



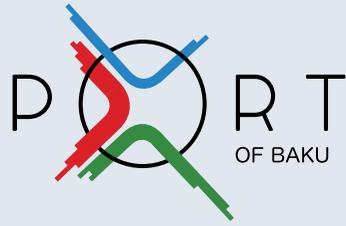
**U.S. REENGAGEMENT**

# **WITH THE CASPIAN REGION**

**March 2021**

**CASPIAN AFFAIRS  
MAGAZINE**  
*CORRIDORS, CONNECTIVITY, COOPERATION*





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140 Uzeyir Hajibeyov Str.  
Baku, Azerbaijan, AZ1010  
Tel: (+994 12) 599 00 03  
Fax: (+994 12) 599 00 04  
office@portofbaku.com

[www.portofbaku.com](http://www.portofbaku.com)



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*The views and opinions expressed in this magazine are those of the authors and do not necessarily reflect the official policy or position of the Caspian Policy Center and its members. Assumptions made in the analysis are not reflective of the position of any entity other than the author(s).*



# Editorial

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Dear Readers,

**Welcome to Caspian Affairs**, an international publication of the Caspian Policy Center in Washington, DC.

Needless to say, momentous events have recently occurred, not only in the Caspian region but throughout the entire world.

Although vaccines are becoming available, COVID-19 continues to rage around the globe, claiming many lives and deeply impacting national economies. The recent war between Armenia and Azerbaijan for Nagorno-Karabakh focused international attention on the region and reminded the world of the danger of the prolonged conflicts on the territory of the former Soviet Union. In the United States, the events following the November 2020 presidential election have been without precedent, including a mass attack on the U.S. Capitol building on January 6. And yet, our fragile democracy has withstood the test, and Joseph Biden is now the 46th president of the United States.

We begin this edition of Caspian Affairs with six policy recommendations for the new Biden administration for the Caspian Region. We urge greater U.S. attention to this strategic crossroad between Asia and Europe because the issues in the region are so vital for peace and prosperity far beyond the region itself. Two issues are of special importance. Energy – the traditional hydrocarbons so abundant in the Caspian region as well as the emerging alternates of solar and wind power – enriches the region but engenders international competition. Extremists and terrorists persist in the region, especially as the decades-long competition for power in Afghanistan remains unsettled, with external players continuing to meddle in Afghan affairs. Because of the economic and political importance of the region, the countries there continue to protect their sovereignty and independence, even as they balance their relations with Russia, China, Europe, and the United States.

It's a complex region in a complicated world!

We hope that Caspian Affairs will give you deeper insight into this strategic part of the world. As always, we welcome your questions and comments. Please contact us at [info@caspianpolicy.org](mailto:info@caspianpolicy.org).

**Ambassador (ret.) Richard E. Hoagland**

Editor-in-Chief

Caspian Affairs Magazine



## March 2021 - ISSUE 5

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**EFGAN NIFTI**, Chief Executive Officer  
**AMBASSADOR (RET.) RICHARD E. HOAGLAND**, Editor-in-Chief  
**AKBOTA KARIBAYEVA**, Managing Editor  
**JEREMY COHEN**, Editorial Assistant  
**DANTE SCHULZ**, Research Assistant  
**AIZHAN ABILGAZINA**, Research Assistant  
**NICOLE WOLKOV**, Research Assistant  
**ELIAS CURTIS**, TRANSFORMED DESIGNS, Cover Design  
Printed by Heritage Printing and Graphics

## Published by the Caspian Policy Center

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Caspian Policy Center (CPC) is an independent, nonprofit research think tank based in Washington D.C. Economic, political, energy and security issues of the Caspian region constitute the central research focus of the Center. The Caspian region, at the crossroads of the East and the West, is increasingly becoming a crucial area of global interest with its rich natural resources, geopolitical rivalry and economic development. Established in 2016, the Center aims at becoming a primary research and debate platform in the Caspian region with relevant publications, events, projects and media productions to nurture a comprehensive understanding of the intertwined affairs of the Caspian region. With an inclusive, scholarly and innovative approach, the Caspian Policy Center presents a platform where diverse voices from academia, business and policy world from both the region and the nation's capital interact to produce distinct ideas and insights to the outstanding issues of the region.

# Contributors

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## **Efgan Nifti** **Chief Executive Officer**

Efgan Nifti is the Chief Executive Officer and the Board Member of the Caspian Policy Center. He previously worked for Georgetown University as a research assistant and Azerbaijan Diplomatic Academy as a faculty development coordinator and lecturer. His areas of expertise include energy security, political economy, and international affairs of the Caucasus, Central Asia, and the Caspian. He regularly testifies and makes presentations on critical policy issues of the Caspian Region at various international conferences and international organizations, including NATO, the European Union, and the United Nations. His commentaries and articles also appeared in major news outlets, including Bloomberg, Foreign Affairs, CNN, NTV, MSNBC, and others. Dr. Nifti received his graduate degrees in international affairs and political science from Georgetown University and the George Washington University. He is fluent in English, Azerbaijani, Turkish, and Russian.

## **Ambassador (Ret.) Richard Hoagland** **Security and Politics Program Chair**

Ambassador Richard E. Hoagland was U.S. Principal Deputy Assistant Secretary of State for South and Central Asian Affairs, October 2013-August 2015. Before returning to Washington in September 2013, he spent a decade in South and Central Asia. He was U.S. Deputy Ambassador to Pakistan (2011- 2013), U.S. Ambassador to Kazakhstan (2008-2011), U.S. Ambassador to Tajikistan (2003-2006), and U.S. Chargé d'Affaires to Turkmenistan (2007-2008). Prior to his diplomatic assignments in Central Asia, Amb. Hoagland was Director of the Office of Caucasus and Central Asian Affairs in the Bureau of Europe and Eurasian Affairs, Department of State. In that position, he wrote and negotiated four of the key bilateral documents defining the Central Asian states' enhanced relationship with the United States in the aftermath of 9/11.

# Contributors

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## **Ambassador (Ret.) Robert F. Cekuta** **Energy and Economy Program Chair**

Ambassador to the Republic of Azerbaijan (2015–2018), Bob Cekuta has long and extensive experience as a top-level U.S. diplomat. Amb. Cekuta's positions in the State Department included Principal Deputy Assistant Secretary for Energy Resources as well as Deputy Assistant Secretary for Energy, Sanctions, and Commodities. His overseas postings included the U.S. Embassies in Berlin and Tokyo, where he oversaw the full range of economic, commercial, nonproliferation, and scientific relations. In addition, Amb. Cekuta was Deputy Chief of Mission in Albania and held positions in Vienna, Baghdad, Kabul, Johannesburg, and Sana'a, Yemen.

## **Ambassador (Ret.) Allan Mustard** **Senior Fellow**

Ambassador (Ret.) Allan Mustard, class of Career Minister, was sworn in as U.S. Ambassador to Turkmenistan on November 25, 2014. He previously served as Agricultural Minister-Counselor at the U.S. Embassy in India, Mexico, and Russia, and held various positions in the Foreign Agricultural Service, U.S. Department of Agriculture, including Assistant Deputy Administrator for Foreign Agricultural Affairs and Deputy Director for Emerging Democracies Office. A widely recognized authority on agricultural and food aid policy, he has broad experience in guiding economic reform assistance throughout Eastern Europe and the former Soviet Union.

## **Major General U.S. Army (Ret.) Michael S. Repass** **Senior Fellow**

Michael S. Repass is the Chief Executive Officer for Able Global Solutions LLC, which he founded in 2013 after retiring from the Army. He graduated from the U.S. Military Academy at West Point, NY, in 1980 and served as a Special Forces officer for over 30 years. He commanded the Combined Joint Special Operations Task Force-Arabian Peninsula during Operation IRAQI FREEDOM during two combat tours. General Repass later commanded the Army's Special Forces Command and twice served in Special Operations Command Europe in Stuttgart, Germany, first as the Deputy Commander then as the Commanding General. He retired from military service in 2013 and since then has worked with several international defense companies to assess and develop markets for advanced capabilities placement.

