprom now holds a 50 percent plus one share stake in the project, relinquished by Shell and its partners Mitsui and Mitsubishi. The deal followed threats from the Russian natural resources ministry to revoke Shell's Production Sharing Agreement on the grounds of alleged failures to comply with environmental regulations. The second is the Kovykta licence, which saw TNK-BP sell its licence to Gazprom because of a failure to meet production levels in accordance with the licence – levels which could not be achieved because Gazprom blocked sales opportunities, such as exports to China.[113]

The next target for Gazprom is to wrest control of Sakhalin I gas sales from Exxon Neftegas, which is currently in discussion with Chinese companies regarding sale through a proposed pipeline. This is altogether more challenging; Exxon Neftegas is the operating company and is jointly owned by the Sakhalin I licence holders. It has state-controlled Rosneft as a shareholder through its subsidiaries, RN-Astra (8.5 percent) and Sakhalinmorneftegas-Shelf (11.5 percent). The presence of these Rosneft subsidiaries provides good insurance against an attack on the licence or PSA, and the PSA gives Exxon Neftegas the right to build export pipelines, a right which takes precedence over Gazprom's monopoly on export lines.

To underpin its plans in the Far East, Gazprom has proposed an ambitious regional grid which would link the major production centres in Irkutsk (the Kovykta field), the Sakha Republic (Chayandinskoye) and the Sakhalin licences with LNG plants on Russia's Pacific coast or export pipelines to markets in China and, possibly, onwards to Korea. Its plans provide for two pipelines to China: the first of these export lines is planned to be operational by 2011 and would deliver 30 Bcm/year to

ONGC and China's CNPC to buy into equity positions in the Russian oil and gas sector. Clearly Russia has every reason to be attentive to these new suitors – given its geopolitical interests. It is also probably safe to say that this new interest by Asian state companies will serve to erode or at least delay progress on market reform, competition and transparency in Russia being pressed for by internal Russian reformers and Western interests. Western arguments that foreign direct investment will not flow in without reform are put into question both by Western companies' expressions of optimism and by the arrival of new Asian suitors with bags of cash.

113. "Gazprom's Far Eastern Gas Plans Gather Speed," *Gas Matters*, August 2007.

the western end of the Chinese West-East pipeline. The second would pass to the east of Mongolia and is planned for start-up in 2013 or later.

Some sections of the grid are already in place in Sakhalin and Khabarovsk or are under development around Irkutsk. Gazprom has proposed the Altai project (the western pipeline to China with some associated infrastructure in the Altai region) – commercial negotiations with China were due to be completed at the end of 2006, but price remains the big stumbling block. Recently, Gazprom also announced that it intends to build a pipeline in parallel with Transneft's oil line from Taishet in Irkutsk Oblast to Skovorodino in the Amur Oblast. This would be the first section of a main trunk line to the Pacific coast; conveniently, Skovorodino is roughly where the proposed eastern line to China would start.[114]

Gazprom will need to address whether China can afford to reject Russian gas supplies and still satisfy its energy demand. China is certainly in a stronger bargaining position than it has been. Several significant new discoveries in the last couple of years have lifted reserves to between 2.45 and 3.5 Tcm, depending on the data source.[115]

So where does this leave Gazprom? In the absence of a price agreement with China, the immediate prospects for pipeline export are not good, so we might expect to see Gazprom making an early investment in the line to Skovorodino. This would serve it well in two ways; it leaves the option to deliver gas to eastern China open but also makes the first move in a line to the Pacific and means it would not need to spend time and money picking a route. By investing in the line to the coast, Gazprom would also be showing China that it is developing outlets to other markets. The stand-off on pricing could see Russia developing several LNG plants on the Pacific coast sooner rather than later.

---

114. However, all this may not develop quite as Gazprom intends. Firstly, it has not yet completed its sales agreement with China. Everything is apparently in place, including a price formula, which links gas price to oil prices, with the single, important exception of the price itself. China recently refused to pay more than $100/Mcm ($2.84/MMBtu) at the Russia/China border, according to reports. At this level, Gazprom would be unlikely to find the deal attractive compared with delivery to domestic markets where it is proposed to raise prices to between $100 and $125/Mcm by 2012 reflecting oil-linked net back values based on Gazprom's sales in the European market.

115. This means that even with the lower reserve level the R:P ratio has been maintained at around 41 years despite doubling production levels from 27 Bcm in 2000 to 58 Bcm in 2006. CNPC has just committed to build a second, 30 Bcm/year West-East pipeline, this time starting with a partner, Sinopec, whose Puguang field will supply the feed for the new line. Cooperation between the Chinese majors is likely to improve domestic supply, thereby reducing the need to look for Russian supplies.

Figure 4: Proposed and Existing Russian Gas Pipelines in Eastern Siberia and the Far East

Collaboration or Confrontation with China

The relationship between China and Russia is a typical one between two great powers – on the one hand, pragmatic considerations urge both sides to cooperate; on the other, deep-rooted suspicion exists towards each other due to historical disputes.[116] Russia's eastern regions are sparsely populated and border a heavily populated Chinese region – which presents the threat of illegal Chinese migrants.[117] Russia is concerned about China's rise, which could threaten its position as a regional superpower. From this perspective, fuelling Chinese modernization by supplying energy to the country could be seen as risking Russia's own interest.

Additionally, Chinese efforts to court Central Asian countries could also undermine the traditional sphere of Russian influence. (Recall that Gazprom buys about 55 Bcm a year from Kazakhstan, Turkmenistan and Uzbekistan, which is 10 percent of its own production). The SCO has also been seen as a tool for Russia and China to blunt growing US influence in the region, as well as provide a forum for

116. B. Lo and A. Rothman, "China and Russia: Common Interests, Contrasting Perceptions," Asia Pacific Strategy, op. cit., 4.

117. Ibid., 13.

the historic protagonists to resolve their differences as they jockey for position in Central Asia.

Although this is still the case, the SCO is evolving in a way that could see it play a major role in the development, including production, transit, and export, of Central Asia's oil and gas resources. The key dimension of the SCO remains the Sino-Russian relationship. China and Russia have developed increasingly close relations, sharing a common resentment of the West's global dominance and its tendency to interfere in what they regard as "internal affairs." However, despite the recent warming in relations and shared fears of US "encirclement," the two countries' ties with the US will remain their most important bilateral relationship.

Whereas Beijing emphasizes the SCO's utility as a vehicle for coordination on soft security and economics (which includes anti-terrorist activities short of conflict), Russia apparently sees, or hopes to see, the organization as a military alliance in some way susceptible to its agenda. Yet Russia's hopes of achieving this outcome have not been realized until now because of the opposition of China and the Central Asian states to a military bloc. They prefer an organization whose main purpose is anti-terrorism and economic cooperation and are ultimately suspicious of being included in any bloc, particularly one identified as being openly anti-American.

There are, however, many common grounds for both Moscow and Beijing to cooperate. Russia has an important place in Chinese geopolitical calculations as a supplier of both energy resources and modern weaponry. Both countries have a strong government intervention in the economy. Both face 'pressures from the West on issues of democracy, market liberalization and media and religious freedoms', and both share the same objection towards 'separatism, radicalism and extremism'.[118] Given its energy efficiency and environment-friendliness, Russian gas is a rational alternative to oil, and especially to Middle Eastern oil, for China. With nearly a third of global reserves – and possibly more in the unexplored recesses of Siberia and Arctic – Russia is a natural supplier not only to China, but also to Northeast Asia.

Dependency is reciprocal. Russia needs China to access Asian markets and to promote the economic development of its Eastern regions and to counterbalance its dependence on the EU and the US.[119] Russia is China's fifth-largest foreign oil supplier, providing about a tenth of Beijing's imported oil needs. The two countries are also in talks to build an $11.5 billion pipeline from Angarsk in Russia's Siberia to the Pacific Ocean, with a connection to the Daqing oil

118. B. Lo and A. Rothman, "China and Russia: Common Interests, Contrasting Perceptions," Asia Pacific Strategy, op. cit.

119. L. Wang, "The East Energy Diplomacy of Russia and the Sino-Russia Energy Cooperation," op. cit.

fields in eastern China. During Putin's recent visit, the two countries signed an agreement to expand their cooperation on joint oil and development projects between Rosneft and CNPC. China was allowed to participate through a 20 percent share in Yuganskneftegaz, the major production arm of Yukos in 2005. A Chinese loan of $6 billion to the Russian government enabled Rosneft to achieve the purchase.[120]

Gazprom is considering building two new pipelines that would deliver natural gas to China. Each pipeline would have a capacity of some 40 Bcm per year. In addition, the two countries signed several joint gas exploration and production deals. Deliveries of Russian gas from Siberia could start in as few as five years. A Sakhalin-China gas pipeline is reported to be under consideration, and an MOU was signed for Russia to commit gas supply to China starting from 2011 with an annual import capacity of 60 to 80 Bcm.

Probably the most crucial question for the future of Russia as an energy supplier to Northeast Asia, however, is whether or not international investors and Russian companies will be able to make competitive deals with other Northeast Asian countries. In this regard, the question of transportation becomes particularly salient when the vast territories, cold temperatures, and rugged terrain between Siberian gas fields and Northeast Asian markets are taken into consideration.

Central Asia/Caspian – A Growing Producing Region and Scene of New Geopolitical Rivalry

Central Asian/Caspian countries offer the best available option for China to reduce its dependence on the Gulf and avoid the "Malacca dilemma" as the transportation from these countries is relatively secure, short and by land-based pipelines. Therefore, it is no surprise that China has made this region a cornerstone of its energy security policy in order to diversify its import sources and avoid the risks of over-reliance on one single supplier.[121] The lack of a strong US military presence in this geography, especially one that can counter China's massive land power, has made this neighboring region an appealing source of energy in the eyes of Chinese strategic planners.[122]

120. Sergei Blagov, "Russia Walks Thin Line between Japan and China " op. cit; B. Lo and A. Rothman, "China and Russia: Common Interests, Contrasting Perceptions," Asia Pacific Strategy, op. cit.

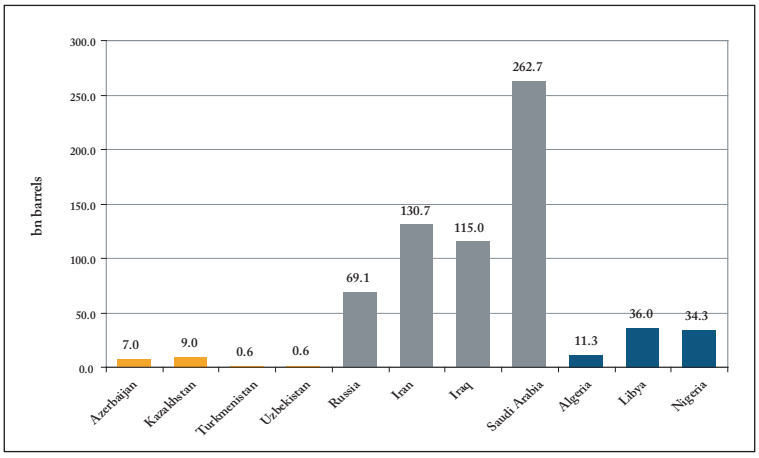
121. B. Boekestein and J. Henderson, "Thirsty Dragon, Hungry Eagle: Oil Security in Sino-US Relations," op. cit., 32.

122. *China Daily*, June 22, 2006.

The Caspian Sea, with its western shore forming the eastern edge of the Caucasus and its eastern shore marking the beginning of Central Asia, is now seen as a significant factor in global oil and gas supplies.[123] In the early 1990s, many sceptics regarded the Caspian Sea region as too backward, too unstable and too commercially unattractive to warrant development compared with potential oil ventures in Russia. The situation today has reversed completely.

The oil and gas potential of Caspian states is sizeable – estimated at up to 3 percent and 4 percent of the world total, respectively. The US Department of Energy estimated regional oil reserves ranging between 17 and 33 billion barrels, comparable to OPEC member Qatar on the low end and the US on the high end. By 2010, the countries of the Caspian region are forecast to produce between 3 and 4.7 mbd from roughly 1.6 mbd in 2002. The Caspian provides a diversified non-OPEC supply of oil which helps to maintain energy security, brings the benefits of increased competition to the consumer, and lessens the risk of political upheaval in one country or region significantly affecting supplies.

Figure 5: World's Major Oil-Reserve Countries



Source: BP Statistical World Review 2004 / Shine Solutions

Kazakhstan's Expanding Energy Links with China

Among Caspian/Central Asian countries, Kazakhstan matters most to China. Their close relationship dates back 2,000 years, largely based on interactions along the Silk Road. In January 1992, only one month after the founding of the new Central

123. D. Zweig, "The Foreign Policy of a 'Resource Hungry' State," op. cit.

Asian countries, a Chinese delegation visited Kazakhstan to establish diplomatic relations. Since then, significant progress has been made on many fronts.

Kazakhstan's combined onshore and offshore proven reserves are 37 billion barrels of oil and 3.3 Tcm of gas,[124] which can allow it to move to the higher echelons among the world's major oil producers, with targets of 2 mbd of oil production by 2010, and 3 to 3.5 mbd by 2015. Markets for exported Kazakh oil too are growing rapidly, and current infrastructure helps deliver oil to world markets through the Black Sea port of Novorossiysk (via the Tengiz-Novorossiysk pipeline) and the Arabian Gulf (via swaps with Iran), as well as northward to Russia via pipeline (Atyrau-Samara pipeline) and rail.

By the end of this decade, Kazakhstan will likely become a vital part of China's energy security response measures. China has already achieved a major coup with its investments in Kazakhstan, not only signalling but also implementing its intention to function and be seen as a major player in the country's oil and gas development and helping to create alternative hydrocarbon export outlets. The resources it has acquired and probably will acquire in the future, by whatever path they may reach China (e.g. from the proposed visionary "Energy Silk Route" pipeline system), will considerably help China's efforts to diversify import sources and bring them closer to home in a geopolitical sense.

China's quest for energy security is one key reason for its expanding energy linkages with Kazakhstan, but other reasons are equally important, i.e. border security, ethnic unrest in Xinjiang and access to burgeoning consumer markets in Central Asia. Beijing is also fashioning itself as an alternative political and economic development model, conscious of the fact that the Western-dictated structures have led to resentment in this country. Astana and Beijing have so far signed 11 cooperation agreements in various fields since 1993. Efforts to expand economic and commercial relations have resulted in tremendous success as bilateral trade grew to $6.8 billion in 2005 – an increase of more than 16 times in 14 years.

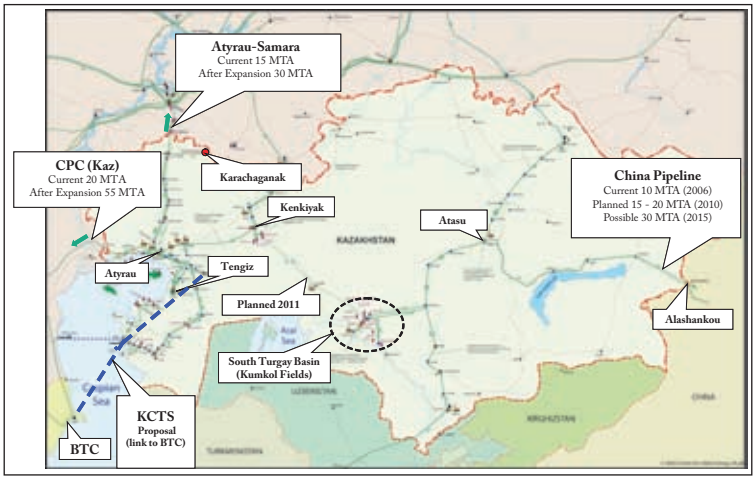
Different from Russia, the Chinese are favorably viewed in upstream investment in Kazakhstan. According to the former Kazakh Energy Minister Izmukhambetov, Chinese companies operating in Kazakhstan currently account for 12 percent of hydrocarbon production in the country. That figure is expected to rise sharply in

124. The forecast potential gas reserves are 6-8 Tcm mainly because of the Caspian basin. However, alternative estimates are less optimistic: BP's data quoted 9 billion barrels of oil and 1.84 Tcm of gas. Virtually all of these reserves are located in the west of the country, where three major onshore fields – Tengiz, Uzen and Karachaganak – are located. In addition, the Kazakh sector of the Caspian Sea is believed to contain billions of barrels of undiscovered oil reserves.

the near future[125] not only in upstream investments but also in eastward pipelines. Kazakhstan views the China pipelines as key to its efforts to ensure that no regional power can exercise strategic control over its energy routes and its broader economic and political ties to western, Mediterranean, and Asian partners.[126]

International energy companies favor multiple pipelines to ensure reliable market access and a predictable commercial regime so as to avoid excessive transit fees set by any one pipeline operator and mitigate geopolitical risks. China and Kazakhstan have partnered to expand an oil pipeline set to link mainland China to the Caspian Sea, thereby providing the former with direct access to the energy-rich region. For this purpose, the CNPC inked an agreement with KazMunaiGaz in mid-August 2007, paving the way for the expansion of the Atasu-Alashankou pipeline 700 km westwards.

Figure 6: Kazakhstan's Major Oil Pipelines



China's participation in the upstream of Kazakh's oil sector has grown dramatically since 1997 when CNPC acquired stakes in two oil fields: Kenkiyak & Zhanazhol Fields.[127] In the same year, a majority stake was acquired at a cost of $4.3

125. http://www.rferl.org/featuresarticle/2006/12/1f638050-5f67-421b-952b-82219a5739cc.html

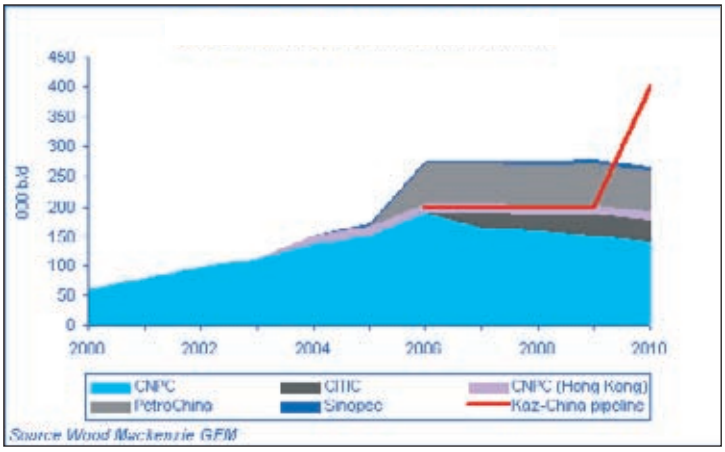
126. Mehmet Ogutcu, "Kazakhstan's Expanding Cross-Border Gas Links: Implications for Europe, Russia, China and other CIS countries," CEPMLP Internet Journal 17 article 8, http://www.dundee.ac.uk/cepmlp/journal/html/Vol17/article17_8.php, November 21, 2006.

127. K. Wu and S. Han, "Chinese Companies Pursue Overseas Oil and Gas Assets," *Oil and Gas Journal*, 2005.

billion in Aktobemuniagaz, which owns large fields in Aktyubinsk.[128] CNOOC wanted to buy BG stake in Kashagan, but this did not work out as planned.

In 2005, CNPC successfully secured one of its largest overseas assets, the Canadian-registered Petro Kazakhstan, at a cost of $4.18 billion, although CNPC was required by Kazakh to sell one-third of this company to KazMunaiGaz. At the end of 2006, another Chinese investment company bought 100 percent stake in Canada's Nations Energy Company Ltd at a cost of $1.9 billion, again under the condition of offering half stakes to KazMunaiGaz.[129] It will develop the Karazhanbas oil and gas field in Mangistau Oblast by 2020.

Figure 7: Aggregate Chinese Production in Kazakhstan



The Sino-Kazakh energy cooperation is not limited only to upstream exploration and production. In 2004, after Russia opted out of the Angarsk (Russia)-Daqing (China) pipeline, a deal to build an oil pipeline linking Kazakhstan and China was signed during Nazarbayev's 2004 state visit to Beijing. The pipeline is a joint venture between CNPC and Kaztransoil. Construction of the pipeline's first phase with an initial capacity of 200,000 b/d was completed in December 2005.[130] The capacity is expected to be upgraded to 400,000 b/d and the proposed expansion is expected to be financed almost entirely by China.[131]

128. B. Boekestein and J. Henderson, "Thirsty Dragon, Hungry Eagle: Oil Security in Sino-US Relations," op. cit., 36.

129. Interfax, "Nations Energy Changes Name to CITIC Canada Petroleum," China Energy Report Weekly VI, no. 3 (2006).

130. K. Wu and S. Han, "Chinese Companies Pursue Overseas Oil and Gas Assets," op. cit.

131. C. Pala, "The 'Great Game' Goes on," *Petroleum Review* (2007), 17.

The Kazakhstan-to-China pipeline will eventually stretch 2,860 km across Kazakhstan once all phases are completed, connecting CNPC's fields in western Kazakhstan's Aktyubinsk region with western China. This represents one part of a massive Chinese plan to secure as much of Kazakhstan's oil riches as possible. The Chinese plan aims to connect several pieces of infrastructure – some Soviet-built, some Chinese-built – then reverse the flow of some of them and forge a new export corridor stretching from Kazakhstan's Caspian basin, including Kashagan, through a series of western- and central-Kazakh oil zones, and ultimately into China.

Not only would the pipeline cutting diagonally across Kazakhstan give China an export outlet, it also would deliver natural gas to Kazakhstan's inner regions. China would provide the funding for the much-desired pipeline, for which Kazakhstan has so far been unwilling – or unable – to put aside the money. Though this is one reason for Kazakhstan's invitation to China, it is not the most significant. By getting the Chinese involved, Kazakhstan has created a balance to Russia, ensuring that it does not become entirely dependent on Russia for its energy export needs.

Figure 8: Kazakhstan-China Oil and Gas Pipelines

Source: CERA

In addition to the oil pipeline, CNPC signed an agreement in August 2005 to construct a 3,000 km gas pipeline to supply China's west to east pipeline, currently underutilized.[132] The route is still undetermined, but the parties agreed to design

132. C. Pala, ibid., 18.

the pipeline for throughput of at least 1060 bcf per year (30 Bcm) and with initial flows of 350 bcf per year.

Kazakhstan and China are looking at three possibilities. The options include the expansion of the existing pipeline between the Uzbek cities of Bukhara and Tashkent to Almaty, via Taldy-Kurgan in Kazakhstan to Alashankou on the border with China. Another option is the construction of a new gas pipeline connecting Ishim in Russia's western Siberia and Alashankou through the Kazakh cities of Astana and Karaganda, while the third is building a pipeline from Chelkar in western Kazakhstan through Kyzyl-Orda to Chimkent where it would connect to the Bukhara-Tashkent-Almaty pipeline. Kazakhstan has also offered to open up its territory for the transit of Turkmen natural gas to China.

Not all is fine. Although formally welcoming Chinese investment, Kazakhstan remains suspicious about its eastern neighbor with 100 times its population but only three times the area. Some in Kazakhstan advise caution in dealing with China. Former opposition figure Marat Auezov points to the Kazakh-Chinese border agreement in the mid-1990s that ceded huge areas of Kazakh territory to China, and the agreement for China to use water from the Kara-Irtysh River that flows from China into Kazakhstan to help develop its own oil fields in the Xinjiang Uyghur Autonomous Region.[133]

China's practice of bringing in its own workers intensifies this distrust.[134] The worry about a China threat is also frequently expressed. For example, Kazakhstan's parliament has recently expressed growing concern about China's increasing acquisition of the country's oil reserves. In response, the Kazakh Energy Minister announced that he will block further Chinese acquisitions in the energy sector. A member of Nazarbayev's Otan Party, Valery Kotovich, said in parliament that China's aggressive purchasing policy has posed a threat to Kazakhstan's independence. Some analysts believe that the Kazakh leadership is using China for increasing its leverage in negotiations with Russia.[135]

Other CIS and SCO

Not only were a number of upstream investment, pipelines and refinery deals signed with Astana, but China will explore for oil and gas with Turkmenistan and is talking to Uzbekistan and Kazakhstan about gas pipelines from the latter through, or with branches to, Uzbekistan and Turkmenistan, so that it can avoid

133. K. Wu and S. Han, "Chinese Companies Pursue Overseas Oil and Gas Assets," op. cit.; C. Pala, op. cit., 17.

134. C. Pala, ibid., 16.

135. C. Pala "The 'Great Game' Goes on." *Petroleum Review* (2007): 16-18.

having to depend on Russia. Since neither of those Central Asian states wants to be permanently tied to subsidizing Russia at below market prices, the stage is being set for Sino-Russian rivalry in Central Asian gas affairs.[136]

This is all the more likely as Russian demand is increasing, while its pipeline capacity is insufficient, and it is determined to subordinate Central Asian gas producers to its whims so that it can keep the region dependent upon it, maintain Gazprom's monopoly over gas and pipelines, and provide its own customers with cheap energy at subsidized prices.

Originally known as the Shanghai Five, the SCO, mainly focused on its Central Asian members' security-related concerns, namely the "three evil forces" of terrorism, separatism and extremism, has been transforming itself into an effective regional organization. The SCO's growing cooperation in the military and energy spheres has made some non-SCO countries apprehensive.

The most significant outcome of the August 2007 Bishkek summit was a new step taken toward creating a regional energy club within the SCO pursuant to a proposal made last year by Russian President Putin. Energy-related agreements have already been signed by individual states on the sidelines. Kazakh President Nazarbayev has championed the proposal this year and also asked for a unified energy infrastructure among the member states. "The draft Asian energy strategy envisions the establishment of an SCO Energy Agency, which would be a type of 'brain centre' and database, while transactions on the market for energy resources could be made through an SCO energy bourse," Nazarbayev said. He believes that forming an oil and gas club was one of the pivotal ideas for the SCO, as the existing pipeline system linking Russia, Kazakhstan, Central Asia and China, could serve as a basis for establishing a uniform SCO market.[137]

President Putin added his voice to the demand for creation of an energy club and stressed that expanding fuel trade cooperation could give an impetus to regional projects. "I am sure that the initiated energy dialogue and accompanying national energy strategies, as well as the establishment of an energy club, will set the priorities for our further cooperation," he said. At the talks in Bishkek as an observer, Iranian

136. Putin agreed in May 2007 with his counterparts from Turkmenistan and Kazakhstan to refurbish and build pipelines to boost gas supplies to Russia by 40 percent, an agreement, which could pre-empt a plan by the US government to build a pipeline under the Caspian Sea, from Turkmenistan to Azerbaijan, bypassing Russia.

137. Mehmet Öğütçü, "Is the Shanghai Cooperation Organisation the 'Rising Beast in the East'?", *Today's Zaman*, August 28, 2007, http://www.todayszaman.com/tzweb/detaylar.do?load=detay&link=120034&bolum=109.

President Ahmadinejad too came up with a proposal to hold a meeting of SCO energy ministers in Tehran "to optimize cooperation in transportation, prospecting, development and refining."

The enlargement of the SCO was intensely discussed in Bishkek as there are differing views on its future direction and mission. Moscow wants India in the SCO as a member but may have to pay China's price, which would be membership for Pakistan. This extension of membership raises the possibility of two members who are still waging a proxy war against each other being in the same collective security organization. Arguably, such an extension could only be accommodated by removing the SCO even further from a military role because it would then be hamstrung from the outset in responding to any kind of serious military or even terrorist threat.

Will Turkmenistan Join?

The Bishkek meeting was the first time a Turkmen leader attended a SCO summit. After years of isolationist policy under the rule of President Niyazov, who died last year, new leader Gurbanguly Berdimuhamedow has softened some of his predecessor's iron-fist policies, increasingly opening up its economy to the outside world. He recently signed gas pipeline deals with Russia and China. The decision to take part in the meeting as an "honored guest" follows a recent improvement in Turkmenistan's relations with Russia. So far, however, Turkmenistan has not signaled that it has plans to join the SCO in any capacity.

Both Moscow and Beijing have been urging Turkmenistan to forsake its previous neutrality and join the organization. Doing so would formally end its neutrality, but it is unclear how Turkmen membership might modify the basic rules and conditions of membership in the organization, unless Moscow is able to turn it, as it sought to do in 2006, into an energy club. This last goal may well be another manifestation of Russia's effort to galvanize practical outcomes in the SCO especially as it is working hard to set up a gas cartel in the Commonwealth of Independent States under its auspices and Kazakhstan and Turkmenistan would be main producers in such a cartel. A crucial factor – which the Russians are keen to point out – is that Iran, India and Pakistan are now observers at the SCO. And the SCO could be able to protect pipelines going in all directions.

Under the watchful eye of the late Turkmen President-for-Life Saparmurat Niyazov, Turkmenistan emerged as a crucial link in the chain of gas suppliers to Europe via Russia and China. The new president Berdymukhammedov said Turkmenistan would "strive to deliver energy resources, especially natural gas, to world markets, adhering to the existing contracts and looking for new partners."

He has also suggested that Turkmenistan may seek to diversify its current export options, currently all dependent on Russia with the exception of a single pipeline to Iran. Referring to an April 2006 agreement to supply China with 30 Bcm of gas a year beginning in 2009, Berdymukhammedov vowed that Turkmenistan would meet its obligation ("from the right bank of Amudarya") to Beijing.

A most recent development is a gas deal between China and Turkmenistan to lay a pipeline to deliver 30 Bcm/year to China. The deal is far from complete. A route has not been finalized: a route via Uzbekistan and Kazakhstan is currently being considered but Kyrgyzstan has also been mentioned. The former option would open the possibility of both transit countries supplying gas to China. Like all other pipeline deals with China, price has yet to be settled. Reserve levels may also be an issue: Turkmenistan's current 2.9 Tcm of proved reserves is only just sufficient to supply China (30 Bcm/year), Gazprom (60 Bcm/year) and domestic demand (15 Bcm/year) for 30 years, leaving nothing to spare. Future discoveries would help but it is risky to plan on the basis of undiscovered reserves.

Turkmenistan may be preparing the options, if Gazprom fails to secure an acceptable price, of selling to China instead and dropping sales to Gazprom. Similarly, China may simply be playing the field: the more pipeline options it has the better its chances of getting a price it likes.[138] The Chinese are also allowed to participate in upstream oil and gas business in these countries.[139]

Russian opposition to a Turkmenistan-China gas pipeline is a near certainty. Moreover, Uzbekistan's international isolation and close ties to Russia render it an unlikely choice as a transit country for a pipeline project that Moscow would like to scupper. Kazakh President Nazarbayev, on the other hand, is the regional master of multi-vector foreign policy.

China is also pursuing energy cooperation with Uzbekistan, which used to be the third-largest producer of natural gas in the Soviet Union, accounting for more than 10 percent of the USSR's production, trailing only Russia and Turkmenistan. Uzbekistan's natural gas reserves are currently estimated to exceed 1 trillion cubic meters. They are primarily concentrated in Qashqadaryo province and near Bukhara in the country's south-central region.

One year ago, Uzbekistan and China initialled an agreement to facilitate the annual transit of 30 Bcm of Turkmen natural gas across Uzbekistan territory, with Tashkent helping to construct a pipeline and two compressor stations for the route

138. B. Boekestein and J. Henderson, "Thirsty Dragon, Hungry Eagle: Oil Security in Sino-US Relations," op. cit., 38.

139. Interfax (April 1-7, 2006), Volume V, Issue 13.

transiting southern Kyrgyzstan. The pipeline is not initially to transport Uzbek gas, but rather to facilitate Turkmen exports eastward. Traditionally, Uzbek energy exports have utilized the Soviet-era Transneft pipeline monopoly, despite Tashkent's persistent efforts since 1991 to diversify its outlet options. For now, Uzbekistan remains largely a transit country rather than a net energy exporter in its own right. The fiercely independent nationalist policy that Tashkent has followed since 1991 makes all speculation about the country's energy prospects uncertain at best.

Looking to the Future

China's manner of entry into the global energy markets holds no surprises. Its strategies bear strong similarities to those of others and they are equally assertive. Therefore, it has become clear that China is looking for a strong place in the system. Other players must make room for it, recognizing clearly that China is not a marginal player but a powerful new force in the international energy markets.

What the foregoing analysis highlights unambiguously is the growing economic and strategic importance of China in the new global order, and the substantial effect its growth is having on global energy demand and diplomacy. The significance of China in global energy and geopolitics will only grow stronger as time passes.

Neither Chinese forecasts nor estimates made outside the country suggest any scenario other than the one in which China will continue to be one of the world's great importers of oil and gas.[140] Thus, energy remains – and will continue to be – a central concern for China and its global search to secure future energy supplies has taken on great urgency.[141] China's growing energy needs, combined with its limited domestic energy resources and fragile international politics, dictate that the country will necessarily become a player of growing importance on the international energy stage, particularly in the hydrocarbon-producing regions.

140. Even if stellar economic growth continues, the Chinese may find attractive alternatives to oil: the country is extremely rich in coal and natural gas, and, since it has not yet invested heavily in an expensive petroleum infrastructure, it could develop ways to harness fuels produced from coal and biomass (both of which it has in abundance) and thus overcome its dependence on imported oil altogether. For the time being, the trend lines are what they are: oil reserves elsewhere are being depleted faster than in the Middle East, and before too long that region will contain the last remaining reservoir of cheaply extractable crude. If each barrel the US needs is also sought after by China, a superpower conflict in the world's most unstable region could once again become an omnipresent danger.

141. Robert E. Ebel, *China's Energy Future: The Middle Kingdom Seeks Its Place in the Sun* (CSIS, 2005).

This will inevitably bring about a significant geopolitical power-shift, which China and other major players have to manage carefully. Also, its massive reliance on petroleum import and the specific approaches it takes to secure its import may be seen as a threat. However, China's expanding energy interests should not necessarily pose a threat to the West or to its Asian neighbors. Instead, they can be used as an opportunity to integrate China into existing and new institutions and mechanisms at global and regional levels.

The Chinese government has recognized the need to address a range of energy security issues but has yet to develop a coherent policy. China's energy policy has emphasised 'strategic' means to enhance security of energy supply rather than market mechanisms.[142] One of the major challenges for outside observers is to understand the decision-making processes within the Chinese ruling elite. Examination of specific policies relating to energy in Central Asia, Russia, Africa and the Gulf shows that decision-making is driven by a complex interplay of political, diplomatic and economic factors.

China has participated in an Asia-wide trend in turning toward the Middle East for rising supplies of imported oil. It competes for those supplies, but more in attempting to make them secure on a long-term basis than in the sense of vying for a scarce resource. As its Gulf oil trade has developed by necessity, China has striven hard to put its many trading relationships with the countries concerned on a sound, long-term basis, through reciprocal investment and non-oil trade. Its forays into Iran (with arms trade), Iraq and Sudan have raised eyebrows in other oil-importing capitals, notably Washington.

Practically all of the regional projects have common characteristics: they will involve strong international cooperation, including financing from around the globe and heavy international sharing of the output. Exploitation of the hydrocarbons beneath the South China Sea hardly seems feasible except in a multilateral context because investors will demand stability before they commit themselves. The Mekong River development scheme inherently involves a jointly-owned, multilateral resource. Siberian gas cannot flow southward unless or until China, Japan and Korea can agree on jointly sharing the output and jointly building the pipelines with Russia, which must be pleased with the terms. Bringing such schemes to reality will draw China ever more tightly into the international energy system.

Asian countries are already exploring the possibility of establishing a regional

142. A. Andrews-Speed, *The Strategic Implications of China's Energy Needs* (Adelphi Papers, 346), 2002.

cooperation framework that may change the landscape of the global energy market. The framework, both at the governmental-level and company-level, will include an integrated regional oil market and an emergency mechanism for sharing strategic oil stockpiles among the countries. Under the scheme, Asian countries will also wrap up long-term oil supply deals, cross-border oil and gas pipeline projects, and joint investment in oil and gas exploration, production, refining and marketing, and promote clean and renewable energy. Though it may take a decade for the ambitious scheme to be put into effect, many Asian countries, plus key suppliers in the Gulf, believe the project could help stabilize energy supply and security in the region. Such energy cooperation may also bring in neighboring resource-rich areas, such as Australia, Russia and Central Asia.

Experts even suggest energy cooperation could be a foundation from which the region could form an EU-style integrated community using the basic framework to promote market efficiency and accelerate liberalization across the region.[143] The political and economic systems vary considerably among Asian countries, but energy cooperation could be a breakthrough to integrate the countries together, economically and politically. In January 2005, for the first time the oil ministers of Asia's four largest consumers – China, Japan, South Korea and India – had met with eight Middle East oil producers to discuss Asian energy cooperation. On the commercial level, 12 major oil companies from China, Japan and South Korea also met in September 2005 in Seoul to discuss the possibility of setting up an oil exchange center in Northeast Asia, share oil storage tanks, and cooperate on crude imports. These meetings were held against a backdrop of regional cooperation, including the potential energy partnership between the 10-member ASEAN and China, Japan and South Korea.

As Asia is expected to account for 45 per cent of the world's oil demand by 2020, developing emergency response capacity will be critical. Asian oil consumers have long been plagued with price discrimination over oil imports from the Middle East, known as the "Asian Premium." Due to the heavy reliance on the Gulf, and insufficient information, Asian countries have to pay $1-$1.5 a barrel higher for imports than their North American and Western European counterparts. At the moment, the Asian Premium costs Asian countries more than $10bn a year. Collective Asian demand should have market power vis-à-vis suppliers.

But there is not much room for over-optimism because daunting challenges make the potential cooperation framework very difficult to work. For one thing,

143. Xie Ye, "Asian Nations to Set up Energy Co-op Scheme," *China Daily*, April 22, 2005.

heterogeneous political and economic systems and market behavior set the countries apart. Energy markets in these countries are relatively immature with strict import barriers. Cross-subsidies on energy prices and entangled tax systems could also deter creation of a competitive energy market. Then there is the issue of trust. It is still a big question whether countries are willing to bank their energy security on a regional (or multilateral) framework.

At a time when intense competition for unimpeded access to the world's natural resources is continuing and is likely to increase, enhanced energy linkages and associated ties can contribute to the development of a cooperative mechanism involving China, the CIS, and the Gulf – exactly the opposite of the "Great Game." However, if these players are unable to manage wisely their internal dynamics and organize their interdependence rationally, the collaborative efforts will not yield any tangible results. Therefore, these regions should be more engaged in multinational frameworks such as the IEA, the IEF, the Shanghai Cooperation Organization,[144] East Asian ASEAN+3, and Asia-Pacific Economic Cooperation.[145] This will help remove the sense of isolation each may feel and persuade them that uncooperative energy policies would work against their own best interests in the longer term.[146]

144. If the SCO membership expands to include Turkmenistan, Iran, India and Pakistan, the nature of the organization would undergo a serious qualitative change and stimulate new dynamics in the endlessly unfolding "new great game" for access and influence in Central Asia. Given that the SCO is set to play a key future role in this region, it is important to keep a watchful eye on its activities, particularly on how the proposed Energy Club will evolve, and the new security architecture taking shape in Eurasia in light of expanding energy, trade, investment and security ties between Russia, China, Central Asian countries and Iran.

145. B. Lo and A. Rothman, "China and Russia: Common Interests, Contrasting Perceptions Asia Pacific Strategy," op. cit., 13; G. Christoffersen, "Angarsk as a Challenge for the East Asian Energy Community. Northeast Asian Security: Traditional and Untraditional Issues," op. cit., 11.
Interfax, "SCO Discussing Prospects for 'Energy Club' in Tashkent," *China Energy Report Weekly* VI, no.7 (2007): 2.

146. G. Christoffersen, "Angarsk as a Challenge for the East Asian Energy Community. Northeast Asian Security: Traditional and Untraditional Issues," op. cit., 3.

Emerging State Centralism in the Russian Energy Sector: Precedents from the Gulf

Justin Dargin

Harvard University - Dubai Initiative

Introduction: Russia-GCC Cooperation - The Giants Meet

In February 2007, President Putin made a historic tour of the Arabian Gulf. This visit followed the Moscow visit of King Abdullah, then Crown Prince, in 2003.[1] Officially, the goal of the Russian President's tour was to discuss the many regional and international issues of importance, such as the Iraqi crisis, and the Palestinian-Israeli peace process.[2] However, other issues came to the fore and illustrated that there was much more at stake in the visit than regional peace-making.

President Putin immediately set about laying the groundwork for a strengthened Gas Exporters Countries Forum (GECF).[3] He also reached agreements with the major Gulf Cooperation Council (GCC) members –Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates – to defend the global petroleum price, while urging the Gulf leaders to provide enhanced investment opportunities for Russian energy companies.[4]

This tour illustrated the potential for cooperation between the two largest

1. See "Putin Visits Saudi Arabia," MSNBC, February 11, 2007, available at <http://www.msnbc.msn.com/id/17106519/>
2. Ibid.
3. Ibid.
4. See Igor Tomberg, "On Vladimir Putin's Arab Middle East Tour," Strategic Culture Foundation, February 26, 2007.

energy exporting regions in the world, Russia, through the Commonwealth of Independent States, and the GCC. Putin dispelled any doubts as to the purpose of his visit when he stated that, contrary to popular belief, Russia and Saudi Arabia are not energy rivals, but "in fact, allies and partners."[5]

The first stop of the Putin tour was in its historical rival in oil production, Saudi Arabia; it was the first time a Russian president had visited any GCC country.[6] Putin had been cultivating the Saudi Arabians since the May 2003 terror attacks in the Kingdom, initially asserting the commonalities between the two nations in Islamic heritage and the shared threat of Islamic extremism.[7]

Another goal of the Kremlin was to strengthen bilateral economic ties, which proved successful, and Russian exploration companies[8] Lukoil and Stroytransgaz returned home with exploration and production agreements. Lukoil developed plans to invest $2 billion in Saudi gas fields.[9] Further, President Putin hinted that Russia would welcome any Saudi desire to invest in Gazprom and Lukoil, thus leaving the stage open for future cooperation. [10]

Russia and Qatar: The Road to a Gas Opec?

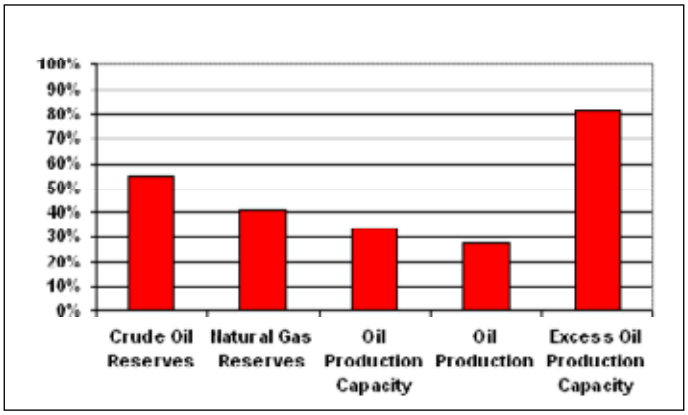
After Saudi Arabia, Putin's next stop was in the gas giant, Qatar, and he sought to promote cooperation between Russia, holding the number one position in gas reserves, and Qatar, the leader in LNG production and export. The idea of a more vigorous, slimmed down, version of the GECF, based on the Organization of Petroleum Exporting Countries (OPEC), had been floated by President Putin to Iran and Qatar long before his visit. All three countries have multiple reasons to cooperate in gas production; they hold the top three natural gas reserves, and would conceivably dominate the world gas market, as collectively they sit on almost 60 percent of the global gas reserves.[11]

5. In fact, Russia had cooperated with OPEC in 2000 to voluntarily restrain production and increase world oil prices. See Juan Carlos Boue, "Will Russia Play Ball with OPEC," Oxford Energy Comment, January 2004.
6. See Andrew Hammond, "Putin, Saudi King Meet in Landmark Visit," *The Boston Globe*, February 12, 2007.
7. See Mark A. Smith, "Russia and the Persian Gulf, The Deepening of Moscow's Middle East Policy," Conflict Studies Research Center, August 2007.
8. Supra note 4, "On Vladimir Putin's Arab Middle East Tour."
9. See Dr. Robert O. Freeman, *The Putin Visit to Saudi Arabia, Qatar, and Jordan: Business Promotion or Great Power Maneuvering*?, Johnson's Russia List. (February 15, 2007).
10. Ibid.
11. See Energy Information Administration, Country Analysis Briefs, available at http://www.eia.doe.gov/emeu/cabs/contents.html.

Although Qatar initially played coy and publicly announced that the idea was not viable, on April 9, 2007, the GECF announced that it would form a study group to determine how best to coordinate production and other related issues.[12] The Algerian Minister of Energy and Mines, Chakib Khelil, stated, "[I]n the long term, we are moving towards a gas OPEC."[13] However, he added, "It will take a long time."[14]

While Qatar, Iran, and Russia would form the core group, Algeria and Venezuela expressed an initial desire to join as well, which set the gas-consuming West on edge.[15] Putin's Qatar visit also yielded energy agreements signed between Lukoil and QP for joint ventures in oil and gas exploration.[16]

Figure 1: Arabian Gulf as a Percent of World (2006)



Sources: Oil and Gas Journal and EIA Term Energy Outlook

However, before any type of "Gas Opec" could emerge, it would need to develop the fundamentals of a production cartel in order to be effective. Collective production restraint and a "swing producer" able to rapidly match the demand of the market with either increased or decreased production are the necessary prerequisites to be able to influence the global gas market. But natural gas does not have the same characteristics as oil, and it is still difficult to transport it over long distances. Most of the gas exported internationally is transported through regional pipeline

12. See "Natural Gas Producers Take Step Toward OPEC-Like Cartel," *International Herald Tribune*, April 9, 2007.
13. Ibid.
14. Ibid.
15. See Daniel Dombey, "NATO Fears Russian Plans for a Gas Opec," *Financial Times,* November 14, 2006.
16. See Neil Buckley, "Putin Visits Qatar Amid Talk of 'Gas Opec,'" *Financial Times*, February 13, 2007.

networks. If liquefied natural gas becomes more inexpensive and widely used, the development of a "Gas Opec" would be much more feasible

Russia and the GCC Energy Picture - A Sharpening Paradigm

Gulf Oil and Gas Production

The Gulf region, which produced 28 percent of the world's oil in 2006, holds 55 percent of the world's crude oil reserves or 728 billion barrels.[17] The OECD oil imports from the Gulf countries averaged 10.4 billion barrels per day (bbl/d), and its overall crude oil production was 23.6 million bbl/d in 2006. Spare capacity in the region was 25.4 million bbl/d at the end of 2006, which equalled 33 percent of the global total.[18] In addition to vast reserves of petroleum, the Arabian Gulf contains 2,509 trillion cubic feet (TCF) of natural gas, which is about 41 percent of the total proven world gas reserves (as seen from Fig. 1 above).[19] As illustrated by Fig. 2 below, Qatar, Saudi Arabia, and the United Arab Emirates hold the world's third, ourth and fifth largest reserves, respectively and Russia is number one globally.[20]

Russian Energy Production

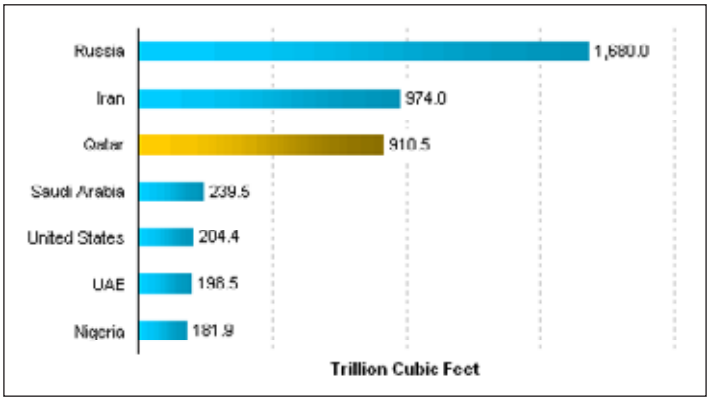
Russia is a major oil and gas exporter vying with Saudi Arabia annually to be the foremost global oil exporter.[21] According to the respected Oil and Gas Journal, Russia holds proven oil reserves of 60 billion barrels, most of which are located in the Western Siberia region, between the Ural Mountains and the central Siberian Plateau.[22]

In the 1980s, Siberian oil production made Russia a dominant producer, peaking at 12.5 million barrels per day (b/d), in 1988.[23]

---

17. In this energy outlook, the Gulf region is taken as a whole including Bahrain, Iraq, Iran, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. See *Country Analysis Brief: the Persian Gulf*, Energy Information Administration, available at http://www.eia.doe.gov/emeu/cabs/Persian_Gulf/Background.html
18. Ibid.
19. Ibid.
20. Ibid.
21. Periodically the two countries switch roles, with Saudi Arabia being in the forefront, or as is the case currently, Russia in the forefront. See Andrew Osborn, "Russia Oil Production Overtakes Saudi Arabia," *The New Zealand Herald*, August 23, 2006.
22. See *Country Analysis Brief: Russia*, Energy Information Administration, available at http://www.eia.doe.gov/emeu/cabs/Russia/Oil.html.
23. Ibid.

Figure 2: Top Proven Natural Gas Reserves, Jan. 1, 2007



Source: Oil & Gas Journal, Jan. 1, 2007

However, oil production dropped to 6 million b/d[24] during the final years of the Soviet Union and in the transition period immediately following.[25] Russia's oil field production rebounded from the low period of 1998-1999, when financial crisis rocked a country that was already struggling to regain its footing after the chaotic fallout from neoliberal reform.

However, privatization and the newly adopted international best practices by some of Russia's private oil and gas companies (notably Yukos) precipitated a more technology-driven oil production, and encouraged best oil field operational practices which helped to increase oil and gas production.[26] In spite of these projects, meteoric oil prices and the rejuvenation of mature fields contributed the most significant boost to increased production.

Russian Gas Outlook

Russia's vast gas reserves are the key to its true geopolitical potential.[27] With the world's largest natural gas reserves,[28] Russia is also the largest natural gas exporter, with

24. Although many industry analysts think that Russia's decline is not just attributable to the political collapse of the Soviet Union as an entity, but to poor oil field management practices catching up. See *Country Analysis Brief: Russia*, Energy Information Administration, available at http://www.eia.doe.gov/emeu/cabs/Persian_Gulf/Background.html.
25. Ibid.
26. Ibid.
27. It has been analogized that if nuclear weapons formed the core of the Soviet Union's power, then the Russian elite view the vast energy resources at the crux of Russia's newfound might. See Liam Fox, "Energy: The New Cold War," *The Sunday Times*, July 15, 2007.
28. The proven reserves are at 1,680 trillion cubic feet.

an extensive gas pipeline network to Western Europe.[29] The state-run gas monopoly, Gazprom, produces approximately 90 percent of Russia's natural gas, preserving the majority of it for export.[30] Russian gas exports travel through an extensive pipeline network stretching throughout the EU, and comprise 25 percent of the EU"s imports, which creates a co-dependent environment for both consumer and producer.[31]

At the time of writing, Russia's economic boom is connected to the rising global commodity prices, especially of oil and gas, and energy reserves naturally figure prominently in its foreign policy stance.[32] Oil revenue accounts for 20 percent of the Russian GDP, nearly 60 percent of its export revenue, and more than 40 percent of the government's fiscal revenue.[33] The utilization and monetization of Russia's vast energy resources stands at the forefront of Russian economic planning, and the administration is developing a coherent strategy to more equitably redistribute the proceeds to the populace.[34]

GCC Energy Policy

The energy policy of the GCC differs in form, if not in content, from the state consolidation that marks the Russian energy sector. Before the GCC was formed in 1981, the Gulf countries' pursuit of nationalization of their oil industry had little viability. This changed in the 1960s 'OPEC revolution,' when the Gulf nations renegotiated, partially expropriated, or bought out the foreign international oil companies (IOCs).

For the most part, the Gulf countries instituted a policy of energy nationalization and expanding state control that responded to the West's sensibilities by conducting 'phased buyouts' of the IOCs' equity stakes.[35] A chief aim of the Gulf States was

29. Ibid.

30. See supra note 24, Energy Information Administration.

31. Ibid.

32. See Simon Marks, "Russia's Economic Boom Strengthens President Putin's Government," PBS Online News, December 22, 2006, available at http://www.pbs.org/newshour/bb/europe/july-dec06/russiaenergy_12-22.html.

33. See Kevin C. Smith, "Russian Energy Politics in the Baltics, Poland, and Ukraine: A New Stealth Imperialism?" The Center for Strategic and International Studies, January 10, 2005.

34. One of the forms of redistribution that the government is attempting is the regional regasification project which was developed to bring gas resources to the underserved regional industrial and private consumers. See "Kovykta Regional Gasification Project Gets New Momentum as Regional Gasification of Russia," TNK-BP website, April 7, 2006.

35. See Frank Church, *The Impotence of Oil Companies*, Foreign Policy, no. 27 (Summer 1977): 27-51.

to forge good relationships between the nascent National Oil Companies (NOCs) and the foreign IOCs.[36] The Gulf States realized that they lacked the technical expertise, established downstream markets, and, in many cases, financial capital, to be able to maximize production from their oil reserves.[37]

From Arab Nationalism to Oil Nationalization

The impetus behind the Gulf States' drive to nationalize their oil reserves was intimately connected with the philosophical underpinnings of Arab nationalism, which itself echoed the broader movement of Third World solidarity and anti-colonialism.[38] Ironically, OPEC's birth in 1960 dealt a blow to the Arab nationalist agenda of redistribution of Gulf oil wealth to their poorer [non-producing] brethren. As the Arab nationalists soon discovered, OPEC served to align Arab oil-producing nations with non-Arab oil-producing nations (Venezuela, Nigeria, Indonesia, and later, Gabon and Ecuador) for increased leverage in the international oil market; in other words, it was strictly a "gentleman's" club.[39] Any analysis of the GCC energy policy and state empowerment should be understood within the context of the "OPEC revolution."[40]

The Gulf nations sought reform of the hated concession system in operation during the pre-WWII era of oil exploration and production in the Gulf. A concession, which was a legal right granted to IOCs, generally lasted for several decades, and bestowed the IOC with ownership and production rights of the subsurface minerals in a specified area. In practice, however, the concession generally extended over the entire oil-producing nation.[41]

---

36. Ibid.
37. See Irvine H. Anderson, "Aramco, the United States, and Saudi Arabia: A Study of the Dynamics of Foreign Oil Policy, 1933-1950," *Reviews in American History* 10, no. 2 (June 1982): 259-264.
38. Gamal Abd-Nasser saw petroleum as the "vital nerve of civilization" and the key to unlocking the economic potential of the Arabs. See Gamal Abd al-Nasser, *Philosophy of the Revolution* (Buffalo, N.Y.: Smith, Keynes and Marshall, 1959), 61. While the GCC was formed in 1981, for much of the text, the phrase the "Gulf" and "GCC" will be used interchangeably to refer to the member countries of the GCC, even during the period that the GCC had not formally existed.
39. See Ian Seymour, *OPEC Instrument of Change* (Macmillan Press, 1980).
40. It should be noted that OPEC is not necessarily coextensive with the GCC, OPEC as an organization has aims that although they may coincide with the GCC, are not necessarily simpatico with it. Further, while Bahrain and Oman are integral members of the GCC, they are not members of OPEC, and Yemen is attempting to join the GCC, but is not a member of either organization. However, in terms of this analysis, it is useful to see the rise of the Gulf oil states through the OPEC lens.
41. The concession system resulted in a number of problems between the GCC nations and the IOCs operating there: the level of production, the components of the cost of production, the hiring of

Concession rights allowed IOCs the right to control pricing and production decisions, and granted the host government the right to a certain percentage of the differential between the production cost and the price of crude oil.[42] However, as the Gulf rulers soon discovered, the concession system indirectly gave the IOCs control over the host government's budget, and, to a large extent, dictated its form of governance.[43] This ability to determine domestic and foreign policy gave the IOCs enormous power which led the Gulf States to seek renegotiation of the prevailing structure.[44]

Stumbling towards State Participation

When the Gulf States first attempted to exercise control over their energy resources, they began with a mix of tax/royalty increases, price increases, and a return to the host state of unused concessions, and then, with increased boldness, demanded increased portions of used concessions.

Energy nationalization in the Gulf generally resulted in an amicable split or buyout, where the IOCs negotiated a mutually-agreed upon sale price for their equity shares.[45] Even though the Gulf States were relatively sensitive to the IOCs, the latter initially fought the host states' increasing power.[46] After the IOCs concluded that the process was inevitable and irreversible, they sought to secure the most favorable leverage for later negotiations.

IOCs in the Gulf region were never as antagonized as in other oil-producing regions where there were more contentious 'divorces.' As the oil-producing nations

---

nationals, the relinquishment of underutilized concession areas, and the price of crude oil. See Abbas Al Nasrawi, *OPEC in a Changing World Economy* (John Hopkins University Press, 1985). Dr. George Stocking commenting on the main features of the concession system wrote that "never in modern times have governments granted so much to so few for so long." See George W. Stocking, "The Economics of Basing Point System," *Law and Contemporary Problems* 15, no. 2 (1950): 159-180.

42. In most of the original Middle Eastern concession agreements, payments to the host governments were set at a fixed royalty, which at the time was equal to around 22 cents a barrel. See supra note 40, *OPEC Instrument of Change*, 13.

43. As King Abd' Al Aziz's personal advisor, the British H. St. John Philby quoted from the King during the great depression, " If anyone offers me a million pounds now, he would be welcome to all of the concessions he wants in my country." See Robert Lacey, *The Kingdom: Arabia and the House of Saud* (New York: Avon Books, 1981), 229.

44. See Howard Lax, *Political Risk in the International Oil and Gas Industry* (Atlantis, Inc., 1984).

45. See Theodore H. Moran, "Managing an Oligopoly of Would-Be Sovereigns," *International Organizations* 41, no. 4. (Autumn 1987): 575-607.

46. Ibid.

gathered strength for more state control of their oil operations, OPEC experienced a philosophical split, which became a conduit for increased state participation. Saudi Arabia headed the moderate camp, which included Kuwait, UAE, and Qatar, and sought to negotiate with the concessionaires for increased participation rights and equity shares.[47] The second group, made up of the more radical wing, the "Rejectionist Front," most notably Algeria, Libya, and Iraq (Iran was sometimes in this group), sought complete nationalization of the energy sector, albeit on an incremental basis.[48] Doing away with the concessions was the ultimate goal, and OPEC was the vehicle, through which the Gulf States exercised individual state control over critical energy resources.

Role of the State in the GCC Energy Sector

As former colonies, the Gulf States' increased control of the energy sector provided a different context than it did in Russia. Russia, having travelled the opposite course, started the early 20th century with total state control of natural resources, and then turned to rapid privatization.

Because the Gulf governments gained access to enormous sums of wealth without domestic taxation, state centralism was inextricably linked to the inflow of revenue from oil and gas sales on the international market directly into state coffers. With resource inflows, enormous power was funnelled and concentrated through the state apparatus, which then determined how to distribute the money in society.[49]

In the GCC, the state owns the bulk of the industrial and energy sector, although there may be minority joint ventures with Western companies. The GCC states structured their respective National Oil Companies (NOCs) to function as

47. See supra note 40, *OPEC Instrument of Change.*

48. See Nathan J. Citno, *From Arab Nationalism to OPEC* (Citno Press, 2002). The Shah of Iran, a staunch American ally at the time, expressed the popular outrage at what the OPEC nations viewed as exploitation by the West: "Of course [the world price of oil] is going to rise," the Shah told the *New York Times* in 1973. "Certainly! And how...; You [Western nations] increased the price of wheat you sell us by 300%, and the same for sugar and cement...; You buy our crude oil and sell it back to us, refined as petrochemicals, at a hundred times the price you've paid to us...; It's only fair that, from now on, you should pay more for oil. Let's say 10 times more." See Walter LaFeber, *Russia, America, and the Cold War* (New York, 2002), 292.

49. The issue of taxation and the state independence in decision making will be explored in detail later. However, it is worth mentioning, that as opposed to many Western countries where the power to tax is considered to give citizens a stake in the political process, the lack of taxation thus makes citizens dependent on state largesse.

levers through which the state exercised authority in the energy sector.[50] None of the GCC states outright nationalized the Western IOCs in their respective territories, as did other governments in the Middle East. Nationalization was an amicable and gradual process, which encouraged the IOCs to remain and provide technical assistance, as well as consulting services. Even today, many Western expatriates sit on the governing boards or hold executive positions in these NOCs.[51]

However, Saudi Arabia was one of the first GCC nations to recognize the danger of economic dependence on a single commodity.[52] Thus, Saudi Arabia initiated a process of economic diversification, as reflected in the Saudi Arabian Basic Industries Corporation (SABIC), to penetrate more deeply into the downstream petroleum value chain. The other GCC states then followed, either in using their tremendous wealth to build diversified portfolios overseas or by branching out into natural gas production.

The GCC governments used oil wealth as a springboard into other industrial sectors to set a foundation for enhanced expansion.[53] The confluence between individuals of the ruling hierarchy and the state is significant; before a private sector project may succeed, the owners often need personal access to the decision-makers.[54]

The 1973 oil embargo was not only in large part responsible for the enormous growth in the state apparatus in most of the Gulf States, but it provided the wherewithal for the state to stake out a dominating position in other economic sectors.[55] The transfer of wealth from Northern-tier states to the South during the OAPEC oil embargo was the largest in modern times.[56] One of the most profound

50. And sometimes, as is the case of Aramco, they can be considered miniature states within states.

51. Saudi Arabia's Aramco, for example, has about 2,000 American employees, called "Aramcons," and English is the official working language. However, pressure has been building for the company to "Saudiize" the workforce. Further, out of a total population of 24 million, about six million are foreign workers from Asia who perform service jobs. See "Saudi Aramco Is Not a State Within a State," *Alexander's Gas and Oil Connection* 9, issue #7 (April 7, 2004)

52. See Helen Chapin Metz, ed. *Saudi Arabia: A Country Study* (Washington: GPO for the Library of Congress, 1992.

53. The presence of the state differs in each GCC country, but it can be said that almost all financial and industrial concerns have an active government presence.

54. Middle East expert Jill Crystal noted that in the cases of Kuwait and Qatar, the major merchant families have worked hard to place their members in powerful positions in the state bureaucracy. See Jill Crystal, *Oil and Politics in the Gulf* (Cambridge: Middle East Library,1995).

55. This can be most clearly seen in the extensive welfare state that has appeared after 1973 in the GCC. Many GCC citizens have an active need to see the dominance of the state, if they want to have the continuance of their benefits.

56. Before 1973, the flow of global capital was generally an outflow from the oil-producing Gulf

effects of state dominance in the Gulf has been the marginalization of historically powerful social groups that traditionally balanced the ruler's power.[57] Post-1973 saw the traditionally influential social groups such as merchants, tribes, religious scholars, and labor hampered with seriously reduced bargaining power.[58]

While the oil revenue bypasses the local economy and comes directly into the state coffers, corporate suitors must remain on good terms with the state or ruling families for preferred distribution of oil rents. The GCC states built ever-increasing bureaucracies to distribute rents to society and control political expression, while Russia promoted redistribution generally through the demand side, with its regional regasification program to bring energy to rural areas.

The GCC expression of state centralism appears as an edifice of the state built around the ruling families, which makes all the important decisions. Because the political/socioeconomic groups that traditionally controlled power in the pre-industrialized Gulf societies had been severely constrained, GCC states have attempted to build new socio-economic groups with interests intimately tied to the state.[59] The costs of opposing the state are crippling, since the state has at its disposal economic levers sufficient to discipline any firm or group thought disloyal. Firms that oppose government procedures would likely find the costs inconceivable.[60]

GCC states generally take a conservative line *vis-a-vis* the international energy market. Since the state owns all subsurface minerals,[61] the GCC nations are

States, but after the oil embargo, the flow reversed and the oil-producing countries acquired vast wealth. See Hammes, David and Douglas Wills, "Black Gold: The End of Bretton Woods and the Oil-Price Shocks of the 1970s," *The Independent Review IX*, no. 4 (Spring 2005): 501-511. Further, after the shocks of the 1973 embargo, and the 1979 Iranian revolution, the price of oil in the early 1980s was 10 times higher than in the pre-1973 period. See Jad Mouawad, *Oil Prices Pass Record Set in 80s but Then Recede*, *The New York Times* (March 3, 2008)

57. See Lewis W. Snider, "Comparing the Strength of Nations: The Arab Gulf States and Political Change," *Comparative Politics* 20, no. 4 (July 1988): 461-484.

58. Ibid.

59. In Saudi Arabia after the oil boom built up, a new commercial class coming from the Central (Najd) region of Saudi Arabia acted as a counter-balancing force of the more traditional commercial elites from Hejaz (the Western Area of the kingdom) as well from Al-Ahsa (the Gulf Coast). See Chaudry, *The Price of Wealth* (Cornell University Press, June 1997).

60. See F. Gregory Gause III, *Oil Monarchies' Domestic Security Challenges in the Arab Gulf States*, (New York: Council on Foreign Relations Press, 1994).

61. For example, Saudi Arabia completed the nationalization of its upstream energy sector in 1973, the only exception being a Japanese investment through the Arabian Oil Corporation in the Neutral Zone, a shared area between Kuwait and Saudi Arabia. See Philip Robins, "Slow, Slow Quick, Quick, Slow: Saudi Arabia's 'Gas Initiative," *Energy Policy* 32 (2004): 321.

generally content to provide a comfortable atmosphere for IOCs in tightly monitored spheres, to serve as technical consultants or in limited oil field maintenance roles.

The GCC nations take their role as reliable producers quite seriously, and apart from the 1967 and 1973 oil embargoes, seek to depoliticize oil production for manifold reasons that include foreign policy concerns and a desire to connect themselves politically with the US and West. Even though the 1973 oil embargo initiated an enormous currency shift in the international financial markets, the GCC nations remained wedded to the West through GCC import demand for finished Western goods, enormous financial investments, "recycling" of petrodollars in the West, and by massive weapons purchases from the US and the EU.[62]

Since the 1960s, Gulf nations have feared both Iraq and Iran due to their perceived geopolitical ambitions. After the British forces officially withdrew to east of the Sinai in 1971, the security-conscious Gulf nations sought to shelter themselves under the American security umbrella.[63] The Gulf nations hesitated before nationalization, firstly, because they believed they needed the IOC's access to technology and the downstream market system, and secondly, because they were fully aware of the punishment meted out to Mexico as one of the first developing nations to nationalize Western oil companies.[64]

The Current Investment Environment for IOCs

After the GCC states successfully negotiated with the IOCs to deconstruct the concession framework and obtain total equity holdings over oil resources, state control was implemented through their respective NOCs.[65] Yet, several factors upset

62. See Richard F. Grimmett, "Conventional Arms Transfers to Developing Nations. 1996-2003," *DISAM Journal* (Fall 2004). Further, President Bush proposed to the US Congress to structure an arms sale to Saudi Arabia worth approximately $20 billion. See "US Plans Huge Saudi Arms Sale," BBC News, July 28, 2007.

63. This melding process speeded up with the Iranian revolution in 1979 and the Iran-Iraq war which put in danger GCC oil exports in the Strait of Hormuz. See Harold Lee Wise, *Inside the Danger Zone: The US Military in the Persian Gulf 1987-1988* (May 2007). For a detailed analysis of the beginnings of US and Saudi petro-diplomacy and the intersection of security guarantees, see Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (Free Press, 1991).

64. Aramco, the Saudi Arabian national oil company, employs many Americans in its production capacity, as well as in numerous consultation jobs. Further, the GCC nations did not want the same result as occurred with Mexico and Iran's enforced nationalization of the oil sector, which led to their oil being quarantined by the international oil system. For a detailed history of the National Oil Company, see Valarie Marcel and John Vincent Michel, *Oil Titans, National Oil Companies in the Middle East* (Brookings Institute Press, 2006).

65. Ibid.

the initial expansion of the state monopoly and foreshadowed the return of the IOCs. One of the most devastating crises for the GCC nations was the infamous 1985-86 oil glut in which the price of crude, which then averaged $27, fell dramatically below $10 within the space of a year.[66] This precipitous drop of international oil price substantially reduced the budgetary inflows of the GCC states[67] and set the stage for subsequent expanded opportunities for the IOCs in the Gulf.

This crisis persisted intermittently until early 1999, when the oil market began to revive. Because most petro-states are not sufficiently diversified to survive a prolonged slump in their main revenue source, many lacked the financial strength to maintain their current production, leave alone capacity expansion programs.[68] What also exacerbated the situation is that many GCC nations lacked the latest oil field technology and skilled human resources.[69] These factors led to the early push for many oil-producing nations to amend their legal regimes to allow more IOC participation in the upstream sector and reduced the state's hold on the energy sector.[70]

The "rejectionist wing" that initially took a more radical line in negotiations with the IOCs paid dearly for their early expropriation efforts. The more hard-line oil producing states, when faced with rapidly declining federal revenue during the crisis, had to implement more radical liberalization programs to encourage Foreign Direct Investment (FDI) than did the GCC states.[71] As the GCC states never completely exiled the IOCs, they were not unofficially severed from the international capital market or subjected to international economic sanctions.

With greater access to Western technology, manpower, and expertise, the GCC states were able to weather the economic storm. In economic parlance, the GCC states were the "low absorbers" of the oil-producing countries. "Low absorbers" are

66. See M.A. Adelman,"The Real Oil Problem," *Regulation* 27, no. 1 (Spring 2004): 16-21. One view of the cause of the glut was that Saudi Arabia, at the behest of the Reagan administration, rapidly increased oil output to decrease the international price of oil in order to deprive the Soviet Union of crucial foreign currency inflows. For an expanded discussion on that viewpoint, see Peter Schweitzer, *Victory* (Atlantic Monthly Press,1996).

67. For a detailed discussion of the ramifications of the price drop, see *OPEC and the World Oil Market: The Genesis of the 1986 Price Crisis*, Oxford Energy Seminar (ed. By Robert Mabro) (1986)

68. Ibid.

69. See Gawdat Bahgat, "Foreign Investment in Saudi Arabia's Energy Sector," *Middle East Economic Survey* XLVII, no. 34 (August 23, 2004).

70. Although these factors only apply partially to Saudi Aramco, as when the oil prices stabilized in late 1999, it was under less restraint to seek funding of its oil resources.

71. The states that undertook large-scale liberalization of their oil sectors were Algeria, Indonesia, Iran, and Venezuela. And as a result, they had to formulate more attractive offerings than the GCC states.

oil-producing states that have small populations and an insignificant industrial base and are not able to utilize productively most of their oil export revenue.[72] While the "low absorbers" experienced economic vertigo during the price collapse, they were not in as precarious a position as the OPEC nations that had large populations and many competing demands on oil revenue, and were known as the "high absorbers."[73]

The oil crisis of 1985-1986 diminished funding for the high absorbers' federal budgets and led to economic chaos.[74] While they faced financial difficulties, the GCC states never required a wholesale restructuring of their energy legal framework, as in Russia's neoliberal reform or Venezuela's apertura (the opening).[75]

The Politics of Natural Gas Production

However, the natural gas market significantly differs from the petroleum market, and these differences have compelled the GCC nations to open up their markets more drastically than would be possible with the upstream oil sector. The need to open markets and attract IOCs is because natural gas development requires substantial capital investment for distribution and export facilities, which include liquefaction units, gas processing plants and/or pipelines. The substantial capital costs and long lead times before a project comes on line means that it will require a period of time before investments generate profit. Some of the relatively less wealthy GCC members, Qatar and Oman, accessed the international capital market, and presented extremely attractive tenders to IOCs.[76]

The GCC states implemented their gas development programs as tools to diversify their economic base, and to fulfil their ever-increasing natural gas demand for desalination projects, industrial power use, and electricity. Because they lacked experience in producing their vast natural gas holdings, the GCC states contracted foreign IOCs to assist with the process, providing lucrative contractual arrangements to encourage the process.

The UAE was the first of the GCC states to grant foreign gas companies

72. For a detailed discussion on the concept of "low" and "high" absorbers, see Richard P. Mattione, *OPEC's Investments and the International Financial System* (Washington D.C.: The Brookings Institute, 1985.

73. Ibid.

74. See Mohammed E. Ahrari, *OPEC and the Hyperpluralism of the Oil Market in the 1980s* (Royal Institute of International Affairs, 1985).

75. See Fareed Mohamedi, "Oil, Gas and the Future of Arab Gulf Countries," *Middle East Report*, July-September 1997.

76. See Special Supplement: "Qatar – Enjoying its Power," *The Banker Journal,* May 01, 2005.

a tender to build its Liquefied Natural Gas (LNG) facilities in the 1970s.[77] This was almost immediately followed by Qatar's North Field project in the early 1980s and the rapid expansion of its LNG infrastructure in the mid-1990s.[78] Shell was granted opportunities to construct LNG facilities in Oman, while Yemen – which is seeking GCC membership – is working closely with Total to establish LNG export infrastructure.[79]

Saudi Arabia perhaps caught the world by surprise when it announced the Saudi Gas Initiative (SGI). The then Crown Prince Abdullah met personally with and sought to persuade top executives from US oil companies in 1998 to invest in the country's lagging natural gas sector.[80] This agreement would have been the first reopening of the Saudi energy sector to foreign IOCs since the 1970s. However, the two sides failed to come to agreement, and in June 2003, Saudi Oil Minister Ali Al-Naimi dismissed the negotiations and offered another round of bids with extremely reduced rates of return.[81]

What is significant about the second round of bidding is that non-US companies were favored, with Chinese and Russian energy companies being in the forefront.[82] The modified tender process perhaps signalled a shift in Saudi Arabian political orientation, or at the very least it may have sought to prove to the West that Saudi assets are still an attractive enough proposition for other suitors.[83]

Rent-seeking behavior in the energy sector is usually cyclical; when energy prices are elevated, the oil- and gas-producing states generally attempt to renegotiate the legal/tax regime to gain increased rent.[84] When the international oil and gas prices are low, these states tend to offer attractive rates to secure FDI in lagging production and to enhance government revenue.[85] However, the advent of gas as

77. Ibid.

78. See "Persian Gulf Oil and Gas Exports Fact Sheet," *Country Analysis Briefs*, Energy Information Agency, April 2003, available at http://www.parstimes.com/library/persian_gulf_doe_2003.pdf.

79. Ibid.

80. This meeting initially led to the signing of an agreement in 2001 between the Saudi leadership and eight IOCs, most of them American.

81. See supra note 62, "Slow, Slow Quick, Quick, Slow: Saudi Arabia's Gas Initiative."

82. Ibid.

83. See Simon Romero, "Saudi Arabia, Foreign Concerns Make Deals to Search for Gas," *New York Times*, March 7, 2004.

84. For a detailed study of rent seeking in the oil industry, see Cyrus Bina, "The Laws of Economic Rent and Property: Application to the Oil Industry," *American Journal of Economics and Sociology* 51, no. 2 (April 1992): 187-203.

85. Ibid.

a global bridge fuel has upset the traditional equation. Even in an elevated price environment, the GCC states generally lack technical expertise for development of gas reserves which causes them to turn to the IOCs for assistance and investment.[86]

Russia faces many of the same issues with exploitation of its hard-to-produce gas reserves i.e. Shtokman field, Sakhalin One and Two. However, the national energy giant, Gazprom, has more significant expertise in domestic gas production and, thus, is not overly dependent on the IOCs for developmental assistance for easy-to-tap gas fields.[87] Additionally, the GCC and Russia wish to be integrated into the international financial system, for example, the WTO, and this may compel liberalization of their formerly closed energy sector.[88]

The Re-emergence of the State Hand

> "The Question of Russia, in all respects, is without doubt the only really worldwide question of our time."
>
> (A.S. Khomyakov, in a letter to Samarin, June 23, 1845)[89]

Russia has had a long history of state direction and control of its energy industry. For brief periods during the 20th century, it experimented with privatization of its energy industry and an open environment for foreign direct investment. However, most of the Russian energy sector has remained under the firm and unwavering guidance of the state for the major part of the past century.[90]

Even though the Soviet Empire has vanished, many Russians yearn for the glory days of Russia's historical political/social influence, and the state's pre-eminence in matters of importance.[91] While many Russians were pleased at the

86. See *Persian Gulf States: Country Studies*, Library of Congress Online: Country Studies Program, available at http://www.country-studies.com.

87. See Bernard A. Gelb, *Russia Oil and Gas Challenges*, CRS Report for Congress, Congressional Research Service, January 3, 2006.

88. The WTO requirements have progressively focused more attention on the energy sectors of oil- and gas-producing nations. The ascension requirements are forcing many aspiring entrants to the WTO to liberalize their energy sectors and open it up to market competition. However, there has been understandable resistance from oil- and gas-producing countries towards this shift. See Meyer-Reumann Legal Consultancy, "The Endeavors of Gulf Countries to Meet WTO Requirements," *Arab Law Quarterly* 16, no. 1 (2001): 49-54.

89. Quotation supplied from Hans Kohn, "The Permanent Mission: An Essay on Russia," *The Review of Politics* 10, no. 3. (July 1948): 267-289.

90. The industry was under the control of the Soviet Ministry of Oil.

91. The attitudes relate to Russians living in the now national boundaries of Russia, and perhaps the

dissolution of the ideological aspects of the empire, such as the enforced adherence to Marxist-Leninist ideology, the loss of international prestige led to apprehension about Russia's place in the yet undefined 'New World Order.'[92] The psychological trauma of a lost empire and the yearnings of a vulnerable people cannot be discounted in an analysis of popular support for the state's control over energy resources.[93]

Russian resource nationalism is intimately connected with the more basic form of nationalism and the creation of a national identity.[94] The current movement towards state dominance in energy affairs is not anomalous when viewed through the peculiar lenses of Russian history. Unlike the West European nations, Russia was an empire long before it had a national identity.[95] The concept of an orderly empire in the Russian mind required a strong titular head, without which the periphery would slip away.[96]

The beginning of the 21st century saw the Russian state becoming more assertive in most affairs, but in particular, in the management of its energy resources. The state's re-involvement in the energy sector and other "strategic" sectors has garnered most of the attention in the international market.[97] However, private sector activity

---

more extreme views of the 25.2 million Russians who at a stroke of a pen became minority members of the now 14 independent states. See Timothy Heleniak, "Migration of the Russian Diaspora after the Break-Up of the Soviet Union," *Journal of International Affairs,* March 22, 2004.

92. See Sergei Medvedev, "Conspiracy Theory in the Construction in the New Russian Identity," CEEISA 4th Convention Tartu, June 25-27, 2006.

93. In February 2004, President Putin stated that the collapse of the Soviet Union was a 'national tragedy of enormous scale.' This statement tends to reflect the prevalent mood of the populace. See, "Putin Says Collapse of the USSR National Tragedy," Interfax, February 12, 2004.

94. There has been a phenomenal growth in Russia of nationalistic parties; the 2003 election results showed that the populist aspect of resource control by the State in a public trustee position for the people proved to be a popular bid. The program of the neo-nationalists is not that different from the communist parties when it comes to the ownership of the mineral resources. See Marshall L. Goldman, "Putin and the Oligarchs," *Foreign Affairs* (November/December 2004).

95. See where, "[R]ussia has been a state-nation rather than a nation-state… identity has been centered on the state, which became an empire long before the population consolidated as a nation." See Paul A. Goble, "Regions, Republics, and Russian Reform: Center-Periphery Relations in the Russian Federation," in *The Successor States to the USSR*, ed. John W. Blaney (Washington: Congressional Quarterly, 1995), 163.