# Contributors

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## **Akbota Karibayeva**

### **Senior Programs Manager**

Akbota Karibayeva serves as the Senior Programs Manager at the Caspian Policy Center. Akbota has previously served as a graduate research assistant at the University of Chicago's Center on Democracy, where she supported a project on rhetorical strategies of populist politicians. During her undergraduate studies, she assisted on a research project that aimed at creating a comprehensive database of joint military exercises that Kazakhstan, Russia, and Belarus participated in to test Kazakhstan's multivector foreign policy in the domain of security. Her current portfolio covers political regimes, security cooperation, technological modernization, energy markets, and women empowerment in Eurasia. Akbota is currently pursuing a doctoral degree in Political Science at the George Washington University.

## **Jeremy Cohen**

### **Program Assistant**

Jeremy Cohen serves as the Programs Assistant at the Caspian Policy Center. He completed his B.S. at Georgetown University's School of Foreign Service with honors in International History and a minor in Russian. Jeremy wrote his honors thesis on travel narratives of Central Asia during the period of Russian colonial conquest. Academically, he has long been interested in the Caspian region's status as a political and economic crossroads throughout history. He has worked previously in Kazakhstan and Ukraine and organized non-profit educational programming in Kyrgyzstan. At the CPC, Jeremy provides support to the Energy and Economy Program.

## **Jacob Levitan**

### **Program Assistant**

Jacob Levitan is a 2018 graduate of Washington University in St. Louis with a major in International and Area Studies with a Eurasian Concentration and minor in Russian Language and Literature. Jacob Levitan's academic and professional focus has pertained to national security and Eurasia, especially with regards to Russia, and has written on this subject following field research conducted in Russia. Jacob Levitan is interested in the relationship between Russian ethnicity and collective memory and its relationship to Russian foreign policy. He has previously interned at the Eurasia Foundation, Kennan Institute, and American Foreign Policy Council, as well as has worked at Eurasian National University named after Lev Gumilyev in Kazakhstan.

# Contributors

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## **Nicole Wolkov**

### **Research Assistant**

Nicole Wolkov is currently a research assistant with CPC's Security and Politics Program. She is a senior at the George Washington University, double majoring in International Affairs with a focus in security policy and Russian Language and Literature. Nicole is interested in studying Russia's relationship with the Greater Caspian Region and its implications for security.

## **Aizhan Abilgazina**

### **Research Assistant**

Aizhan Abilgazina is currently a research assistant with CPC's Energy and Economy Program. She is a recent MA graduate of the Pennsylvania State University with a major in International Energy Studies. She worked as a research assistant on several projects related to energy transitions in Central Asia and security concerns associated with them. Over the summer of 2019, she also interned at the Wilson Center and assisted with research on joint military exercises and law harmonization in Central Asia.

## **Dante Schulz**

### **Research Assistant**

Dante Schulz is a research assistant with CPC's Energy and Economy Program. He is a junior at the George Washington University studying International Affairs and History with a focus in Asia. Academically, his focus is on the implications of the rise of China in Central Asia and the South Caucasus. Previously, Schulz interned at the International Center for Religion and Diplomacy designing and promoting interfaith peace programs in South and Southeast Asia and at the Carnegie Council for Ethics in International Affairs developing coursework for history teachers across the country.

# Six Recommendations for the Biden Administration's Caspian Policy

With President-elect Joe Biden's recent victory in the November 3 election, his transition team has begun to formulate policies and make cabinet decisions. The course that the new administration sets for its approach to the Caspian region will be of great importance to the countries in the region

and beyond in the four years to come. Those countries are Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. How Biden's administration handles the U.S. relationships with these countries will have a vital role in its continued economic and political

development of the region, as well as how it navigates the increasing competition among great powers, especially Russia and China. To that end, we at the Caspian Policy Center propose six recommendations for the Biden administration's policy towards the Caspian region.



## 1. Publicly Recognize the U.S. Role in the Region's Multi-Vector Foreign Policy

All eight of the countries in the region practice multi-vector foreign policy to one degree or another. They work to balance their relations among Russia, China, the European Union, and the United States. They don't usually play one off against another; rather, they work to ensure good relations with all four. They do so as a means to protect their sovereignty and independence.

In recent years, analysts and commentators have repeatedly said that the United States is withdrawing from the region, yet that is not true. Washington maintains multi-agency embassies in every country, and the many programs it has deployed over the years remain fully funded. The Biden administration needs to raise the U.S. profile in the region with regular high-level

visits and an enhanced public-diplomacy effort, especially in the face of Russia declaring the region its "special sphere of influence," and China deploying its highly publicized Belt and Road Initiative (BRI). A good start would be for President Biden to declare the region as essential for world peace and to summarize what the United States actually does in the region. The individual U.S. embassies should then follow up to publicize, repeatedly, the full breadth of the U.S. presence and programs in the region, not as a challenge to Russia and to China, but as a means of supporting the countries and putting the U.S. presence and priorities on the international map.

## 2. Work to Balance Great Powers

The Caspian region is geostrategically vital in this new era of great-power competition for two reasons: its vast natural resource wealth and its position astride

the crucial arteries of international trade. The United States should prevent any one power from gaining overwhelming influence in the Caspian and control over its natural resources and these trade routes. Russia's and China's pursuit of primacy in the Caspian region is connected to their broader challenge against global U.S. hegemony and the globally beneficial post-WWII framework organized by the United States and the victorious Allies. Recognizing their individual inability to dominate the region, Russia and China have created a general anti-American coalition. Unchallenged, this Sino-Russian collaboration could allow for their combined domination over the vital Caspian region.

To counter the Sino-Russian challenge, the United States should continue supporting the sovereignty and territorial integrity of the Caspian states. To do this, the Biden Administration

should continue to engage the Caspian countries in security partnerships and boost U.S. foreign direct investment into the region. Only by taking a more active and visible role as a regional balancer can the United States maintain Caspian independence from Russia and China.

### 3. Counter Chinese Influence Through Economic Investment

The Biden administration should commit to countering Chinese economic advances in Central Asia and the South Caucasus. Under the aegis of the Belt and Road Initiative (BRI), Chinese infrastructure projects are threatening to ensnare the less-developed countries in the region into debt traps that could erode their ability to exercise independent economic policy. In the case of the Kyrgyz Republic and Tajikistan have external debt equal to 63.3 percent and 44.7 percent of their GDP respective-

ly, with much of their debt owed to China's Export-Import Bank. Further, projects within the BRI often leave local communities behind and fail to meet sustainability standards.

To act against this threat, Biden should move forward with plans for the Blue Dot Network, first announced in 2019 by the United States, Australia, and Japan, to provide transparent alternative investment streams for infrastructure in the Caspian region. Infrastructure investment is a necessity for countries in the Caspian, and shortfalls in investment require that these countries seek funding from where it is available. Increasingly, this has been institutions like the Export-Import Bank of China. Should the United States and its allies mobilize the Blue Dot Network to its full potential, the project could help to diversify the Caspian's infrastructure financing and reduce the countries' reliance on China. In turn, the Unit-

ed States should work closely with the countries in the region to enhance their own rule of law and transparency so that they can attract new western investment.

The Biden administration can also use the Blue Dot Network to promote socially and environmentally sustainable projects to counter harmful Chinese ones. By supporting the development of renewable energy, the U.S. can position itself as an environmental leader in opposition to China's pollution-heavy development strategy.