96. For a comprehensive study on how Russia's extensive borderlands shaped its national personality, see Joseph L. Weiczynski, *The Russian Frontier: The Impact of Borderlands upon the Course of Early Russian History* (University Press of Virginia, 1976).

97. A designation of strategic sector in Russian law limits foreign investment in that particular industry. See Marat Terterov, *Business and Investment Review: The Russian Investment Climate under Putin's Second Term* (GMB Publishing, 2005).

in "non-strategic" sectors, such as housing, consumer goods, and retail has been increasing significantly as well.[98] It is evident that private investment in certain sectors of the Russian economy will either remain outside of the scope of FDI or subject to strict criteria.

Instead of nationalizing energy assets outright, the primary restructuring of the Russian energy sector occurs through increased control over gas and oil export networks, and through granting enhanced production and asset acquisition opportunities to national industry leaders such as Rosneft and Gazprom in which the state owns a majority equity interest.[99]

Does Russia Mean Business?

The Russian state's consolidation of the energy industry differs from the Soviet method, in that while the federal government is increasingly exercising control, the energy companies are predicated on the profit motive.[100] Amid high-profile Russian renegotiations and buyouts of previously privately held companies, the foreign press has remained largely critical of the growing state intervention in the economy.[101] Besides, there has been domestic criticism in Russia alleging aggressive state expansion and a roll-back of the nascent democracy.[102]

The Yeltsin-era saw state energy appendages sold off with amazing rapidity.[103] In the controversial "loans for shares" program, the Yeltsin government auctioned

98. Ibid.

99. The Russian state has reallocated development and exploration opportunities on a discretionary basis giving rights to the national giants, Rosneft and Gazprom.

100. See a general theory of state capitalism in Walter E. Grinder and John Hagel III, "Towards a Theory of State Capitalism: Ultimate Decision making and Class Structure," *Journal of Libertarian Studies* 1 no. 1, 59-79.

101. For an example of the more strident opinions outside of Russia, see Ariel Cohen, "Russia: Kremlin Takeover of the Russian Oil Industry," *Capitalism Magazine*, April 21, 2005.

102. Former economic advisor to President Putin, Andrei Illarionov, resigned in protest against what he alleged were the cronyism and the increasing state role in the private sector. After his resignation he increasingly spoke out against the cult of personality and the state adulation that was occurring in Russia. See Andrei Illarionov, "When the State Means Business," *International Herald Tribune,* January 25, 2006.

103. Post Soviet economic restructuring encompassed three principles: (1) Liberalization, (2) Privatization, and, (3) Stabilization. All three were founded on neo-liberal principles, otherwise known as the "Washington Consensus." The policies as developed by Yeltsin's Deputy Prime Minister, Yegor Gaider, were premised on radical economic reform or "shock therapy." See Pekka Sutela, "Insider Privatization in Russia: Speculations on Systemic Changes," *Europe-Asia Studies* 46:3 (1994): 420-21.

substantial packages of stock shares in the most desirable industries, especially energy, as collateral for bank loans.[104] Intrepid entrepreneurs, often with stealthy business practices, acquired mammoth financial power.[105] The "loans for shares" period nurtured the meteoric rise of the Oligarchs, whom the state implicitly supported.[106]

The nascent capitalists used the state as a vessel for their unrelenting pursuit of economic interests and leveraged their contacts with government officials to secure the control over the most lucrative state enterprises.[107] The state facilitated hostile takeovers, which further stripped assets from state enterprises. This private sector/state relationship formed a neo-patrimonial capitalism, which is classically illustrated when patrons use state resources to secure the loyalty of clients in the general population.[108]

Although some elements of the private sector complained about the state's reassertion of power, at a historic July 2000 meeting Putin retorted: "[they-the oligarchs] to a great degree formed the present state, through the political and quasi-political structures under [their] control."[109] He concluded: "Perhaps what one should do least of all is blame the mirror."[110]

However, there are key differences between the state's role in the energy sector during the Yeltsin and Putin eras. Under Yeltsin, the state essentially enabled the Oligarchs, who, after gaining power, dictated policy to government.[111] In a

104. For a detailed look at the Loans for Shares underbelly and its operations, see Orlando Figes, "Russia's Robber Barons," *The Telegraph,* UK, March 3, 2002.

105. Ibid.

106. Ibid.

107. Ibid.

108. See Tony Wood, "Contours of the Putin Era," *New Left Review* 44 (March-April 2007). For a more general discussion on the growth of the neo-patrimonial state, see Gero Erdmann and Ulf Engel, "Neopatrimonialism Revisited, Beyond a Catch-All Concept," German Institute of Global and Area Studies, February 2006, available at http://www.giga-hamburg.de/dlcounter/download.php?d=/content/publikationen/pdf/wp16_erdmann-engel.pdf.

109. See William Tompson, "Putin and the "Oligarchs" A Two Sided Commitment Problem," in *Leading Russia: Putin in Perspective* edited by Alex Pravda (Oxford University Press, 2005), 179-202.

110. Putin alluded to the fact that while the private sector complained of an alleged lack of state protection of property rights, these very same entrepreneurs worked against, either directly or indirectly, the ability of the state to develop a transparent financial system during the Yeltsin era. Ibid.

111. This can be seen with the formerly highly influential Russian Union of Industrialists and Entrepreneurs (known informally as the Oligarchs Trade Union), composed of the leading industry leaders in the energy sectors, among others. During its founding 15 years ago, it nearly dictated policy to the Russian government. Now it is widely acknowledged to take marching orders from President Putin. See Anna Smolchenko, "Putin Plans Meeting With Oligarchs,"

1996 campaign for his second term, Yeltsin required financial and media support to undercut the resurgent communists. To achieve his objectives, Yeltsin had to acquiesce greatly to the prerogatives of the private sector.[112]

Not only did President Putin make it increasingly clear that he intended the state to dominate the strategic energy sector, he quietly and surely, or sometimes forthrightly, appropriated private assets to the energy companies in which the Kremlin has "Golden Shares," such as Gazprom's and Rosneft's acquisition of Yukos's assets. The leading industrialists now consider themselves "quietists" after the highly intimidating sell-off of Yukos and the jailing of its founder, Mikhail Khodorkovsky, and, therefore, do not mix politics with business.[113]

Because the interests of the state and the business sector are now in many ways indelibly meshed, expanded state power suggests increased leverage for the favored business groups. Thus, while the business class does not have the same ability for diktat as under Yeltsin, as long as they do not oppose the Kremlin, they will have increased business opportunities. In other words, the energy sector has experienced a decrease in relative power, but an overall increase in real power.[114]

Rejection of the Production Sharing Agreements

During the neo-liberal sell-off of state energy assets in the 1990s, Russia allowed a form of contract that eventually engendered the antipathy characteristic of the earlier concession system in the GCC states. While the Soviet Union had the distinction of being one of the primary oil-producing countries in the world,[115] the collapse of its political structure brought about a sharp fall in oil output.[116]

Moscow Times, February 5, 2007.

112. The candidate for the Communist Party of the Russian Federation, Gennady Zyuganov, ran on the seductive platform of regaining lost Soviet prestige in the international arena, and a strong socialist domestic order. During that period it seemed as if Yeltsin would lose, so the government leaned heavily on Oligarch support, and Anatoly Chubais, speeded up privatization in order to hand lucrative shares to the inner clique of oligarchs in exchange for financial support. See Daniel Treisman, "Blaming Russia First," *Foreign Affairs* (November/December 2000).

113. This became clear to all those involved in the fateful "Oligarchs meeting" where President Putin set out clear terms for the tycoons who controlled Russian industry that they were expected to remain outside of politics.

114. The decrease in relative power is when compared to the state, and the increase in real power is through expanded acquisitive opportunities provided by the state domestically and internationally.

115. By 1987 Russia became one of largest petroleum producing countries with a production rate of 11.38 million barrels per day. See generally, James W. Skelton Jr., "Investing in Russia's Oil and Gas Industry: The Legal and Bureaucratic Obstacles," 8 *Natural Resources & Environment 26* (1993)

116. The impact of the dissolution was quite significant during the twilight years of the Soviet Union

Bequeathed with the old Soviet oil field infrastructure, Russia's vulnerable economic situation caused it to encourage foreign investment in its "strategic sector."

On December 30, 1995, President Boris Yeltsin signed Russia's Law of Production Sharing Agreements,[117] modeled on the Production Sharing Agreements (PSAs) increasingly used since the 1960s in oil- and gas-producing countries.[118] The basic feature of a PSA requires the host-state to grant the IOC a legal right to explore and produce from a delineated area for a limited period of time, in exchange for a percentage of the produced oil. The essential characteristic of the PSA is that the monetary flows of the concession system are reversed, which means that the state essentially pays the IOC to develop and produce the oil and gas deposits through resulting revenue streams, from which the IOCs recoup expenses.

The PSA regime is generally more complex than the concession system; the state has ownership of all subsoil minerals, while the IOC extracts it under a contractual arrangement. The IOC then advances seed capital for exploration and production. The first oil or gas produced is allocated to the company to recoup costs and capital investment; the remaining oil, known as profit oil, is subsequently split between the host-state and investor under a prearranged formula.

However, one of the most important features of the PSA constrains the state through stabilization clauses, which effectively "freeze" the current legal regime, and places the PSA into a self-contained legal environment, with specified rights and privileges.[119] Theoretically, the state is constrained in promulgating new laws that would impact the agreed-upon contractual arrangement.[120]

Although the concessionary system fostered in the Gulf States and the PSA

---

as Gorbachev neglected the oil industry and used the export profits to subsidize failing industries and to purchase desperately sought Western goods. See "Investment at an Impasse: Russia's Production Sharing Agreement Law and the Continuing Barriers to Petroleum Investment in Russia," *7 Duke Journal of Comparative and International Law 675* (1997).

117. Law of the Russian Federation "On Production Sharing Agreements," which was approved by the Federation Council on December 19, 1995. Thereafter Law on Production Sharing Agreements.

118. See Supra 117, "Investment at an Impasse: Russia's Production-Sharing Agreement Law and the Continuing Barriers to Petroleum Investment in Russia."

119. A PSA is self-contained contract that it is governed strictly by its own provisions and by the articles of the country's PSA law. Investors tend to like this contractual arrangement as it allows a certain amount of predictive value to legal rights and responsibilities before undertaking significant capital investments. States generally find themselves against the PSA in a rising commodity market, when there is popular political pressure to revise the fiscal/legal regime, and the host state then finds its hands tied in the face of popular pressure.

120. The stabilization clauses would also theoretically prevent the host state from promulgating new environmental or fiscal laws.

regime in Russia appear different on the surface, the basic distinctions tend to be political, i.e., with the PSA being an agreement where the state retains ownership to assuage nationalistic interests. The financial and economic implications are generally the same between the two systems.[121] For IOCs entering Russia during the turbulent 90s, the PSAs had clear political advantages. Professor Thomas Walde, an expert on oil law and policy, stated that:

> A convenient marriage between the politically useful symbolism of the production-sharing contract (appearance of a service contract to the state company acting as master) and the material equivalence of this contract model with concession/licence regimes in all significant aspects the government can be seen to be running the show – and the company can run it behind the camouflage of legal title symbolising the assertion of national sovereignty.[122]

The three PSAs, used in Russia during the early to mid 1990s, were then targeted by the Kremlin for renegotiation, with the headline-grabbing Sakhalin Two oil and gas project being first. Located on the Sakhalin Island in Russia's Far East, this project represented the combined efforts of a consortium led by Shell, and two Japanese companies, Mitsui and Mitsubishi. Russia viewed these PSAs as unfeasible due to its weak position as a signatory.[123] In many ways, the method in which the Kremlin reacted to the PSA system echoed the earlier political movements in the Gulf vis-a-vis the concession system.[124] What was particularly galling to the Kremlin is that the PSAs were negotiated when oil was approximately $15 a barrel in the mid-1990s, but peaked at $92 a barrel in late October of 2007. [125]As stated previously, under the PSAs, the government can only obtain its revenue once the project operators recover their massive cost outlays.

However, Exxon-Mobil and Shell have consistently presented the Kremlin with cost overruns running into billions of dollars, meaning that Russia's coffers

121. Daniel Johnston, *International Petroleum Fiscal Systems and Production Sharing Contracts* (Pennwell, 1994), 39.

122. Thomas Wälde, "The Current Status of International Petroleum Investment: Regulating, Licensing, Taxing and Contracting," in *CEPMLP Journal* 1, no.5 (July 1995) (published by University of Dundee).

123. See "Foreign Investment in Russia," Platts News, December 12, 2006, available at http://www.platts.com/Natural%20Gas/Resources/News%20Features/sakhalin2/index.xml.

124. See Sabrina Tavernise, "Russia Wants to Restrict Incentives to Seek Oil," *The New York Times*, February 20, 2003.

125. See "Oil Prices Close at Record High," Associated Press, October 26, 2007, available at http://www.msnbc.msn.com/id/12400801/.

would have been unlikely to see any revenue from these projects in the near future.[126] Considering that the price of oil had increased several-fold since the late 1990s, Russia felt righteous indignation. Consistent with the GCC concession parallel, Russia would like to revoke all three surviving PSAs with any legal or strategic means available.[127]

Adversity on the Eastern Front: Russia Confronts the PSAs and the Oligarchs

Following his rise to power at the turn of the century, President Putin instituted an extensive overhaul of the laws governing the Russian domestic energy sector. The Putin administration will be remembered for two crucial actions: the Yukos affair and the Sakhalin Two equity restructuring, each of which represented the state's forward drive to reverse the Yeltsin-era privatization and PSAs.[128] In August of 2006, the Kremlin announced that it sought to review the three major PSAs that were signed with Western and Japanese energy companies in the early 1990s.[129] This includes Sakhalin One and Two, as well as the Kharyaginsk development project in Siberia led by France's Total.[130]

Resurgent state power prompted proactive strategies to control those independent business magnates, sometimes perceived as arrogant and contemptuous of the government, who had become independent centers of power and amassed massive wealth and influence during the chaotic years of the Soviet break-up.[131] As the state became more powerful, it sought to renegotiate the conditions of the previous contracts signed with the IOCs to exact more favorable terms. The constant

126. See Joseph Ferguson, "Sakhalin Oil and Gas Projects: What is behind Russia's Coercive Behavior?" *Eurasian Daily Monitor*, October 03, 2006.

127. There are three surviving PSAs after the government decided to roll back the PSA law. These are the two Sakhalin projects and one Total-led Arctic project.

128. There may be another aspect to this where Putin's move towards centralization in the energy realm had domestic and foreign aspects. Putin's move to solidifying the Russian state had a dual aspect as well: limiting the power of the regional governors, which he did when he changed the essence of Russian fiscal federalism in 1999, thus ending decisively the regions' bid for autonomy. And further, he has recommitted Russian troops to the separatist republic of Chechnya. See Vladimir Popov, "Russian Redux?" *New Left Review* 44 (March-April 2007).

129. See Supra 127, "Sakhalin Oil and Gas Projects: What is Behind Russia's Coercive Behavior?"

130. See "Total Declines Comment on Report Russia May Cancel Kharyaginsk Field Contract," *Forbes Magazine*, September 18, 2006, available at http://www.forbes.com/home/feeds/afx/2006/09/18/afx3023529.html.

131. See Bernard Black, Reinier Kraakman, and Anna Tarassova, "Russian Privatization and Corporate Governance: What Went Wrong," *Stanford Law Review 52,* no. 6, 1731-1808.

cost overruns announced by Shell from the Sakhalin Two venture exacerbated the Kremlin's frustration in not having a direct say over a potentially major export project oriented towards Asia.[132]

Lying at the center of the Kremlin's moves against the domestic private oil companies and the IOCs are the Yeltsin economic reforms and the sell-off of state energy assets that many Russian authorities considered illegitimate.[133] The anger at being unfairly treated is a very powerful component of the Russian psyche, which sensed national humiliation in the dissolution of the Soviet empire and the later precipitous drop in the Ruble in 1998.[134] The trauma that these events engendered provided political momentum, and the necessary public and elite support, for the state to restructure its relationship with corporate entities in the energy industry.

The Dismantling of Yukos

When the Russian federal authorities jailed Mikhail Khodorkovsky, the founder of one of Russia's most lucrative privately-owned oil companies, Yukos, it constituted a gigantic step for the state's incorporation of energy assets under its control. In mid-September of 2004, President Putin announced a radical overhaul of Russia's political relationship with domestic centers of power that, essentially, would centralize political power in the Kremlin.[135]

The Kremlin's moves against Yukos commenced in October 25, 2003, when Mikhail Khodorkovsky was arrested and charged with tax evasion, fraud, forgery, and embezzlement. His company, Yukos, was later auctioned off to pay its tax arrears; with state-led energy companies assigned a leading role in the process.[136]After the judicial authorities sentenced Khodorkovsky to eight years in a Siberian prison for fraud and tax evasion, the implication was clear to those who may have sought to form independent power linkages outside of the Kremlin.[137]

---

132. See "Sakhalin Two-Environmental Violations Confirmed, Probe Extended, Criminal Prosecution Possible," Global Insight, available at http://www.globalinsight.com/SDA/SDADetail7300.htm.

133. See Catherine Locatelli, "The Russian Oil Industry between the Public and Private Governance: Obstacles to International Oil Companies' Investment Strategies," *Energy Policy* 34 (2006): 1075-1085.

134. Some scholars argue that national humiliation is an essential component of the Russian metanarrative. See, for example, Julia Brun-Zejmis, "Messianic Consciousness as an Expression of National Inferiority: Chaadaev and Some Samizdat Writings of the 1970s," *Slavic Review* 50, no. 3. (Autumn 1991): 646-658.

135. See Peter Baker, "Putin Moves to Centralize Authority," *Washington Post*, September 14, 2004, Page A01.

136. Ibid.

137. Rosneft's Bogdanchikov, a key Putin ally, bragged that "three days in Butyrke Prison and

Yukos was a product of the 1990s when the Yeltsin administration integrated several state-owned production, refining and distribution companies. The company's name is a combined acronym of the original constituent companies: Yuganskneftegaz, one of the largest oil producers in the Tyumen' region of Western Siberia, and KuybyshevnefteOrgSintez, a major refinery and petrochemical plant in Kuybyshev (now Samara), a city on the Volga.[138]

Even though formed and acquired in the turbulent days of the post-Communist Soviet Russia, where shadowy financial deals were the norm, Yukos has evolved the furthest from the mores and practices that typified the 1990s.[139] In 1999, Yukos became the first of Russia's large firms to utilize international accounting standards, and in 2001, it became the first Russian energy company to publish its quarterly financial statements in accordance with the US Generally Accepted Accounting Practices (GAAP).[140]

What initially was characterized as a battle between Russia's president and its wealthiest businessman has progressed into a larger struggle between the Oligarchs who dominated key, strategic industries, and the Kremlin, which desired to reassert state control of certain levers of the economy. After the jailing of Khodorkovsky, the Kremlin ordered the company to pay $3.4 billion in back taxes dating from 2000, while signalling that the ultimate amount may range between $7 billion to $10 billion in fines and taxes combined.[141] Although the dismantling of Yukos was condemned in Western political circles amid predictions it would chill foreign investment in Russia, no such thing has occurred. In fact, as a Bear Stearns analyst stated, "Big Oil has to go where big oil is, and that's Russia."[142]

The auctioning of Yukos' assets to satisfy its tax claims gave a large boost to Kremlin-dominated oil and gas companies. During one of the later rounds of bidding, Rosneft, the state oil company, acquired 37 subsidiaries of the bankrupt Yukos and enlarged its already formidable influence in the sector.[143] The only

---

[Khodorkovsky and his aide Roman Lebedev] will understand who is the master of the forest." See Marshall L. Goldman, "Putin and the Oligarchs," *Foreign Affairs*, op. cit.

138. See Leon Aron, *The Yukos Affair: Russian Outlook*, American Enterprise Institute, October 29, 2003.

139. Ibid.

140. See C.J. Chivers, "New Charges against Imprisoned Yukos Founder," *The New York Time*s, February 5, 2007.

141. See Nelson D. Swartz and Doris Burke, "Russia's Trial of the Century," *Fortune* magazine, September 20, 2004.

142. Ibid.

143. See Andrew E. Kramer, "Rosneft Buys Yukos Assets Including Oil Refineries," *The New York*

other bidder during this round was a little known company, Yunitex, believed to be affiliated with Gazprom.[144] Gazprom actually did not participate directly in the auction, but subsequently bought assets from an Italian joint venture of Eni and Enel – Enineftegaz – that won the auction with a $5.83 billion bid.[145]

The lot contained significant Yukos assets including the Arcticgaz and Urengoil gas companies, and a bundle of smaller assets.[146] Despite the apparent lack of authentic competition, the Kremlin saw the Italian joint venture as adding "legitimacy and prestige" to the process.[147] And as will be covered in the conclusion, Russia will offer IOCs that play by the Kremlin rules ample opportunities for investment in Russia.

While seemingly motivated by many different factors, the Kremlin campaign against Yukos is not simply a desire to 'punish' Khodorkovsky or to consolidate state power. The Kremlin may also want the wealthiest businessmen to restrain themselves, and to behave according to the Western civic model by paying taxes on time, since "a very effective way of doing that is to make an extreme example of the richest one."[148] The decisive conclusion of the Yukos affair encouraged other Oligarchs to demonstrate speedy compliance.

The Equity Shake-Up of Sakhalin Two

While the Yukos affair played itself out, state expansion focused its unwavering eye on international investors in Russia's oil and gas sector. IOCs were believed to have profited from the state's weak position, as with the PSAs granted to IOCs to explore Sakhalin Island's gigantic oil and gas reserves.[149] The Kremlin used Sakhalin Two to serve notice to IOCs that the period of weak governance was over.

Contrary to public perception, Russia neither threatened expropriation, nor actually nationalized Sakhalin's acreage, but used negotiation and threats of environmental fines or the revocation of precious environmental licenses to "legally" achieve its will.

Times, May 4, 2007, C5.

144. Ibid.

145. See Alex Nicholson, "A Yukos Auction with a 2nd Act," Associated Press, October 5, 2007.

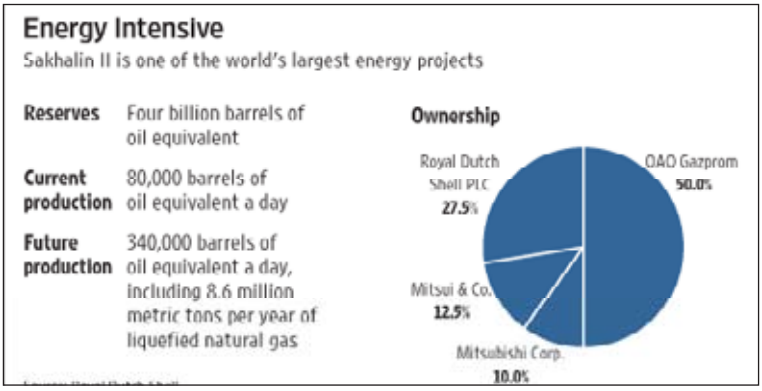
146. Ibid.

147. Ibid.

148. See Supra note 142, "Russia's Trial of the Century."

149. In July 2005, Shell estimated that recoverable reserves at 17.3 trillion cubic feet of natural gas and 1 billion barrels of liquids. See *Country Analysis Brief:* Russia, Energy Information Administration, available at http://www.eia.doe.gov/emeu/cabs/Persian_Gulf/Background.html.

Figure 3: Sakhalin's New Equity Interest



Source: http://royaldutchshellplc.com/2007/01/02/the-wall-street-journal-europe-wary-of-sakhalin-loan/.

Sakhalin Two, much like its sister, Sakhalin One, was created by a consortium of international IOCs to locate and produce oil and gas from Russia's Far East, Sakhalin Island and its immediate offshore. Sakhalin, an island in the Kuril chain north of Japan, nearly 10,000 kilometers east of Moscow, was the subject of two of the three PSAs signed in the post-Communist economic and political restructuring. The subject of intense IOC interest in the early 1990s, Sakhalin was involved in one of the very first PSAs signed after the fall of communism.

And as can be seen in Figure 3, with its enormous production potential for natural gas and oil, Sakhalin Two is one of the largest energy projects in the world. Sakhalin Two has garnered significant attention worldwide because the project was slated to become the world's largest integrated oil and gas field with the capacity to meet eight percent of global demand for LNG.[150]

Environmental Concerns: A Red Herring?

Almost from its inception, the Sakhalin Two project came under criticism for possible adverse impacts on the region's delicate ecosystem. The most controversial environmental concern was the purported threat to the Western Gray Whale, an endangered species with a surviving population estimated at approximately 100 specimens.[151] There were also concerns about the alleged threat to local salmon

150. Ibid.

151. See "Western Gray Whale Project," the World Conservation Union, available at http://www.iucn.org/themes/marine/sakhalin/index.htm.

populations and the purported negative impact on local host communities.[152]

Sakhalin Two is significant, not because it signals a newfound Kremlin concern with environmentalism, or because Russia has gone "green." As will be discussed subsequently, Russia did not initiate an expropriation, or even threaten it: Russia utilized legal and contractual rights to pressure the consortium through environmental audits.

Although the Sakhalin Two PSA tied the state's hands legally and contractually, and shielded Sakhalin Two from subsequent laws, Russia exercised the only means that it had to influence the venture, through its environmental licensing procedure. Russia stayed within its legal limits when it used regulations as the "stick" to further governmental centralization. Officially, Russia merely relied upon its inherent authority to enforce environmental regulations and to review operating procedures.

Sakhalin Energy's Chief Executive, Ian Craig, alluded publicly to some of the environmental problems at the project, with:

> "I'll be the first to admit that we haven't got it right the first time everywhere… but there are huge challenges. We're trying to introduce international best practice with Russian contractors, although they've been working to Russian standards – they're not used to performing in this way."[153]

State involvement put international environmental campaigners in a quandary, as to how best to protest and bring pressure to bear on the Sakhalin operators, without lending support to a government purported to be responsible for enormous environmental degradation and alleged human rights transgressions as in Chechnya.[154]

As an operator, Shell continued to provide higher and higher cost overrun estimates before it finally announced that the cost overruns were likely to double to $22 billion.[155] The original PSA would have delayed the date at which the government would see returns from the project since it was structured for Shell to recover all of its costs before sharing profits.[156]

The Kremlin responded with a campaign for Gazprom to secure an interest in

152. Bankwatch group, a network of environmental groups in 11 countries, alleges that Sakhalin 1 and 2 has led to an influx of 5,000 mostly male construction workers that has increased prostitution, alcoholism and drug addiction as well as the rate of HIV infections. Available at< http://www.bankwatch.org/>

153. See Peter Davis, "Sakhalin 2 Project-Russia's New Found Environmental Fears," Ethical Corporation, November 6, 2006, available at http://www.ethicalcorp.com/content.asp?ContentID=4635&rss=41.xml.

154. Ibid.

155. Ibid.

156. See James Watson, "Foreign Investment in Russia: The Case of the Oil Industry," *Europe-Asia Studies* 48, no. 3. (May 1996): 429-455.

the project. The tool: Russia's environmental agency. During the summer of 2006, the environmental authorities threatened to withdraw Sakhalin Two's operating license and force the operators to pay multibillion-dollar fines for allegations of damaging the local ecosystem.[157] Gazprom initially offered Shell a share of its Zapolarnoye field in an equity swap for 25 percent of Sakhalin Two; implicit in this offer was the removal of Shell's environmental worries. However, when Shell announced increased cost overruns, Gazprom felt emboldened, and removed its Zapolarnoye offer, and demanded a much larger equity share.[158] To forestall an enormous fine of perhaps up to $30 billion, Shell allowed Gazprom to take a majority equity share. Shell's Chief Executive, Jeroen van der Veer, agreed to reduce Shell's equity holding by half, i.e., to 27 and a half percent.[159]

A resolution was finally announced by the Kremlin on December 22, 2006. Gazprom paid approximately $7.45 billion to gain a stake of 50 percent plus one share in the Sakhalin Investment Company, while the three founding members had their equity holdings halved. Shell dropped from 55 percent to 27 and a half percent, Mitsui to 12 and a half percent and Mitsubishi to 10 percent (see Figure 3, for the current equity makeup). The newly-formed consortium announced in a joint statement that this new merger would open possibilities for expanded cooperation.[160]

However, it appeared that Gazprom's entry into Sakhalin Two put the other IOCs, including Total and TNK-BP, a BP subsidiary, on notice that their permits for projects in Eastern and Northern Siberia were vulnerable to possible environmental challenges.[161] President Putin stated, mere minutes after the Sakhalin Two deal was concluded, "As far as I've been informed, the fundamental [environmental] issues can be considered resolved."[162] Moreover, Russia's environmental authorities, near that time, informed Exxon that it may not accept a revised cost estimate for the US firm's giant Sakhalin One project.[163]

---

157. Some of the allegations – in addition to the ones about the violations at the Western Grey Whale Breeding Grounds – were that subcontractors violated water regulations in laying pipes, and that Shell extracted more oil than it was allowed to under the license agreements. See Terry Macalister and Tom Parfitt, "For Months, Kremlin Piled on the Pressure Until Shell Could Take No More," *The Guardian*, December 12, 2006.

158. See Simon Bowers, "Sakhalin Issues "Settled" as Russia Takes 50% Stake," *The Guardian*, December 22, 2006.

159. Ibid.

160. See "Gazprom Completes Sakhalin-2 Takeover," *The International Herald Tribune*, April 18, 2007.

161. Ibid.

162. See Supra note 159, "Sakhalin Issues "settled" as Russia Takes 50% Stake."

163. See Supra note 127, "Sakhalin Oil and Gas Projects: What is behind Russia's Coercive Behavior?"

Conclusion and Prospects for Future GCC-Russian Energy Cooperation

Events on the Horizon

While the Russian strategies to regain control of its energy sector may superficially appear to diverge from the GCC model, there are some important similarities. Although Russia never experienced colonialism as the GCC states had – although Saudi Arabia was never colonized by Europe – the period of privatization after the fall of the Soviet Union had many of the same effects on the Russian national psyche as colonialism did on Arab consciousness. Yet in Russia's case, its experimentation with rapid privatization, and the wholesale entry of foreign IOCs into its oil and gas fields, was likely more acute, i.e. more disruptive, whereas in the GCC, the colonial experience could be considered more chronic, i.e. long lasting.

Nonetheless, Russia instituted a policy to reverse what it saw as its humiliating "energy treaty of Versailles" and implemented the means it had at its disposal, such as threats of fines and threatened withdrawal of environmental operating licenses, much like the GCC states utilized the collective apparatus of OPEC to leverage renegotiations of the concession agreements. And while the restructuring process in Russia is still ongoing, it appears that the country, like the GCC states, wants the IOCs to stay and invest in its oil and gas fields (particularly gas), but under the watchful eye of Gazprom or Rosneft.

In the GCC, prior to the OPEC revolution, the IOCs fought against any change in the status quo, but eventually accepted it and sought to derive as advantageous a position as possible. The IOCs in Russia seem to be following the same pattern by initially resisting Kremlin control but ultimately accepting a more muscular Kremlin role. With the limited global oil and gas production opportunities, it appears the IOCs have little choice but to accept the new situation.

Russian and GCC cooperation – ranging from multilateral organizations such as the GECF to bilateral investment opportunities for Russian companies to invest in the Gulf and vice versa – shows all indications of increasing in the future.[164] The West tends to be quite wary about the forming of a more assertive GECF. However, the real impact of an invigorated GECF may not be in the sheer domination of natural gas exportation, principally because the natural gas market is not "fungible" enough for natural gas to fulfill that role. Rather the impact may be in decreased investment opportunities for Western IOCs as bilateral joint ventures (intra-

164. In 2007, Jordan asked Russia to build a refinery, while in Iraq, Lukoil is in the beginning stages of resurrection of its Saddam era contracts in the West Qurna region. See Carola Hoyos, "Lukoil Hopes for Progress in the Iraq Project," *Financial Times*, January 30, 2006.

GECF) start to take precedence, and NOCs gain confidence in their technical skills for natural gas production.

While it appears that Gazprom has a more active stance in downstream asset acquisition, seeking to enter into the EU and US, Saudi Arabia's Aramco has an insular stance. Gazprom's strategy adheres more closely to Qatar Petroleum's and Kuwait Petroleum's strategy of seeking increased revenue further down the value chain. If Russia continues with its current strategy, the stage is already set for increased Russia-GCC cooperation.

Consideration of Russia's Oil Supplies as an Alternative to OPEC

Professor Eugene Khartukov, Center for Petroleum Business Studies

Dr. Ellen Starostina, PetroStar Consultancy, Russia

Introduction

The involvement of Saudi citizens in the terrorist attacks in New York on September 11, 2001, has thrown a sharper focus on the potential of Russia and the Caspian as an alternative source of large-scale oil supplies, which are seen in some Western quarters as more 'politically acceptable' than those from the Middle East or OPEC. But do such perceptions, which were widespread in the post-September 11 crisis period, reflect reality? Can Russia or the Caspian states really take market share from Middle Eastern oil exporters, or is this just wishful thinking by politicians concerned with the political stability of the Middle East? In the ensuing article, we contend that the answers to these pertinent questions can be found at the crossroads of Russian oil pipelines, which are effectively the arteries of Russian oil exports and which could, to some degree, play a role in supplanting the present OPEC-centric oil market at the global level.

Before assessing Russia's and the Caspian's new global role in displacing (or supplementing) Middle Eastern or OPEC oil exports, we should first clarify what is really meant by 'Russian oil exports.' Some consider Russian oil exports to mean Russian crude leaving the country (regardless of its final destination). Others have in mind total (Russian plus non-Russian) oil flows outside the former Soviet Union (including transit of Kazakh, Azeri and Turkmen crude to non-FSU destinations), while others talk exclusively about exports of Russian crude oil to the mysterious

'far abroad.'[1] There is a significant difference between these variations, which is worth examining in more detail.

Enigmatic Oil Exports

In the heyday of Soviet oil exports (that is, in the late 1980s), the 'unbreakable union of Soviet republics'[2] exported up to 2.9 million barrels/day of crude, mostly of a special blend known as 'Urals' (as it was mixed in the Volga-Urals region) or as 'Russian export blend' or "REBCO" (with around 32°API and 1.8 weight percent of sulphur). Urals flowed through the Druzhba (which means 'friendship') pipeline to Eastern Europe, as well as via the Soviet oil ports on the Black Sea (Novorossiysk, Odessa and Tuapse) and on the Baltic Sea (mostly Ventspils). Some other minor crude oil streams ran to foreign destinations by rail, mainly to China, and via seaports in the Russian Far East.

After the breakup of the USSR in late 1990, Russia lost sovereign control over pipeline outlets to Poland, Slovakia and Hungary as well as over the Ukrainian port of Odessa and Latvia's Ventspils. However, the Russian oil pipeline monopoly Transneft retained control of the crude oil flows through all those outlets, as the export pipelines were fed chiefly by Urals (now known as Rebco, which stands for 'Russian export blend crude oil').

After a while, other ex-Soviet republics (such as Kazakhstan, Azerbaijan and Belarus) started to use the Transneft-controlled pipelines to export their own crude and to build new pipelines (e.g., the Caspian Pipeline Consortium line from Kazakhstan to the Black Sea) and terminals (like Butinge on Lithuania's Baltic Sea coast or Pivdenny near Odessa) to facilitate their own oil exports or to serve those from Russia. As a result, the formerly indivisible Soviet exports of crude oil (all going to outside the ex-USSR) were broken into three main streams:

(a) Russian crude exports to outside the FSU;

(b) Russian crude supplies inside the FSU (mostly to Ukraine, Belarus and Kazakhstan);

(c) non-Russian crude flows (chiefly from Central Asia, Azerbaijan and Belarus) through the Transneft-controlled network to non-FSU destinations, as well as to other ex-Soviet republics.

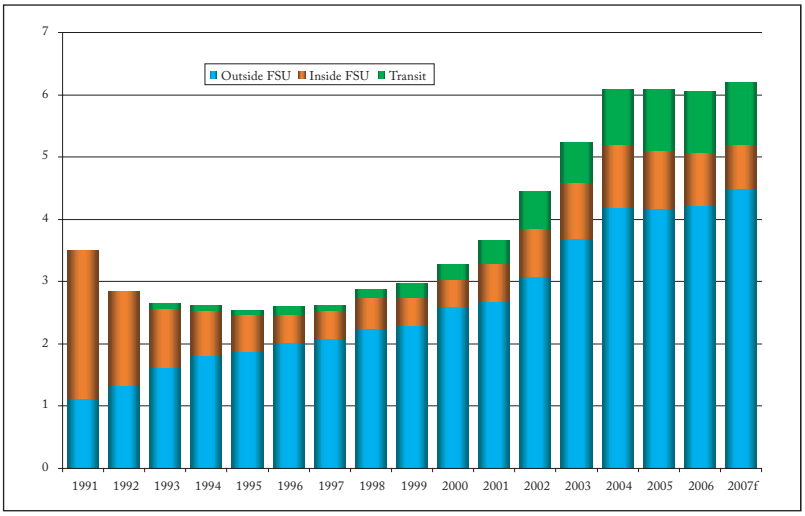
1. The term 'near abroad' is used in Russia to refer to the other ex-Soviet republics, while 'far abroad' refers to the rest of the world.
2. A reference to the first line of the national anthem of the Soviet Union.

Although Transneft distinguishes between its oil shipments within and outside the Commonwealth of Independent States (CIS), with the Baltic ex-Soviet republics being regarded as 'outside' or 'far abroad' destinations, Western observers are more accustomed to reckoning how much crude is exported by Russia (and other ex-Soviet countries) beyond the borders of the FSU.

Reflecting Overseas Demand

Initially, after the breakup of the USSR, Russia's crude exports to non-FSU destinations were severely impeded by the market-related terms of the new sales contracts, which the former Soviet satellites in Eastern Europe now had to accept. However, the much weaker (in fact virtually insolvent) ex-Soviet economies were affected to a far greater extent, and could now afford only a modest fraction of their former imports of Russian crude (Fig. 1). Consequently, total exports of Russian crude oil shrank from 3.5m b/d in 1991 to less than 2.5m b/d in 1995, while Russia's supplies to other ex-Soviet republics nosedived from 2.4m b/d to 600,000 b/d, falling even further later. This slump had nothing to do with the so-called 'depletion' of Russia's oil reserves — it was simply that the Russian oil (at market prices) had lost its formerly subsidized ex-Soviet buyers.

Figure 1: Oil Exports from Russia in 1991-2007, mb/d



Source: CPBS/Petromarket, March 2007

Demand for Russian crude from the better-off hard-currency buyers outside the FSU, which was initially somewhat depressed, has been steadily recovering and

has now exceeded its previous record level of 2.9m b/d (set in 1988). However, in the late 1980s it was related to all Soviet exports, which now should be compared with non-FSU supplies from and via Russia – that is, with regard to crude oil transit by other ex-Soviet states, which is estimated to reach 1,000,000 b/d last (2006) year.[3]

There is no doubt that Russian exports could have grown even faster than this, as the domestic oil market has been suffering from persistent over-supply since 1993. Were it not for the existing export bottlenecks, Russian oil companies could have boosted their exports (and hence hard currency earnings) to even higher levels.

Indefatigable Desire for Exports

It is noteworthy that nowadays Russia's annual oil balance (including oil production) stems from the country's (or rather Russian oil companies') unquenchable lust for oil export revenues. These oil exports constitute the only reliable source of the cash that is badly needed by Russian oil companies to pay wages, taxes and bank loans.

Moreover, although oil related hard currency revenues are not as important in Russia as they are in most OPEC countries, they still provide a shot in the arm for the unstable national economy. At the start of this century, exports of crude oil, together with oil product sales, accounted for around one third of the country's export revenues. Even more important, the oil sector makes up about 15 per cent of Russia's GDP, while oil-related taxes account for as much as one quarter of the federal budget receipts. In other words, Moscow cannot afford to sacrifice even a fraction of those revenues for the sake of supporting world oil prices.

Whatever the circumstances, therefore, Russia will export as much oil as it can. However, the country's ability to export its crude oil is currently limited by the available export facilities. By 2005, the major export capacity (i.e., pipelines and sea ports) potentially available for Russian crude had reached 5.5 mb/d. In 2006, the Russians used only 4.1m b/d of this potential, with some spare capacity conceded to Kazakhstan, Azerbaijan and Belarus under intergovernmental agreements. Still, with more and more export facilities being gradually commissioned in the years to come (see below), Russia will have more capacity available to export its crude.

Nowadays, there are hardly any major infrastructure projects in the Russian oil sector that are not directly aimed at increasing oil exports. Despite officially declared export cuts, the country keeps on boosting its crude supplies by rapidly de-bottlenecking existing export outlets and building new ones — in the West, Far

3. *Russia's Oil Balances*, Petromarket, 4th Quarter of 2006, 24.

North and Far East. The most important oil export projects are associated with the further development of the Druzhba and Baltic pipeline systems, as well as with new construction schemes for the Murmansk oil hub and the Angarsk pipeline(s).

Druzhba's Second Wind

The Druzhba pipeline remains the main export artery for Russian crude, capable of handling up to 1.3m b/d. Its northern branch, with a capacity of about 900,000 b/d, feeds Poland and Germany, while the southern branch, with a capacity of 400,000 b/d, facilitates exports to Hungary, Slovakia, the Czech Republic and the former Yugoslavia. However, due to the fall in oil demand in Eastern Europe, the pipeline is now substantially underused. In 2006, Druzhba's average capacity utilization rate was around 80 per cent, with its southern leg carrying only 75 per cent of its nameplate throughput. The use of the Druzhba's southern capacity would be enhanced when the 35-inch Adria pipeline, starting from the port of Omisalj in Croatia, is reversed to ship Russian crude to the Adriatic.

This scheme, which was originally proposed by Yukos and backed by Tyumen Oil (TNK), aimed at a capacity of 100,000 b/d in 2004 and up to 300,000 b/d by 2010. The first phase of the project (reversal) looked quite cheap (between $20-30 million), while the planned expansion to 300,000 b/d was more expensive, requiring up to $320 million of estimated capital investment. Originally, the Croatian pipeline operator Janaf was supposed to complete reversing its section of the Adria pipeline by the end of 2004. However, the company cannot start work before it has received approval from Croatia's environment ministry, which is worried about the effect of ballast water disposal on marine life in the Adriatic. As a result, the 100,000 b/d phase of the Druzhba-Adria scheme was not then expected to become operational before the end of 2004. In addition to this, the implementation of various safety and environmental requirements is likely to add around $60 million to the project's estimated cost. Furthermore, the project may be also delayed by the recently emerged disagreement between Transneft and its Ukrainian counterpart UkrTransNafta, which insists on concluding direct contracts with Russian oil producers for shipping their crude along the Druzhba-Adria route.

In August 2001, the Druzhba's Ukrainian section was linked by the Odessa-Brody pipeline to a new oil terminal at Pivdenny (or 'Yuzhny' in Russian and 'Southern' in English), some 25 miles north-east of Odessa. The 420-mile, 40-inch line with its current capacity of 180,000 b/d, can be expanded up to 500,000 b/d (and further to 900,000 b/d) and extended by 190 miles to the Polish refinery at Plock. The

Brody-Plock extension would require 2-3 years to build and cost around $300–500 million — in addition to the $160million-plus already invested in Odessa-Brody. The plan was vigorously supported by Kiev, as well as by Warsaw, Berlin and the European Union – none of which, however, was keen to provide the necessary funds. In any case, the extension could materialize only when (and if) UkrTransNafta, which runs the still idle Odessa-Brody line, finds the desperately sought-after oil supplies from the Caspian, to ship crude from the Black Sea to Plock and further via the Pomeranian pipeline to the Baltic port of Gdansk.

In mid-2003, two years after the ill-fated Odessa-Brody link was built, the first signs of actual interest in using it were shown by Kazakhstan's state oil and gas holding company KazMunaiGaz (KMG), which has pledged to conduct a feasibility study on the possibility of extending the line to Plock with the aim of shipping up to 160,000 b/d of Kazakh crude via Pivdenny to the north.

In the meantime, several Russian oil majors (including Lukoil, Yukos, and later TNK) were seeking to persuade the Ukrainian government to save the unfortunate project by reversing the Odessa-Brody line in order to pump Russian crude through the Pivdenny terminal for sea-borne exports. The Russian oil companies, actively backed by Moscow officials, would like to use a part of the current 240,000 b/d excess capacity in the Druzhba pipeline system to ship their crude southward across Ukrainian territory. Their desire for additional oil exports seemed to justify a relatively high tariff for the line fixed at $4.30/ton (60 cents/b) plus an additional fee from the Belarus border to Brody of $2.30/t (30¢/b).

Since the start of 2003, a short (32-mile) southern fragment of the pipeline between Michurinsk and the 840,000 b/d Pivdenny terminal had been used in reverse by TNK and later (since 2004) by Gazprom-linked trader TransNafta and Bashneft (a large oil producer from the Russian republic of Bashkortostan). In late August 2005, under incessant pressure from Moscow, which curtailed its crude exports via Odessa, Kiev agreed to allow Russian companies to use the Pivdenny outlet for up to 80,000 b/d of their crude, starting from the fourth quarter of 2005. Most analysts believe this could signify the looming end of Kiev's desperate resistance against the reversal of the Odessa-Brody pipeline. Still, the Ukrainian cabinet delayed any decision until mid-January 2006, when an independent feasibility study on the notorious reversal was to be completed.

This export route via Pivdenny has also attracted Kazakh exporters who, however, have laid a smokescreen around their vital interests by talking about the Plock extension (see above). In late July 2006, KMG succeeded in convincing UkrTransNafta of the need to lay a parallel 32-mile Michurinsk–Pivdenny line

for shipping Kazakh and Russian crude. Kazakhstan also offered to build a new berth at the terminal to handle its crude. According to KMG, this would keep the Odessa-Brody line free for its original mission – to pump oil northward. But the question still is whose oil would it pump?

Meanwhile, the Polish pipeline operator PERN planned to invest around $200 million to increase the flow of Russian crude to the Naftoport oil export terminal in Gdansk. In 2005, the terminal was running at only a fraction of its capacity because of constraints imposed by the Druzhba pipeline. Most of the money was spent on construction of a new line along the northern branch of the Druzhba pipeline from the Belarus border to Plock, which is connected with Gdansk by the Pomeranian pipeline. The 145-mile Adamowo–Plock line, which boosted the capacity of Druzhba's northern leg from 900,000 b/d to the current capacity of nearly 1.3m b/d, was completed in 2006.

Another possibility for Russian exports is to make partial use of the IKL pipeline, which connects Germany's Ingolstadt refinery with the Czech refineries at Kralupy and Litvinov. IKL's operator MERO has proposed using half of the pipeline's 200,000 b/d capacity in reverse, to pump up to 100,000 b/d of Russian crude to western Germany, instead of using the line to feed the Czech refineries with Mediterranean crude. Russia's Yukos is interested in the proposed scheme, but has yet to persuade the Czech and German refiners to switch over.

After acquiring a 49 per cent stake in Slovak pipeline operator Transpetrol in late 2001, Yukos expressed its interest in building a Bratislava–Schwechat pipeline. The 30-mile line would connect the 115,000 b/d Bratislava refinery in Slovakia with Austrian firm OMV's 180,000 b/d Schwechat refinery near Vienna, which is currently supplied via pipeline from the Italian port of Trieste. In August 2003, Yukos and OMV agreed to set up a joint firm to build the pipeline which would have an initial capacity of 72,000 b/d, potentially rising to 100,000 b/d. To keep the $30 million line busy, the Russian major also pledged to supply the OMV refinery with up to 100,000 b/d of Urals crude for an initial period of 10 years, starting at 40,000 b/d in January 2006. OMV was expected to own 24 per cent of the new firm, with the remaining 76 per cent going to Yukos (with some room to accommodate Russia's Transneft which also had an interest in the project).

The Russian pipeline monopoly was known to be interested in the Bratislava–Schwechat link and proposed to extend it further to Virye in Croatia, where it would join the Adria pipeline. However, now that the Druzhba-Adria project has taken off, the proposed $200 million Schwechat–Virye extension looks redundant.

Baltic Expansion

On the Baltic front, the Latvian port of Ventspils remained the main outlet for Russian (and Soviet) crude destined for North European markets until recently, when it was embargoed by Transneft, seeking to buy a controlling stake in the port cheaply. If Transneft succeeds in its efforts (with a sell-or-die ultimatum expiring by next May), the current 320,000 b/d capacity of the now idle outlet could be expanded to 360,000 b/d.

As an alternative to the independent Ventspils, in late 2001, Transneft built its own Baltic oil terminal at Primorsk, on the Gulf of Finland, north-west of St Petersburg. Its original capacity of 240,000 b/d was increased to 360,000 b/d in early July and to 600,000 b/d at the end of October (two months ahead of a plan). This now fully used facility was slated to expand further to 840,000 b/d by April 2004, at the latest. Ultimately, or how it was officially forecast, Primorsk's capacity could reach 1.2 mb/d, although this depends on market conditions, especially as regards future oil exports from Iraq. The first phase of this Baltic Pipeline System (BPS), including a new 40-inch, 240,000 b/d pipeline from the Kirishi refinery to Primorsk, cost Transneft some $600 million ($140 million more than initially planned). The completed second phase, which boosted the capacity of the BPS to 840,000 b/d, included the construction of a longer 40-inch, 600,000 b/d line from Palkino (near Yaroslavl), and was estimated to cost $1.2-1.4 billion. The ongoing fourth stage of the project, which was finished in the summer of 2007, has increased the capacity of this export system by up to 1.4 mb/d.

If the fairly heavy ice conditions at Primorsk undermine the economics of using this capacious export outlet, Transneft also has a standby plan to build a 160,000 b/d pipeline from Primorsk to the more easily accessible Finnish port of Porvoo.

With the takeover of Lithuania's Mazeikiu Nafta by Russia's Yukos in June-August 2002, the Lithuanian port of Butinge, which was built in mid-1999 – not least in order to feed the crude-starved Mazeikiu refinery – has also become available for Russian oil exports. Moreover, in 2004, the Lithuanian government proposed expanding the port's nameplate capacity from the current 160,000 b/d to around 250,000 b/d, and Yukos responded with a plan to finance its expansion to 280,000 b/d.

Finally, Russia's oil export capacities in the Baltic will be boosted by developing Lukoil's new terminal at Vysotsk. The first 50,000 b/d phase of the projected 220,000 b/d export terminal, which is being built 18 miles north of Primorsk, was completed by the end of 2003, with about 140,000 b/d added in 2004. Although

the $300 million project is mostly designed to handle oil products, some 50,000 b/d of its template capacity is reserved for crude oil, with the initial 20,000 b/d of its crude export facilities in place by the start of 2004. Crude and products produced by Lukoil are delivered to the terminal by rail and river.

Black Sea Developments

At the Black Sea, Transneft is pushing ahead with plans to increase trans-shipment capacities of Novorossiysk – Russia's largest oil port capable of handling over 900,000 b/d. Although no time schedule was disclosed, the projected boost to 1.2m b/d is likely to materialize by around 2008. Capital requirements of this project, involving expansion of feeding pipelines, are estimated between $400 million and $1.2 billion.

Unlike Novorossiysk, a nearby oil terminal at South Ozereyevka suffers from a lack of Russian crude supplies. The offshore loading facility was built some 15 miles northwest of Novorossiysk in mid-2001 by Caspian Pipeline Consortium (CPC) to facilitate sea-borne exports through its well-known pipeline coming from Kazakhstan's Tengiz oil field. The 40-inch, 940-mile line, which has already consumed over $2.6 billion of initial investment, was originally projected to ship up to 1.4 mb/d, with about 350,000 b/d reserved for Russian crude that would be available through a planned inter-connection with Transneft's pipeline feeding Novorossiysk.

The expected injection of Russian crude was essential for making the $4 billion project feasible even at today's shipping tariff of $26.3 per ton (or about $3.5/b). The connection line could be quite short (30-60 miles) and quickly built (within a month) for no more than $50 million. However, potential suppliers of Russian crude found the interlink option too expensive to use (with over $1/b of additional tariff) and, in September 2002, CPC had to scale down the originally planned capacity to 1.13 mb/d. Still, the option is open for the future. Meanwhile, the CPC capacities are to be increased from 1.06 mb/d in 2006 and 1.42 mb/d by 2014. This will require additional investment of $1-1.3 billion, including $250-300 million due to be provided by Russia. And the Russian government, which has a 24 percent stake in the CPC, is insisting on raising the line's tariff to $38 per ton (or $5/b) to make the ill-fated pipeline profitable (though hardly competitive).

Meanwhile, boosted by new deliveries from Karachaganak condensate field in north-western Kazakhstan, CPC raised the pipeline's throughput to 478,700 b/d in 2004 and 665,200 b/d in 2006.

The port of Tuapse, located southeast of Novorossiysk, was reserved for exporting Siberian Light crude. Partly for this reason, in 2005 its capacity of 180 kb/d was used at only 55 percent. In 2006, Transneft planned (but failed) to cease separate exports of this prime blend, which would substantially boost the port's utilization and uncork Russia's oil pipelines for additional exports of at least 120 kb/d of the traditional Urals blend.

To make the Black Sea picture complete, Moscow's recent interest in joining the projected Baku-Tbilisi-Ceyhan (BTC) pipeline project should be brought in. In late July 2005, the Kremlin administration asked the Russian energy ministry to give its expert opinion on a plan prepared by Rosneftegazstroy, which proposed to build a connection line between the port of Novorossiysk and BTC's section in Georgia. Despite the strong resentment towards the rival BTC in some Moscow circles, the plan is worth consideration, given the growing concern about the already restricted traffic through Turkey's Bosporus waterway.

Murmansk Plans

In the Far North, all the proposed oil-export projects gravitate towards a passage to the Atlantic, kept ice-free thanks to the warming effect of the Gulf Stream. In particular, Russian gas giant Gazprom envisages a 300,000 b/d oil terminal at Pechenga, north-west of Murmansk, to serve the Prirazlomnoye oil field in the Barents Sea. Another scheme, Northern Gateway, with a proposed capacity of up to 500,000 b/d, is designed to facilitate oil exports from the Kharyaga, Northern Territories and other upstream projects in the Nenets Autonomous District. Separately, Lukoil's oil terminal at Varandey (the first private oil-export facility in Russia), also aimed at reloading crude from the major's most northern fields onto larger, ocean-class tankers at Murmansk, is to be expanded from its current 30,000 b/d to 48,000 b/d next year and 200,000-300,000 b/d in 2005.

However, these plans were later overshadowed by the ambitious Murmansk project, proposed in November 2003 by Lukoil, Yukos, TNK and Sibneft. The project, which was joined by Surgutneftegaz (SNG) and may be also backed by foreign firms including ConocoPhillips, Marathon Oil and TFE, envisages constructing a major pipeline which would transport West Siberian oil to Murmansk, where it would be loaded onto VLCCs at a new oil port. The pipeline would follow one of two proposed routes (either 1,600 or 2,200 miles), and would run from the Tyumen oil fields to the ice-free port.

Originally, the projected capacity of this system was slated to reach 1.2-1.6m b/d by 2008 (with estimated capital needs varying between $5.1-5.7bn), with a

possible expansion of up to 2.4 mb/d later. However, in late June 2006, the Russian oil majors involved in the project signed a memorandum of understanding (MoU) with Transneft and the Ministry of Energy, boosting the 48-inch line's ultimate capacity to a projected 3.0 mb/d. With only 200,000 b/d reserved for third parties, the line's remaining maximum throughput was allocated in the MoU as follows: 1.0 mb/d to be filled by Yukos, 660,000 b/d by Lukoil, 500,000 b/d by TNK, 400,000 b/d by Sibneft, and 240,000 b/d by SNG. Provided that the conclusions of a feasibility study are positive, the line will be built and operated by Transneft. Assuming that the study, which has been delegated to the energy ministry, was completed by the end of 2004 (in reality, no finding of this study has been publicized so far), the new pipeline, which would be Russia's biggest one, was expected to be operational in 2007.

Although it is often claimed (for obvious political reasons) that this mammoth project is the best way of exporting Russian crude to the US, it should be pointed out that it could also facilitate less expensive oil exports to the closer European markets (Table 1).

Table 1: Comparative Ex-field Shipping Costs: Murmansk vs. Other Outlets

Destination	Source & Route	$/ton	$/(1
US East Coast[2]	Caspian (via Baku-Ceyhan)	31.9	4.31
	West Siberia (via CPC)	29.9	4.04
	West Siberia (via Druzhba-Adria)	29.5	3.99
	West Siberia (via Murmansk)	24.7	3.34
	Mideast Gulf (via Cape)	19.5	2.64
N.W. Europe[3]	West Siberia (via Murmansk)	18-20	2.4-2.7
	West Siberia (via Primorsk)[4]	< 18	< 2.4

1 At a flat conversion ratio of 7.4 b/ton.
2 Based on the Murmansk project presentation.
3 Based on PetroFinance/CPBS data.
4 Reflects a summer freight.

Sources: Murmansk – An Oil Gate to Americas. – In Proc. Russia and the FSU Oil Transport Conference, November 20-21, 2003, Moscow; PetroFinance/CPBS estimates, September 2005

Angarsk Alternatives

Future oil exports from Eastern Siberia are planned in two different (and in fact conflicting) ways. Both the options are based on a pipeline starting from

Angarsk (near the city of Irkutsk) but would end up either in north-east China (Yukos' proposal, February 1999) or near the Russian Pacific port of Nakhodka, at Perevoznaya Bay (Transneft's suggestion, October 1999). The Yukos-backed scheme takes the risky approach of locking in oil from eastern Russia inside the Chinese market, but could be amply supplied by the region's projected oil production (which is estimated to hit some 600,000 b/d by 2010). Transneft's plan, which the Japanese are actively lobbying in support of (offering Moscow some $5 billion in low-interest loans), enjoys the geopolitical advantage of diversifying exports, but also has a serious weak point — the lack of available supplies in the region to support a larger oil pipeline, with a minimum required capacity of 1.0 mb/d. Another consideration is money: Yukos' 1,420-mile, 40-inch pipeline would cost the Russian major $2.2 billion (with China National Petroleum Corp. paying another $700 million), while the required investment in Transneft's 2,410-mile, 48-inch alternative (wholly funded by the Russians) is officially estimated at $5.8 billion. It is noteworthy that if and when the Angarsk-Nakhodka pipeline is built, it would be one of the longest in the world – nearly three times the length of the Trans-Alaskan Pipeline (TAP) – and would traverse terrain nearly as harsh. For this reason, many analysts do not trust the official cost estimates and argue that $11 billion is a more realistic capital requirement for the state-run monopoly's project.

In May 2004, the Russian cabinet made a compromise (although 'not yet final') decision to give the green light to Yukos' plan to build the Angarsk–Daqing pipeline, which would be supplemented by a leg to Nakhodka when (and if) East Siberian and Yakutian oil supplies are sufficient to fill both the branches.

Although this decision was presented as a kind of 'Solomon's judgment,' it seemed to have in fact buried Transneft's Pacific-oriented export project for the foreseeable future. Furthermore, the surviving scheme was cemented in late May 2004 by a 26-year supply deal between Yukos and the China National Petroleum Corp. (CNPC), which provided for total pipeline deliveries of up to 700 mt (more than 5.2 billion barrels) of Russian crude, starting at 20 mt/y (400,000 b/d) in 2005-09 and increasing to 30 mt/y (600,000 b/d) in 2010-30.

Nonetheless, the Russian government's reaction to the deal was extremely cool, as Moscow started a pre-election campaign against Yukos' boss Mikhail Khodorkovsky, whom the Kremlin perceived as being too politically ambitious. The final decision on the pipeline's route, which was originally expected to be sealed during a visit by the former Russian Prime Minister Mikhail Kasyanov to Beijing in late September 2004, has been indefinitely postponed. Whatever the final decision, it was unlikely from that moment that Russian oil would start to be pumped to

China (as envisaged earlier) in 2005, as under the original plan, construction was supposed to begin before the end of 2004.

Anyway, in a bid to placate the Chinese, Kasyanov had promised to sharply build up railroad deliveries of Russian crude to China (up to 6.5 mt/y in the near future), while Semyon Kukes, who had taken over from the imprisoned Khodorkovsky as Yukos' CEO, expressed his full indifference toward where Russian new oil pipelines should go to. Meanwhile, Tokyo hoped that Moscow would finally change its mind on the Angarsk pipeline's route in favor of Nakhodka. Professionally speaking, the Pacific destination of the Angarsk (now usually called the ESPO) pipeline has self-evident marketing advantages over its Chinese route. Finally, at the start of 2007, the Kremlin made its final and wise decision – the pipeline will go to the Pacific with a 2,250-km leg from Skovorodino (the Amur Region) to China's Daqing to be completed first – likely by November 2008.

Passage through the South

Separately (and alternatively), Transneft had talks with Kazakh pipeline operator KazTransOil (KTO) on shipping West Siberian crude through a recently proposed pipeline to China. The 640-mile line, with projected capacity between 600,000 b/d and 1 mb/d, would go eastward from Atasu (located halfway between Pavlodar and Shymkent on the Omsk–Chardzhou pipeline) to Druzhba (Alashan'kou) on the Kazakh border with China's Xinjiang province, targeting the Karamay refinery at the western end of the Chinese pipeline system. The proposed connection is a part of the ongoing project aiming to bring crude oil from western and central Kazakhstan (including the northern Caspian) to the country's under-utilized eastern refineries (at Pavlodar and Shymkent) and further on to western China. The already started construction of the 1,740-mile Atyrau-Kenkiyak-Kumkol-Atasu-Druzhba (Alashankou) pipeline is estimated to cost $2.7 billion, while its Atasu-Druzhba section, which was built at the end of 2006, required around $850 million.

Export-driven Output

While some of the above projects are still on the drawing board, others (like the Adria pipeline reversal and the Primorsk expansion) are set to bear fruit within a year. All in all, the ongoing and envisaged projects will boost the existing export capacity of *major* outlets (wholly or partly available for Russian crude) from some 5.5 mb/d in 2004 to over 7 mb/d by 2007 and 10.2 mb/d by 2010 (Table 2).

Table 2: Major Oil Export Outlets Used by Russia – 2004-2012, mb/d

Export Outlet	2004[1]		2007		2012	
	Capacity	Use	Capacity	Use	Capacity	Use
Eastern Europe (pipelines)	1.38	1.22	1.78	1.37	1.98	1.56
Druzhba	1.38	1.22	1.68	1.28	1.68	1.32
Northern Branch	0.98	0.88	1.28	1.08	1.28	1.10
Southern Branch[2]	0.40	0.33	0.40	0.20	0.40	0.22
Adria (Croatia)	–	–	0.10	0.09	0.30	0.24
Black Sea (ports/terminals)	2.23	1.02	2.43	1.31	2.95	1.66
Novorossiysk	0.98	0.85	0.98	0.90	1.20	1.10
Tuapse	0.18	0.10	0.18	0.16	0.18	0.16
South Ozereyevka (CPC)	0.63	0	0.83	0.08	1.13	0.16
Odessa (Ukraine)	0.26	0.03	0.26	0.08	0.26	0.08
Pivdenny (Ukraine)	0.18	0.04	0.18	0.09	0.18	0.16
Baltic Sea (ports)	1.71	1.00	1.90	1.58	2.06	1.78
Primorsk	1.10	0.84	1.20	1.05	1.20	1.10
Ventspils (Latvia)	0.32	0.00	0.32	0.20	0.32	0.20
Butinge (Lithuania)	0.24	0.14	0.28	0.24	0.28	0.25
Vysotsk	0.05	0.02	0.10	0.09	0.10	0.09
Porvoo (Finland)	–	–	–	–	0.16	0.14
Barents Sea (Murmansk)	0.07	0.01	0.20	0.18	0.60	0.54
Far East	0.08	0.04	0.32	0.27	2.04	1.84
De Kastri (port)	0.04	0.01	0.12	0.11	0.24	0.22
Sakhalin-2 (terminal)	0.04	0.03	0.20	0.16	0.20	0.18
Taishet–China (pipeline)	–	–	–	–	0.60	0.54
Taishet–Nakhodka (pipeline)	–	–	–	–	1.00	0.90
Central Asia (Kazakhstan–China line)	–	–	0.40	0.20	0.60	0.30
Total	5.47	3.29	7.03	4.91	10.23	7.68

1 Actual.

2 Excluding capacity used for additional deliveries via the Adria and the Odessa–Brody pipelines.

Source: Center for Petroleum Business Studies, January 2006

Understandably, not all the incremental capacity will be used by Russia, which will refrain from using foreign facilities and share its own with Kazakhstan and other Central Asian exporters. Hence, we project that Russia will be able to increase its crude oil exports via major outlets from 5.5 mb/d last year to over 7 mb/d by 2007 and more than 10 mb/d by 2010.

By adding *minor* export facilities (rail, river and small sea terminals), which

are estimated to provide another 1.0–1.2 mb/d, one can get a fairly reliable rule-of-thumb forecast of Russia's *total* crude oil exports outside the FSU of 5.9–6.1 mb/d by 2007 and 8.7–8.9 mb/d by 2010. Adding inland demand for crude oil (*i.e.*, refinery intake, direct use and losses) at a projected (and fairly stable) rate of 4.1-4.2 mb/d, plus net exports inside the FSU (including transit via Ukraine) at a probable rate of 0.9-1.0 mb/d, leads us to the conclusion that Russia's crude oil output (including field condensate) is likely to reach 10.9-11.3 mb/d in 2007 and 13.8–14.1 mb/d in 2010.

This almost incredible conclusion has been implicitly supported by recent output projections from several Russian oil majors (including Yukos, Lukoil and TNK). In particular, speaking at the 2nd International Pipeline Forum in Moscow in late May, TNK's then President Simon Kukes outlined a comprehensive overview of Russian companies' production plans, targeting a total of about 10.1 mb/d in 2007 and nearly 11.6 mb/d in 2012, even without taking into account Russia's offshore production, which is estimated to contribute 700-900 kb/d in the medium term (Table 3).

Table 3: Russian Oil Companies' Production Plans[1] – 2003-12, mb/d

Company	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
YukosSibneft	2.28	2.55	2.77	2.98	3.17	3.34	3.50	3.66	3.74	3.83
Lukoil	1.61	1.71	1.77	1.83	1.86	1.90	1.94	2.01	2.03	2.05
TNK-BP	1.19	1.29	1.35	1.40	1.46	1.54	1.61	1.66	1.69	1.72
Surgutneftegaz	1.06	1.15	1.21	1.27	1.32	1.37	1.43	1.47	1.51	1.52
Tatneft	0.48	0.46	0.45	0.44	0.43	0.42	0.40	0.39	0.38	0.38
Slavneft	0.32	0.34	0.36	0.39	0.40	0.42	0.44	0.45	0.47	0.48
Rosneft	0.31	0.33	0.35	0.37	0.40	0.44	0.47	0.50	0.53	0.54
Bashneft	0.24	0.24	0.24	0.23	0.22	0.21	0.20	0.19	0.19	0.18
Others	0.72	0.73	0.75	0.77	0.78	0.80	0.82	0.83	0.85	0.86
Total (rounded)	8.2	8.8	9.3	9.7	10.1	10.4	10.8	11.2	11.4	11.6
Actual Total	8.50	9.23	9.48	9.70	…	…	…	…	…	…

1 Including field condensate; excluding offshore and overseas production..

Sources: Tyumen Oil Co. (TNK) based on companies data, May 2003; Petromarket Research Group, March 2007

It is noteworthy that these production plans are already exceeded by actual production. Thus, in 2003, 2004, 2005 and 2006, all the Russian oil companies planned to produce 8.2, 8.8, 9.3 and 9.7 mb/d, but the actual Russian oil production in those years was 8.50, 9.23, 9.48 and 9.70 mb/d.[4]

In its turn, according to Russia's leading energy agency RusEnergy, which last

4. *Russia's Oil Balances*, Petromarket, the 4th Quarter 2006, 28.

April put together all available and the most recent official and private oil forecasts, by 2015, Russia alone must surely produce 503-533 mt/yr of crude and condensate (or around 10.3-10.7 mb/d).[5]

Admittedly, the above projections look reliable only if world oil prices are fairly stable in real terms, with the OPEC Reference Basket price staying above $20/b. If the oil price nosedives to $15-18/b, we believe that the less attractive upstream and midstream economics will probably lower both Russia's oil output and its non-FSU exports by some 2 mb/d in 2010. Still, Kukes gave assurances that all the reviewed plans were actually based on a price of $16-18/b for Brent and at least 15 per cent internal rate of return (IRR) for related oil projects.

Finally, according to the country's Energy Strategy recently updated by Russia's Academy of Sciences, by 2030 Russia would produce more than 12 mb/d of crude and condensate (Table 4).

Table 4: Russia's Oil (Crude & Condensate) Production Forecast by the RAS – 2010-30, mb/d[1]

Area	2010	2015	2020	2025	2030
Western Siberia	6.91	6.92	7.00	7.04	7.12
YaNAO	1.10	1.20	1.30	1.40	1.61
KhMAO	5.32	5.22	5.20	5.14	5.02
Tomsk Region	0.30	0.30	0.30	0.30	0.30
South of Tyumen	0.12	0.15	0.15	0.15	0.15
Novosibirsk Region	0.04	0.03	0.03	0.03	0.03
Omsk Region	0.03	0.02	0.02	0.02	0.02
European part of Russia	2.41	2.31	2.20	2.13	2.01
Eastern Siberia & Sakha	0.25	0.84	2.00	2.21	2.61
Far East (Sakhalin)	0.46	0.50	0.60	0.65	0.70
Total	10.03	10.57	11.81	12.04	12.44

1 Conversion from metric tons to barrels was done with a flat coefficient of 7.324 b/t

Source: Russia's Academy of Sciences, November 2006

Any Resource Constraints?

Some argue that Russia cannot produce so much oil as its known oil reserves are already well depleted. Admittedly, until recently, all Russia's oil reserves were typically estimated at less than 50 bn bbl. But, as a matter of fact, the country has much more as its proven oil reserves were badly underestimated, which has

5. *RusEnergy*, April 4, 2006, 3.

been revealed now by Western audits and other non-biased sources (Table 5). In particular, we are confident that Russia's proven oil reserves stand at present at some 110 bn bbl – or quite in line with those of Iraq.

Table 5: Proven Oil Reserves in Russia – Various Estimates

Source and Year of Estimate	At 1/01/...	Proved Reserves[1], bn bbl
Central Intelligence Service (CIA) of the USA, 1996	1996	35.0
World Energy Council, 2001	2001	46.5
British Petroleum (BP), 2001-2002	2000-2001	48.6
Department of Energy (DoE) of the USA, 2002	2002	48.6
World Bank (WB), 2002	2002	87.0
Wood MacKenzie, 2002	2002	120.0
R. Leonard, Yukos, 2002	2002	90-105
International Energy Agency (IEA), 2002	2002	146.0
M. Khodorkovsky, Yukos, 2003	…	150.0
Ente Nacionale Hydrocarbure (ENI), 2003	2002	48.573
BP, 2003	2002	48.6
	2003	60.0
International Center for Petroleum Business Studies, 2003	**2003**	**112.0**
BP, 2004	2003	67.0
	2004	69.1
Center for Petroleum Business Studies/Petromarket, 2004	**2004**	**110.0**
BP, 2005	2005	72.3
RF Ministry of Natural Resources, 2005	2005	136.0
BP, 2006	2005	72.4
	2006	74.4
BP, 2007	2006	79.1
	2007	79.5

1 Including gas condensate

Sources: Center for Petroleum Business Studies, March 2007; British Petroleum plc, June 2007

If one takes the average (or better the Center for Petroleum Business Studies') estimate of proved oil reserves in Russia (at 110 bn bbl) and normal R/P ratio (of 10 years), then Russia can now produce three times more oil (or around 30 mb/d: 110,000:10:365) against 11.5 mb/d the country produced in the late 1980s.

At any rate, until the country's oil resources are *really* depleted,[6] it seems

6. The last official estimate of remaining oil reserves in Russia (publicized by the RF Accounts Chamber in *Bulletin of the Accounts Chamber*, 2002, no.8, 4), puts the country's *explored* ($A+B+C_1$)

certain that Russia's oil production growth will be determined by the available export capacity. Russian oil companies will export (and, hence, produce) as much crude as they can profitably sell. In turn, Moscow's political elite – whether lobbied, corrupted or objectively interested in promoting the nation's oil business – will do whatever is needed to keep the big oil show on the road… provided, of course, that the Kremlin and the Russian White House[7] – prompted by the growing competition among the Russian 'big boys' – do not go as far as to victimize some of the major export projects in order to placate their political favorites.[8]

Global Market Impact

In the meantime, the global oil market will experience ever-growing pressure from Russia's oil supplies, coupled with increasing exports from the Caspian. Although the level of oil supplies from Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan has been highly exaggerated by Central Asia's totalitarian leaders, they are nevertheless typically estimated by Western experts to rise from 1.7 mb/d in 2005 to 2.9 mb/d by 2010, before leveling off at some 3.0 mb/d by 2015.[9] Our most likely scenario is based, in its turn, on more conservative projections of Caspian (Central Asia and Trans-Caucasus) non-FSU net oil exports of 1.4 mb/d in 2005, 2.4 mb/d in 2010, and 2.3 mb/d in 2015. These fairly moderate numbers are intended to reflect the inevitably growing resistance of OPEC-10 producers, the rising exports of Iraqi oil and the ever-increasing competition from Russia's booming oil supplies.

Besides, when assessing potential FSU supplies (and especially Russia's oil exports to non-FSU destinations), we should disengage ourselves from the country's *crude oil* balance and instead — in order to make it compatible with the global oil balance — take into account *all* the liquid hydrocarbons exported from Russia

recoverable reserves of crude and condensate at 25.2bn tons (or about 185bn bbl), while existing unofficial estimates of current *proved* reserves in Russia vary from 60bn to 150bn bbl. Our own company-by-company review of estimated proved (and quasi-proved) reserves (mostly supported by Western audits) puts Russia's remaining proved oil reserves at around 110bn bbl.

7. The residence of the Russian government.
8. We feel confident that the crackdown on Yukos' management, which coincided with Vladimir Putin's re-election campaign in 2004 was in fact both triggered off and endorsed by the company's competitors, whose business interests were jeopardized by the announced Yukos-Sibneft mega-merger and Khodorkovsky's aggressive offensive on their former privileged positions. "Nothing political, it's strictly business!" confirmed a Russian major oil company's manager. "Khodorkovsky should know his proper place – on the market or… behind the bars!"
9. I. Woollen, "Challenges for Caspian Oil and Gas Exports," in Proceedings of EF International Conference on CIS Oil & Gas Transport and Supply, April 23-24, 2003, Moscow, Russia.

outside the FSU. These oil exports include not only crude oil, but also refined oil products, as well as stable condensate and other saleable NGLs. Taking into account these non-crude supplies, Russia's net exports of liquid hydrocarbons to non-FSU destinations exceeded 5.2 mb/d in 2002 and were estimated by the Moscow-based PetroMarket consultancy at 7.05 mb/d in 2006.[10]

Bearing these considerations in mind, we predict conservatively that aggregate FSU net oil exports will most likely rise from 8.1 mb/d in 2006 (IEA's estimate) to 9.4 mb/d in 2010, before settling at 9.3 mb/d by 2015. In other words, incremental oil supplies from the FSU are projected to amount to 1.3 mb/d in 2010 and 1.2 mb/d in 2015 (Table 6).

Table 6: Assumed Scenarios of FSU Net Oil (Crude + Products) Exports, mb/d

Scenario/Origin	2006[1]	2010	2015
A. Most Likely Exports	8.1	9.4	9.3
Russia	6.1	7.0	7.0
The Caspian	2.0	2.4	2.3
B. Unchanged (2006) Exports	8.1	8.1	8.1
Russia	6.1	6.1	6.1
The Caspian	2.0	2.0	2.0
Difference [A.-B.]	0.0	1.3	1.2

1 According to IEA.

Memo: Other Assumptions for all the above scenarios: (a) OECD Real GDP Growth – 2.5%/yr; (b) OECD Import Coal Prices (in 2000 US $$): $39/ton in 2003-10, rising to $40/ton by 2015; (c) political instability around the Arabian Gulf - the *highest* in 2004-2005, decreasing to *high* by 2010 and remaining *high* through to 2018.

Sources: IEA, Center for Petroleum Business Studies, March 2007

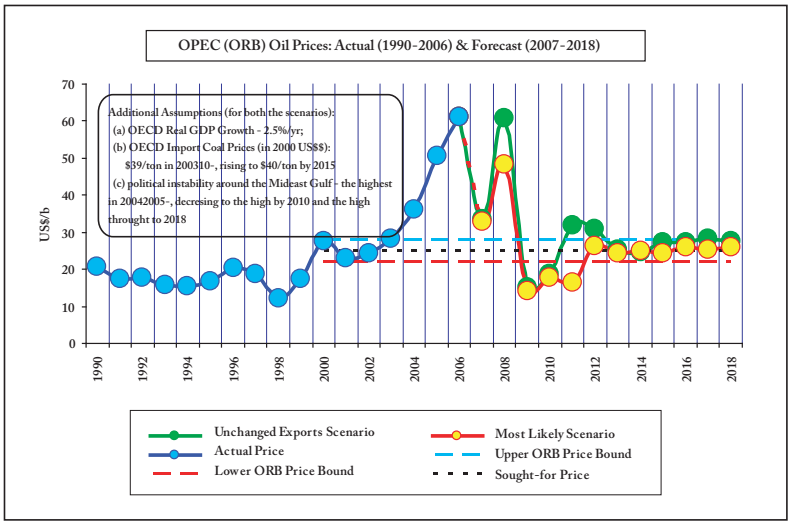
Using the above projections as scenario assumptions for our multi-regression simulation model of the world oil market gives us a fairly clear estimate of the global impact of those incremental oil supplies (see Fig. 2). According to the model's simulations, the impact of the new FSU oil supplies will start to be felt especially after 2006, with every incremental 1.0 mb/d of ex-Soviet exports shaving on the average nearly $1/b off the OPEC Reference Basket (ORB) price.

Alternatively, running the model in a fixed-price mode leads us to another uncomfortable finding: in order to maintain ORB price at around the targeted $25/b (in real terms), OPEC would have to curtail its crude oil (and NGLs) output from more than 34.4 mb/d last year to 21.4 mb/d by 2010 and 20 mb/d by 2015. This is

10. *Russia's Oil Balances*, 4th Quarter of 2006, 26.

hardly an acceptable solution and a rather improbable outlook (at least, for the already angry Gulf oil producers), indeed. It does mean, though, that either the sought-for $25/b target price is unsustainable (at least, in real terms) or our assumptions and projections are completely wrong.

Figure 2: Impact of FSU Oil Supplies on OPEC Real Oil Prices – 2007-18



Source: GAPMER / Center for Petroleum Business Studies ; IEA (World Energy Outlook, 2005, and Oil Market Report, various issues for 2006- 07); OPEC (Monthly Oil Market Report, various issues for 2006- 07); March 2007.

Mismatched Dialogue

Although, for obvious reasons, some OPEC officials tend to equate the Organization's targeted price range of $22-28/b with Russia's official price preference of $20-25/b for Urals,[11] it is no secret that most of Russian oil majors feel sufficiently comfortable with prices in the range of $15-18/b, and have repeatedly claimed that they can withstand a possible drop of world oil prices to as low as $10/b.

Admittedly, the interests of Russian state-budget watchers and major producers of Russian crude often differ (if not to say contradict each other). After all, who produces and exports Russian oil, and who fills the budget with the sorely-needed tax receipts? The question is, of course, rhetorical, since the answer is self-evident.