At the same time, the Biden administration should encourage economic connectivity between Central Asia and the South Caucasus. Funding and promoting projects that provide energy, telecommunications, and transportation linkages across the Caspian Sea could prove an effective way of limiting the economic sway China and Russia hold in the region.

## 4. Increase Diplomatic Engagement on All Levels

Under the Biden administration, the United States should increase its diplomatic engagement in the Caspian region both in terms of its commitment to high-level meetings and its dedication of resources. While the existing C5+1 format for Central Asia has been an excellent tool for fostering dialogue at the ministerial level, Biden should move to hold C5+1 summits at the presidential level to demonstrate the U.S. commitment to Central Asia and should certainly include Afghanistan as a full member of this diplomatic structure. Biden's own direct participation would be a strong sign of the importance the region holds for the United States. In addition, the United States should work with willing partners like Azerbaijan and Georgia to better integrate the South Caucasus and Central Asia. While this should not replace the function of the

C5+1 format, the inclusion of countries on both sides of the Caspian in U.S.-led initiatives would be a positive development.

At the earliest possible opportunity, the Biden administration should make clear the long-held U.S. policy of supporting and protecting the independence, sovereignty, and territorial integrity of the countries in the region. Specifically, this should focus on the so-called "prolonged conflicts" in the region – Abkhazia and South Ossetia in Georgia and, now especially, the Nagorno-Karabakh conflict between Armenia and Azerbaijan. The United States has long been, along with Russia and France, a Co-Chair in the Organization for Security and Cooperation in Europe (OSCE) Minsk Group Process for Nagorno-Karabakh, but in recent years has kept that conflict on the back burner. Now that war has broken out, the United States should enhance its

role in the Minsk Group Process and not just call for a ceasefire in the current war but also work to resolve, once and for all, the fundamental issues in this complex catastrophe.

Still, not all diplomacy must, or should, happen at the highest levels. Biden's administration should invest heavily in public diplomacy through academic exchange programs like Fulbright and Future Leaders Exchange (FLEX), as well as other existing academic and professional exchange programs. While presidential-level meetings and even the unheralded work of day-to-day diplomacy are important, people-to-people programs yield profound, long-term results by cultivating meaningful relationships and new ways of thinking that endure for decades. Eventually, they can foster the kind of change the United States desires in these post-Soviet countries. Dramatically increasing funding for all

U.S. exchange programs should be a cornerstone of Biden's policy in the Caspian region.

## 5. Stay Alert to Security Threats Emanating from the Region

Terrorism remains a persistent threat to the United States and its interests. It is a particularly pressing issue in Central Asia. While the Taliban remains a major source of extremist instability in Afghanistan and the region, further instability has been introduced through the proclamation by ISIS of the Caliphate of Khorasan in a region that includes parts of Afghanistan, Central Asia, and Iran, and this is attracting new followers from that region. Should negotiations between the Afghan government and the Taliban prove successful, there is no guarantee that the Taliban will adhere to the terms of peace. This creates the potential for Taliban actions to continue to destabilize neighboring

countries. As conflicts in Afghanistan and Syria rumble on, the fate of foreign fighters returning to their home countries in the Caspian region will prove a considerable threat. The challenge of reintegrating them into society and combatting the security risks they pose will be considerable.

The situation in Afghanistan and the Caspian countries is, however, complex. To secure Afghanistan and permit an honorable exit for the United States, the security of the Caspian region must also be assured. To do this, a Biden Administration should maintain a responsible military presence in Afghanistan, at a minimum at the Bagram Air Base, if only as a counter to Russian military bases and China's nascent military presence in Central Asia. The United States should increase its existing military-to-military programs in the region and work to increase training and exercises through NATO's Partnership for

Peace (PfP).

## 6. Support Central Asia's Efforts to form an International Bloc

Finally, the Biden administration should strongly and publicly support the incipient effort by the Central Asian states (that should also include Afghanistan) to form their own international bloc, perhaps on the model of the Association of South East Asian Nations or the Nordic Council. In such a bloc, they could speak with one voice to enhance their independence and sovereignty, especially against pressure from China and Russia. Eventually, such a bloc could also include the South Caucasus nations. While each country would maintain its independence, by speaking as a bloc they would significantly enhance their presence on the world stage. ☸



# **Price Wars and Pipelines: Hydrocarbons in the Caspian**



While the COVID-19 pandemic dominated the narrative of 2020, the downturn in the hydrocarbon market this year may prove equally consequential for the countries of the Caspian region. Yet 2020 was not uniformly negative for the Caspian's oil and gas industries. The year also witnessed the completion of the Trans Adriatic Pipeline (TAP) that will bring Caspian gas

to European markets in Greece, Italy, and Albania. There has also been growth in the region's petrochemical industry, with Kazakhstan on track to complete its first polypropylene plant in 2021. A driver of the region's economy since the nineteenth century, the hydrocarbon sector remains critical to many Caspian countries' development. Though oil prices have been on a downward

trend since 2014, the price dropped to a 20-year low in March 2020 before sinking lower still in April. While prices have rebounded since their nadir, they remain significantly below where they were in December 2019. The prolonged period of depressed prices that the hydrocarbon sector has experienced since March 2020 has been a negative factor for many of the Caspian region's

energy exporters and for their governments' budgets. Azerbaijan, Kazakhstan, Turkmenistan, and, to a lesser extent, Uzbekistan rely on energy exports as key foreign exchange earners, sources of government revenue, and to help power their domestic economies. At the same time, the completion of TAP and the Southern Gas Corridor (SGC) project in November 2020 opens new export opportunities for Caspian gas in Europe as well as a means to boost European, and hence global, energy security. Another positive factor is the presence of significant oil and gas deposits that producers can continue to tap and provide energy through established systems, supporting the argument that the region's hydrocarbon sector has an important role it can play in the years to come, even as efforts to move to a low or zero net carbon future proceed.

## Price War

The Russia-Saudi Arabia price war, coming on top of an already soft global market for oil and large increases in U.S. oil production and exports, caused prices to drop rapidly and drastically. The Saudis and Russians flooded the market and filled available storage capacity in their economic brinksmanship as the drop in global economic activity resulting from the COVID-19 pandemic meant an even greater overhang in world oil stocks. Industry experts estimated in March that 71% of the world's storage capacity was used, leaving space for between just 0.9 and 1.8 billion barrels, roughly 9-18 days of global production. Though OPEC+ reached a deal in April that put the Russian-Saudi fight over oil production levels off to the side, bearish factors have persisted. The need for countries to continue necessary measures to protect their populations and fight the spread of COVID-19 continues to translate into declining global demand

for oil, worsening the significant supply overhang that had existed already. The International Energy Agency expects demand to drop by 9.3 mb/d (million barrels per day) relative to 2019.

Many foresee lower-cost crude oil producers, such as Saudi Arabia, Kuwait, and the UAE, faring best in the current environment. Certainly, there has already been a drop of nearly 2 mb/d in U.S. production, given the higher cost of production and the slackening of demand. International energy companies have had to drastically cut back on their exploration budgets and other capital expenditures. These changes have affected some of the largest firms in the global energy industry, including ExxonMobil. The oil major announced in December 2020 that it will write down the value of its natural gas assets in the Americas by as much as \$20 billion. The company also signaled that it would cut long-term capital spending, a clear indicator of how difficult

the situation is even for the largest multinationals. Similarly, Chevron announced that it expects its total capital and exploratory budget through 2025 to be between \$14 billion and \$16 billion, down from \$22 billion. Forecasts are that these firms will likely gravitate towards producing in countries where they have produced before, where they know and are comfortable with the legal and other components of the operating environment. High-cost/high-risk projects also appear likely to be set aside as oil companies cut back on their exploration and capital outlays. In the Caspian region, the reduced hydrocarbon receipts will continue to reverberate. Export revenues and the amounts moving into government treasuries and sovereign wealth funds will likely fall, even as countries need to expend more on health and social safety nets. But the difficulties are not insurmountable and can be managed. Good geology is import-

ant, but not enough; it will be those countries that have put in place and maintained sound business environments and relations with energy companies that will be competitive. Even with constrained exploration and development budgets, companies still need to replace current production and act to meet future oil and gas demand. With this reality in mind, Caspian producers can take steps to weather the current situation, including working with the major international firms, such as Chevron and ExxonMobil in Kazakhstan and BP and Total in Azerbaijan. As a known quantity in the global energy market, the Caspian region is positioned to fare better than those whose business climate and access to resources are unproven.