11. As a matter of fact, for the five related years (1998-2002) an yearly differential between the higher OPEC basket price and the Urals average price (cif NWE/Med), used as a reference by the Russian government, averaged around 40 ¢/b.

Can one therefore assume that the Russian government controls the country's oil production and/or exports? Unfortunately, this is hardly the case.

As a result of the hasty and all-out oil privatization of 1996-97, the Russian government has lost its previously held control over the national oil sector, which is now almost completely privatized. The only remaining state-controlled oil company, Rosneft, was producing a mere 1.76 mb/d, or less than an 18 per cent of the country's output of 9.81 mb/d in the last quarter of 2006.[12] Further, we should not forget that Rosneft's current production is primarily based on its December 2004, $9.35 billion acquisition of a controlling 76.79 percent stake in Yukos' ill-fated and heavily indebted main production unit: the Western Siberia-based 1 m/d Yuganskneftegaz. This asset provided Rosneft with more than 1,580 mln toe of proved reserves in such huge oil fields as the Priobskoye, Mamontovskoye, Malobalykskoye, Prirazlomnoye and Salymskoye.

To make things worse, owing to vigorous resistance by the privatized oil majors, the federal government has failed to create a national oil company, which could *de facto* fulfill the oil-related international obligations of the Russian state. Not surprisingly, despite the officially-declared export cuts that were pledged by Moscow in late 2001, some Russian oil majors (like Yukos and Sibneft) in fact announced substantial (20-30 percent) increases in their oil production for 2002 and stuck firmly to their plans.

"Moscow has benefited from OPEC's market management and price restoration success without making the production sacrifices it had pledged," noted *Petroleum Intelligence Weekly,* commenting on the recent visit of Saudi Arabia's Crown Prince Abdullah to Moscow.[13]

Nevertheless, when cooperation is really needed, OPEC officials continue to negotiate market stabilization measures with the Russian government, and have to rely upon its pledges, despite the obvious fact that Moscow cannot afford any loss in petrodollar revenues, nor does it have enough power to compel the country's privatized oil industry to adhere to those official obligations. It is understandable that OPEC and the Russian energy ministry have not succeeded in finding a common language on the desirability of cuts in oil supplies. Sometimes it almost seems easier to persuade the US Department of Energy to raise that country's oil consumption instead!

12. *Russia's Oil Balances*, 4th Quarter of 2006, 4.

13. *Petroleum Intelligence Weekly*, September 8, 2003, 4.

OPEC and Middle East Oil: Statistical Overview of Current Status

At present, the total of OPEC proved oil reserves stands at more than 905 billion barrels, the countries of the organization produced in 2006 more than 34 mb/d of crude oil and NGLs, refined over 8 mb/d and exported nearly 29 mb/d of oil and refined products, while countries of the Middle East which have almost 743 bn bbls of proven oil reserves, produced altogether nearly 26 mb/d, refined more than 6 mb/d and exported last year in excess of 20 mb/d (Table 7).

Table 7: The OPEC and Middle East Oil Industry as of the Beginning of 2007

Country/Group	Proved Oil Reserves, bn bbl	Production Capacity[1], mb/d	2006 Oil Output, kb/d	Distillation Capacity, kb/d	2006 Oil Refining, mb/d	2006 Crude +Products Exports, mb/d
Algeria[2]	12.3	1.43	1.352[1]	450		1.847
Angola[2]	9.0	1.62	1.610[1]	39	0.04	1.363
Indonesia[2]	4.3	0.85	847[1]	1,126	…	0.022[3]
Iran[2,4]	137.5	3.75	3.838[1]	1,704	…	2.519
Iraq[2,4]	115.0	2.10	2.024[1]	644	…	1.438
Kuwait[2,4,5]	101.5	2.60	2.418[1]	905	…	2.150
Lebanon[4]	-	-	-	-	-	-0.100
Libya[2]	41.5	1.70	1.686[1]	378	…	1.525
Nigeria[2]	36.2	2.01	1.991[1]	439	…	2.146
Oman[4]	5.6	0.80	743	85	…	0.024[3]
Qatar[2,4]	15.2	0.85	796[1]	200	…	0.620
Saudi Arabia [2,4,5]	264.3	11.00	8.543[1]	2,095	…	8.651
Syria[4]	2.5	0.50	417	240	0.24	0.155[3]
UAE[2,4]	97.8	2.60	2.530[1]	620	…	2.515
Venezuela[2]	80.0	2.45	2.394[1]	1,289	…	2.203
Yemen[4]	2.9	0.40	390	140	…	0.33
Bahrain[4]	0.2	0.08	40	249	…	0[3]
Israel[4]	0.002	…	11[6]	220	…	-0.250[3]
Jordan[4]	0.001	…	35	90	…	-0.110[3]
OPEC Total	905.5	31.53	30.029[1]	9,889[7]	9.743	27.202[3]
Mideast Total	742.7	24.70	25.589	7,221	6.392	20.204

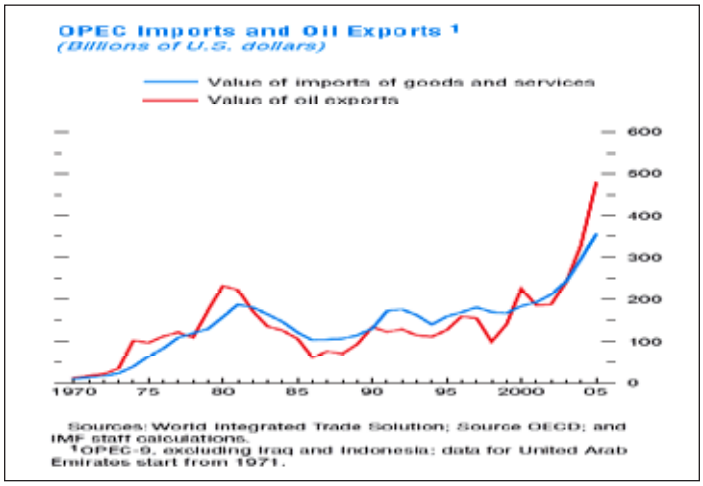
1 As of May 2007.
2 OPEC member country.
3 2005 statistics.
4 Middle Eastern country.
5 Including 50% of the Neutral (Divided) Zone.
6 Including about 9 kb/d of shale oil production.
7 According to the OPEC Secretariat, total crude oil distillation capacity in the OPEC countries amounted at the start of 2007 to 12.0 mb/d.
Sources: BP Statistical Review of World Energy June 2007. – Lnd.: BP, 2007; OPEC Secretariat, June 2007; Energy Information Administration of the US Department of Energy, June 2007

OPEC and Middle East Oil: Exports Driven by Imports

It turns out that major oil exporters (especially those in the OPEC and Middle East) simply cannot now produce and export less oil as their present oil exports are mostly driven by their huge (and not always efficient) imports.

In particular, in line with an IMF special study, the OPEC countries exported in 2005 a value of more than $480 billion while their imports exceeded in 2005 a value of $350 billion and have been generally within the range of $100-300 billion since the end of the 1970s (Fig. 3).

Figure 3: OPEC Members' Petroleum (Crude Oil & Oil Products) Exports and Imports of Goods and Services in 1970-2005, in billion US dollars



Sources: *IMF World Economic Outlook*, Washington, D.C.: IMF, April 2006, p. 79

At the same time, some OPEC members like Iran and Venezuela export more for their imports than the organization's average propensity (0.24 for 2003-05) and, of course, far over that of the GCC members (that is for Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates as a whole it was just 0.15 in 2003-05) – 0.37 and 0.46 correspondingly (note that the rate for Russia was only 0.20 for 2003-05).[14]

Russia vs. the Middle East and the FSU vs. OPEC

To what degree, then, could we envisage Russian oil exports providing international oil markets with an alternative source of oil supply to that of the

14. *IMF World Economic Outlook*, Washington, D.C., IMF, April 2006, 80.

Middle East? If we consider this question purely from comparative volumes of production and export, then we should realize that in 2005, Russia produced slightly more than 12 percent of the world's oil supplies, while the Middle East produced more than 31 percent. Similarly, Russia exported less than 14 percent of the world's exports of crude and products, while the Middle East exported almost 40 percent of total inter-area petroleum exports (Table 8).

Table 8: Russia and the Middle East in World Oil[1]: 2005

	Russia		Middle East[2]	
	mb/d	% of World	mb/d	% of World
Oil Production	9.5	11.6	25.4	31.2
Oil Inland Demand	2.8	3.4	5.7	6.9
Petroleum Exports[3]	7.1	13.8	19.8	38.7

1 Oil includes crude oil, gas condensate and other NGLs, and oil from unconventional sources.
2 The Middle East consists of the oil-producing states of the Gulf (Saudi Arabia, Iran, Iraq, Kuwait,, Qatar, Bahrain, and the UAE) as well as Cyprus, Syria, Israel, Jordan, Lebanon, Oman, and Yemen.
3 Including crude oil, gas condensate and refined products; in percent of global inter-area petroleum exports.

Sources: Petromarket Research Group (*Russia's Oil Balances,* various issues for 2007); *BP Statistical Review of World Energy 2006.* Lnd.: BP, June 2006; International Energy Agency (*Oil Market Report,* 12 June 2007), CPBS estimates, July 2007

According to a 1998 oil study by the University of Southern California, by 2040 the global share of the OPEC oil supplies will increase to almost 63 percent (against 40 percent in 2005) and that of the Middle Eastern oil producers – to nearly 50 percent (compared to 29 percent in 2005), whereas the world share of the FSU oil-producing countries, which have passed their oil peak in 1987, will decrease to 12 percent (against 14 percent in 2005) (Table 9).

Table 9: OPEC, Mideast and FSU in World Oil Supplies in 2005-2040, in kb/d

Country/Group	2005 Production	April 2007 Production	May 2007 (Crude Oil only)			Crude Peak Year	2040 Crude Production
			Production	Sustainable Capacity	Surplus Capacity		
Algeria[1]	1,359.2	1,360	1,360	1,380	20	2002	275
Indonesia[1]	940.0	850	850	870	30	1977	495
Iran[1,2]	3,902.9	3,700	3,900	3,950	50	1974	2,330
Kuwait[1,2,3]	2,463.3	2,420	2,340	2,640	30	2018	2,740
Libya[1]	1,660.8	1,680	1,710	1,730	20	1970	740
Nigeria[1]	2,370.0	2,170	2,010	2,490	480	2004	820
Qatar[1,2]	779.2	790	800	900	100	2009	190

Saudi Arabia[1,2,3,4]	9,453.3	8,600	8,600	10,800	2,200	2011	5,590
UAE[1,2]	2,440.0	2,500	2,590	2,750	170	2017	1,700
Venezuela[1]	2,622.5	2,400	2,370	2,600	240	2005	2,165
Angola[5]	1,250.0	1,610	1,560	1,560	0	2003	135
Iraq[1,2]	1,835.0	2,100	2,000	2,400	400	2010	2,960
Oman[2]	770.0	710	710	…	…	2002	190
Syria[2]	460.0	390	380	…	…	1995	110
Yemen[2]	410.0	360	360	…	…	2004	135
FSU[6]	11,640.0	12,470	12,550	…	…	1987	3,840
OPEC Crude Total	29,826.2	30,180	30,070	34,050	3,990	1974-2018	20,140
OPEC NGLs[6]	4,040.0	4,265	4,310	…	…	…	…
Mideast Crude[7]	22,744.0	22,080	21,880	…	…	1974-2018	15,945
Mideast NGLs[6]	1,870	1,700	1,700	…	…	…	…
World	84,200[6]	85,500[6]	84,940[6]	…	…	2006	32,055
OPEC Total (Crude+NGLs), %	40.2	40.3	40.4	…	…	n/a	62.8
Mideast Total (Crude+NGLs), %	29.2	27.8	27.8	…	…	n/a	49.7
FSU(6), %	13.8	14.6	14.8	…	…	1987	12.0

1 An OPEC member country.
2 A Middle Eastern country.
3 Including 50% of the Neutral (Divided) Zone.
4 Including offshore Abu Safa field produced on behalf of Bahrain.
5 Angola has joined the OPEC at the end of 2006.
6 Ignore the "crude oil only" note above for the first four columns.
7 Including insignificant oil production in Bahrain, Israel and Jordan but excluding African countries and Turkey.

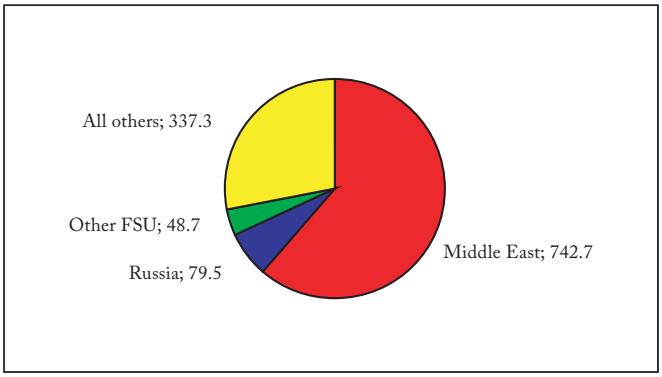
Sources: R.C. Duncan and W. Youngquist (University of Southern California), October 1998; *Oil Market Report* (IEA), March 14, 2006 and June 12, 2007; *Monthly Oil Market Report* (OPEC), February 2006, June 2007; *Middle East Economic Survey*, May 2006; US DoE Energy Information Administration (Short-Term Energy Outlook), June 2007; OPEC Secretariat, June 2007

According to British Petroleum (BP), OPEC member countries now enjoy 905.5 bn bbls of world oil proven reserves (or almost 75 percent world reserves) while the Middle Eastern countries have 742.2 bn bbls (62 percent) against 128.2 bn bbls (nearly 11 percent) in the FSU zone, which produced in 2006 more than 11.8 mb/d of crude oil and condensate or 15.3 percent of the world total compared to over 34.2 mb/d in OPEC (Fig. 4 and 5).

Also, in line with the reference scenario of the latest forecast of the US Department of Energy (*EIA*, February 2007), OPEC oil (crude and NGLs) production will rise by 2025 and 2030 to 41.44 and 44.95 mb/d respectively against

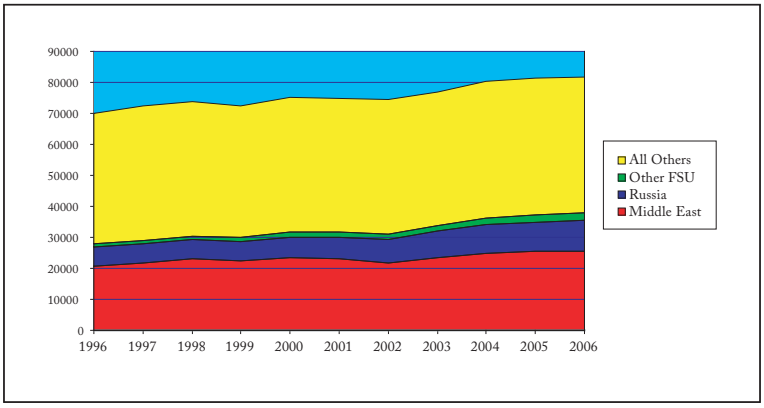
33.41 mb/d in 2005, and its global share will amount to 39.7 percent and 40.6 percent against 40.3 percent correspondingly, while oil production in the FSU must rise to 17.22 and 18.09 mb/d against 11.99 mb/d in 2005 and its share of world oil supplies must increase to 15.7 percent in 2025 and 15.4 percent in 2030 from 14.2 percent in 2005.[15]

Figure 4: Geographic Distribution of BP Estimated World Proved Oil Reserves, at the End of 2006 (in billion bbls)



Sources: *BP Statistical Review of World Energy June 2007.* Lnd.: BP, 2007

Figure 5: Primary Production of Liquid Hydrocarbons in the Middle East, FSU and Other Countries of the World in 1996-2006 (in mb/d)



Sources: *BP Statistical Review of World Energy June 2007.* Lnd.: BP, 2007

15. *Annual Energy Outlook 2007 with Projections to 2030,* Washington, D.C.: IEA/DoE, February 2007, 166-167.

If we consider the OPEC position on market forecasts, according to a latest long-term outlook of the world oil market, which was released by the OPEC Secretariat at the end of June 2007, OPEC oil supplies will continue to dominate the market even in 2025 despite OPEC's collective efforts to balance the market by its quota restrictions (officially introduced in March 1982); moreover, in line with the published reference case, the organization's crude oil share of world oil output will increase from 37 percent in 2005 to almost 42 percent in 2030 while that (but with NGLs) of the FSU must remain practically unchanged at 14 percent in 2005 and 2030 (Table 10). Just add NGLs' output in the OPEC member countries and the OPEC global oil share must exceed 50 percent by 2030 even without Angola, which joined the organization at the end of 2006.[16]

Table 10: Actual and OPEC-forecast World Oil Production in 2005-30, in mb/d

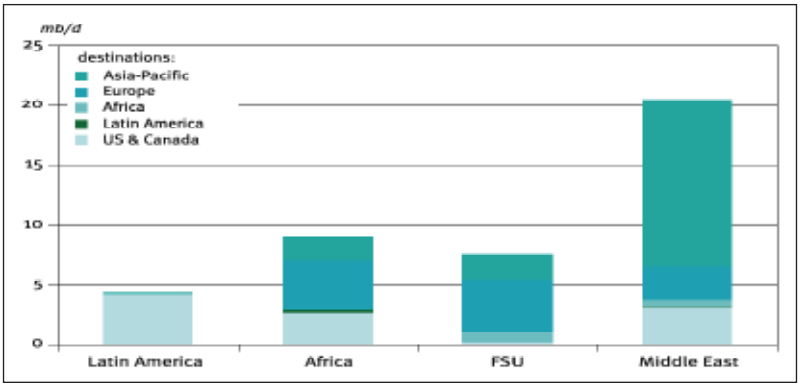
Region/Country	2005	2010	2015	2020	2025	2030
USA & Canada	10.4	11.3	11.7	12.3	12.8	13.0
Mexico	3-8	3-8	3.8	3.5	3.2	2.9
Western Europe	5.8	5.0	4.3	3.9	3.5	3.2
OECD Pacific	0.6	0.7	0.7	0.8	0.8	0.8
OECD	20.5	20.9	20.6	20.5	20.3	19.9
Latin America	4.3	5.0	5.6	6.2	6.6	6.6
Middle East & Africa	4.4	5.0	5.1	5.3	5.1	5.0
Asia	2,6	2.9	2.8	2.5	2.3	2.1
China	3.6	4.2	4.5	4.8	5.0	5.3
DCs, excl. OPEC	14.9	17.0	17.9	18.7	19.0	19.1
Russia	9.4	10.3	11.0	11.2	11.2	11.2
Caspian & other FSU	2.1	3.5	4.1	4.5	4.9	5.2
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1
Transition economies	11.7	14.0	15.3	15.9	16.2	16.6
Processing gains	1.9	2.2	2.4	2.8	3.0	3.2
Non-OPEC	49.0	54.1	56.3	57.8	58.5	58.8
of which; non-conventional	2.2	4.1	5.8	7.4	8.9	10.2
OPEC NGLs/non-conventional	4.1	5.7	6.8	7.8	8.8	9.8
OPEC crude+NGLs	35.2	35.9	40.6	46.0	52.3	59.1
World (crude+NGLs+non-conven.)	83.3	89.7	96.5	103.5	110.4	117.6
OPEC market share, %	42.3	40.0	42.1	44.4	47.4	50.3

Source: *World Oil Outlook 2007* (reference case). – Vienna: OPEC, June 2007, p. 25

16. A. Shihab-Eldin, M. Hamel and G. Brennard, *Oil Outlook to 2025*, *OPEC Review*, September 2004, 3-11.

As for Middle East oil exports, which will continue to dominate global oil exports, the region must export by 2020 more than 20 mb/d of crude oil and condensate.

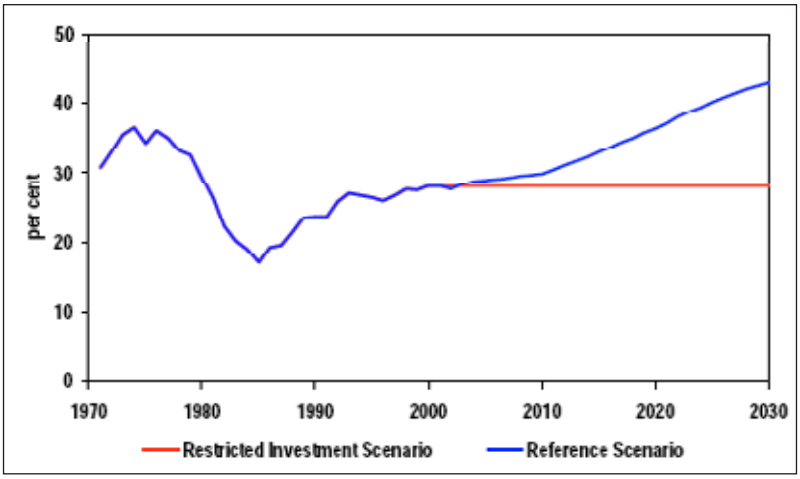
Figure 6: World Oil Exports in 2020, in mb/d



Source: World Oil Outlook 2007 (reference case). – Vienna: OPEC, June 2007, p. 111

At any rate, even in the worst case (*i.e.*, under the Restricted Investment Scenario drawn by the IEA at the end of 2003), the share of OPEC Middle East in global oil supplies must be only somewhat below 30 percent, which is substantially larger than that of Russia or even the FSU combined (Fig. 7).

Figure 7: Share of OPEC Middle East in global oil production in 1970-2030, in percent



Source: World Energy Investment Outlook. Paris: IEA/OECD, 2003

Concluding Remarks

While OPEC's share of global oil supplies was as high as nearly 50 percent in 1970, since the oil shocks of 1973-74 and 1979-80, OPEC's market share has decreased to around 40 percent at present (Table 11).

Table 11: OPEC Share in the Global Oil Supplies in 1960-2006

	1960	1970	1980	1985	1990	1995	2000	2005	2006
World Oil Supplies[1], mb/d	21.81	47.80	59.81	59.25	60.46	70.14	76.85	84.48	85.12
OPEC[2] Oil Production, mb/d	8.07	23.53	26.68	17.63	22.96	27.66	30.80	34.24	34.32
as % of World Oil Supplies	37.0	49.2	44.6	29.8	38.0	39.4	40.1	40.5	40.3

1 Includes primary production of crude oil, gas condensate, other NGLs and oil from non-conventional sources.
2 In its actual membership.

Sources: IEA (*Oil Market Report,* various issues); BP (*Statistical Review of World Energy,* various issues for 1960-2007); OPEC (*Monthly Oil Market Report,* various issues); and CPBS estimates, July 2007

Despite OPEC's decline in market share, global oil markets continue to be dominated by cartels, new producers' organizations (like APPA[17]) have emerged, and the market remains unstable. It has often been contended, therefore, that cartels are not as efficient in the stabilization of world commodity markets as other types of multi-nation stabilization tools, particularly multilateral agreements regulating trade in commodities such as wheat or sugar.[18] Given the damage that an unstable international oil market can inflict on the economies of both oil-consuming and oil-producing nations, international agreements such as, for example, the Energy Charter Treaty can potentially play a greater role in the stabilization and further development of the oil markets. Both Russia and the European Union countries were staunch supporters of such Treaty projects during the 1990s, with less support

17. African Petroleum Producers' Association (Association des pays africains producteurs de pétrole) set up in December 1986 in Lagos, Nigeria, and now comprising 14 African oil-producing countries: Algeria (a member of OPEC), Angola (now an OPEC member), Benin, Cameroon, Chad, Democratic Republic of the Congo (DRC, RDC, Congo-Kinshasa or Zaire), Congo (Congo-Brazzaville), Côte d'Ivoire (Ivory Coast), Egypt, Gabon (withdrew from OPEC in 1995) , Equatorial Guinea, South Africa, Libya (an OPEC member), and Nigeria (also an OPEC member).

18. See, for example, M. Mirando & P. G. Helmberger, "The Effects of Commodity Price Stabilization Programs," *American Economic Review* 78, no.1 (1988): 46-58; R.W. Anderson and C.L. Gilbert, "Commodity Agreements and Commodity Markets: Lessons from Tin," *Economic Journal* 98, no. 389 (1988), 1-15; A. Deaton and G. Laroque, "On the Behaviour of Commodity Prices," *Review of Economic Studies*, 59, no.1 (1992): 1-23.

from the OPEC countries. Consensus over the effectiveness of such multilateral agreements in the energy sector is yet to be reached, however, which will ensure a dominant market position for OPEC in the years to come.

Investing Russia's Oil Wealth: Sharing the GCC Experience

Andrew Rozanov

Head of Sovereign Advisory,
State Street Global Markets, United Kingdom[1]

Introduction

The economies of Russia and the Gulf may be very different in many respects, but historically they share one important characteristic: excessive dependence on oil and gas. Their social and political systems are also characterized by a very strong and assertive state, which typically receives the majority of hydrocarbon export revenues.[2] As oil prices soared between 2002 and 2008, and the countries in question experienced a sustained positive terms-of-trade shock, their governments started to accumulate massive petrodollar savings. With the launch in January 2004 of the Oil Stabilization Fund (OSF), Russia joined the ranks of commodity exporting nations, including those in the GCC, who had chosen to recycle their persistent current

1. The views expressed in this chapter are those of the author and do not necessarily reflect the views of State Street Global Markets or any affiliated entity. All material has been obtained from sources deemed to be reliable, but its accuracy is not guaranteed. Views expressed are through May 2008.

2. Setser (2007) makes this point, citing Gianella (2007), who estimates that in Russia, 85 percent of windfall oil revenues and 40 percent of windfall gas revenues accrue to the government. These figures are likely to increase even further now that the Oil Stabilization Fund has been restructured to accumulate excess revenues from both oil and gas. See Brad Setser, "Oil and Global Adjustment," March 26, 2007, available at http://www.iie.com/publications/pb/pb07-4/setser.pdf. and Christian Gianella, "A Golden Rule for Russia? How a Rule Based Fiscal Policy Can Allow a Smooth Adjustment to the New Terms of Trade," OECD Economics Department Working Paper no. 537, 2007, OECD Publishing, Paris.

account surpluses by means of dedicated government funds. In line with current industry practice, we shall refer to these entities as commodity-based Sovereign Wealth Funds or SWFs.

Norway as the Role Model

There are many different SWFs operating around the world today, but perhaps the most widely known and studied is the $380 billion Norwegian Government Pension Fund (Global), formerly known as the Petroleum Fund. In designing and structuring the Oil Stabilization Fund, Russia's policymakers and monetary authorities have been focusing primarily on Norway's example. During the first three years of existence, the OSF drew both praise and criticism from various quarters, and invariably it was Norway's model that served as the main point of reference and comparison in most of these debates.

More recently, the Russian government embarked upon a major review and overhaul of the Oil Stabilization Fund, restructuring it in a way that effectively aligns it even more with the Norwegian approach. Specifically, the Ministry of Finance proposed to direct all oil and gas revenues accruing to the state into an upgraded version of the OSF – the so-called Oil and Gas Fund.[3] It then proposed to integrate the Fund with the rest of the budget by means of a pre-determined and rule-based annual budget transfer, which is very much in line with the so-called 'fiscal rule' in Norway. The idea is to cap annual spending from the Fund at a certain level, which takes the form of a fixed transfer into the 'oil-adjusted' budget. Finally, just like in Norway, the Fund will not be allowed, under any circumstances, to make any investments in the domestic economy.[4] Basically, the idea is to transform the non-renewable and highly volatile oil and gas reserves into a broadly diversified portfolio of financial assets, invested exclusively outside Russia and providing a stable income stream in perpetuity.

There is no question that Norway's approach is based on sound macroeconomic logic and solid financial principles. The Fund is a major presence in global financial markets, widely respected for its professionalism and efficiency. Many elements of

3. From February 2008 the Fund has been split into a Reserve Fund and a National Wealth Fund. The former will constitute approximately 10 percent of Russia's GDP and will continue to function primarily as a budget stabilization tool. The latter fund, which started at $32 billion, will eventually be transformed into an endowment-type inter-generational savings fund.

4. In the first half of 2008, some Russian press reports suggested that a small portion of the National Wealth Fund may be targeted for domestic allocation. However, at the time of writing, the working assumption was that the fund in its totality will be invested exclusively in foreign assets.

its design and operations represent the 'cutting edge' in SWF best practices. The Fund is certainly unparalleled in terms of public accountability and transparency, which are critical to maintaining broad-based support from local constituents in a democratic society. In other words, there is good reason for Russia's authorities to carefully study Norway's example and borrow heavily from it.

However, in our view, it is not at all obvious that the Norwegian model – in its pure form – would necessarily be optimal in a country like Russia. As a relatively small and highly advanced economy, with very high per capita income and well-developed infrastructure and public safety nets, it may well be true that Norway has reached its absorption capacity limits, and bringing in more money into the country would simply result in macroeconomic problems with very little upside. However, in a large, relatively underdeveloped country, with antiquated infrastructure and inadequate public safety nets, the case for investing all of the windfall revenues overseas is less clear-cut.

Potentially, there are significant benefits for Russia's policymakers in broadening the scope of their analysis to include other models of sovereign wealth management. Even if they subsequently reaffirm that the Norwegian approach does indeed constitute the best possible course of action for Russia, at the very least the authorities would have had the advantage of going over a much broader and more diverse dataset and, as a result, would have arrived at a more nuanced, better informed and ultimately more defensible conclusion. However, we would argue that there may be much more to the above proposition than simply expanding the dataset.

Other Alternatives: Singapore and the Middle East

First of all, two of the alternative sovereign wealth models – Singaporean and Middle Eastern – have been in existence for much longer than Norway's fund. For example, the Kuwait Investment Office, which is now the London-based arm of Kuwait Investment Authority (KIA), was established as far back as 1953. Abu Dhabi's massive sovereign wealth fund – ADIA – was set up in 1976, Singapore's Temasek – in 1974, and the Government of Singapore Investment Corporation (GIC) – in 1981. In contrast, Norway's Petroleum Fund was legislated into existence only in 1990 and started investing and accumulating assets only as recently as 1996. In other words, sovereign wealth funds in Singapore and the Gulf boast much longer histories and track records; they have lived through more economic cycles and market environments, and as such can offer unparalleled and valuable insights

to inform the decisions of a relative newcomer to the field, such as Russia's sovereign wealth fund.

One way to gauge the relative depth of experience and maturity of a large investment fund is to consider its asset allocation in light of its liability profile. If the fund in question is not just a budget stabilization tool, but an entity seeking to maximize long-term returns and wealth, then – all else being equal – the more mature organization would invest more of its funds in various risky and illiquid asset classes: public and private equity, investment- and sub-investment grade corporate bonds, structured credit, emerging markets, real estate, venture capital, infrastructure funds, hedge funds, and other such instruments. By doing so, the fund positions itself to accrue – over a multi-decade investment horizon – the various market, credit and liquidity risk premia that global markets have to offer.

While Norway's fund is a highly competent and sophisticated operator and has been an investor in public equities in both developed and emerging markets for some time, it is only now, more than 10 years since the launch of the fund, that Norway's policymakers decided to reverse its conservative 60/40 bond-equity mix and to consider whether to invest – for the first time ever – a small portion of the fund in real estate, infrastructure and private equity. In contrast, sovereign wealth funds in Singapore and the Gulf have been long-time investors in private equity, real estate, hedge funds and other relatively illiquid alternative asset classes. Therefore, their longer exposure to and experience with these instruments make them uniquely qualified to advise and help a newly launched and fast-growing sovereign wealth fund.

Another reason why the Singaporean and the GCC sovereign wealth models may prove of particular interest to a country like Russia is that both were designed and implemented in the context of developing economies and emerging financial markets. In the case of a developed country like Norway, one could argue that the pressures were not quite as acute to use the newfound oil wealth to boost domestic growth and development, diversify the local economy, build up infrastructure and support public welfare. For Singapore and the Gulf States, however, using every resource and policy tool at their disposal to further the national development agenda has always been – and still is – a top priority. In this regard, Russia's current situation may have more in common with South-East Asia and the Middle East than northern Europe.

In recent years, Singapore has become a de facto role model for some of its regional peers. In 2005, Korea carved out a sizable portion of its excess foreign exchange reserves to fund the newly created sovereign wealth agency – Korea

Investment Corporation (KIC), which was modeled directly on Singapore's GIC. More recently, China launched a similar entity, by issuing RMB-denominated government debt and buying out $200 billion worth of reserves from the central bank. It is still debated whether the new investment agency will end up looking more like GIC or Temasek, but in any case, it is Singapore's approach to sovereign wealth management that appears to be winning the day in Asia. The city-state's successful model is being re-discovered all over the region, and as far away as Kazakhstan, where in 2006 the local government set up a state holding company called Samruk, modeled on Temasek Holdings of Singapore.

Focus on the GCC

While both Singaporean and Middle Eastern approaches may contain important and valuable lessons for Russia's new sovereign wealth fund, in this chapter we propose to focus on the experience of GCC countries. There are at least three reasons for this.

First of all, we believe that the source of the money matters. In the case of Russia and the Gulf States, sovereign wealth funds are derived from hydrocarbon exports and constitute net financial savings. In contrast, much of Asia's sovereign wealth takes the form of excess monetary reserves, accumulated as a by-product of exchange rate policy, through fully or partially sterilized interventions. In other words, while oil states with surplus funds can manage and spend their reserves more or less as they see fit, without the need to raise new debt, monetary and investment authorities in Asia are constrained by the fact that their large and growing reserves are supported by equally large and growing local currency debt. As illustrated in a recent article describing Korea's experience, KIC's assets do not really represent 'net sovereign wealth' or net national saving, precisely because they have been accumulated through debt issuance by the central bank and the government.[5] As already mentioned, assets in China's new SWF are funded by the issuance of RMB-denominated government debt.[6] Thus, oil-exporting countries with high levels of net government savings have an additional degree of freedom

5. Changyong Rhee, "The Creation of the Korea Investment Corporation," *in Sovereign Wealth Management*, eds. Jennifer Johnson-Calari and Malan Rietveld (London: Central Banking Publications, 2007), 257-272.

6. For a more detailed discussion of the implications and constraints of financing sovereign assets with local currency-denominated debt, see Andrew Rozanov, "The Sovereign Wealth Funds Debate: Will China Follow the Norwegian Model?" January 2008, available at <http://www.ssga.com/library/esps/The_SWF_Debate_Andrew_Rozanof_1.8.08CCRI1200431495.pdf>

in how they can deploy and use their sovereign wealth to achieve public policy objectives.

Secondly, the fact that Russia and GCC states derive most of their sovereign wealth from hydrocarbon exports suggests that they may have meaningful differences vis-à-vis Asia in terms of their portfolio preferences and asset allocation. For example, should these funds include commodities as an asset class? On the one hand, in theory, a long-term wealth portfolio should be as broadly diversified as possible, which suggests a reasonable allocation to a wide-ranging set of commodities alongside other asset classes. On the other hand, the underlying economies are already naturally 'long' commodities, so from a broader national balance sheet perspective, including them in a sovereign wealth portfolio may hurt rather than help, by accentuating the destabilizing effect of commodity price swings on the budget and the broader economy. As one digs deeper, however, one realizes that this question is much more nuanced.

For example, certain countries may have large natural exposure to oil and gas, but not so much to metals or agricultural commodities. This suggests that selective inclusion of some commodities in sovereign wealth portfolios may be justified even in economies which would otherwise be considered naturally 'long' the asset class. Similarly, countries with a high concentration of their hydrocarbon assets in upstream sectors may want to balance it with increased investment in downstream sectors. While this can be achieved through direct investment and local development of hydrocarbon refining, processing and distribution, an alternative way would be to invest a portion of sovereign wealth in the equity of such enterprises, both domestically and abroad.

Also, if there is a real risk of depleting hydrocarbon reserves in the foreseeable future, it may be worthwhile to start building up a sizable allocation to commodities, such that by the time the country has transformed all of its natural resources into a broadly diversified financial portfolio, there are no gaps in terms of sectors and industries represented, including oil and gas. Recently, the Gulf has pioneered an interesting and novel variation of this approach: one way a country could secure long-term exposure to commodities even after it has run out of natural resources is by transforming itself into a major commodities trading hub. In this context, the recent experience of Dubai may be of particular relevance.[7]

7. In 2005, in Dubai, a relatively resource-poor emirate in the UAE, two major new initiatives were announced: the development of Dubai Mercantile Exchange, a joint venture with NYMEX, and the launch of Dubai Gold & Commodities Exchange, in partnership with the Chicago Board of Trade and two major Indian partners. These path-breaking initiatives would not have been

The third reason why Russia may want to look to the Gulf for insights and lessons in how to deploy and manage sovereign wealth is the very real possibility that neither economy is actually in a position to benefit from the current global macroeconomic environment in the same way, or to the same degree, as Asia's "mercantilist" economies. To illustrate this point, consider the world according to the Bretton Woods II hypothesis, which is one of the most influential and controversial schools of thought describing the current macroeconomic and financial environment, proposed by economists Michael Dooley, David Folkerts-Landau and Peter Garber in 2003.[8]

Petrodollar States and the Bretton Woods II Regime

The Bretton Woods II hypothesis stipulates that, in spite of record global financial imbalances, the current situation is likely to remain stable, because central banks and monetary authorities in the 'periphery' (i.e. emerging markets) will keep providing necessary funding for the current account deficits at the 'center' (i.e. the United States) for many years to come. According to this theory, they will do so in spite of potential massive losses on their growing stockpile of reserves, simply because they are driven by the overarching objectives of stimulating local economic growth, creating new jobs and supporting domestic capital formation. In the words of the authors:

> "We emphasize the idea that it has been a successful development strategy to subordinate the objective of maximizing the value of reserve assets in order to subsidize and build a domestic capital stock capable of competing in international markets. This is not a first best strategy. It would be better to have both an internationally competitive capital stock and reserves that were superior investments. But, if a country had to choose one or the other, a competitive capital stock may well be the better choice."[9]

possible without the mobilization and deployment of funds and resources of Dubai's sovereign rulers and the local government – Dubai Holding and Dubai Multi Commodities Centre, respectively.

8. Michael Dooley, David Folkerts-Landau and Peter Garber, "An Essay on the Revived Bretton Woods System" (NBER working paper no. 9971, September 2003). While this school of thought has been influential in the last few years, it is by no means universally accepted. For alternative views, see Nouriel Roubini and Brad Setser, "The US as a Net Debtor: The Sustainability of the US External Imbalances," revised draft, November 2004, available at <http://pages.stern.nyu.edu/~nroubini/papers/Roubini-Setser-US-External-Imbalances.pdf, and Barry Eichengreen, "Global Imbalances and the Lessons of Bretton Woods" (NBER working paper no. 10497, May 2004).
9. Ibid.

In his paper "Petrodollars, Asset Prices, and the Global Financial System," Ramin Toloui picked up on this point and suggested the following key difference between central banks in Asia and sovereign wealth funds in petrodollar states: because the latter do not accumulate and manage reserves for the sole purpose of supporting industrialization through undervalued exchange rates, they may not be as faithful to the US dollar and would most likely want to diversify their large-scale holdings much more aggressively in terms of both currency composition and asset classes.[10] Underlying this analysis is the assumption that petrodollar states cannot find ways for their domestic economies to benefit from the Bretton Woods II regime in the same way as Asia, so they must go for the option of managing their reserves as superior investments in order to support future consumption.