### **Knock-On Effects in the Region**

In the Caspian region, lower oil and gas prices had an immediately noticeable effect. In

addition to the direct effects of the pandemic slowing global economic activity and reducing energy demand, the April OPEC+ deal sought to curb production, including in the Caspian region. Kazakhstan's Tengiz and Kashagan oil fields, operated mostly by Chevron and the North Caspian Operating Company, respectively, were asked to decrease production by 22 percent. On the eastern side of the Caspian, Tengizchevroil and Kazakhstani-American oil companies suspended some projects and operations. Azerbaijan also asked BP and its partners operating the Azeri-Chirag-Guneshli offshore field to cut production by around 75,000 BPD.



Source: Fluor

As a result, many jobs associated with oil exploration, production, processing, and transportation have been adversely affected. Chevron, for example, is reportedly scaling down its global workforce by around 10-15 percent. Similarly, BP revealed plans to reduce its workforce by 15 percent, or around 10,000 employees, with senior office-based positions being the main focus for downsizing. Moreover, more than a million jobs will likely be cut in 2020

in the oilfield service industry. Disruptions in the energy sector in the form of delayed or scrapped projects have also negatively affected construction jobs, leading to protests in some cases. Though it is unclear how many of those job losses would come in the Caspian, the risk that the ongoing crisis poses to employment in the hydrocarbon sector illustrates the secondary effects that the pandemic could have on the region's economies.

## TAP and Energy Connectivity

As the global hydrocarbon industry enters an uncertain time as it navigates the recovery from COVID-19 and an anticipated rebound in global energy demand, a major project to export gas from the Caspian has come on line. In November, the Trans Adriatic Pipeline (TAP) began commercial operations, with gas beginning to flow from Azerbaijan to Italy. The project, which

was announced in 2013 and began construction in 2016, will play an important role in diversifying Europe's energy sources, especially needed given the aggressive approach Russia and Gazprom have taken. Italy, the second-largest gas importer in Europe, consuming 70.8 bcm (billion cubic meters), and the primary market for Azerbaijani gas shipped through TAP, relied on Russia for 44% of its gas imports in 2019 and also imports gas from Algeria and Libya. Algeria has at times struggled to maintain its supply through Mediterranean pipelines due to a recent drop in production and increasing domestic demand, and Libyan production has been unpredictable and inconsistent since the country plunged into civil war in 2011. Italy thus needs to maintain various options to ensure adequate supplies and prevent becoming overly reliant on Russian gas. Even at a time when hydrocarbon prices are and seem likely to re-

main soft, the strategic importance of the opportunities TAP provides should not be lost. Even though prices are low, the need for gas remains. It will continue to play an integral role in Europe's energy picture in the years to come. Ensuring that there is a reliable and diversified supply of it is essential to both Europe's economy and security. With much of the continent still suffering from the pandemic, disruptions to the energy supply are the last thing governments need. With increasing gas imports through TAP, Europe and the Caspian region are moving one step closer to the type of regional connectivity that can benefit both. In terms of increasing the economic ties between the two regions, TAP is a high-profile example of how this is occurring. Other big infrastructure projects like fiber optic cables or ports and enhanced surface transport routes are in the works, tying the regions closer together.

## What Comes Next?

What do the ups and downs of 2020 mean for the Caspian hydrocarbon sector next year and beyond? While the uncertainties that seem synonymous with the year 2020 make forecasting a daunting exercise, there are a few developments that seem likely, or at least ones that actors in the region should pursue. As mentioned previously, costs, risks, and rates of return may be such that the energy sector in the coming years will limit its exploration of untested reserves and pursuit of costly extraction projects. This could be a positive development for countries like Azerbaijan and Kazakhstan that have a long relationship with international energy companies. With large proven reserves and evidence of the support their governments have provided the oil and gas sector, they are well-positioned to retain investment as the industry recovers from the pandemic de-

mand shock.

The completion of TAP is a serious milestone on its own, yet the possibilities it opens up could be even more consequential. The reach of the Southern Gas Corridor from the Caspian into southern Europe means that there is potential for pipelines such as the Ionian Adriatic Pipelines (IAP) to deliver gas from Azerbaijan to the Western Balkans. Currently, the Western Balkans energy market is dominated by Gazprom, but low-cost gas could chip away the Russian market share in Croatia, Bosnia and Herzegovina, and Montenegro. New pipelines like this would be an important way of increasing energy security in a geopolitically pivotal part of the European continent. They

could also make it possible for the supplier to distribute liquified natural gas (LNG) throughout the Balkans but using the same pipelines once LNG shipments have been returned to a gaseous state. On the export side of the equation, TAP's completion raises questions about the potential to link the Southern Gas Corridor to other suppliers. Due to the European Union's standards for increasing the diversity of its gas supply, the SGC will need to bring in additional suppliers to ensure that the network is being used to its full potential. One option would be to link the SGC with Israeli gas, bringing gas from the Tamar and Leviathan offshore fields to the port of Ceyhan in Turkey. The opening

TAP provides might be the perfect opportunity to boost the interconnectivity of the energy sector in the Caspian by linking Kazakhstani and Turkmen fields to Azerbaijan. A Trans-Caspian pipeline would greatly expand the supply potential for gas from the Caspian to reach European markets in a way that avoids the influence of the Russian Federation. Though such projects have long been the subject of conversation, TAP's ability to expand the reach of Caspian energy products deep into the European Union greatly improves the feasibility of such plans. 



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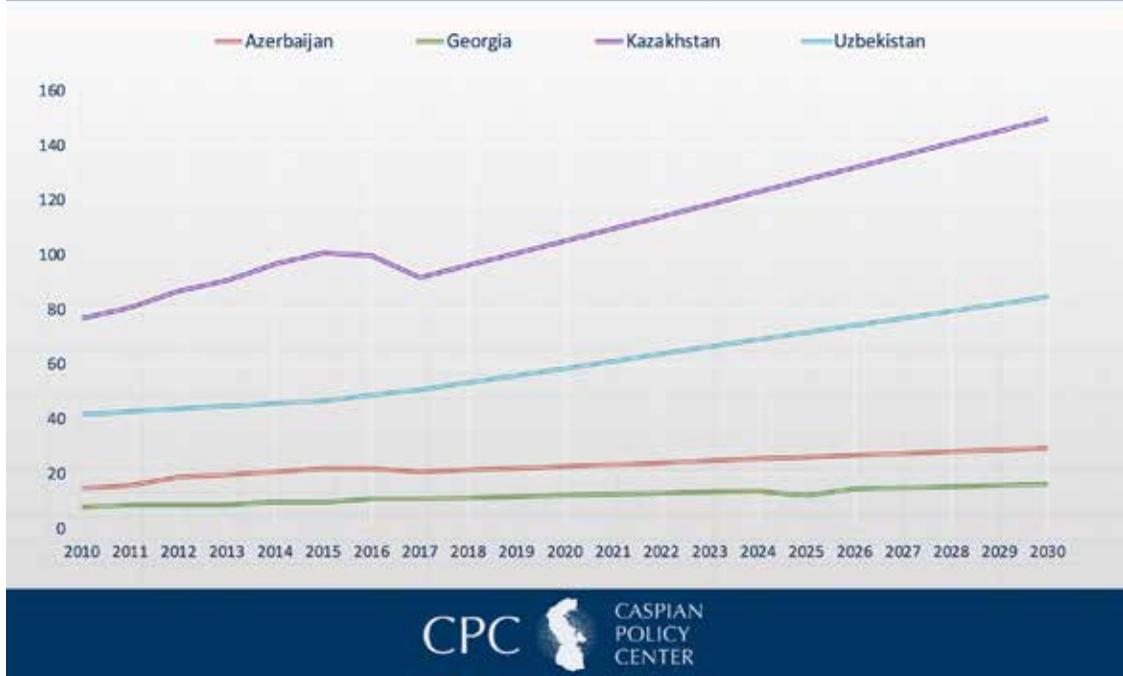
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# Tapping the Caspian Region's Solar and Wind Power Potential