In their work on petrodollar flows, UBS economists G. Magnus and M. Castelli put forward a similar assumption more explicitly:

> "If the Bretton Woods II analogy held or holds any relevance for the situation regarding the relationship between the US core of the global monetary system and the periphery in the form of China, the same can surely be ruled out in the case of oil exporters and petrodollars. There is no symbiotic economic relationship in the way alleged to hold in the case of the US and China, and the nature of most oil exporting countries' economies could not be more different."[11]

While we do not disagree with the above analyses and assumptions, we do feel that it is important to take this thought process one step further and pose the following two questions. Why aren't oil states benefiting to the same degree as Asia from the current international monetary arrangements? And what, if anything, can their policymakers do to remedy the situation?

According to the Bretton Woods II hypothesis, China and other fast-growing Asian 'periphery' economies primarily rely on private sector foreign direct investments (FDI) for domestic job creation and capital formation. They have built up large-scale manufacturing bases and integrated production chains, taking advantage of a massive supply of cheap local labor and a stable flow of foreign capital, technologies and management know-how. Magnus and Castelli (2006) quote estimates from Lachance (2006):

> "The concentration of productive capital in East Asia relative to the rest

10. Ramin Toloui, "Petrodollars, Asset Prices and the Global Financial System," January 2007, available at http://www2.pimco.com/pdf_uk/Capital%20Perspectives%20UK.pdf>

11. George Magnus and Massimiliano Castelli, "Capital Flows and the World Economy: Petrodollars, Asia and the Gulf," UBS Investment Research, Economic Insights – By George, November 2006.

> of the world is now on par with that of Western Europe in the second half of the nineteenth century. Collectively, Japan, Korea and China, including Taiwan and Hong Kong, produce essentially all of the world's ships, LCDs, and electronic components, two thirds of its consumer electronics, office equipment, appliances, and computers, and half of its steel, precision instruments, transport equipment, semiconductors, and machine tools… East Asia deploys over half of the world's engineering workforce and its capital investment in manufacturing is greater than that of the rest of the world combined."[12]

But let us pause for a moment and consider what all these products have in common. They are produced by private sector firms operating in competitive global markets, whose sole motivation is profit and who act as price-takers in an environment of persistent downward pressure on prices of traded goods. This means that in order to survive, let alone prosper, they need to constantly work on lowering their costs, improving their production processes, importing advanced technology and know-how, and generally being as creative and innovative as they can. And they need to do all this, especially in China's case, as local economies try to absorb wave after wave of unemployed or underemployed workers entering the modern labor force.

In contrast, a typical petrodollar state during a commodity price boom would most likely represent the exact opposite case. Most of its production and exports would be disproportionately concentrated in the commodities sector, where most firms typically would be state-owned and state-operated. Rather than facing constant downward pressure on prices, they would be enjoying constantly increasing or persistently high prices for their output. Compared to the Asian case, this represents a totally different environment with a very different set of incentives, suggesting much less focus on efficiency and productivity. And while the oil and gas industries are capital-intensive, they do not require much by way of personnel, so they would not be able to absorb excess local labor.

FDI flows are attracted to different sectors in different countries, depending on comparative advantages of local economies and their position in the current economic cycle. If one assumes that the Bretton Woods II hypothesis is an accurate description of how the global financial system functions today, all that China's authorities need to do to facilitate the flood of capital-building and productivity-enhancing foreign direct investment is simply keep financing the US current account deficits and accumulate ever larger foreign exchange reserves.

12. Ibid., quoting Stephen Lachance, "East Asia under the Midday Sun," January 4, 2006, available at <http://www.financialsense.com/fsu/editorials/2006/0104.html>

In contrast, in commodity exporting nations during the boom years, foreign investors are primarily attracted to the natural resources sector, which is usually owned and operated by the local government and is therefore mostly closed or severely limited to foreign participation and ownership. If the local government then uses its newfound wealth and a much stronger negotiating position to expand its ownership and control even further, to include non-oil sectors of the economy, the scope for capital-building and productivity-enhancing FDI flows gets even smaller. The local government is then left with only two options with regard to how it can deploy and use excess petrodollars: it can either ramp up public spending and investment, with the state effectively taking the lead role in the domestic economy, or it can save and invest most of the petrodollars overseas, maximizing real returns and the international purchasing power of the portfolio. The former option was tried on numerous occasions in the past, not least by the Soviet Union and some Middle Eastern countries in the 1970s, and in most cases failed miserably – the resulting inefficiencies, waste and corruption were so appalling, that they led some observers to call natural endowments more of a curse than a blessing.[13]

The second option is macro-economically more prudent and has been implemented by both Russia and the GCC states during the first few years of the current oil boom. However, in its classic form, this solution does not provide an automatic transmission mechanism for immediate and direct benefits to flow from the accumulated petrodollars to domestic economies: the ever-increasing stock of government savings is invested exclusively overseas, while the much needed foreign direct investment, new technology, management know-how and capital do not flow back to the local economies in quite the same way or to the same degree as they do in the case of China.

Let us now look at the actual FDI data for China, Russia, and the Middle East and North Africa (MENA) region, covering the period from 2001 to 2006, when the Bretton Woods II system supposedly became dominant. We use data from the annual World Investment Reports published by the United Nations Conference on Trade and Development (UNCTAD). We hypothesize that the absolute amount and relative weight of gross FDI inflows are indicative of a country's ability to leverage its position in the Bretton Woods II regime to build up its capital base and increase productivity. Based on the data in Table 1, we make the following three observations.[14]

13. Richard M. Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis* (London: Routledge, 1993).

14. While this cursory analysis seems to lend some support to the notion that oil-rich economies may not be as well positioned within Bretton Woods II (BW II) as Asia with regard to domestic growth and development, one should be careful with such interpretation. There are several caveats

First, China clearly dominated the petrodollar economies in question in terms of the sheer volume of FDI inflows both in 2001 and 2006. And while it is true that the compound annual growth rates of flows into Russia and GCC were six to eight times those into China, by 2006 foreign direct investments into Russia and the Gulf still constituted only fractions of those into China – 25 percent and 29 percent, respectively. With global FDI inflows registering just over $1.3 trillion in 2006, in relative terms China held a share of 8.7 percent, while the hydrocarbon economies of the Gulf and Russia accounted for much smaller shares at 2.5 percent and 2.2 percent, respectively. Put differently, in 2006 China's economy received almost twice as much in foreign direct investment as the economies of GCC and Russia combined!

Secondly, as one looks closely at the top 15 MENA recipient countries, one can make some interesting observations. Only two of the six GCC petrodollar powers – Saudi Arabia and the UAE – made it to the top five in 2006, while three of their peers did not even register in the top 10. Together, the Gulf nations accounted for just over 40 percent of the MENA total, and even with the hydrocarbon-rich nations of North Africa, they still make up less than half of the inward foreign direct investments. In other words, resource-poor nations like Turkey, Egypt, Tunisia, Jordan, Morocco, Lebanon and Syria attracted more than half of FDI flows directed toward the region in 2006.[15]

---

and possible counter-arguments, for example:

- Japan's highly sophisticated and productive capital base was developed by means other than FDI. Of course, this occurred against a totally different macroeconomic backdrop (e.g. closed capital accounts, pervasive capital controls, fixed exchange rates, highly regulated industries, etc.), so it may no longer be optimal or even applicable in the modern world.
- Some commentators might argue that large FDI flows, either in absolute terms or as a share of total inflows, may not provide the most accurate or relevant picture. Instead, one might want to look at FDI flows relative to other statistics (e.g. on a per capita basis, as a share of GDP, etc.) However, some of these metrics may be misleading: for example, China's currency reserves or carbon emissions, when viewed on a per capita basis, appear modest or even low, yet in reality both represent major challenges. A potentially more insightful, if complicated, alternative is UNCTAD's matrix of inward FDI performance and potential (see 2007 World Investment Report).
- An increasing tendency by Asian monetary authorities to set up reserve-funded SWFs may signal that the BW II model has reached its limits. Persistently high inflation in most 'periphery' economies may be another sign of its imminent unraveling.
- While continuing to manage its excess reserves and sovereign wealth in decidedly BW II-like fashion, Russia delivered a stunning increase in FDI in 2007, almost doubling the previous year's record (from $28.7 bn to $48.9 bn). Even though China continued to dominate FDI inflows among developing countries, Russia jumped from 25 percent to 40 percent of China's total.

15. It should be noted that a major part of FDI flows into resource-poor economies in the Middle East

Table 1: Foreign Direct Investment Inflows in 2001 and 2006, US$ million

Top 15 MENA FDI recipients (2006)*	2001	2006	CAGR, %
Turkey	3,266	20,120	44%
Saudi Arabia	20	18,293	291%
Egypt	510	10,043	81%
UAE	1,184	8,386	48%
Tunisia	486	3,312	47%
Jordan	100	3,121	99%
Bahrain	81	2,915	105%
Morocco	2,825	2,898	1%
Lebanon	249	2,794	62%
Algeria	1,196	1,795	8%
Qatar	296	1,786	43%
Libya	-101	1,734	N/A
Oman	83	952	63%
Syria	110	600	40%
Kuwait	-147	110	N/A
Total	10,158	78,859	51%
GCC	1,517	32,442	85%
Russia	2,469	28,732	63%
China	46,878	69,468	8%
China, Hong Kong SAR	23,775	42,892	13%
China, Macao SAR	160	739	36%
China (incl. HKSAR + Macao)	70,813	113,099	10%

* Note: countries excluded from analysis are Iran, Iraq, Palestinian Territory, Sudan and Yemen
Source: United Nations Conference on Trade & Development, World Investment Reports for 2004 and 2007

Thirdly, consider the top two GCC recipients on the list – Saudi Arabia and the UAE. The former started registering among the top FDI destinations only in 2004, with massive amounts starting to flow through from 2005. This coincides with the time when

and North Africa originates from within the region, mostly the GCC countries. This is a natural result of increased intra-regional trade, capital flows and economic integration. However, this underscores our earlier point that in the Bretton Woods II system hydrocarbon-rich economies may not be optimally positioned to catalyze productivity-enhancing and job-creating FDI inflows.

the Kingdom sharpened its focus on WTO entry and liberalization of the FDI regime. As for the latter, until very recently, the bulk of the FDI flows was said to be going to the relatively resource-poor emirate of Dubai, with oil-rich Abu Dhabi increasing its share only in the last few years. What was the reason behind this recent surge in FDI flows into Saudi Arabia and the UAE? Was it because – or in spite – of their position within Bretton Woods II? Put differently, was it their passive accumulation of reserves that catalyzed these massive foreign investments? Or was it the proactive, market-embracing policies of their respective governments – not least in terms of finding new and productive ways of deploying and managing sovereign wealth?

We believe it is important to keep these questions in mind as we proceed to look more closely at the recent developments in Saudi Arabia and the UAE, and as we consider the role of governments and sovereign wealth funds in the region more broadly. We believe that the remarkable success the GCC has had so far with recycling petrodollars and boosting domestic investment comes from the fact that local governments have put their faith squarely in the markets. One can clearly see this in how governments in the region continue to push for liberalization, deregulation and market reforms, how unambiguously they put the private sector in the lead in non-oil sectors of the economy, how aggressively they are building up market infrastructure and institutions, and – not least – how they deploy and manage sovereign wealth in accordance with market principles.

The Recent Gulf Experience: A New Age of Petrodollar Investments?

A growing number of market observers and commentators are beginning to suggest that the current oil price boom may be different, that policies of the Gulf States are prudent and sustainable, and that domestic investment and deployment of excess petrodollars in local and regional economies is being handled within a solid macroeconomic and financial policy framework. For example, in its May 2007 Regional Economic Outlook for Middle East and Central Asia, the IMF said:

> "Oil-exporting countries' policies are on the right track. Even with moderately lower oil prices, programs to boost social and infrastructure investment can still be financed comfortably. Investments to promote economic diversification will also be important, particularly in countries that face an imminent decline in oil production… A stable macroeconomic setting and reforms to improve the business environment and strengthen the financial sector are key to attracting more private investment to the non-commodity sectors."[16]

16. International Monetary Fund, *IMF Regional Economic Outlook, Middle East and Central Asia*

In October 2007, while noting increased macroeconomic risks to the region from higher inflationary pressures and a slowing global economy, the IMF reiterated its view that "oil exporters should continue with their spending plans, which are comfortably affordable," and pointed out that maintaining "open and flexible goods and labour markets, as well as expanding absorptive capacity, are the best means to limit inflation."[17]

Drawing on their experience in the Gulf, Dubai-based experts at McKinsey & Company also express an optimistic view of the region's prospects and its ability to transform excess petrodollar savings into higher growth, better diversification and sustainable local job creation. In their own words:

"The high price of oil presents the leaders of the GCC states with a singular opportunity to diversify their economies beyond hydrocarbons... [They] must create millions of new private-sector jobs…Can the GCC states do it? Skeptics, noting that countries rich in natural resources – especially oil – often struggle to manage their wealth, argue that the current high prices actually present an impediment to reform. We have a different view: given the growing pressure within the GCC states to reduce unemployment and provide jobs for an unusually young labour force, oil revenues will serve as a catalyst to continue the reforms needed to break away from the boom-and-bust cycles that volatile energy prices create. Already, the region's dynamism has fostered some noticeable changes, evident in areas as diverse as the Dubai skyline and greater foreign interest in the region."[18]

Magnus and Castelli (2006) also stress the different nature of today's oil boom in the Gulf and the much more sensible government policies with respect to excess petrodollars:

> "The current boom appears to be different for three key reasons. First, the nature of this oil price boom appears to be structural… Second, economic growth seems to have shifted to a more sustainable path,

(Washington, DC: International Monetary Fund, May 2007); in fact, from 2006, the IMF was actively urging the oil exporters in the region to "go ahead and spend money on infrastructure, the social sector and help the private sector create jobs, as that will help in the global imbalances and the world economy." (Mohsin Khan, director of the Middle East and Central Asia department at the IMF, quoted in Roula Khalaf, " Confidence in Oil Price Drives Gulf Infrastructure Investment Binge," *Financial Times*, June 29, 2006).

17. International Monetary Fund, *IMF Regional Economic Outlook, Middle East and Central Asia*. (Washington, DC: International Monetary, October 2007).

18. Kito de Boer and John M. Turner, "Beyond Oil: Reappraising the Gulf States," *The McKinsey Quarterly*, web exclusive, January 2007, available at http://yaleglobal.yale.edu/display.article?id=8690

> supported by prudent spending of oil receipts, rising domestic investment and private sector growth. Third, the current account surplus is being deployed differently from previous oil price booms, reflecting changes in Gulf (private and public) investors' behaviour with regards to domestic versus international allocation, regional allocation and typology of asset classes."[19]

Given the high rankings achieved by Saudi Arabia and the UAE in the above FDI table, it may be instructive to look at the experience of these two countries more closely. Both have been undergoing a major economic transformation in the last several years, implementing reforms and attracting a lot of investment – from foreign as well as domestic sources. Both have emphasized diversification into non-oil sectors. Both have been grappling with the question of how best to deploy and manage their petrodollars in order to boost economic development and improve the well-being of their citizens. Both are facing the challenges of increasing inflationary pressures, negative real interest rates, potential overheating and asset price bubbles. And both have a policy dilemma: local political pressures and the logic of economic development suggest increased domestic investment and spending, while fixed exchange rates and the lack of monetary policy autonomy shift the brunt of excess liquidity sterilization to the fiscal policy, thus pulling in the opposite direction. There are many parallels here to the current situation in Russia, and we believe that Russia's policymakers would do well to take note of this fact.

Saudi Arabia

While it is the largest oil producer in the world and the largest economy in the MENA region, it also has one of the largest, youngest and most rapidly growing populations. Usually, this should be considered an asset, as it is one of the traditional drivers of economic growth. However, Saudi Arabia does not yet have a thriving and diversified local economy capable of absorbing labor force on such scale. This creates serious tensions, as the country's oil revenues are increasingly spread much more thinly across the population, leading to falling per capita oil and gas production.[20]

Realizing that the public sector and the oil industry alone would not be able to cope with this problem, the Saudi authorities embarked on a series of major market-based reforms. Since the late 1990s, the government has implemented a

19. Magnus and Castelli, "Capital Flows and the World Economy: Petrodollars, Asia and the Gulf," op. cit.

20. Boer and Turner, "Beyond Oil: Reappraising the Gulf States," op. cit.

new policy agenda, focusing on the private sector as the main engine of economic growth and diversification. The Kingdom has revamped and upgraded its legal and regulatory standards, restructured government agencies, promulgated new laws (e.g. Competition Law and Foreign Investment Act), cut import duties and further liberalized trade regimes (e.g. GCC customs union), privatized telecommunications, and prepared to liberalize the airline industry. In December 2005 it joined the WTO and is now finally liberalizing its FDI regime.[21]

Since the start of the current oil price boom, the Kingdom has also been prudent and pragmatic in its use of excess petrodollars. First, it used part of the windfall revenues to retire a major portion of government debt, which had been accumulated during the difficult decades of low oil prices in the 1980s and 1990s. From a peak of 96 percent of GDP in 2002, Saudi debt fell to less than 30 percent in 2006.[22] Since much of the debt had been held by local commercial banks, their re-liquefied balance sheets allowed them to channel much of these petrodollars into local development and infrastructure projects.

Secondly, the Saudi government has embarked on a major program of developing new infrastructure, which includes brand new cities and special economic zones with investor-friendly regulations. Apart from boosting growth, diversifying the local economy and creating jobs, this effort represents a major commitment on the part of the ruling family to decentralize power away from the conservative heartland around Riyadh. This initiative may be of particular interest to Russia's policymakers and long-term planners, given the disproportionate concentration of resources, wealth and power in Moscow and, to a lesser degree, St. Petersburg. The scale of the Saudi program is truly gigantic. In the words of the McKinsey analysts:

> "By building six new cities in different regions of the kingdom, its leaders are creating the foundations of a modern economy driven by private investors. Within a decade, the six cities will become the main vehicle for attracting domestic and foreign investment, with desirable living and working conditions for about 2.5 million people, or about one Saudi national in ten. The cities will also promote economic development in regions that have until now largely been ignored and help decentralize and balance the economy. Investments in these economic centers are expected

21. Magnus and Castelli, "Capital Flows and the World Economy: Petrodollars, Asia and the Gulf," op. cit., Boer and Turner, "Beyond Oil: Reappraising the Gulf States,"op.cit., and Moin Siddiqi, "Wooing Foreign Investors: Challenges and Opportunities," The Middle East, issue 376 (March 2007).

22. Magnus and Castelli, "Capital Flows and the World Economy: Petrodollars, Asia and the Gulf," op. cit.

> to total more than $200 billion. The Saudi Arabian General Investment Authority (SAGIA), the project's regulator, promoter, and administrator, is learning from Dubai's experience in creating a new economic and regulatory environment… Behind this project stands a diverse group of private-sector investors, [with] one of the conditions for participating in the project is that 30 percent of the shares of the developers involved must be offered to the public, including a broad range of Saudi private investors."[23]

Thirdly, while Saudi Arabia historically did not have a sovereign wealth fund along the same lines as some of its peers in the Gulf, it has developed a long-standing institutional framework for recycling and managing petrodollars. The two financial institutions traditionally responsible for investing the Kingdom's sovereign wealth are the Saudi Arabian Monetary Agency (SAMA), which acts as the central bank, manages prudential reserves and the government's liquid foreign assets, and the Public Investment Fund (PIF), which operates under the auspices of the Ministry of Finance and has a mandate to invest domestically. While both institutions have existed for decades, and continue to occupy core positions within the Saudi economy and financial system, there are increasing signs that the Saudi government may be looking to modify the current framework. Specifically, in late 2007, Saudi Arabia was reported for the first time to be considering setting up a large-scale sovereign wealth fund of its own. According to some reports, if launched, this fund might eventually dwarf Abu Dhabi's, becoming the largest SWF in the world.[24] And while Mr. Hamad Al-Sayari, the governor of SAMA, reportedly dismissed rumors of imminent plans for a new SWF at the time, he did concede that "the finance ministry was considering the option of the public investment fund (PIF) diversifying its portfolio to include foreign exchange."[25]

Finally, in April 2008, the official decision was made to set up a sovereign fund, initially with a relatively modest starting capital of $5.3 billion, fully owned by the PIF, but with its own independent management team. The investment strategy would be to maximize long-term investment returns within a predetermined risk-return framework, which, according to Mansour Al-Maiman, the secretary-general of PIF, would be similar to other sovereign wealth funds like Norway's Government Pension Fund or Singapore's GIC, but which would also "take into account the

23. Boer and Turner, "Beyond Oil: Reappraising the Gulf States," op. cit.

24. Henny Sender, David Wighton and Sundeep Tucker, "Saudis Plan Huge Sovereign Wealth Fund," *Financial Times*, December 21, 2007.

25. Andrew England and Roula Khalaf, "Public Investment Fund Eyes Broader Role," *Financial Times*, November 14, 2007.

specific requirements of Saudi Arabia": for example, alongside the more typical objectives of optimizing risk-adjusted returns and portfolio diversification, the fund would also be "enhancing development of the Kingdom's financial services sector, building a Saudi national asset management skills base and driving Saudi financial sector competitiveness."[26]

Several considerations may have led to the decision to create such a fund. First, as a central bank, SAMA has always been, and continues to be, a relatively conservative investor, largely limited to bonds, especially US Treasuries, and liquid shares. In the words of the governor of SAMA: "We have some equity, but we don't go into direct investments or real estate or fancy products. For the time being, we're not changing. We've traditionally been more conservative."[27] Meanwhile, the PIF has traditionally focused on domestic projects and, more recently, some regional investments, but its mandate does not allow it to deploy funds beyond the region. In the current environment, this framework has two potential limitations: it may not be flexible enough to allow a broad-based reallocation of assets to increase portfolio diversification, and it may limit the ability of Saudi Arabia to act swiftly, if it so desired, to acquire – on an opportunistic basis – large stakes in temporarily distressed, but otherwise attractive international assets.

There may be an additional macroeconomic argument for allowing PIF to invest globally: as the domestic economy increasingly shows signs of overheating and higher inflation, it may be helpful for PIF to have the option of investing some or all of its dividend income and budgetary allocations overseas.

Finally, allowing a sovereign wealth fund to invest both domestically and overseas would be a good way of enforcing market discipline in all domestic investment decisions of the fund. If it operates on a truly commercial basis and focuses on maximizing long-term wealth, then domestic projects will be financed only if their risk-return profiles are attractive enough to compete with other investment opportunities available to the fund globally.[28] All of the above considerations should be of direct interest and relevance to Russia's policymakers, as they continue to refine their approach to sovereign wealth management.

26. Andrew England, "Interview Transcript: Mansour Al-Maiman," *Financial Times,* April 28, 2008, Economist Intelligence Unit Briefing, "Join the Club," May 1, 2008.

27. England and Khalaf, "Public Investment Fund Eyes Broader Role," op. cit.

28. For a more detailed discussion of this point, see Andrew Rozanov, "A New Way to Manage Commodity-Based Wealth," *Central Banking* XVII, no. 1 (August 2006).

United Arab Emirates (UAE)

Emirate of Dubai

Within the region, Dubai has been at the forefront of modernization and diversification into non-oil sectors, especially trade, real estate, construction, tourism, transportation and finance. Its rulers had the wherewithal and the foresight to embark on this process early on, and to do it on a truly gigantic scale. In part, this process has been driven by necessity: the emirate's oil reserves and production are smaller than those of its oil-rich neighbors. For example, Abu Dhabi controls 95 percent of oil in the whole UAE and in 2006 produced about 2.3 million barrels per day, with plans to grow production even further, backed by an impressive reserves-to-output ratio of 100 years. On the other hand, Dubai's daily oil production in 2006 was estimated at only 170,000 barrels, and its oil reserves were dwindling fast.[29]

Dubai's formula for success includes several important components: a strong social contract between the ruling family and the local citizens; a unique system of economic governance based on market principles and competition, yet fully accountable to the shaikh, who is not only head of government, but is also effectively in charge of a group of holding companies spearheading various development and infrastructure projects. In fact, the dynamic nature of growth and the sheer pace of change in Dubai are such that the configuration of government-owned and government-affiliated holding companies, investment funds and enterprises seems to be constantly shifting, as the system of economic governance and sovereign wealth management is continuously re-calibrated and re-optimized. Institutions like the Investment Corporation of Dubai (ICD), the Dubai World and Dubai Holding appear to form the core of this system.[30] Underneath them, there is yet another layer of semi-autonomous entities, which includes increasingly prominent investment funds like Dubai Investment Group, Dubai International Capital and Istithmar. All of these entities and funds invest both domestically and overseas, all enjoy wide latitude in their investment and operating mandates, all are charged to deliver high risk-adjusted returns, and all are striving to become important centers of excellence in investment and operations management across a wide range of sectors and industries.

29. Andrew Shouler, "A Tale of Two Cities," Gulfnews.com, January 16, 2006, http://archive.gulfnews.com/articles/06/01/16/10011852.html

30. Technically, Dubai Holding is not an arm of the Dubai government, but a holding company and an investment vehicle of the ruler of Dubai.

Dubai's approach to sovereign wealth management is distinctly different from other, more established SWFs in the region. While it may be smaller in asset size, it has chosen to deploy and manage its wealth in a much more proactive and concentrated way. There are at least two main features that make Dubai's investment approach unique for sovereign-owned or sovereign-affiliated funds: taking large, concentrated positions in target companies and using considerable amounts of leverage.[31] In other words, Dubai's sovereign wealth is effectively deployed and managed by several different holding companies, with multiple operating businesses, and several investment funds, which tend to operate more like private equity funds than broadly diversified, passive portfolio investors.

While its unique approach may have raised some concerns in developed countries, there is no denying that Dubai is a runaway success story. It had a clear 'first mover' advantage in the region, having recognized early on the importance of liberalization, deregulation and market reforms. It was one of the first to embrace the concept of dedicated 'free zones.' It led the way with large-scale infrastructure projects and ambitious institution-building in the financial sector. And it focused all of its efforts right from the start on making the emirate an attractive destination for foreign money and businesses. As a result, Dubai has attracted massive FDI flows and succeeded in transforming its economy, diversifying into non-oil sectors to the point where they constitute 97 percent of GNP – compared to 46 percent in 1975 – with services making up the bulk.[32]

Dubai's rulers have demonstrated a strong commitment to market-driven growth and development. They have understood the importance of financial markets. They have embraced capital-building, productivity-enhancing foreign direct investment. And they have galvanized it all by deploying and managing Dubai's wealth in creative and innovative ways.

When applied to Russia's sovereign wealth dilemma, Dubai's approach, while certainly intriguing, may not be appropriate for the Stabilization Fund as a whole. However, it may warrant serious attention if Russia's policymakers were to allow the new, smaller National Wealth Fund to allocate a portion of its assets to more active, private equity-type investments. Also, Dubai's experience may be relevant when

31. For a more detailed discussion of Dubai International Capital, Dubai Group and Istithmar, see Emily Thornton and Stanley Reed, "Who's Afraid of Mideast Money?" *Businessweek*, January 10, 2008, http://www.businessweek.com/magazine/content/08_03/b4067042272294.htm?chan=globalbiz_europe+index+page_top+stories

32. *Khaleej Times*, "Dubai's Future Vision Unveiled," February 4, 2007, as reported by zawya.com / Middle East Business News and Company Directory (www.zawya.com)

considering other types of Russian government-controlled investment vehicles, such as the National Investment Fund, the Russian Venture Company and the Vnesheconombank Development Bank.

Emirate of Abu Dhabi

As the capital of the UAE and the richest city in the world, Abu Dhabi sits on one-tenth of the world's oil reserves and has accumulated a massive portfolio of financial assets, primarily through its government investment arm – Abu Dhabi Investment Authority (ADIA), which is allegedly the largest sovereign wealth fund in existence today.[33] Since the beginning of the current oil price boom, the emirate has been quietly but steadily stepping up its own domestic investment activities in order to rebuild and reinvent itself.

Although Abu Dhabi's rulers are said to be taking a different and more nuanced approach compared to Dubai, some of their targeted development areas are very similar – property, tourism, transportation and logistics. But there are other areas as well. For example, leveraging its position as a major energy producer and supplier, Abu Dhabi is not only pushing into downstream sectors and energy-intensive industries like aluminum, but it is also taking the long-term view and putting some of its petrodollars into research and development in alternative energy. Its ambition is to become a center for development and implementation of clean energy technology. To this effect, in 2006, the emirate launched the so-called Masdar Initiative, a far-reaching program that seeks to bring together various companies, government ministries and universities around the world to help develop and commercialize renewable energy technologies backed by Abu Dhabi's petrodollars. While the project is still in its early days, already $250 million has been allocated to a 'clean technology fund,' construction of a dedicated special economic zone has begun, and formation of a graduate teaching and research facility in partnership with the Massachusetts Institute of Technology has been agreed.[34]

As Abu Dhabi works to advance to the next level, it will no doubt apply some of the same principles and approaches that worked so well in Dubai: a more liberal market regime, more openness to foreign investors and corporations, more focus on commercialism, efficiency and global standards. But in addition, it has a very

33. While ADIA does not publicly disclose any information about its operations, including the total size of its assets, most market practitioner estimates are in the range of $500-875 billion.

34. See Hassan M. Fattah, "Abu Dhabi: Turning to the Sun in the Land of Oil," *International Herald Tribune*, March 15, 2007; Sharmila Devi, "Masdar Sets Standard for Green Future," *Financial Times,* May 15, 2008.

powerful weapon of its own: the vast accumulated oil wealth and the continuing flow of petrodollars which it can now deploy and use in more innovative and creative ways to boost domestic growth, development and diversification. A case in point is the recent overhaul and reorganization of the emirate's arrangements with regard to government investment activities.

Traditionally, ADIA has been the main vehicle for investing and managing the emirate's petrodollars in foreign financial markets. As a result of three decades of operations, it has grown to become one of the largest, most sophisticated and professional institutional investors in the world, operating across multiple asset classes, markets and regions. Although in the past it owned strategic stakes in a handful of local companies (e.g. National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, etc.), historically its mandate has been focused primarily on foreign investments.

In October 2002, another specialized investment vehicle was set up by the government of Abu Dhabi – Mubadala Development Company (MDC), with a mandate to establish new companies and acquire strategic holdings in existing companies, both in the UAE and abroad.[35] Mubadala's objective is to target superior returns on its investments, while at the same time helping diversify and further develop the rapidly growing economy of Abu Dhabi, by partnering with local, regional and international investors and investing in a wide range of strategic sectors: energy, utilities, real estate, basic industries and services. MDC has the mandate to seek out and invest in public-private partnerships to achieve its objectives. In a way, MDC could be viewed as Abu Dhabi's answer to Dubai's government-owned private equity-type investment vehicles, with the added advantage of being backed by the largest pool of petrodollars in the UAE economy.

In 2006, the oil-rich emirate took yet another important step. It set up a new investment entity called the Abu Dhabi Investment Council, with a mandate to focus on domestic and regional investments, albeit allowing some allocations to global markets as well. The Council inherited ADIA's original stakes in the major local companies, and it is expected to work closely with ADIA, MDC and the International Petroleum Investment Company (IPIC), which invests in overseas energy assets on behalf of the emirate. This initiative is an attempt to more optimally deploy petrodollars to boost local and regional development, but it is also a risk diversification tool: although there will be some overlap and competition with ADIA in international markets, the Council's mandate is clearly focused on a different set

35. For more information on MDC, visit http://www.mubadala.ae/en/content/about.asp

of investment opportunities and as such provides portfolio diversification benefits to the government.[36]

As Abu Dhabi overhauls and retools the government investment machinery charged with recycling and managing the emirate's petrodollars, adding the all-important local and regional dimensions, it is also seeking out ways of partnering with similar institutions overseas. For example, last year ADIA and MDC agreed to take up joint investment projects with their Singaporean counterpart Temasek Holdings, helping both sides to pool their resources and expertise for mutual benefit. Cooperation between these sovereign wealth funds is expected to take the form of joint business ventures and co-investments based on certain geographical locations and particular industrial sectors.[37]

The continuing investment boom in Dubai, coupled with Abu Dhabi's determination to bring more petrodollars and productive foreign investments to bear on local economic development, suggest that the United Arab Emirates will continue to occupy a very high position on the list of top FDI destinations in the MENA region in the years to come. There is even a new sovereign wealth initiative on the federal level that was announced late in 2007: a new sovereign investment fund called the Emirates Investment Authority (EIA) has been set up to develop investments on behalf of the UAE government. While details are still sketchy at the time of writing, the move does suggest a stronger drive for closer federal cooperation and unity among the ruling elites of the seven semi-autonomous sheikhdoms of the UAE. Depending on the sources of funding and the choice of investment strategy, the EIA has the potential to quickly grow into a large and highly influential sovereign investor.

Russia's policymakers may want to study Abu Dhabi's model of sovereign wealth management on multiple levels. First, ADIA offers a unique case study of investing a large and growing petrodollar portfolio in a broad array of markets and asset classes. Its experience would be of direct relevance to Russia's Stabilization Fund. Secondly, the more recent developments with Mubadala and the Investment Council offer interesting case studies of how an oil-rich nation can leverage its sovereign wealth management skills to bring more petrodollars into the domestic economy in an efficient and productive way. Finally, in light of Abu Dhabi's Masdar initiative, Russia's policymakers may want

36. Simon Kerr and Roula Khalaf, "Abu Dhabi Gets New Investment Body," *Financial Times*, April 27, 2007.

37. Haseeb Haider, "ADIA to be Replaced by ADIC," Khaleej Times Online – *Business Times*, October 23, 2006, http://www.khaleejtimes.com/DisplayArticleNew.asp?xfile=data/business/2006/October/business_October678.xml&section=business

to take note that to be a true 'energy superpower', it is not enough to be a major oil and gas producer. It is critically important to take the long-term view and look beyond the current hydrocarbon-based world. Given Russia's traditional strengths in fundamental science and technology, it may be mutually beneficial for the two countries to explore ways of joining forces within the Masdar initiative.

Other Sovereign Wealth Funds in the Gulf

In this analysis, we focused primarily on the experiences of Saudi Arabia and the UAE, simply because of their prominent standing in the FDI table and our hypothesis that such rankings are indicative of their ability to leverage petrodollars in a Bretton Woods II regime. However, foreign direct investments are not the only criterion to judge relative performance of individual economies, and they are certainly not the only factor – indeed, not even necessarily the most relevant factor – when comparing individual sovereign wealth funds. Other GCC nations operate their own versions of SWFs: Kuwait Investment Authority (KIA), Qatar Investment Authority (QIA), Oman State General Reserve Fund and Bahrain Mumtalakat Holding Company. All are very different in terms of age, size, and experience. All exhibit different approaches and investment philosophies. As such, all are deserving of close attention and careful analysis on the part of Russia's fund.

However, among these funds, KIA should probably be of particular interest and relevance to Russia's policymakers. Firstly, it is the oldest SWF in existence, tracing its roots back to 1953, and as such has a wealth of experience. Secondly, it is very large and – like ADIA – has been a broadly-diversified portfolio investor across multiple markets and asset classes, which is the format most relevant to Russia's fund today. Thirdly, in the last four years, it has undergone a major review of its investment approach, which was followed by a similarly major restructuring of its operations. Russia has now embarked on a similar path: its policymakers need to understand the fund's liability profile, design an appropriate investment strategy, define eligible asset classes, set benchmarks, and put in place a system of governance and risk controls. It may be particularly helpful at this stage to have an opportunity to learn from, and compare notes with, someone who has just completed a similar exercise.[38]

Insights for Russia's Policymakers

The recent experience of GCC countries with recycling and investing excess petrodollars may contain some useful and valuable insights for Russia's policymakers

38. For more information, see Henny Sender, "How a Gulf Petro-State Invests Its Oil Riches," *Wall Street Journal*, August 2007.

and monetary authorities. While the jury is still out on how history will judge their policies in the current oil price boom, there seems to be a broad-based consensus among many commentators that this time around the GCC governments are doing many things right.

First of all, it is their focus on the private sector as the main engine of investment and growth, particularly in the non-oil sectors of the economy, which are growing at almost double the rate of the oil sector in the GCC.[39] It looks like the governments have learned their lessons from the past boom-bust cycles and have deliberately stepped out of the private sector's way, unleashing the power and creativity of the marketplace. One way to gauge this is to look at the steadily declining ratio of public expenditure to GDP, which shows that the role of the public sector has been gradually falling across the region. By 2006, this ratio had gone below 30 percent of GDP, which represents a meaningful drop from the average level of about 50 percent during the 1980s and 1990s.[40] Another impressive statistic illustrating this point is the drastic reduction in the number of civil servants in Abu Dhabi: from 65,000 workers in 2004 to 11,226 in 2007, with a target of 8,000 in 2008.[41] This pullback by the state from non-oil sectors of the economy and the reduction of an unwieldy civil service was achieved primarily by means of market reforms, broad-based liberalization, privatization and outsourcing.

The second important component of the GCC success story is the commitment by local authorities to develop and expand competitive local and regional capital markets in line with global standards and best practices. If the objective is for the private sector to take the lead, then it becomes crucial that the flood of liquidity flowing into the region is intermediated and allocated in the most efficient way possible. Weak capital markets and banks would prevent adequate funds from reaching small and midsize businesses, which in many countries are at the core of innovation, growth and employment. Therefore, creating a vibrant financial sector, with a proper capital markets infrastructure, a diverse set of players and strong banks is of paramount importance to boosting domestic growth and diversifying the local economy.

The third aspect of the GCC experience, and the focus of this chapter, is the new form of government participation in the local economy. While it may have pulled back from the more traditional ways of intervening and directly managing the economy,

39. Magnus and Castelli, "Capital Flows and the World Economy: Petrodollars, Asia and the Gulf," op. cit.

40. Ibid.

41. Andrew England, "Managing Challenges of Soaring Growth," *Financial Times*, May 15, 2008.

thus letting the private sector take the lead, it did not become any less proactive in pushing the national development agenda. Many governments in the GCC appear to have successfully reinvented themselves as venture capitalists, private equity and infrastructure investors, and – most of all – business enablers. Having nurtured over the years strong centers of excellence and expertise in sovereign asset management – funds like ADIA, KIA, DIC, Mubadala and others – policymakers and monetary authorities in the Gulf are now leveraging these skills and capabilities to bring in more petrodollars into the local economies in the most efficient and market-friendly way. If this approach proves successful over the years, it may well constitute the GCC's answer to the Bretton Woods II challenge: catalyzing more and better FDI flows into the region, while at the same time capturing superior returns on their reserves. Given its hydrocarbon-based economy and the policy challenges it currently faces, Russia would do well to take an interest in the GCC model of sovereign wealth management.

The GCC Perspective

Given the potentially valuable insights and lessons that can be gleaned from the Gulf experience of managing and investing petrodollars, we believe Russia's policymakers and monetary authorities should engage in an ongoing dialogue with their GCC counterparts. But most sovereign wealth funds operating in the Gulf have been highly secretive in their dealings with the outside world. Even if Russia were to try and engage with them, who is to say that they would want to open up? In our view, there are at least three good reasons for them to consider doing so.

First of all, in the context of overall diplomatic and political relations between Russia and the Gulf, establishing an ongoing dialogue on sovereign wealth management can add an important new dimension to the traditional areas of cooperation in energy policy and regional security. From the GCC perspective, what the local authorities have developed over the years in the form of ADIA, KIA, Mubadala, DIC and other sovereign wealth funds is a unique and scarce resource, which has a lot of value. The collective knowledge, skills and experience of their managers, the in-house expertise with a wide array of asset classes, markets and instruments, the investment infrastructure, and the tried and tested governance and risk control systems – all this is very much in demand today as new sovereign wealth funds are set up around the world. Just as in the past G-7 nations raised their diplomatic profile, influence and contribution by means of foreign aid, technical advice and assistance, GCC countries can essentially do the same today in the area of sovereign wealth management.