Electricity demand across the Caspian Region rose 4 - 5 percent annually between 2014 and 2018, an upward curve that will continue as industrial, commercial, and consumer demand all increase. At the same time, existing electrical generation and transmission capabilities are generally not adequate to meet this growing demand. One study of the situation in Kazakhstan, for example, found 57 percent of the equipment used for electricity generation and transmission is outdated, and an average of 13 percent of the electricity generated is lost in transmission.

## PROJECTED ENERGY CONSUMPTION BY 2030



Sources: International Energy Agency; United Nations Economic Commission for Europe; Current Energy Resources in Kazakhstan and the Future Potential of Renewables: A Review; and Uzbekistan Energy/Power Sector Issues.

Addressing the region’s electricity needs is an opportunity to put in place efficient, cost-competitive solar and wind generating facilities rather than hydrocarbon-fired plants. No longer an “exotic” or “alternative” energy source, solar and wind use has grown dramatically and globally in recent years. Expectations are that renewables — solar, wind, geothermal power, and biomass — will continue to grow rapidly. In its 2020 Energy Outlook, BP states: “Renewable

energy, led by wind and solar power, is the fastest-growing source of energy over the next 30 years, supported by a significant increase in the development of — and investment in — new wind and solar capacity.” Solar and wind now account for 9.1 percent of the electricity generated in the United States, and the percentages are expected to reach 38 percent by 2050. However, it is in the non-OECD countries that renewables are expected to show the

greatest growth. China is investing heavily in solar and wind power as a source of secure and much-needed energy that also helps address the severe pollution plaguing many of its cities and is becoming a political issue. Renewable technologies are cost-competitive, efficient alternatives to hydrocarbons as a means to generate electricity resources. The International Renewable Energy Agency (IRENA) reports most renewable energy sources will be fully

cost-competitive within the next decade. Technical advances have meant declining installation prices and growing capabilities for renewable energy facilities. Total installed costs for solar energy fell 79 percent between 2010 and 2019. In April 2020, Abu Dhabi accepted a joint bid by France's EDF and the Chinese company JunkoPower of \$0.0135/kWh for a 1.5 GW solar power facility, the lowest tariff for solar power ever in the world. In the last decade, the costs of wind energy generation dropped from over \$100/kWh to \$37/kWh in the United States. Countries should take advantage of the declining costs to reshape existing electricity infrastructure and to build new facilities to meet future needs. In addition to the declining costs and rising efficiency of renewables as energy sources, the vast amount of wind and sunlight in the steppes of northern Central Asia and in the Caucasus means the situation is often optimal for harnessing these energy sources. The consistent sunlight and flat terrain contribute to

202 TWh of solar energy reserves in Azerbaijan, 32,930 TWh in Kazakhstan, and 5,190 TWh in Uzbekistan.

Governments across the region have established goals to reduce their dependence on hydrocarbons and construct new renewable energy facilities. For example, Azerbaijan's government committed to ensuring that renewable energy sources will generate 30 percent of its electricity by 2030. One project now moving forward, the installation, in cooperation with the UAE's Masdar Clean Energy, of a 200 MW solar power facility south of Baku, is expected to produce 400 million kWh of power a year and eliminate the need to burn about 90 million cubic meters of natural gas for electricity annually. The IRENA has also worked with Azerbaijan to produce a renewables readiness assessment for the country that it rolled out in November 2019. Similarly, Uzbekistan pledged to raise its initial target of requiring 10 percent of its electric energy to be generated by renewables to 25 percent by 2030. The

Kazakhstani government passed the "On Supporting the Use of Renewable Energy Sources" law designed to accelerate the production and manufacture of renewable energy facilities and technology. The law stipulates that the government will oversee the installation of 1040 MW of renewable energy capacity by 2020. Moves by governments in oil- and natural gas-rich countries like Azerbaijan, Kazakhstan, or Uzbekistan to tap their countries' renewable energy resources enable them to export more and increase their receipts as well as to help address air quality and other environmental issues while still moving to meet the growing demand for electrical power. While government initiatives and targets highlight the intent to incorporate renewable energy sources into electricity production, the government, the national power agencies, or the firms looking to supply the new systems need to attract capital to finance these energy projects.

# “Renewable energy sources have a remarkable potential to make power systems more resilient and lower-cost.”

*- Dr. Steven Burns, Chief of Energy and Infrastructure at the USAID Europe and Eurasia Division*

Caspian countries have reached out to international finance corporations and banks to fund their projects. USAID and the new U.S. Development Finance Corporation have expressed strong interest in supporting the renewable energy ambitions in the region. Moreover, the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development are all active in the region and have engaged with Caspian countries to construct efficient renewable energy facilities. The UK Export Finance agency has made about 2.5 billion pounds available for financing clean energy. Likewise,

the EBRD provided a \$24.8 million loan to assist in financing the construction of the 100 MW Zhanatas wind farm in Kazakhstan. The new wind farm will be one of the largest in the region. In addition, Uzbekistan has sought to increase its investment flows to finance its renewable energy projects by establishing exemptions for renewable energy enterprises from property taxes and profit taxes for between three and seven years if the share of the foreign investor's capital exceeds 33 percent. Caspian countries are implementing new mechanisms to secure the needed investment. This investment can be

funneled into critical renewable infrastructure projects. The COVID-19 pandemic adds another dimension. In the months following the outbreak of the pandemic when so many systems had been rattled or had their shortcomings harshly revealed, renewables proved to be some of the most resilient energy resources. Renewable energy generation has been able to remain operational despite stringent lockdown measures. Renewable energy is becoming more popular among governments, investors, and consumers. As authorities, companies, and other actors look ahead to the end of the pandemic and the

resumption of full economic activity, the disruptions the pandemic produced ironically have created the potential for developing new, more efficient systems. Energy in the countries of the Greater Caspian Region can be part of this process of building back better.

Renewables have come into their own globally and should be consid-

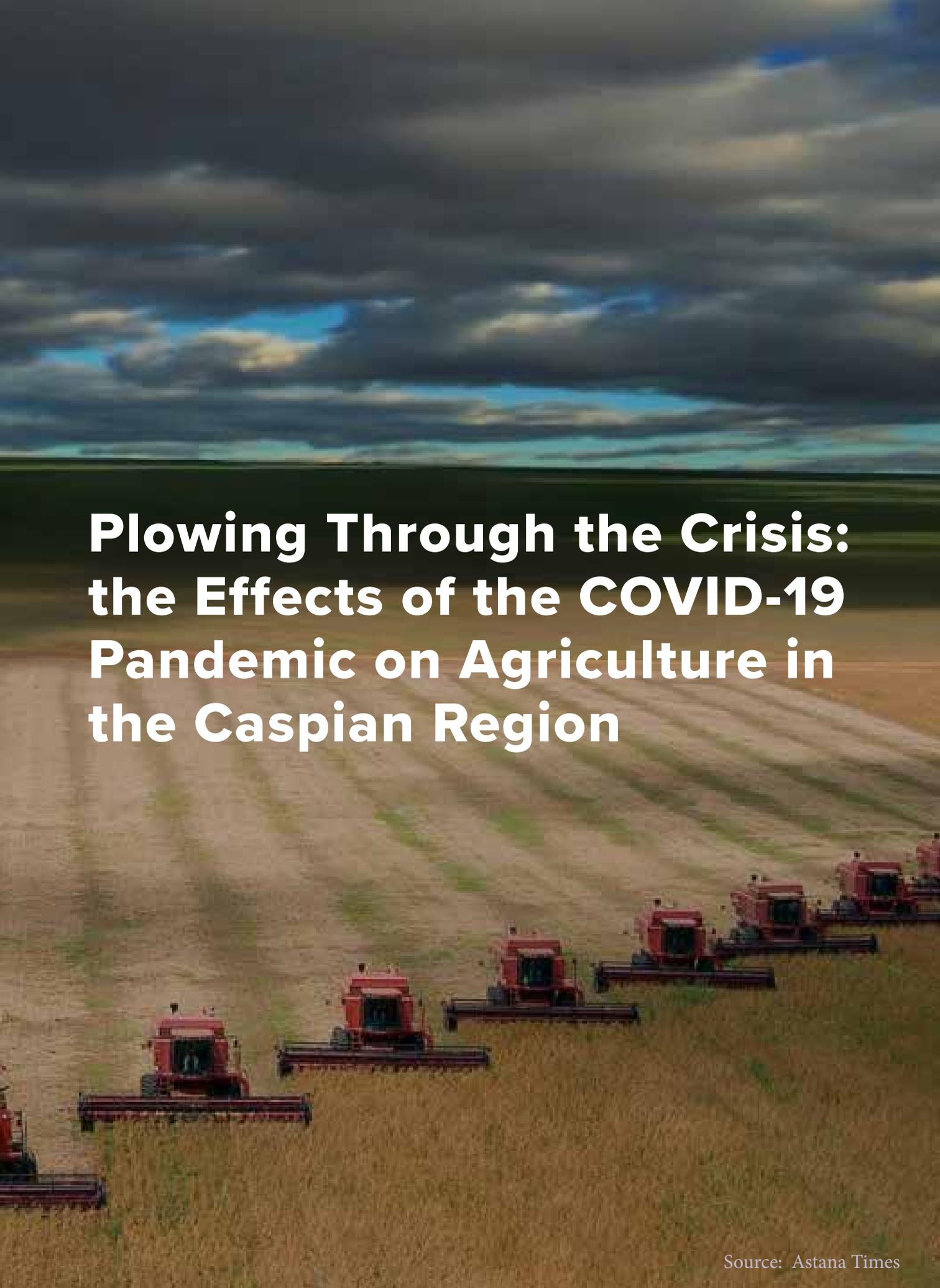
ered as governments, power authorities, and other stakeholders in countries across the Greater Caspian Region look at how best to meet the growing demand for electricity. It is noteworthy that Azerbaijan, for example, is looking to develop renewable energy resources as part of its plans for rebuilding in Nagorno-Karabakh and the surrounding areas recovered in the 2020 war

with Armenia. That area alone has the potential for 3,000 - 4,000 MW of solar power and 300 - 500 MW of wind power. While previously there was a tendency to look at renewables in the context of reducing greenhouse gas emissions and fighting climate change, the reality is they are now a mainstream, price-competitive means for generating power and meeting rising electricity needs. ☁️

Source: Azernews.





An aerial photograph of a vast agricultural field, likely a wheat or grain field, during harvest. Several red combine harvesters are visible, moving in parallel rows across the golden-brown crops. The sky is filled with heavy, dark grey clouds, with patches of blue and lighter grey, suggesting an overcast or stormy day. The horizon is flat and distant.

# **Plowing Through the Crisis: the Effects of the COVID-19 Pandemic on Agriculture in the Caspian Region**

Export restrictions early this year also adversely affected the local market resulting in the oversupply of export-oriented products, which, in turn, set extremely low prices for these goods. As the Chairman of the Association of Greenhouses of the Turkistan Region and Shymkent, Myrzakhmet Snabayev, notes, if the price for a kilogram of cucumbers was 450-500 tenge (\$1.07-1.19) in March 2019, it dropped by 60-75 percent and amounted to only 150-200 tenge (\$0.36-0.48) this year. This dramatic decline in prices is not enough to cover the production costs, let alone

generate a profit, causing severe losses in farmers' revenues and prompting some of them to postpone their next season's planting and harvesting plans. As a result, although export quotas are now lifted, one could see how short-term disruptions in the supply chain are likely to have long-term consequences on the sector and pose considerable challenges for food security in the region.

As part of their response measures, governments in the region, with support from international organizations, unveiled a slew of agricultural programs and initiatives.

For example, Georgian Prime Minister Giorgi Gakharia announced new policies in mid-April designed to support struggling farmers through new grants, agro-credits, and tax exemptions. Similarly, Georgia's pilot Greenlands.GE project aims to help around 100 farmer households introduce crop rotation practices that will significantly contribute to soil nutrition and boost wheat yields. These measures are critical for both mitigating the impact of COVID-19 on the sector and strengthening agricultural capacity to respond to future shocks. In Azerbaijan, President



Ilham Aliyev signed an order that would grant \$16.5 million to the state-owned “Agroleasing” Open Joint Stock Company to acquire advanced agricultural machinery and equipment. President Aliyev’s efforts have caught the attention of international organizations seeking to make inroads in the country’s agricultural sector. In mid-April, the European Union Delegation to Azerbaijan announced its commitment to allocate €2 million (\$2.24 million) toward four grant contracts to promote local food production and create new supply chains and advisory services for

farmers. Despite the negative effects of the COVID-19 pandemic, there is also a chance to turn the current crisis into an opportunity to identify ways to transform the agricultural sector. Kazakhstan, for example, has announced plans to attract about 5 trillion tenge (\$11.8 billion) into its agribusiness sector over the next five years to protect the food security of the country and the entire region. Prime Minister of Kazakhstan Askar Mamin has pointed out that the country has great potential in agriculture and is well-positioned to become one of the world’s

food trading hubs in a post-pandemic world. As the Independent Director of the Development Bank of Kazakhstan Marcio-Elizabeth Christian Favale also suggests, “agriculture is the new black gold of Kazakhstan,” especially considering the country’s vast territory. Particularly, investments in new equipment, technical assistance, the introduction of better agricultural practices, as well as research and innovation in the field should be the main priorities in building a resilient and sustainable agricultural sector.



Source: Getty Images

The leaders of the Caspian countries have also prioritized regional cooperation in agricultural development and food security. The ministers of agriculture of Central Asian countries and representatives of the United Nations Food and Agriculture Organization (FAO) held a videoconference in May to discuss the economic impact of the COVID-19 pandemic and share their response measures to address disruptions in the food supply chains. To keep

the progress going, the parties also stressed the importance of maintaining a continuous dialogue among countries in the Caspian region to ensure a fast post-pandemic recovery.