Secondly, there may be an important commercial angle to this proposition. For example, in the same way as ADIA and Mubadala recently announced a strategic tie-up with Singapore's Temasek Holdings, there may be an opportunity to develop a similarly long-standing and mutually beneficial partnership with Russia's sovereign wealth fund. This type of arrangement could open up commercial and investment opportunities for both sides in each other's respective markets – opportunities that would otherwise be much more difficult to identify and access. As mentioned earlier, technical assistance and a full-fledged dialogue with Russia may help Abu Dhabi identify and leverage some of Russia's scientific and technological capabilities in the context of the Masdar initiative on clean alternative energy. For Russia, which has increasingly positioned and promoted itself as an 'energy superpower,' joining a project like Masdar may be an expedient and efficient way of getting in on the action which it cannot afford to miss if it wants to keep this self-proclaimed status. Abu Dhabi's policymakers may have an additional reason to emphasize their strengths in sovereign wealth management: if Dubai has positioned itself as a capital markets center for primary issuance and secondary market trading, perhaps it is more becoming for Abu Dhabi to develop itself into a regional center of excellence and expertise in asset management.

Finally, there may also be an important strategic reason to develop an ongoing dialogue with Russia's sovereign wealth fund, as well as other such entities around the world. To the extent that their assets represent surplus savings recycled in the markets of deficit countries, primarily the United States, these funds will typically have many common risk exposures, including – but not limited to – the US dollar and US interest rates. Given the increasing size and influence of sovereign wealth funds around the world, any major move by any one of them to diversify or restructure their portfolio in a meaningful way could have a strong ripple effect on global financial markets and on sovereign wealth portfolios of its peers.

Incidentally, central banks with very large reserves are in a similar position. However, not only do they typically have more conservative mandates, they also have existing forums for discussing and coordinating their policies, not least in the area of reserve management. Sovereign wealth funds, on the other hand, have much more return-oriented mandates, and they currently lack established forums for discussing issues of common interest and concern. Given the unique and long history of sovereign wealth management in the Gulf, and how systemically large and important some of its funds have become, it may well be to the GCC nations' advantage to take the initiative in setting up and hosting such a forum. To be able to do this, however, they would need to open up more and to engage more proactively with their peers around the world.

References

Auty, Richard M. 1993. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. London: Routledge.

Boer, Kito de, and John M. Turner. 2007. Beyond Oil: Reappraising the Gulf States. *The McKinsey Quarterly*, web exclusive. (January). Available at http://yaleglobal.yale.edu/display.article?id=8690

Devi, Sharmila. 2008. Masdar Sets Standard for Green Future. *Financial Times*. May 15.

Dooley, Michael, David Folkerts-Landau, and Peter Garber. 2003. An Essay on the Revived Bretton Woods System. NBER Working Paper no. 9971, September.

Dooley, Michael, David Folkerts-Landau, and Peter Garber. 2004. Direct Investment, Rising Real Wages and the Absorption of Excess Labor in the Periphery. NBER Working Paper no. 10626, July.

Economist Intelligence Unit Briefing. 2008. Join the Club. May 1.

Eichengreen, Barry. 2004. Global Imbalances and the Lessons of Bretton Woods. NBER Working Paper No. 10497, May.

England, Andrew and Khalaf, Roula. 2007. Public Investment Fund Eyes Broader Role. *Financial Times*. November 14.

England, Andrew. 2008a. Interview Transcript: Mansour Al-Maiman. *Financial Times*. April 28.

England, Andrew. 2008b. Managing Challenges of Soaring Growth. *Financial Times*. May 15.

Fattah, Hassan M. 2007. Abu Dhabi: Turning to the Sun in the Land of Oil. *International Herald Tribune*. March 15.

Gianella, Christian. 2007. A Golden Rule for Russia? How a Rule Based Fiscal Policy Can Allow a Smooth Adjustment to the New Terms of Trade. OECD Economics Department Working Paper no. 537, OECD Publishing, Paris.

Haider, Haseeb. 2006. ADIA to be replaced by ADIC. Khaleej Times Online – *Business Times*. October 23. Available at http://www.khaleejtimes.com/DisplayArticleNew.asp?xfile=data/business/2006/October/business_October678.xml&section=business

International Monetary Fund. May 2007. *IMF Regional Economic Outlook, Middle East and Central Asia*. Washington, DC: International Monetary Fund.

International Monetary Fund. October 2007. *IMF Regional Economic Outlook, Middle East and Central Asia*. Washington, DC: International Monetary Fund

Khaleej Times. 2007. Dubai's Future Vision Unveiled. February 4; as reported by Zawya.com / Middle East Business News and Company Directory (www.zawya.com)

Kerr, Simon and Roula Khalaf. 2007. Abu Dhabi Gets New Investment Body. *Financial Times*. April 27.

Khalaf, Roula. 2006. Confidence in Oil Price Drives Gulf Infrastructure Investment Binge. *Financial Times*. June 29.

Khalaf, Roula. 2007. At the Centre of the 'Central World': Dubai's Ruler has Big Ideas for His Little City-State. *Financial Times*. May 4.

Lachance, Stephen. 2006. East Asia under the Midday Sun. January 4. Available at http://www.financialsense.com/fsu/editorials/2006/0104.html

Magnus, George, and Massimiliano Castelli. 2006. Capital Flows and the World Economy: Petrodollars, Asia and the Gulf. UBS Investment Research. Economic Insights – By George. November.

Rhee, Changyong. 2007. The Creation of the Korea Investment Corporation. In *Sovereign Wealth Management*, eds. Jennifer Johnson-Calari and Malan Rietveld, 257-272. London: Central Banking Publications.

Roubini, Nouriel, and Brad Setser. 2004. The US as a Net Debtor: The Sustainability of the US External Imbalances. Revised draft. November. Available at http://pages.stern.nyu.edu/~nroubini/papers/Roubini-Setser-US-External-Imbalances.pdf

Roubini, Nouriel, and Brad Setser. 2005. Will the Bretton Woods 2 Regime Unravel Soon? The Risk of a Hard Landing in 2005-2006. February. Available at http://pages.stern.nyu.edu/~nroubini/papers/BW2-Unraveling-Roubini-Setser.pdf

Rozanov, Andrew. 2008. The Sovereign Wealth Funds Debate: Will China Follow the Norwegian Model? January 2008. Available at http://www.ssga.com/library/esps/The_SWF_Debate_Andrew_Rozanof_1.8.08CCRI1200431495.pdf

Rozanov, Andrew. 2006. A New Way to Manage Commodity-Based Wealth. Central Banking XVII, no. 1, August 2006.

Sender, Henny. 2007. How a Gulf Petro-State Invests Its Oil Riches. *The Wall Street Journal*. August 2007.

Sender, Henny, David Wighton, and Sundeep Tucker . 2007. Saudis Plan Huge Sovereign Wealth Fund. *Financial Times*. December 21.

Setser, Brad. 2007. Oil and Global Adjustment. March 26. Available at http://www.iie.com/publications/pb/pb07-4/setser.pdf

Shouler, Andrew. 2006. A Tale of Two Cities. Gulfnews.com. January 16. Available at http://archive.gulfnews.com/articles/06/01/16/10011852.html

Siddiqi, Moin. 2007. Wooing Foreign Investors: Challenges and Opportunities. *The Middle East*, Issue 376 (March).

Thornton, Emily and Stanley Reed. 2008. Who's Afraid of Mideast Money? *Businessweek*. January 10. Available at http://www.businessweek.com/magazine/content/08_03/b4067042272294.htm?chan=globalbiz_europe+index+page_top+stories

Toloui, Ramin. 2007. Petrodollars, Asset Prices, and the Global Financial System. January. Available at http://www2.pimco.com/pdf_uk/Capital%20Perspectives%20UK.pdf

United Nations Conference on Trade and Development (UNCTAD). 2004. *World Investment Report 2004*. The Shift Towards Services. United Nations, New York and Geneva.

United Nations Conference on Trade and Development (UNCTAD). 2007. *World Investment Report 2007*. Transnational Corporations, Extractive Industries and Development. United Nations, New York and Geneva.

Conclusion

An Afterthought on Russian Relations with the Gulf, Post-Global Economic Crisis, Post-Obama

Dr. Marat Terterov

In its recently published report, *Global Trends 2025: A Transformed World*, the US National Intelligence Council described it to be a relative certainty that "the unprecedented shift in relative wealth and (economic) power roughly from East to West now under way will continue."[1] The report, which aims to identify the key drivers for future strategic trends at the global level, also noted that among the core beneficiaries of the massive shift of wealth are Russia and the Gulf States, together with China and, to a lesser extent, other countries from the BRICS group.[2] While such a trend will surprise few political scientists observing the resurgence of the energy exporting states during the recent oil price boom, what is perhaps more challenging – particularly for those countries with a vested interest in upholding the institutions buffering the present international order – is the fact that "Eastern

1. National Intelligence Council, *Global Trends 2025: A Transformed World*, US Government Printing Office, Washington D.C., November 2008, iv.
2. Ibid., 8. The BRICs group of countries refers to Brazil, India, China and Russia, the key sources of rapid economic growth outside of the countries of the Organization of Economic Cooperation and Development (OECD).

powers" are not necessarily pursuing governance approaches commensurate to Western values, norms and practices.

Most of these states tend to be non-democratic and embrace an economic development approach based on a high degree of state intervention – referred to by some as state capitalism – at the expense of market-oriented approaches. While this should not, necessarily, be seen in antagonistic terms, it does pose a sizeable dilemma to the West in both the short and long term, given that increasing levels of cooperation with the new centers of power in the East will be required in order to ensure the smooth conduct of international relations and address many global dilemmas.

Neither should one resort to a discourse of bloc formation or new polarization between the OECD and the BRICs, the "league of democracies" and the state-capitalist powers, or between energy producers and energy consumers. The chessboard of contemporary geopolitics is, in essence, far more complex and regimes in both established and emerging centers of power are often forced to behave pragmatically. What is important to note, however, is that for the first time since the end of the Cold War, or the end of history, as some have referred to the new age, the transfer of wealth and power from West to East is being accompanied by some parts of the East bringing into question Western-inspired models of political and economic development which rose to new levels of prominence after the collapse of the Soviet Union.

Arguably the most vehement critic of the Western modes of democratic and market-oriented development has been Russia, which most experts suggest is now favoring state-led economic and political management, or authoritarian state capitalism, after efforts furthering democratization and market reform led to chaos in the country during the 1990s. Differing modes of state capitalism have long been embraced as a primary tool of economic development by numerous Asian countries, including China, South Korea, Singapore and Taiwan, as well as many of the Arab states in the Gulf and wider Middle East. Russia's present leniency towards high degrees of state intervention and centralized political management, together with that of China, potentially has wider international impact, however, due to its larger role on the world stage. The problem is compounded further in the present international climate of global financial crisis, which many argue is a reflection of the non-adaptability of Western-created regulatory institutions of global governance to present global circumstances. Both the US and the European Union have been forced to resort to new levels of state intervention themselves, in order to rescue their ailing economies during the current period of global crisis.

Russia has taken every opportunity to point to the failings of the Western institutions in this environment at the same time as engaging in its own political outreach campaign to regimes in regions of the world where frustration with Western policy making is felt. This is visible in Moscow's recent forays in Latin America and, as discussed in detail in this volume, more active diplomacy in the Gulf. Throughout much of its political resurgence during the Putin era, Moscow has argued that the existing international institutions are in decline and need to be revised in a manner where they reflect the role of all key actors in the newly evolving international system. While a revisionist – and at times hard-line – Russian foreign policy has caused alarm in the West, it has won Moscow a modicum of support in other parts of the world which are more sceptical about the West's at times messianic mission to spread democracy and the market.[3] Shifting wealth and power from West to East, coupled with the questioning of Western institutions during a time of global financial and economic crisis, has served to reinforce the strength of Russia's position as an important international actor with an increasingly revisionist foreign policy agenda.[4]

3. Charles King, "The Five Day War: Managing Moscow after the Georgia Crisis," *Foreign Affairs* 87, no. 6 (November/December 2008): 11. King argues that an increasingly savvy world citizenry has become skeptical about American messianic democratizing and that the West has failed to grasp that many of the (Caucasus) region's inhabitants viewed Russia's invasion of Georgia in August 2008 as justified intervention, rather than a brazen attempt to resurrect a malevolent empire. He adds that if the present rift between Russia and the West widens further, it will not necessary lead to a new Cold War, but rather a more delicate rivalry over the ability of each political system (i.e., the Russian and the Western) to explain the inconsistencies of the other to its citizens and to the wider world.

4. Two core issues remain at the heart of Russian foreign policy revisionism: convincing the West to recognize Russian (as President Medvedev put it in a speech in 2008) "privileged regions of interest" (referring to spheres of influence in the territories of former Soviet Republics) and putting to rest once and for all Western initiated agreements, initiatives and institutions of the 1990s, which Putinists argue worked against Russian national interests and even served to humiliate the losers of the Cold War. As recently elaborated by the Russian scholar, Arkady Moshes, in a lecture to the European Parliament (April 16, 2009), Russia's military intervention in Georgia and its recognition of South Ossetia and Abkhazia as independent states is a clear example of Russian revisionism in practice. According to Moshes, Russia's strategy has been, for the most part, successful since the European Union, NATO and the United States have now for the most part gone back to a policy of "business as usual" with Russia, amidst Russian military and political consolidation in the two breakaway regions and the subsequent grip Moscow is developing over the strategically important south Caucasus region. Business as usual in this sense refers to the EU re-launching its EU-Russia negotiations at the Nice Summit in November 2008, NATO re-engaging in its structured dialogue with Russia in recent months while the US has been making widely publicized efforts to improve relations with Russia under the new

Tests and Opportunities during Times of Crisis

The global economic and financial crisis, however, while adding some level of legitimacy to Russian foreign policy revisionism, likewise has the potential to take the steam out of the engines of Moscow's plans for domestic development. It is just as much a test of domestic legitimacy for the government and the entire Putinist system which has evolved successfully in Russia during the last eight years, as it is an opportunity for Moscow to become more active on the international stage – to strengthen its position in the CIS, to consolidate emerging partnerships with other rising power centers in the East, and to speak with the West from a position of greater strength and self confidence.

Events continue to unfold rapidly at the time of writing, and it is at this stage too early to tell whether the cyclical shift in external environment – from rapid growth fuelled by rising global demand to the gloom of a global recession and a shrinking world economy – will prove to be more of a test or an opportunity for Russia. In the short term, the test hypothesis seems to be more ominous. While nearly 10 consecutive years of dynamic growth have elevated Russia to a position of seeming economic strength capable of withstanding the stiffest external shocks, in the spring of 2009 Russia remains confronted by what is without doubt the biggest challenge the country has faced since the inception of the Putin era.

In the wake of international condemnation of Russia's military intervention in Georgia and heightening political risk, an exodus of foreign capital precipitated a lending crisis and a stock market collapse of unimaginable proportions in Russia last September. Russia's two key stock exchanges suspended trading on September 17 after the Russian bourses lost more than $700 billion in value in a spiralling collapse.[5] This had very rapid knock-on effects into the banking sector, and onto the real economy. Liquidity dried up rapidly among the Russian financial institutions, forcing banks to slash lending, despite government bailout programs. By early 2009 the Russian rouble, which President Medvedev had touted in mid-2008 as a likely new global reserve currency, had lost some 40 percent of its value against the Euro and the dollar. The Russian economy's dependence on revenues from energy sales, lack of international competitiveness and low propensity towards diversification

administration of President Barack Obama.

5. See the following articles in the *Financial Times*: Catherine Belton, "Moscow Facing Lending Crisis," September 9, 2008; and Catherine Belton, "Moscow Suspends Trading," September 17, 2008. Also see the editorial comment "The Price of Putin," September 10, 2008; all available at www.ft.com

left the country badly exposed. The collapsing oil price, which fell from a peak of $147 a barrel in July 2008 to a $34 trough in December, wiped a third of the value of Russia's foreign reserves as the Russian Central Bank attempted to vigorously defend the value of the rouble.

A number of senior officials in the Russian government, including Finance Minister and Deputy Prime Minister Alexei Kudrin, have warned that the years of easy growth fuelled by what seemed a one-way spiral of rising oil and gas prices are unlikely to return at any time soon. In March, the World Bank published a report projecting a 4.5 percent contraction in Russian GDP growth for 2009 and warned that the economic crisis could push close to 6 million Russians into poverty unless the government shifted more spending to the poor.[6] In a lecture to the European Parliament in April, former Prime Minister of Russia and now marginal opposition figure to the Kremlin, Mikhayil Kasyanov, pointed out that about 6.5 million Russians are presently unemployed, that industrial output had contracted by around 15 percent and that inflation in the first quarter of 2009 alone had already reached five per cent. Widespread disturbances and public unrest – both connected and unconnected to the crisis – have already broken out in Russia during these difficult economic times, testing the legitimacy (and patience) of the ruling order.

Negative growth was unheard of in Russia during the Putin era and the domestic legitimacy of his rule was built around political stability and rising prosperity, fueled by rapid economic growth. More unrest cannot be ruled out during 2009, as enterprises providing employment for entire cities currently face a very uncertain future amidst an atmosphere low on confidence and high on gloom.[7] Any dissent is unlikely to be tolerated by the Russian state, however, as retaining the reins of power remains one of the core objectives of the Putinist elite and the oligarchs compliant to the will of the state. Furthermore, as opposition figures such as Mikhayil Kasyanov remind European colleagues, the legacies of history have forced the Russian people to become more tolerant of hard times than many other nationalities but the ruling elites, for their part, have always lived in the shadow of major political insurrection.

6. Paradoxically, in November 2008, the World Bank predicted that Russian GDP in 2009 would increase by 3 percent, which itself was a significant decline from the rapid growth of previous years. Russian government experts also agree that the economy is set to contract in 2009, although their forecast is for a 2.2 percent contraction, as opposed to the 4.5 percent predicted by the Bank.

7. See the report by the Eurasia Foundation "Ian Bremmer, the president of Eurasia Group, announces Top Political Risks for 2009," 5, available at www.eurasiagroup.com

At the same time, the external crisis continues to provide strong opportunities for Russia to proceed with its revisionist foreign policy. While Russia has been hit hard by the crisis, other countries have been hit even harder. This includes a wide range of countries, including commodity producers, which had not adequately prepared their institutions for the difficult times, export-oriented economies dependent on robust global trade and the healthy state of demand, small economies dependent on foreign loans and FDI inflows – developed and developing states alike. Inside the European Union, Hungary, Romania and Latvia have turned to the International Monetary Fund (IMF) to help bail out their troubled public finances. Protests against the government's handling of the economy taking place in Latvia and Lithuania in January this year were quickly exploited by Moscow as evidence of the failings of Western institutions and policies of financial governance. Moscow had already been in negotiations with the government of Iceland in October 2008, offering Reykjavik a loan of 4 billion Euros to bail out its defaulting banking sector.

Despite the ongoing crisis in relations between Moscow and Kiev, in March 2009, Ukraine, which had already gone to the IMF for finance in December, sent a request to Moscow for a $5 billion loan from Russia to cover its budget deficit.[8] Russia provides a number of credit facilities to former Soviet Republics, and has recently committed funds to the Georgian breakaway statelets of South Ossetia and Abkhazia. Despite the slide in the rouble and the sharp reduction in Russian foreign reserves, the latter remain the third largest in the world and currently stand at $384 billion.[9] Some analysts jokingly lament that Russia is trying to use the crisis as an opportunity to "buy up a few countries," particularly in the regions of the world where it sees a historic mission and advocates privileged interests.[10] Ukraine is one example, given the country's intricate linkage to Russia in every respect, ranging from the historic and cultural to the geostrategic and economic. Kyrgyzstan, although less significant to Moscow than Ukraine, is another example of Russia's use of the crisis as an opportunity to reassert its power abroad. In February 2009, Russia offered the small and financially weak Central Asian republic a loan of $2 billion, which coincided with the decision of the Kyrgyz government to close the US air base at Manas, near the Kyrgyz capital.[11] Russia is set to continue being a

8. See the article "Kudrin: Russia yet to Decide on Ukraine's Request for $5 billion Loan" in the *Kyiv Post*, March 10 2009, available at www.kyivpost.com
9. Russian State TV Channel "VESTI," Daily Economic Briefing, April 23, 2009.
10. See the comment by Dmitry Trenin of the Moscow Carnegie Center in the article by Charles Clover, "Privileged Position," *Financial Times*, April 2 2009, www.ft.com
11. Ibid.

troublemaker in international relations in 2009, according to leading US critics, and Moscow will continue looking to exploit opportunities arising from the global economic recession to maintain its revisionist foreign policy direction.[12]

Much Will Depend on the Oil Price

As long as Russia's economic fortunes remain closely tied to its capacity to produce and sell hydrocarbons, Moscow's ability to continue with revisionism at the foreign policy level and ensure stability at home will remain highly dependent on the price of oil. Most analysts agree that Russia's economic recovery during the Putin era has been predicated largely on the expansion of oil output and export strategies in the high oil price environment. Therefore the government's fortunes remain closely aligned with the state of the global oil markets, global growth and demand, and the policies of the main energy producers.

At the time of writing in April 2009, the price of oil hovered at around $45 per barrel, down to its lowest level in over a month. Prices are expected to remain under pressure in the short term, on expectations of a further increase in US oil inventories and weak oil demand.[13] The Organization of Petroleum Exporting Countries (OPEC), which controls roughly 40 percent of global oil production, had already reduced its output quotas by 4.2 million barrels per day, or 15 per cent, since September 2008 to accommodate the worst contraction in global fuel demand in 25 years. Further production cuts were being put off by OPEC at the time of writing, however, and the cartel was seeking to ensure that members of the cartel would not over-produce on their assigned quotas.

Russia, for its part, was also announcing that it would be reducing oil exports and its oil output has already fallen by 1.9 percent in the first two months of 2009.[14]

12. Ian Bremmer, the former head of the US administered state entity in post-Saddam Iraq, is one such critic. He adds in his assessment of top global risks in 2009 that Russia will be an even more unpredictable and opportunistic trouble-maker in the international system than it was in 2008. As the January gas cut-off to Ukraine has shown, the Kremlin is putting *realpolitik* and national interests first: more instances of bare-knuckles foreign policy are likely in 2009. See the report by the Eurasia Foundation "Ian Bremmer, the President of Eurasia Group, Announces Top Political Risks for 2009," 5, available at www.eurasiagroup.com

13. According to the American Petroleum Institute, US demand for oil remains weak at the time of writing and a 4.6 million barrel build-up in US crude stockpiles has been pushing prices down further. Demand in China is off by at least 15 percent year-on-year and other bearish economic indicators will keep prices volatile in the short term.

14. George Jahn, "Russia Says it is Cutting Oil Output," *The Washington Times*, March 15, 2009.

Russia is the world's second largest oil producer after Saudi Arabia and the country is not a member of OPEC. Russia's announcement was welcome news for OPEC, which is looking for ways to bolster prices by reducing supply from producers outside its membership. Any sign of closer cooperation between Russia and OPEC is a concern for energy-consuming countries due to the potential it has on influencing the amount of supply available and the market price. Russia's announced production cuts, however, may also have been a way of masking Moscow's inability to keep up present output levels because of lagging investment and maturing oil fields. Russian oil output had already fallen in early 2008, when oil prices were at records highs and little new investment was being channelled into developing new reserves which would enable Russia to maintain production levels.

Russia is also the world's largest exporter of natural gas, and the country's gas exporting monopoly, Gazprom, has also felt the impact of the global economic downturn. In February, Gazprom announced that it would be reducing gas sales to Europe (its primary export market) by 5 percent in 2009, due to falling demand for energy, which would deprive the company of major export revenue. As the price of natural gas remains tied to the oil price, European consumers would be paying 32 percent less for Gazprom's gas exports in 2009 as a result of the low oil price, further undermining profits.[15] This development was a far cry from summer of 2008, when the price of oil peaked and Gazprom's chief executive, Alexei Miller, announced that oil would soon be trading at $250. Gazprom's share price had already fallen sharply during the Russian stock exchange collapse last September, and the company's market share has fallen dramatically. Gazprom's reputation as a reliable energy supplier was put in question once again last January, when it cut off gas supplies to Ukraine and left much of South East and Central Europe without gas for almost two weeks. Up to 80 percent of Russian gas exports to Europe transits through Ukraine.

With the global recession expected to last into 2010, analysts do not expect increased demand to stimulate the need for greater oil output till that time, implying that the plunge in the oil price could remain sustained for the short-to-medium term. Hydrocarbon exports account for around 80 percent of Russia's cumulative exports and 32 percent of government revenues.[16] The year 2009, therefore, will

15. Guy Chazan, "Gazprom Set to Slice Sales to Europe," *The Wall Street Journal*, February 10, 2009. Gazprom's loss of revenue is of course likewise a loss of revenue for the Russian state, given that the state is the chief shareholder in the company.

16. National Intelligence Council, *Global Trends 2025: A Transformed World*, US Government Printing Office, Washington D.C., November 2008, 52.

remain a testing time for the Putin government, as it seeks to ride through the possible storm of domestic unrest brought on by the global economic crisis on the one hand and continues seeking the capital inflow to maintain its foreign policy objectives and national modernization program inside the country on the other. Russian national power could be severely limited if the oil price remains low into the long run and could force Moscow to look at extending further influence over CIS energy producers in the Caspian and Central Asia.

Can Russia and the West Press the Reset Button on Their Relations?

Russia's propensity to continue with its assertive foreign policy course of the Putin era will also be subject to the way in which the new American administration of Barack Obama engages Moscow. Russian relations with both the US and many of the European Union (EU) countries have become frosty in recent years, as both sides have been increasingly unwilling to compromise on many issues and failed to reach consensus on many more. Russia is constantly accused of using energy as a political weapon, is questioned about the reliability of its energy supplies and is too often depicted as a neo-imperialist aggressor towards its neighbors – particularly former Soviet republics such as Ukraine and Georgia, the second of which it invaded in August 2008. Russia, for its part, is furious at the West for alleged meddling in the internal politics of both of the aforementioned countries, and cultivating anti-Russian political sentiment in both Kiev and Tbilisi, is uncomfortable with NATO raising membership prospects for Georgia and Ukraine, and resents US missile shields being planned for deployment in Poland and the Czech Republic.[17] Trust seems to have evaporated from Russia's relationship with the West, particularly after the war in Georgia last August, and confidence-building measures are badly needed to placate anxieties and possible hot-headedness on both sides.

17. Russia also frequently accuses the West of double standards in its dealing with Russia and Russian interests. At a public hearing on EU-Russian relations at the European Parliament last March, the Chairman of the Foreign Affairs Committee of the Russian State Duma, Konstantin Kosachev, highlighted that while Europe accuses Russia of human rights violations, it fails to criticize the government of Estonia for violation of the rights of Russian minorities in the country. Kosachev added that Moscow's intervention in Georgia was far less drastic and no less justified than NATO's bombardment of Belgrade in 1999, and that the EU should not criticize Russian restriction of investment by Western energy companies into strategic Russian energy projects when the European Commission is blocking reciprocal Russian energy investment into the EU, particularly that which is associated with Russian national energy champion, Gazprom.

Russia is starting to acknowledge that the Obama administration is making an effort to depart from the antagonistic approach and confrontational policies of the Bush administration.[18] The positive recent overtures towards Russia from very senior Obama administration officials, including Vice-President Joe Biden and Secretary of State Hillary Clinton received wide publicity in the international press.[19] They have appeared to make an impact on the Russian foreign policy establishment. In a recent interview with London's influential daily, the *Financial Times*, Russian Foreign Minister, Sergei Lavrov, stated that, "Practically on any problematic issue which we inherited from the past eight years, I understand the Obama administration is undertaking a review, which we welcome."[20]

Presidents Medvedev and Obama had their first presidential meeting at the G20 Summit in London at the start of April, adding a further sense of rapprochement. Analysts perceive the Obama administration to be less determined to push on with plans of NATO enlargement to include Ukraine and Georgia, or to proceed with missile defense shields in Poland and the Czech Republic. Furthermore, the Obama administration has also reached out to Iran, and the US President has sent a video message to the Islamic Republic where he has called for better relations between the two countries after three decades of hostility. This move has also been welcomed by Moscow, according to Foreign Minister Lavrov, who describes Iran as "Russia's historic neighbour, historic partner."[21]

While there is little doubt that such confidence-building measures are a positive step forward if Russia's recent stand-off with the West is to be replaced by – as Lavrov states – constructive engagement and cooperation and partnership, many of the structural issues which have distanced Russia from the West remain unresolved. Russian relations with NATO remain problematic. Moscow recently

18. As stated by one Western analyst, "Their list of (our) perceived offences is long: the US-led bombing of ally Serbia in Clinton's time; the US abrogation of the Anti-Ballistic Missile Treaty; the expansion of NATO to Russia's doorstep, US military activity in Central Asia, attempts to route energy pipelines outside of Russia; support for Ukrainian and Georgian political movements considered anti-Russian; military aid to Georgia; and the backing of independence of Kosovo from Serbia despite Russia's opposition." See Thomas Omestad, "Why Russia May Become a Big Problem for Barack Obama," *US News*, December 1, 2008, available at www.usnews.com
19. Biden spoke of the need to "hit the reset button," or reset relations onto a more positive course with Russia in a keynote speech at the high-level Munich security conference in February 2009, while Clinton presented Russian Foreign Minister Lavrov with a ceremonial "reset button" at a widely publicized meeting in Geneva on March 6.
20. Charles Clover, "Russia Responds to New US Treatment," *Financial Times*, March 25 2009.
21. Ibid.

threatened to pull out of its high level working meetings of the chiefs of staff in the NATO-Russia Council if the alliance went ahead with plans for military exercises in Georgia in May. Despite his positive remarks towards the Obama administration, Foreign Minister Lavrov accuses NATO of reverting to the confrontational logic of the Cold War and claims that the roots of the diplomatic hostility are found in the alliance's "unilateral position" on the war between Russia and Georgia last August.[22] NATO is simply not even prepared to consider the fact that the behavior of the Georgian regime in South Ossetia may have at least played a role in fermenting Russian hostilities towards Georgia.

American and EU intervention in the domestic affairs of the former Soviet Republics is likely to continue into the foreseeable future, much to Russian's chagrin. Despite the recent closure of the American air base at Manas, Kyrgyzstan, the US campaign against Al-Qaeda and the Taliban in Afghanistan and Pakistan will ensure that Washington will remain active in former Soviet Central Asia. Western involvement in Central Asia and the Caspian will be further necessitated due to the region's strategic position in Eurasian geopolitics and its significance as a source of new energy production and crossroads for energy transit routes. EU energy corporations intend to build the NABUCCO gas pipeline, a commercial project receiving heavy political endorsement from Brussels. NABUCCO has the objective of reducing Europe's dependence on Russian gas by opening up a new energy transit corridor from Austria to the Caspian which circumvents Russia. Brussels is also seeking to integrate Ukraine into the Energy Community Treaty, a European energy agreement intended to make countries accept EU rules on domestic energy markets.[23] Russia's response has been to commission its own pipeline projects in the Baltic and Black Seas which avoid Ukraine. While the EU and the US are at best

22. Steven Eke, "Lavrov Deplores NATO Cold War Logic," BBC News, April 21 2009.

23. On March 23, the EU held a high level conference in Brussels on the modernization of Ukraine's gas transit system. One of the objectives of this conference was to attract funding from international financial institutions into Ukraine's gas transit system, in order to improve, rehabilitate and promote the Ukrainian corridor as the preferred energy corridor for (Russian) gas suppliers to Europe. While Russia was invited to the event, it was not consulted on or invited to contribute towards the final conference declaration signed by the EU and Ukraine. Large sections of the declaration referred to the integration of Ukraine into the Energy Community Treaty, thereby foreseeing that Ukraine's gas transit network would operate on the basis of EU internal energy market legislation. This approach infuriated Moscow, and the Russian delegation walked out of the conference. Russia has long sought to wrest control of Ukraine's gas transit network away from Kiev. The energy standoff between Russia and the EU over Ukraine is set to continue.

lukewarm towards Russia's ambivalent feelings about the sovereignty of some of the former Soviet republics, the EU is pushing ahead with its own Eastern Partnership initiative, which aims to draw six such countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) closer into European legal and political space. Despite the goodwill and efforts to build confidence by the Obama administration, these developments will continue to test the nature of Russia's relationship with the West and influence the direction, scope and tone of its foreign policy making at the global level.[24]

Gulf-Russia Relations, Post-Crisis, Post Obama

How will all of these developments impact upon Russia's relations with the Gulf, which is a topic we have focused on in great detail in the preceding chapters of this volume? As economic power shifts east, we have seen Russian diplomacy and state backed commercial interests to be far more active in their engagement of the Gulf region in recent years. Moscow has built up an important partnership with Iran and has been courting the new Iraqi administration to gain influence in that country – not least due to the objective of winning back its energy concessions in the country from the Saddam era. Having seemingly put Arab emotions to rest following its destructive military campaigns in Muslim Chechnya, Moscow has also been able to develop constructive relations with Saudi Arabia and the other Gulf monarchies. The Gulf States, for their part, have seemingly welcomed a more active role by Moscow in the Gulf and Middle East more broadly, which can to some degree be seen as an endorsement against the dangers posed by American unilateralism in their region.

With oil prices set to remain well below the $100 mark for some time, international relations are now being conducted in a new external environment of global recession, low demand, weaker confidence and less certainty about long term economic planning. As much of the foundation for shifting power from West to East - the accumulation of massive petro-dollar revenues in the Gulf and the resurgence of the Russian state as a major international relations actor - has resulted due to high energy prices, some of the (shifting power) beneficiary countries will become more limited in their geopolitical capabilities. This applies more to Russia, and also to Iran, rather than to the Gulf States, which remain largely pro-Western

24. As Lavrov stated of the EU's Eastern Partnership initiative at the Brussels International Forum earlier in April: "You accuse us of spheres of influence, but what about your sphere of influence"?

and are traditionally very circumspect in their practice of foreign policy. As one observer summed up with a view to Russia's limitations in the new environment: "It has turned out that the huge financial resources accumulated over the years of sustained economic growth may be enough to alleviate the consequences of national crisis. Yet it is not enough to implement major geopolitical projects planned in recent years."[25]

From the angle of geopolitics, Russia's relations with the Gulf will also be subject to the manner in which the chessboard will be played out between Moscow and the new Obama administration in Washington, as well as between Russia and the EU. Although the Cold War is over and Russia is not generally perceived as an imminent strategic threat to the West, the era of geopolitics has well and truly returned in the early 21st century. Many precedents from the annals of Russia's long history of conflict and rivalry with the European powers are once again now playing themselves out. These will invariably have an impact on Moscow's relationship with the Gulf, the broader Middle East, and other non-core centers of world power where geopolitics and strategic relations have always been prominent.

It is at this stage worth briefly reminding ourselves in this past and present geopolitical context, that, at the beginning of the 1920s, a relatively weak Soviet regime which faced blockade and isolation from Western powers, attempted to find allies in the East. In 1926, the Soviet Union became the first country to recognize Saudi Arabia, a move that was aimed to weaken British interest in the Gulf and was also part of its pragmatic strategy to support the right to independence of nations breaking out of colonial domination.[26] For Saudi Arabia, the Soviet recognition was a source of strength for a nation seeking to develop a newfound independence after the collapse of the Ottoman Empire and to emerge as a regional, if not international power. Moscow's overtures towards the Saudi Kingdom were largely driven by geopolitical motives, however, as strong relations with a leading power in the Arab

25. Fyedor Lukyanov, "Two Crisis on the Way of Reshaping the World," *Russia in Global Affairs*, no.4, October-December 2008, available at www.eng.globalaffairs.ru Lukyanov adds that "The reality of the crisis will cause countries to set priorities better, rank their intentions and give up secondary tasks in favour of more important ones." In Moscow's grander view of the world, its relationship with the Gulf – while without doubt an important thrust of its geopolitical interests – is a far more marginal one than its "privileged interests" in the CIS or the economic partnership with the EU. Therefore, there can be little doubt as to where Moscow will channel its energies, whence limited by domestic resource constraints and a less favorable external economic environment.

26. Elena Melkumyan, *Gulf Cooperation Council Relations with Russia* (Gulf Research Center: Dubai, 2005), 8-9.

and Islamic world would allow it to further reach out to other Muslim countries.

This led to a number of trade agreements between the Soviet Union and the Saudi Kingdom, where a Soviet consulate was already opened in 1924. King Abdulaziz al-Saud, for his part, skilfully played the Russians off against the Anglo-American oil companies which were seeking to assert themselves in the Kingdom, and by opening his country's markets to Soviet goods sought to demonstrate that there was an alternative to Anglo-American influence.[27] In 1932, the Saudi monarch sent his son, Crown Prince Faisal bin Abdul Aziz, on an official visit to Moscow, which Soviet propaganda readily exploited in underscoring the high-level nature of relations between the two countries. The next such high-level visit by a high-ranking Saudi royal to Moscow would not take place for over 60 years, when Crown Prince (now King) Abdullah made an official visit to Moscow in September 2003.

As was the case in the 1920s and early 30s, geopolitical rivalry between Russia and the Western powers will no doubt continue to be a key factor guiding Moscow's relations with the Gulf looking ahead. Unilateralism and no small effort by Washington to establish *Pax Americana* in the Gulf – as evident by the invasion of Iraq in 2003 – created a challenging security environment, alarming Middle Eastern regimes and the majority of international powers alike. Russia's appeals for greater prudence and diplomacy instead of use of force were largely ignored by Washington, and the US administration under President George W. Bush did little to restrain itself in the use of antagonistic rhetoric towards Moscow's energy policy and aggressive behavior in the former Soviet Republics. Although the capacity of the Russian Federation to influence world politics should not be compared to that of the Soviet Union at the height of its power, the Russian state remains a major international actor determined to make its mark on the world stage. Some observers describe Russia as the world's foremost revisionist power,[28] not only determined to reverse the lingering inequalities of its 1990s relationship with the West,[29] but

27. Ibid. Saudi-Soviet relations started to fall away by the mid-1930s, in parallel to the Soviet regime's repression of Islam and religious freedoms in the USSR, Soviet foreign policy constraints resulting from the Great Purges and the rumblings of military conflict on the European continent. Saudi-US relations, on the other hand, began to flourish. In 1933, Saudi Arabia gave concessions for oil exploration to the US-based Standard Oil of California and subsequently established a consulate relationship with the US, which at that juncture had no political interests in the Saudi kingdom.

28. One such observer is the British economist, Lord Skidelsky. See Stephen Sestanovich, "What Has Moscow Done? Rebuilding US-Russian Relations," *Foreign Affairs* 87, no. 6 (November-December 2008): 13.

29. Ibid.,17. Sestanovich suggests that (former Russian president and now prime minister) Putin and his colleagues have drawn up a large part of their foreign policy on the conclusion that

also to maintain the USSR's position of balancer against US policy to the degree that such actions are possible. Others, who also recognize Russia as a leading international power, lament that "what do great powers do if not radiate influence into surrounding regions?"[30], particularly when such regions hold major strategic value and impact upon their own national security.

Thus, Russia has been building a foreign policy structure around multiple international partnerships with other regional centers of international power, seeking to counter American unilateralism and promoting the rhetoric of social justice in international relations by pointing out areas of Western double standards, inconsistencies and malfunctioning of the institutions of global governance. Moscow's foreign policy outreach works well in the Middle East, where the consequences of unrestrained American foreign policy are not welcomed either by Washington's allies or foes, and where the US, as the core provider of the region's security architecture, is perceived locally to have delivered as much turmoil as it has stability. The region's ongoing crisis with respect to the Middle Eastern security deficit, and the Arabs' appreciation of external actors capable of lending themselves towards a regional balance of power, is likely to continue providing Moscow with the relevant political context for ongoing intervention in the Gulf, despite the Obama administration's present efforts to constructively engage both Russia and the Muslim world. History has shown us, after all, that in tense geopolitical external circumstances, crisis – be it political or economic, global or domestic – has an uncanny nature of repeating itself.