While the COVID-19 pandemic has put significant strain on agriculture in the Caspian region, it has also underscored the importance of reconsidering current practices in the sector to ensure its resilience in the long term. Although the change will not happen

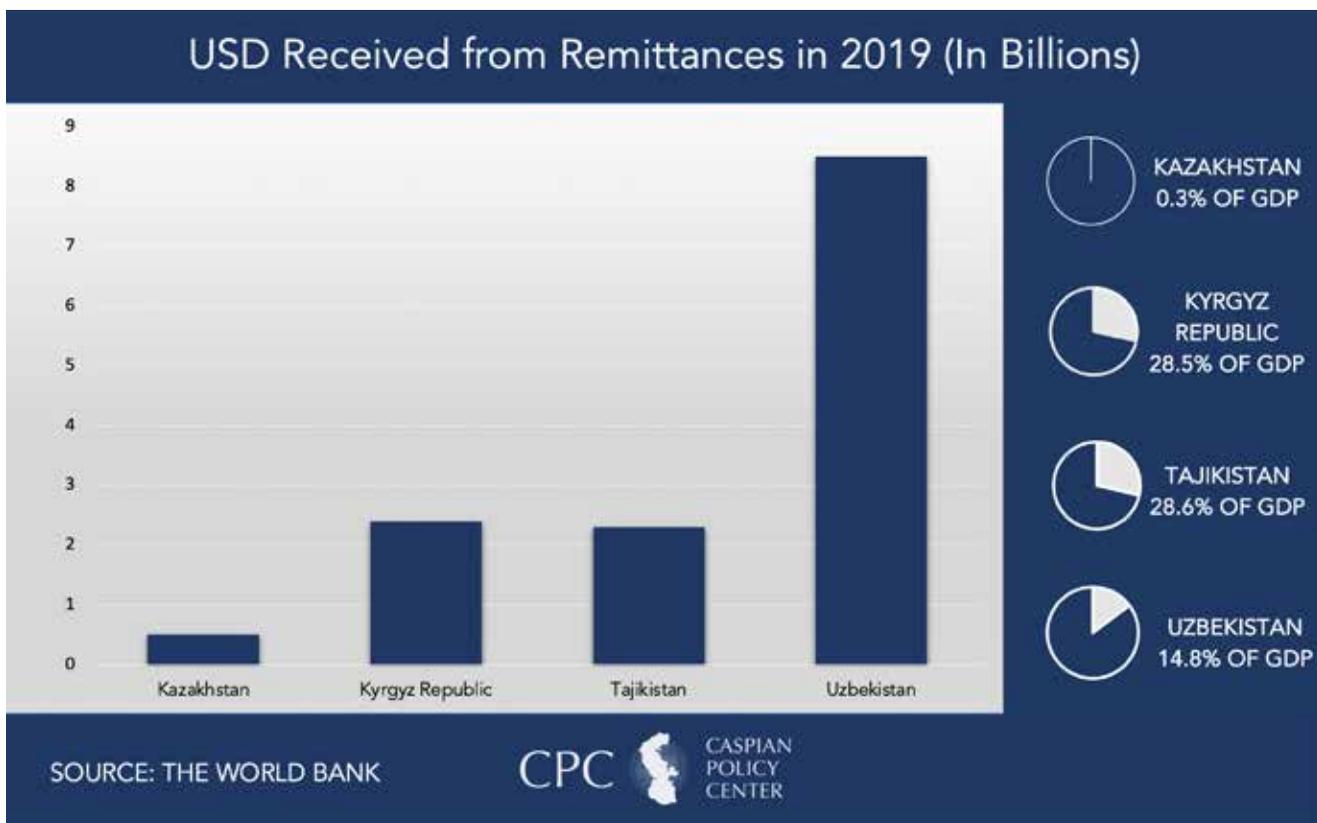
overnight, it is crucial that governments attract greater investment in agriculture to build up the industry's capacity and advance sustainable land management. With countries in the region heavily depending on each other for food production and transportation, it is also equally critical for them to maintain cooperation and to coordinate their policies and efforts to bolster regional food security. 🌐

# On the Move: Migration and Remittances in the Caspian Region

Hundreds of thousands of Central Asians have annually made their way to Russia in search of seasonal employment. Russia's Federal Security Service (FSB) reported that for the period January – June 2019, 265,000 people from Kyrgyzstan entered Russia (4.20 percent of Kyrgyzstan's population), 524,000 people from Tajikistan (5.76 percent of the population), and 918,000 people from Uzbekistan (2.79 percent of the population). Although citizens from

these countries, as well as from others in Central Asia and the Caucasus also work in Turkey and elsewhere rather than at home, Russia was the fourth-highest destination for international migration in 2019, according to the International Organization for Migration (IOM), following the United States, Germany, and Saudi Arabia. Kyrgyzstan, Tajikistan, and Uzbekistan are among the world's most remittance-dependent countries, relying heav-

ily on the transfer of money from their nationals working abroad to sustain their domestic economies, to reduce underemployment at home, and to improve well-being at the micro-economic level. In 2019, Kyrgyzstan received \$2.4 billion in remittances (28.5 percent of its GDP), Tajikistan received \$2.3 billion (28.6 percent of its GDP), and Uzbekistan received \$8.5 billion (14.8 percent of its GDP).



While seasonal migration in the region is an important component of meeting the labor demand in Russia as well as providing a relief valve for citizens of the Caspian region seeking work, the border closures and economic shutdowns brought on by the COVID-19 pandemic underscore the shortcomings in such a heavy reliance on migrant work. The disruptions that COVID-19 produced in these labor arrangements highlighted the need for the region's countries to adopt measures to boost their economic resilience and employment levels as well as to look further at measures to protect the well-being of their workers abroad.

Shortly after COVID-19 was detected in the Caspian Region, most countries in the South Caucasus and Central Asia shut their borders and imposed stringent lockdown measures. Russia also announced early on that its borders would remain closed indefinitely to foreigners, stirring pan-

ic among Central Asian migrants already en route to the country for work. The abrupt announcements necessitated by efforts to manage the pandemic thwarted the plans of tens of thousands of migrant workers across the region. Tajik migrants who had already boarded buses or trains were forced to return home when the measures were announced. Others were left stranded in busy airports waiting for repatriation flights in Russia and dozens of transit countries. The rapid course of events and uncertainties accompanying the pandemic and policy actions to deal with it meant further challenges, e.g., the need to develop contingency plans for Central Asian countries with large proportions of their population working abroad.

Migrants already working in Russia or who had entered the country just before the border closures often found themselves in dire situations. International Organization for Migration (IOM)

Chief of Mission for the Russian Federation, Abdusattor Esoev, presented a grim account; about 60 percent of migrants in Russia were unable to pay their rent, and 40 percent were unable to afford food. Russia imposed a nationwide lockdown at the end of March, essentially halting all economic activity. Migrant workers were especially slammed by the business closures and other economic hardship caused by these lockdowns. In addition, migrant workers often live in crowded communal housing. Often as well, they have limited access to health-care in Russia. On top of all this, migrant workers have also reported increased instances of workplace discrimination and wrongful detainment by authorities since the onset of the pandemic. Prior to the COVID-19 pandemic, Russia and its Central Asian neighbors had signed numerous bilateral agreements to end discriminatory practices, establish simpler processes for work

permits and visa applications, and protect vulnerable migrant populations. For example, Uzbekistan and Russia entered into a bilateral agreement to defend the rights of Uzbek workers injured or killed while working abroad. This agreement was signifi-

cant in recognizing the rights of Uzbek migrants working predominantly in heavy industries, such as construction. Similarly, in 2019, Tajikistan and the Russian Federation confirmed that Tajik migrant workers who have participated in Russian language and skills train-

ing would be eligible to work in Russia. Bilateral agreements uphold the rights of migrant workers and support the steady flow of migration to supplement Russia's declining workforce.