Russia's relations with the United States (and the West in general) were inherently unequal (and following events such as the Iraq War, the Orange Revolution in Ukraine, energy stand offs with Europe) have become conflictual. Russia would therefore serve its interests better if it followed its own course.

30. See the comment by Thomas Graham, Russia Expert on the US National Security Council Staff under President George W. Bush, in Charles Clover, "Privileged Interests," *Financial Times*, April 2 2009. Available at www.ft.com

About the Authors

Ruslan Aliev is a Senior Researcher at the Centre for Analysis of Strategies and Technologies (CAST) in Moscow. He graduated from the Moscow State Institute of Foreign Relations (Faculty of International Journalism) in 2005 and has been with CAST since 2003. His research interests are in the areas of military developments in the Arab countries as well as Russian arms transfers to the Middle East. He contributes regularly to the *Arms Export* (in Russian) and *Moscow Defense Brief* (in English), journals published by CAST. He also comments on arms trade issues in the Russian media.

Mustafa Aydin is Professor of International Relations at the TOBB University of Economics and Technology as well as at the Turkish National Security Academy, Ankara, Turkey. He was UNESCO Fellow at the Richardson Institute for Peace Studies, UK (1999); Fulbright Scholar at the JFK School of Government, Harvard University (2002); Alexander S. Onassis Fellow at the University of Athens (2003); and Research Fellow at the EU Institute for Security Studies, Paris (2003). Prof. Aydin is the Director of International Policy Research Institute (IPRI) of Ankara, and the President of the International Relations Council of Turkey. He is a member of the Economy and Foreign Policy Study Group of the President's Office, as well as Board Member of strategic research centers of both Turkish Ministry of Foreign Affairs and Turkish Armed Forces, Ankara, Turkey. His most recent works include *New Geopolitics of Central Asia and the Caucasus: Causes of Instability and Predicament* (2000); *Turkey's Foreign Policy in the 21st Century* (ed. with T. Ismael, 2003); *Greek-Turkish Relations in the 21st Century: Security Dilemma in the Aegean* (ed. with K. Ifantis, 2004); *Turkish-American Relations; Past, Present, and Future* (ed. with C. Erhan, 2004); *Turkish Foreign Policy; Framework and Analysis* (in English and Greek,

2004); *Central Asia in Global Politics* (in Turkish, 2004); *International Security Today; Understanding Change and Debating Security* (ed. with K. Ifantis, 2006); *Turkish Foreign and Security Policy; Its Environs in Eurasia and the Middle East* (ed. with A. Marquina, 2006); *Regional Insecurity: Redefining Threats and Responses* (ed. with Ç. Erhan & S. Açıkmeşe, 2007); *Turkey's Eurasian Adventure* (ed. in Turkish, 2007).

Mikhayil Barabanov is Editor-in-chief of the *Moscow Defense Brief* journal. He specializes in the study of Russia's defense and security policy, the Russian defense industry and arms trade with foreign countries. He has published over 200 articles on Russian, CIS and world arms export, military and foreign policies; Russian and CIS armed forces; and world naval history. He is a co-author of several books, of which the latest is *Military-Technical Cooperation of Russia with the Foreign States: The Analysis of the Markets* (Moscow: Nauka, 2008; in Russian).

Stephen Blank is Professor of Russian National Security Studies at the Strategic Studies Institute of the US Army War College in Pennsylvania. Dr. Blank has been Professor of National Security Affairs at the Strategic Studies Institute since 1989. In 1998-2001, he was Douglas MacArthur Professor of Research at the War College. He has published over 500 articles and monographs on Soviet/Russian, US, Asian, and European military and foreign policies, testified frequently before Congress on Russia, China, and Central Asia, consulted for the CIA, major think tanks and foundations, chaired major international conferences in the USA and abroad in Florence, Prague, and London, and has been a commentator on foreign affairs in the media in the United States and abroad. He has published or edited 15 books focusing on Russian foreign, energy, and military policies and on International Security in Eurasia. His most recent book is *Russo-Chinese Energy Relations: Politics in Command* (London: Global Markets Briefing, 2006). He has also published *Natural Allies?: Regional Security in Asia and Prospects for Indo-American Strategic Cooperation* (Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2005). Dr. Blank is also the author of a study of the Soviet Commissariat of Nationalities, *The Sorcerer as Apprentice: Stalin's Commissariat of Nationalities* (Greenwood Publishing Group, 1994) and the co-editor of *The Soviet Military and the Future* (Greenwood Publishing Group, 1992). Prior to this appointment, Dr. Blank was Associate Professor for Soviet Studies at the Center for Aerospace Doctrine, Research, and Education of Air University at Maxwell AFB. He also held the position of Assistant Professor of Russian History, University of Texas, San Antonio (1980-86), and Visiting Assistant Professor of Russian history, University of California, Riverside (1979-80). Dr. Blank's M.A. and Ph.D. are in Russian History from the University of Chicago. His B.A is in History from the University of Pennsylvania.

Justin Dargin is a research fellow at the Dubai Initiative-Harvard University, where he researches energy policy in the Gulf region. He specializes in carbon trading, oil and gas production in the Gulf, and the legal framework surrounding the Gulf energy sector. He is a co-founder and director of the non-profit, Interintel, which seeks to address the concerns of global energy poverty and sustainable development by providing developing communities access to inexpensive energy supplies. During his graduate legal studies, Justin interned in the legal department at the Organization of Petroleum Exporting Countries, where he advised senior staff on the implications of European Union and American law in multilateral relations. Justin was also a research fellow at the Oxford Institute for Energy Studies, where he studied Middle East gas issues He is currently working on his next book dealing with energy sector. Justin is trilingual, fluent in Spanish, English and Arabic, and has been active in a multitude of energy issues involving Latin America and the Middle East.

Michael Fredholm, a researcher at the Department of South and Central Asian Studies at Stockholm University, Sweden, has written extensively on the history, defense and security policies, and energy sector developments of Eurasia. He also heads the business research company, Team Ippeki. His recent works include *Islamic Extremism as a Political Force: A Comparative Study of Central Asian Extremist Movements* (2006), *Gazprom in Crisis: Putin's Quest for State Planning and Russia's Growing Natural Gas Deficit* (2006), *Islam and Modernity in Contemporary Central Asia: Religious Faith versus Way of Life* (2007), *Natural-Gas Trade between Russia, Turkmenistan, and Ukraine: Agreements and Disputes* (2008) and *The World of Central Asian Oil and Gas: Power Politics, Market Forces, and Stealth Pipelines* (2008).

Prajakti Kalra is a Research Fellow with the Cambridge Central Asia Forum. She has recently published an article on the role of the Shanghai Cooperation Organization as a driver of social and economic change in Central Asia and the surrounding region. She completed her B.A. in Russian and Soviet history from Indiana University Bloomington and her M.A. in international relations from University of Chicago. Her M.A. thesis focused on Uzbek and Tajik border issues. Following this, she did a stint at the Center for the Study of Developing Societies, New Delhi, India. Her research interests include the history of Central Asia, Afghanistan, the Middle East, medieval history, and International Relations.

Timur Nurgalimovich Kasabayev works as a researcher at the Institute of Oriental Studies, Kazakhstan. In 2001 he graduated from Almaty State University named after Abay, Faculty of History. His speciality was Oriental studies and he was awarded the diploma with excellence. From April 2002-2008, he worked as a junior

researcher at the Near and Middle East Department, Institute of Oriental Studies named after Suleimenov, R.B., under the Ministry of Education and Science of the Republic of Kazakhstan. In 2007, he graduated from the correspondence department of postgraduate studies, Institute of Oriental Studies. He has been co-organizer of seven international conferences. Under the Institute of Oriental Studies, he worked in several research projects including "Kazakhstan and Central Asia in the System of the Orient inter-relations: Foreign Policy, Security, Communications" (2003-2006); "Kazakhstan and the Orient: Problems of National, Regional and International Security"(2006-2008); "Migration Phenomenon in Polyethnic Societies: in the Context of National Idea Formation of the Republic of Kazakhstan" (2007-2009). On October, 31, 2008 he defended his thesis on the topic "History and Modern Development of Oil and Gas Sphere in Kingdom of Saudi Arabia."

Joseph A. Kéchichian is the Editor of the *Journal of the Society for Armenian Studies in* Los Angeles, USA. He is the CEO of Kéchichian & Associates, LLC, a consulting partnership that provides analysis on the Arabian Gulf region, specializing in the domestic and regional concerns of Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and the Yemen, as well as the Honorary Consul of the Sultanate of Oman in Los Angeles, California. He received a doctorate in Foreign Affairs from the University of Virginia in 1985, where he also taught (1986-1988), and assumed the assistant deanship in international studies (1988-1989). In the summer of 1989, Dr. Kéchichian was a Hoover Fellow at Stanford University (under the US State Department Title VIII Program). Between 1990 and 1996, he was an Associate Political Scientist at the Santa Monica-based RAND Corporation, and a lecturer at the University of California in Los Angeles. Between 1998 and 2001, he was a fellow at UCLA's Gustav E. von Grunebaum Center for Near Eastern Studies, where he held a Smith Richardson Foundation grant (1998-99) to compose *Succession in Saudi Arabia*, [New York: Palgrave (2001) and Beirut and London: Dar Al Saqi, 2002, 2003 [2nd ed.] (for the Arabic translation)]. Dr. Kéchichian published *Political Participation and Stability in the Sultanate of Oman*, (Dubai: Gulf Research Center, 2005); *Oman and the World: The Emergence of an Independent Foreign Policy* (Santa Monica: RAND, 1995), and edited *A Century in Thirty Years: Shaykh Zayed and the United Arab Emirates* (Washington, D.C.: The Middle East Policy Council, 2000), as well as *Iran, Iraq, and the Arab Gulf States*, New York: Palgrave (2001). In 2003, he co-authored (with R. Hrair Dekmejian) *The Just Prince: A Manual of Leadership* (London: Saqi Books), that includes a full translation of the *Sulwan al-Muta`* by Muhammad Ibn Zafar al-Siqilli. He has just published *Power and Succession in Arab Monarchies* [on a Smith Richardson

Foundation grant], (Boulder, CO: Lynne Rienner Publishers, 2008), and completed *Faysal: Saudi Arabia's King for All Seasons*, forthcoming in August 2008 from the University Press of Florida. Dr. Kéchichian is a frequent participant on radio and television programs. He appeared on *The MacNeil/Lehrer NewsHour* during and since the War for Kuwait to comment on developments in the Gulf crises. He participates on a regular basis in various BBC programs. He received a RAND President's Award for Research Excellence in January 1995. A frequent traveler to the Gulf region, Dr. Kéchichian is fluent in Arabic, Armenian, English, French, Italian, Turkish, and is learning Persian.

Eugene Khartukov is a leading international expert on Russian and ex-Soviet oil and gas issues. During 1970-82, he worked in various research centers, departments and enterprises of the USSR ministries of geology, of oil and gas industry, of foreign trade and of foreign affairs. Since 1980, he teaches world oil and energy markets research at the Moscow State University for International Relations (MGIMO), USSR/RF Ministry of Foreign Affairs. Since 1984, he has headed the Moscow-based World EnergyAnalysis & Forecasting Group (GAPMER). He also advises various Soviet/Russian ministries, international agencies, foreign governments, private oil and gas companies, consulting firms and financial institutions on oil and gas economics and policies and energy pricing, a role he has also performed for the Gorbachev, Yeltsin and Putin administrations. He has been a member of the Council of Energy Advisors (USA) and Gerson Lehrman Group (UK) of energy consultants. In 1994-95, he was Head of Russia Energy Project, East-West Center, Hawaii, USA. Since 1995, he has been Vice President (for Eurasia) of Petro-Logistics Ltd, Switzerland and since 1996, the General Director of (International) Center for Petroleum Business Studies (ICPBS/CPBS), Moscow, and Professor of Marketing, Management & Commerce at MGIMO. Since 2003, he has been Director (for International Affairs) of PetroMarket Research Group, Moscow. He obtained all his scientific titles (Ph.D., Doctor of Sciences and Professor) at the MGIMO respectively in 1980, 1993 and 1994. Prof. Khartukov has authored (and co-authored) over 280 articles, brochures and books on petroleum and energy economics, politics, management, and oil and gas in the FSU, Russia's Far East, the Caspians, Europe, the OPEC, ME and Africa. He participated as a speaker and/or a session chairman in more than 170 international energy, oil and gas and economic fora. He speaks Russian, English and Arabic.

Andrej Kreutz was born in Poland and educated in International Law and European History at the Jagiellonian University in Cracow, Poland, and in International Relations and Comparative Politics at the University of Toronto. He

is the author of *Vatican Policy on the Palestinian-Israeli Conflict: The Struggle for the Holy Land* (Greenwood: Praeger Press, 1990), and contributor to *Papal Diplomacy in the Modern Age*, edited by P.C. Kent and J.F. Pollard (Praeger, 1995) and also *The International Relations of the Middle East in the 21st Century: Patterns of Continuity and Change*, edited by T.Y. Ismael (Ashgate, 2000). His most recent work is *Russia in the Middle East: Friend or Foe?* (Praeger, 2006). His main fields of interest involve the politics and history of the Middle East, post-Soviet Russian foreign policy, and the Post-Cold War international system. He teaches political science and international relations at the University of Calgary and at Mount Royal College in Calgary, Alberta, Canada.

Vladimir Kukushkin is senior lecturer at the Institute for African Studies, Russian Academy of Sciences, Moscow, Russia. Since 1986, he has also been a Senior Research Scientist of the Center for North and North-East African Studies and the Institute for African Studies of the Russian Academy of Sciences. He holds a Ph.D. in economics from the Institute for African Studies, USSR Academy of Sciences and an M.A. in International Economic Relations from Moscow State Institute (now University) of International Relations. His main areas of research include economics and geopolitics of modern rents in the field of natural resource utilization; regional peculiarities of rental relations concerning oil and gas industries; contemporary issues of economic development and reforms (comparative analyses of the Middle East, Africa, ex-USSR). He has over 60 publications to his credit, some of the more recent of which include the books: *Privatization – A Comparative Analysis: Russia, Central Asia, and the Arab States* (with A.Vassiliev, and A.Tkachenko; Vostochnaya Literatura Publ., Moscow, 2002,); *Oil and Development: Libya, Algeria* (Nauka Publ., Russian Academy of Sciences, Moscow, 1985); *"The Third International Theory" of Muammar al-Qaddafi and the Libyan Experiences of Political, Social and Economic Development* (Institute of African Studies, Moscow, 1981, with V.Vavilov). Articles and chapters authored by him include: "Algeria, Russia, and the Gas Exporting Countries Forum" (in *Af-Ro* Russian-African Business Magazine, Moscow, 2007, no.2 (21); "The National Oil Corporation of Libya" (in: *Af-Ro*, 2006, no. 6 (19), 30-44); "The Fossil Fuels Industries: A Threat to Security or Means of Economic Modernization? (Algerian Experience)" in *The Economic Security of African States* (Russian Academy of Sciences, Institute for Arab and African Studies Publ., Moscow, 2006); "The Continent at the Threshold of Oil and Gas Boom (Russian-African Co-operation)" in "*The World Energy*" (Business Magazine), Moscow, 2006, no.11 (35), 74-77 (co-author);"Structural Reforms of Sonatrach" in *Af-Ro*, 2006, no. 4 (17), 48-51 (co-author); "Libya (The Great

Socialist People's Libyan Arab Jamahiriya)" in *Encyclopedia of the Countries of the World* (Moscow, Economica Publ., 2004, 766-771).

Xin Ma is a petroleum economist and doctoral candidate at Center for Energy, Petroleum and Mineral Law and Policy (CEPMLP), University of Dundee. She obtained a Bachelor of Management Information Systems from the Beijing University of Science and Technology, and a Masters degree in Management Science and Engineering from the University of Petroleum, China. Ma worked for four years in the Finance Department of PetroChina Company Ltd (China) as a Cash and Capital Management officer and team leader in charge of the cash planning team. The focus of her current research is national oil company reform, China energy policy especially the petroleum policy, commercial and risk analysis of Chinese national oil companies, China's energy geopolitics and Chinese national oil companies' overseas activities. She has published and presented widely on these issues.

Aleksei Malashenko is a Scholar-in-Residence at the Carnegie Moscow Center, and is the "Religion, Society and Security" program co-chair. He was educated at the Institute of Asian and African Countries, Moscow State University, obtaining a Postdoctoral Degree in Political Science in 1995, a Ph.D. in History in 1978 and a Diploma in History in 1974. He is currently also a Professor at the Higher School of Economics, Moscow, and was a Professor at the Moscow State Institute of International Relations, Ministry of Foreign Affairs of the Russian Federation (MGIMO) from 2000-2006. Among his other professional appointments, he was a Senior Associate, Institute of Oriental Studies RAN (Russian Academy of Sciences) in 1999-2001; Head of the Islamic Department, Institute of Oriental Studies RAN, 1986-1999; Visiting Professor, Colgate University (USA), 1990; Editor, journal *Problems of Peace and Socialism,* 1982-1986; Scholar-in-Residence, Institute of Oriental Studies, 1976-1982; Advisor, RAN expedition (Libya), 1979-1980. He conducted his military service in Algeria in 1974-76 and engaged in language practice in Egypt and Turkmenistan in 1972. His more recent publications include: "Russia and the Muslim World" (Working Papers, Carnegie Moscow Center, Moscow, #3, 2008); *Religion and Conflict* (The collective volume, ROSSPEN, Moscow, 2007); "The Clash is for Real" (Brief Paper, Volume 9, Issue 4, November 2007, Carnegie Moscow Center, Moscow, 2007); "The Two Faces of Chechnya" (Brief Paper, Volume 9, Issue 3, July 2007, Carnegie Moscow Center, 2007); "Russia and Islam," (Monograph, ROSSPEN, Moscow, 2007)**;** The Islamic Alternative and The Islamist Project (Monograph, Ves Mir, Moscow)**; "**How Chechnya Voted" (Monograph, Carnegie Moscow Center, 2006).

Gulnara Malbagarovna Mendikulova is head of the Department of Complex Problems of International Affairs at the Institute of Oriental Studies, Ministry of Education and Science, Republic of Kazakhstan (IOS MES RK); Director of the Research Center on Diaspora Studies at the World Association of the Kazakhs; and the Deputy Editor of international journal *SHYGYS* (Orient). Her main research areas are the historical and current problems of ethnic politics, the Kazakh Diaspora and Irredenta in the World, migration in Eurasia and others. She has had various fellowships and grants from state and international organizations, including the Fulbright Foundation (1999, 2005), the State Fellowship for Outstanding (Prominent) Research Achievements, Ministry of Education and Science RK (2004-2006); the Konrad Adenauer Foundation (2004) and Soros Foundation (2003); National Academy of Sciences RK for Fundamental Research (2003-2005); Imam Bukhari Scholarship at the Oxford Centre for Islamic Studies (1997); Soros Foundation and Stephan Batory (1996)**;** Post-Doctoral Scholarship of IHE MS-AS RK (1995-1997); Ministry of Science-Academy of Sciences RK Honor Scholarship (1995); ACTR/ACCELS fellowship (1994) and others. She has published more than 170 research works, including four monographs "The Kazakhs in Uzbekistan: Historical and Contemporary Development" (2009), "History of Migration between Kazakhstan and China, 1860-1960s" (2008), "The Kazakh Diaspora: History and Modernity" (2006), and "The Historical Fate of the Kazakh Diaspora. Background and Development" (1997), as well as numerous articles and chapters in monographs published in Kazakhstan, Canada, the UK, Korea, Turkey, Austria, Uzbekistan, Tajikistan, Russia and elsewhere. She is a member of organizations such as The World Association of the Kazakhs; Fulbright Association of the Republic of Kazakhstan; Central Eurasian Society (Harvard, USA) and others. She has given lectures in research centers and universities of Kazakhstan, USA, Canada, Norway, Turkey, Uzbekistan, Tajikistan, China, the UK, Poland and others.

Mehmet Öğütçü is currently working for a major multinational energy corporation, based in London, and is responsible for its international government and corporate affairs. Prior to this, he was the head of OECD's Global Forum on International Investment and Regional Programs (1994-September 2005). Öğütçü served as a career diplomat in Ankara, Beijing, Brussels and Paris on economic, energy and commercial diplomacy matters. In 1980-1984, he worked in the office of Prime Minister to handle foreign media matters and in the Is Bank, Turkey's largest private bank, as deputy inspector. A graduate of " Mulkiye" (BSc), London School of Economics (MSc) and College d'Europe (MA), Bruges,

Öğütçü is an occasional lecturer at University of Dundee, LSE Enterprise Executive Programme, and London School of African and Oriental Studies on Turkey, China, India, Eurasia/Russia, and Middle East with a focus on energy geopolitics, investment strategies, economic and trade diplomacy. He was trained in public relations techniques and media at the British Central Office of Information. He was also a NATO Research Fellow (1986), who led a project on defense industry problems of NATO's Southern Flank members.

An international advisory board member of the Windsor Energy Group and European Policy Forum, as well as active member of the 21st Century Trust, the World Future Society, the EU-China Network, the Royal Institute of International Affairs (Chatham House), and the International Association of Energy Economics. He is also the deputy chairman of the Forum Istanbul "Turkey 2023 Vision." Some of his books include: *The New Economic Superpower China and Turkey* (1994), *Towards a New Economic Diplomacy Strategy for Turkey* (1998), *Does Our Future Lay with Asia?* (2000), *China's Quest for Energy Security Worldwide* (2000, International Energy Agency), *Mobilising Investment for Development* (2003, OECD), *A 2023 Turkey Dream* (March 2006, Creative Publishing). His new book *Chin-dstan* will be published soon.

Ingmar Oldberg is the Deputy Director of Research at the Swedish Defence Research Agency (FOI), specializing in Russian foreign and security policy. His recent publications in English include: *Kaliningrad: Russian Exclave, European Enclave* (2001), *Membership or Partnership? The Relations of Russia and its Neighbours with NATO and the EU in the Enlargement Context* (2004), *The Shanghai Cooperation Organisation: Powerhouse or Paper Tiger?* (2007). He has also contributed chapters, for example, to: *Russia as a Great Power* ed. Hedenskog et al., (Routledge, 2005) and *Russia: Re-emerging Great Power* ed. Roger E. Kanet, (Palgrave Macmillan, 2007). He was a guest researcher at University of California, Berkeley (1980-1981) and at Stiftung Wissenschaft und Politik, Berlin (2001-2002). Currently, he is the editor of the Swedish network journal *Ostbulletinen*.

Andrew Rozanov is Managing Director and Head of Sovereign Advisory at State Street Global Markets, the investment research and trading arm of State Street Corporation. For the last five years, he has been advising and servicing central banks and sovereign wealth funds on various aspects of reserve management. In the past, Andrew worked in State Street's Japan office as a fund manager and product engineer, focusing on global fixed income, currency and asset allocation. Andrew also worked as a Director in the Equity Capital Markets Group at UBS Investment Bank in Tokyo, originating and executing equity block trades and convertible bond

transactions for Japanese corporate clients. Andrew has a Master's Degree in Asian Studies (with concentration in Japan) from Moscow University. He has lived, studied and worked in Japan for a total of 20 years, and is fluent in English, Russian and Japanese. He is a CFA Charterholder and also holds designations of Financial Risk Manager (FRM) from the Global Association of Risk Professionals and Chartered Alternative Investment Analyst (CAIA) from the CAIA Association. In 2005, Andrew introduced the term 'sovereign wealth funds' in one of his articles. His work has been published in the *Wall Street Journal, Central Banking Quarterly Journal, The World Today, Professional Investor,* and *Vedomosti* financial daily. His research has been quoted or referenced in *Euromoney, The Economist, Financial News, Finance Asia, Les Echos, Smart Money* and *RGE Monitor*.

Siddharth Saxena is Chairperson of the Cambridge Central Asia Forum and Honorary Secretary of the Committee for Central and Inner Asia. He trained as an anthropologist, historian and a physicist. His research interests are in the areas of religion and identity, knowledge systems and institutional history of Central Asia and the Middle East. He completed his Ph.D. from Trinity College, Cambridge and is a Fellow of Jesus College, at the University of Cambridge. He has conducted field-based research in Central Asia since 1996. He also works on China and Afghanistan. In the past he has also spent extended periods in Iran and Egypt for field work. His current key projects include a study of notions of eastern cosmopolitanism in Bukhara and development of the concept of 'projected commonality.' He also directs the Cambridge project on documenting inter-linkages between environment, culture and education through mapping of local knowledge systems in Ferghana Valley. This historical and anthropological research is done in conjunction with various policy related projects like the understanding of social development in the Shanghai Cooperation Organization realm, dialogue between the Muslim world and the West, and Environmental Security of the Central Asian Region

Tornike Sharashenidze is the head and founder of the M.A. Program of International Relations at the Georgian Institute of Public Affairs. He graduated with honors from the Georgian Institute of Public Affairs in 2002 with Master's Degree in Public Administration and now is a Ph.D. fellow in International Relations at the same institute. Prof. Sharashenidze worked as international politics/economy analyst for leading Georgian newspapers. He also worked as a Senior Analyst at Georgia's National Security Council (2003-04), Foreign Policy Assistant to the Prime Minister of Georgia (2005) and Director of the National Information Center on NATO (2006). He is a professor of World Politics and History of Diplomacy at

the Georgian Institute of Public Affairs and writes a column for one of the leading Georgian newspapers, *24 Saati* (24 Hours).

Dmitry Shlapentokh is Associate Professor of History at Indiana University South Bend. He was educated in Russia/the USSR, with an M.A. from Moscow State University (Moscow), and the USA, with an M.A. from Michigan State University, and a Ph.D. in Russian/European history from the University of Chicago. He is the author of almost 100 articles and several monographs. The most recent is *Societal Breakdown and the Rise of the Early Modern State in Europe: Memory of the Future* (Palgrave/Macmillan, 2008).

Ellen Starostina is a well-known expert on Russian oil and gas finances, economics, taxation and logistics. During 1978-2000, she worked as economist and director for finances and/or economics in various oil trading companies in Russia. Since 2000, she is a consultant to oil companies, law firms and banks; a member of the Council of Energy Advisors (USA) and Gerson Lehrman Group (UK) of energy consultants. Since 2001, she is Director for Finances of the Center for Petroleum Business Studies (CPBS), heads PetroFinance Consultancy (PF) affiliated with CPBS, and, since 2004, is General Director of Moscow-based PetroStar Agency set up by the CPBS and Energy Resources Group (USA). She obtained her Ph.D. degree in economics at the Plekhanov Institute/Academy of National Economy in 1983. Dr. Starostina has authored and co-authored more than 40 articles and brochures on petroleum finances, taxation, economics, management, trading and logistics in the FSU, and the Russian Far East's and the Caspian's hydrocarbon developments. She has participated as a speaker in over 40 international oil and gas conferences and speaks Russian and English.

Marat M. Terterov is an Australian national, originally from Odessa, Ukraine. Terterov holds a PhD (D.Phil.) in the political-economy of the Middle East from St. Antony's College, Oxford University, and has written widely on a diversity of security, politics and investment topics relating to Russia, the ex-USSR and the Arab world. Initially specializing in Middle Eastern public sector reform, he has advised Egyptian, British and US government agencies in parallel to his Ph.D. research. Thereafter, he managed investment promotion communications projects for government agencies in Russia and the Gulf States, before becoming a close follower of the security environment in Eurasia. Terterov is one of the rare specialists who works with the Middle East as well as Russia and the ex-Soviet Republics and has over 10 years of strong exposure to governments and business in these regions. He is a frequent speaker and organizer of international seminars on global security issues and advises a number of clients on investment associated geopolitical risk,

predominantly in the Middle East and Eurasia. He speaks English, Russian and some Egyptian Arabic.

Dr. Suhnaz Yilmaz is an Assistant Professor of International Relations at Koc University, Istanbul. She has received her M.A. and Ph.D. in Near Eastern Studies at Princeton University specializing on International Affairs and the Middle East. She conducted her post-Doctoral Studies at Harvard University working on a project on the role of third party mediation in conflict resolution focusing particularly on the US role in Turkish-Greek relations. Her areas of interest and expertise include foreign policy analysis, Turkish foreign policy, Turkish-American Relations, Eurasian Politics, Mediterranean cooperation and security, European Union Foreign and Security Policy, and international development. She has publications in journals such as *Middle Eastern Studies*, *Insight Turkey*, *World Today, Middle East Journal* and *Political Science Quarterly*. She also has a forthcoming book on Turkish-American Relations, entitled *Turkish-American Relations (1800-1952): Between the Stars, Stripes, and Crescent* from Routledge Press International Studies Series. In 2007, Suhnaz Yilmaz received the Sakip Sabanci International Research Award, granted by Sabanci University and the Brookings Institution, and in 2008 she received the prestigious Distinguished Young Scientist Award (GEBIP) of the Turkish Academy of Sciences.

GRC Publications

Books Published by GRC

Unfulfilled Potential: Exploring the GCC-EU Relationship	Edited by Christian Koch	ISBN 9948 424 30 1
Discovering the Arabian Gulf: Canada's Evolving Ties with the GCC States	Robert J. Bookmiller	ISBN 9948 432 18 5
A Window of Opportunity Europe, Gulf Security and the Aftermath of the Iraq War	Christian Koch & Felix Neugart	ISBN 9948 424 73 5
Gulf Yearbook 2003	Gulf Research Center	ISBN 9948 400 26 7
Gulf Yearbook 2004	Gulf Research Center	ISBN 9948 400 93 3
Gulf Yearbook 2005 - 2006	Gulf Research Center	ISBN 9948 432 22 3
Constitutional Reform and Political Participation	Gulf Research Center	ISBN 9948 432 53 3
Dynamic Alliances: Strengthening ties between the GCC and Asia	Gulf Research Center	ISBN 9948 432 81 9
Green Gulf Report	Gulf Research Center	ISBN 9948 432 69 X
Gulf States: Counterterrorism - Laws and Treaties	Mustafa Alani	ISBN 9948 432 61 4
E-Learning in Social Sciences and Humanities	Group of Authors	ISBN 9948 432 65 7

Defense and Regional Security in the Arabian Peninsula and Gulf States, 1973-2004 (An Annotated Bibliography)	J. E. Peterson	ISBN 9948 432 02 9
Youth and Environment Research	Group of Authors	ISBN 9948 432 67 3
Narcotics and Human Trafficking in the GCC States	Faryal Leghari	ISBN 9948 434 27 7
Gulf Geo-Economics	Edited by Eckart Woertz	ISBN 9948 434 52 8
Boom in the GCC Skies Assessing Aviation Growth Patterns	Samir Ranjan Pradhan	ISBN 9948 434 58 7
Gulf-Pakistan: Strategic Relations	Faryal Leghari	ISBN 9948 434 74 9
Gulf Yearbook 2006 - 2007	Gulf Research Center	ISBN 9948 434 29 3
Gulf Yearbook 2007 - 2008	Gulf Research Center	ISBN 9948 434 71 4
EU-GCC Relations and Security Issues Broadening the Horizon	Edited by Christian koch	ISBN 9948 434 83 8
Fostering EU-Italy-GCC Cooperation: The Political, Economic and Energy Dimensions	Christian Koch	ISBN 9948 434 85 4
Gulf Yearbook 2008 - 2009	Gulf Research Center	ISBN 9948 434 99 4

Research Papers

Peer-reviewed bilingual research papers and studies written by specialists in Gulf issues. The research papers are comprehensive in character and meant to open the door for more specialized Gulf studies.

GCC- EU Military and Economic Relations	Elizabeth Stevens	ISBN 9948 400 30 5
GCC- US Relations	Gregory Gause	ISBN 9948 400 36 4
GCC-EU Relations: Past Record and Promises for the Future	Giacomo Luciani & Tobias Schumacher	ISBN 9948 400 37 2
Political Reform in the Gulf Cooperation Council States	Hasanain Tawfeeq Ibrahi	ISBN 9948 424 95 6
Israel's New Friendship Arch: India, Russia and Turkey	P. R. Kumaraswamy	ISBN 9948 424 46 8

Gulf Cooperation Council Relations with the Commonwealth of Independent States (CIS)	Marat Terterov	ISBN 9948 432 04 5
Political Participation and Stability in the Sultanate of Oman	Joseph A. Kéchichian	ISBN 9948 424 97 2
Gulf Cooperation Council and the European Union Military and Economic Relations	Elizabeth Stephens	ISBN 9948 400 30 5
Gulf Cooperation Council Relations with Russia	Elena Suren Melkumyan	ISBN 9948 424 63 8
Realignments within the Gulf Cooperation Council	Bogdan Szajkowski	ISBN 9948 424 77 8
Political Reform Measures from a Domestic GCC Perspective	Abdulaziz Sager	ISBN 9948 424 55 7
Gulf Cooperation Council Relations with Australia	Patricia Berwick	ISBN 9948 400 55 0
Environmental Situational Assessment for the GCC Countries	Frederic Launay	ISBN 9948 432 16 9
Education Policies in the GCC States	Salem Al-Khaldi	ISBN 9948 432 91 6
EU-GCC Relations and Security Issues: Broadening the Horizon	Christian koch	ISBN 9948 434 83 8
Piracy: Motivation and Tactics The Case of Somali Piracy	Nicole Stracke Marie Bos	ISBN 9948 434 79 X

Policy papers

Analytical policy papers offering in-depth and well-researched exploration of public policies in the GCC countries. <Policy Analysis> papers set forth perceptions likely to contribute to a deeper understanding of these issues.

Reforms in Saudi Arabia	Abdulaziz Sager	ISBN 9948 400 24 0
Arab Peace Forces	Abdulaziz Sager	ISBN 9948 424 19 0
Political Kidnapping an Operational Methodology	Mustafa Alani	ISBN 9948 424 03 4
Saddam's Fate and Blunders of Intelligence Speculations	Mustafa Alani	ISBN 9948 424 02 6

Gulf Cooperation Council States Probable Attitude towards a Military Action against Iran's Nuclear Facilities	Mustafa Alani	ISBN 9948 400 99 2
Establishing a Successful GCC Currency Union	Emilie Rutledge	ISBN 9948 424 22 0
A Gulf WMD Free Zone within a Broader Gulf and Middle East Security Architecture	Peter Jones	ISBN 9948 424 40 9
The Regional Roles of NATO and its Potential Role in the Gulf Region	Musa Hamad Qallab	ISBN 9948 424 87 5
A Case for a GCC Political & Economic Strategy Toward Post-War Iraq	Abdulaziz Sager	ISBN 9948 400 61 5
The Phenomenon of Blowing up Iraqi Oil Pipelines: Conditions, Motivations and Future Implications	Amar Ali Hassan	ISBN 9948 424 52 2
Combating Violence & Terrorism in The Kingdom of Saudi Arabia	Abdulaziz Sager	ISBN 9948 400 01 1

Yemen Studies

A peer-reviewed bilingual series that includes academic studies and research on Yemeni political, economic, social, defense and security affairs.

The Yemeni Parliamentary Elections	Ahmed Abdul Kareem Saif	ISBN 9948 400 77 1

Gulf Papers

Present the findings of a series of workshops conducted by the Gulf Research Center within the framework of the <Gulf Studies Program> individually or in cooperation with leading peer research centers. Bringing together area specialists, each series of workshops tackles a specific issue with the aim of reaching a common understanding on a specific issue in the region and presenting a set of recommendations.

Dubai Emirate and Australian Relationships	Patricia Berwick	ISBN 9948 400 85 2

Obstacles facing the Industrial Establishments in Sohar Industrial Estate, Oman	Adil Hassan Bakheet	ISBN 9948 400 85 2
The Role of Gold in the unified GCC currency	Eckart Woertz	ISBN 9948 424 28 X
A Euro-Denominated Oil Bourse in Iran: Potential Major Force in the International System?	Robert E. Looney	ISBN 9948 432 83 5
Indian Labor Migration to the Gulf Countries	Prakash C. Jain	ISBN 9948 432 85 1
GCC Stock Markets at Risk	Eckart Woertz	ISBN 9948 432 55 X
EU-GCC Relations: Dynamics, Patterns & Perspectives	Gerd Nonneman	ISBN 9948 434 12 9
Internet, Telecom Sector: Liberalization and Civil Liberties in the Gulf Region	Rachele Gianfranchi Rym Keramane	ISBN 9948 432 95 9
Europe's Role in the Gulf: A Transatlantic Perspective	Roberto Aliboni	ISBN 9948 434 00 5
The Arab Gulf States: Further Steps towards Political Participation	J. E. Peterson	ISBN 9948 434 18 8
EU-Gulf Political and Economic Relations: Assessment and Policy Recommendations	Abdullah Baabood	ISBN 9948 434 23 4
GCC Stock markets: Managing the Crisis	Eckart Woertz	ISBN 9948 434 33 1
Economic Instruments as an Environmental Policy Tool: The Case of GCC Countries	Mohamed A Raouf A Hamid	ISBN 9948 434 61 7

Gulf Theses

The Center has catalogued a growing collection of MA and PhD theses beginning as early as the mid-1970s to the present day. The GRC is also committed to publishing and translating exceptional theses relevant to the Gulf.

Sea Change: Alan Villiers and the Subversion of the Arabian Travel Narrative	Grace Pundyk	ISBN 9948 424 97 2

Institutional Change in Saudi Arabia	Nicole Stracke	ISBN 9948 424 67 0
Iran and the GCC states: Prospects for Long Term Regional Security in the Gulf	Nicholas Stivang	ISBN 9948 434 04 8
EU-GCC Relations: A Study in Inter-Regional Cooperation	Abdullah Baabood	ISBN 9948 424 69 7

Gulf Research Center
Knowledge for All

Publication Order Form

Title	ISBN	Qty
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

Send To

Name : .....

Organization : .....

Department : .....

Address / P. O. Box : .....

City - Country : .....

Tel : .....

Mail or Fax to:

Gulf Research Center, ١٨٧ Oud Metha, ١١th Floor, P. O. Box: 80758 - Dubai - UAE

Tel : +971 4 324 7770

Fax: +971 4 324 7771

E-mail: nada@grc.ae

website: www.grc.ae

Payment Method:

1- Money Transfer:

Account Name : Gulf Research Center.

Address : P.O.Box : 80758, Dubai, UAE

Account Number : 0022001-474755- (AED)
0022010-474755- (USD)

Bank Name: Emirates Bank International .

Address : Main Branch, Dubai UAE.

Swift Code : EBILAEAD

2- Credit Card :

Credit Card Type:

☐ Master Card ☐ Visa

Credit Card Number : .....

Date Of Expiry : .....

Phone Number : .....

Signature : .....

Amount To Be Charged : .....

www.grc.ae

Russian and CIS Relations with the Gulf Region

Current Trends in Political and Economic Dynamics

The relations between Russia and the Gulf States on the one hand and the CIS and Gulf region on the other form the overarching theme of this book.

The Soviet Union exercised an energetic foreign policy towards the Arabian Gulf and the broader Middle East during the late-Cold War period. Following the disintegration of the Soviet state, Moscow's influence in the region rapidly declined although the Gulf retained a high level of strategic significance for the Kremlin's foreign policy makers. In recent years, a number of pivotal factors, including international terrorism and Islamic militancy, Russia's vast expansion in the export of its primary energy commodities to global markets, the international arms trade and nuclear non-proliferation, are all compelling Moscow to commit greater foreign policy resources into engagement with the Gulf region.

In this volume, scholars from different disciplines provide their perspectives on contemporary relations and diplomatic engagements between Russia, the CIS and the Gulf region. They examine the political, economic, security and cultural aspects of the relationships to provide a comprehensive overview of the burgeoning ties between the countries of these regions.

Gulf Research Center
187 Oud Metha Tower, 11th Floor
303 Sheikh Rashid Road
P.O.Box : 80758, Dubai, UAE.
Tel. No : +971 4 324 7770
Fax. No : +971 4 324 7771
Email: info@grc.ae

ISBN 9948-434-41-2
9 789948 434412