Source: Bloomberg/Andrey Rudakov

*Migrant workers crowd outside of the Tajik embassy in Moscow on August 10, 2020.*

Lockdown measures that Russia implemented to fight the pandemic also greatly affected Central Asians who remained home during the pandemic. Tajikistan is one of the poorest of the former Soviet republics. Unemployment rates in the country remain high and wages are often too low to support a family. The average monthly earning of a Tajik worker in October 2019 was just \$140. In August 2016, only 56 percent of Tajik households reported that their earnings were enough to buy sufficient food and supplies. Prior to the pandemic in Kyrgyzstan, 22.4 percent of the population lived below the national poverty line, and 6.3 percent was unemployed. Similarly, 11.4 percent of Uzbeki-

stan's population was below the national poverty line, and 5.9 percent was unemployed.

The unpredictable nature and duration of the COVID-19 pandemic aggravated already-troubling circumstances. The economies of Kyrgyzstan, Tajikistan, and Uzbekistan are heavily reliant on the stability and the levels of activity of Russia's economy. Russia also needs these workers, given its own demographic condition. Lockdown measures in Russia produced unintended ramifications in these Central Asian economies, with citizens unable to work abroad and send home needed funds.

The pandemic has had an ability to highlight and call into question many practices that have

been in place around the world. In this case, measures implemented exposed the economic, social, legal, and political vulnerabilities migrants face when abroad; it proved the need to address long-standing migration problems rather than supporting or just accepting the status quo. Heavily remittance-dependent countries, the World Bank notes, should invest in their people. Providing better education opportunities and pursuing measures to encourage the establishment and growth of businesses at home will improve the strength and resilience of Central Asian countries and enable more workers to remain in their homelands. 

**“Central Asian governments must attain a fine balance of further developing their sectors to make domestic employment more palatable and supporting their large workforces abroad in Russia, Kazakhstan, China, South Korea, Turkey, and elsewhere.”**

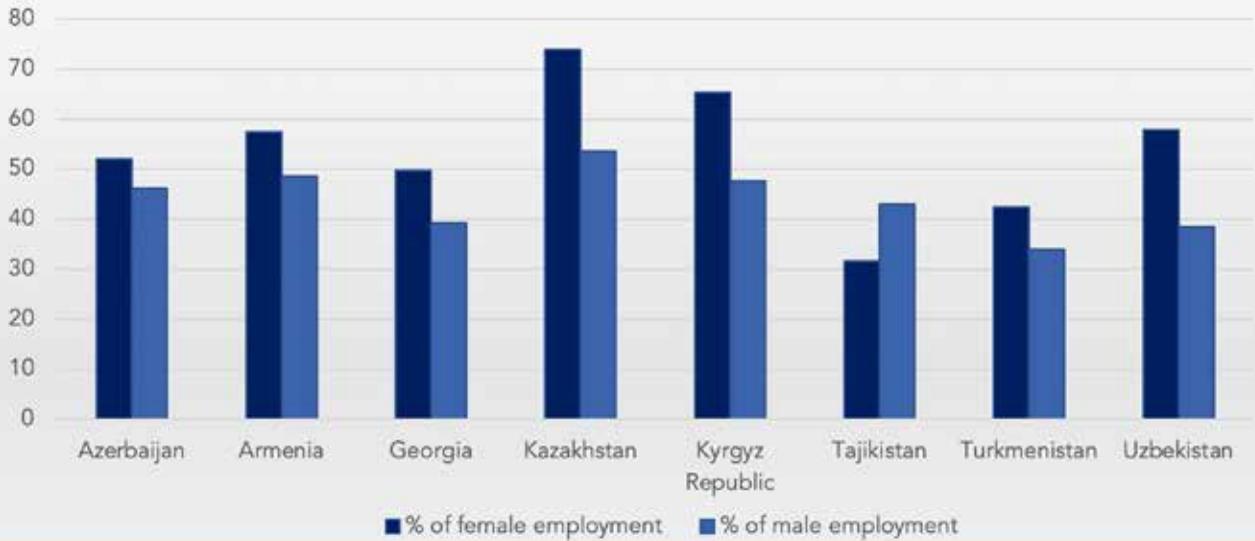
# Women's Economic Empowerment and Entrepreneurship

Women's economic empowerment remains a key component for nurturing an inclusive environment and giving impetus to gender-responsive social and political changes. Unlocking women's economic potential is also a crucial element for promoting economic growth, especially in the context of current disruptions caused by the COVID-19 pandemic. As a result, strengthening the role of women in economies across the Caspian region should be one of the core actions countries take in reopening and rebuilding following the pandemic. According to a study by the McKinsey Global Institute, under a "full

potential" scenario, in which men and women operate equally in the market, the annual global GDP could increase by \$28 trillion, or 26 percent, by 2025. Women tend to reinvest 90 percent of their income back into their families and communities, thus producing greater returns and contributing significantly to human capital development. In addition to yielding significant economic benefits, women empowerment is also an integral part of the Sustainable Development Goals. It not only advances gender equality but also equips women with necessary tools and resources to generate

viable and innovative solutions for a wide range of issues, from eradicating poverty to promoting peace and stability. The ongoing COVID-19 pandemic has further highlighted the importance of advancing gender equality as women have been particularly vulnerable to disruptions in daily activities, especially in low- and middle-income countries. With more women than men being engaged in non-essential social services sectors, which have been heavily hit by containment measures, there has been a disproportionate loss of women's jobs and sources of income.

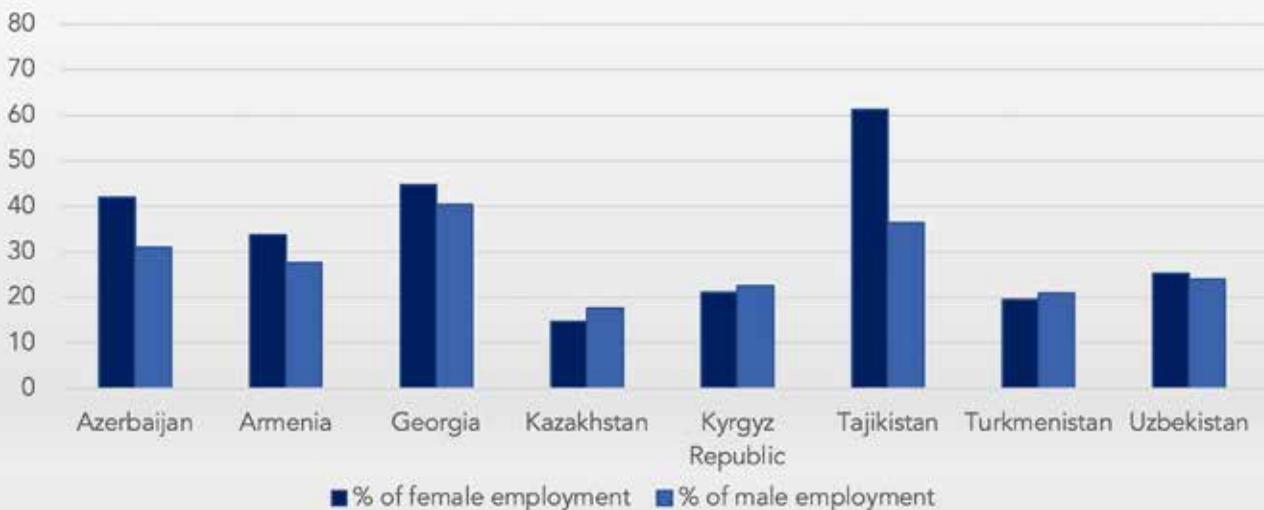
## Female vs Male Employment in Services in the Caspian Region



SOURCE: ILOSTAT database



## Female vs Male Employment in Agriculture in the Caspian Region



SOURCE: ILOSTAT database



As Figure 1 illustrates, women were over-represented in services in 2018 in all countries of the Caspian region, ex-

cept for Tajikistan. Kazakhstan, for example, had more than 70 per cent of employed women working in the sector.

As a result, with strict lockdowns imposed in 2020, the service sector has suffered the most job losses, disproportion-

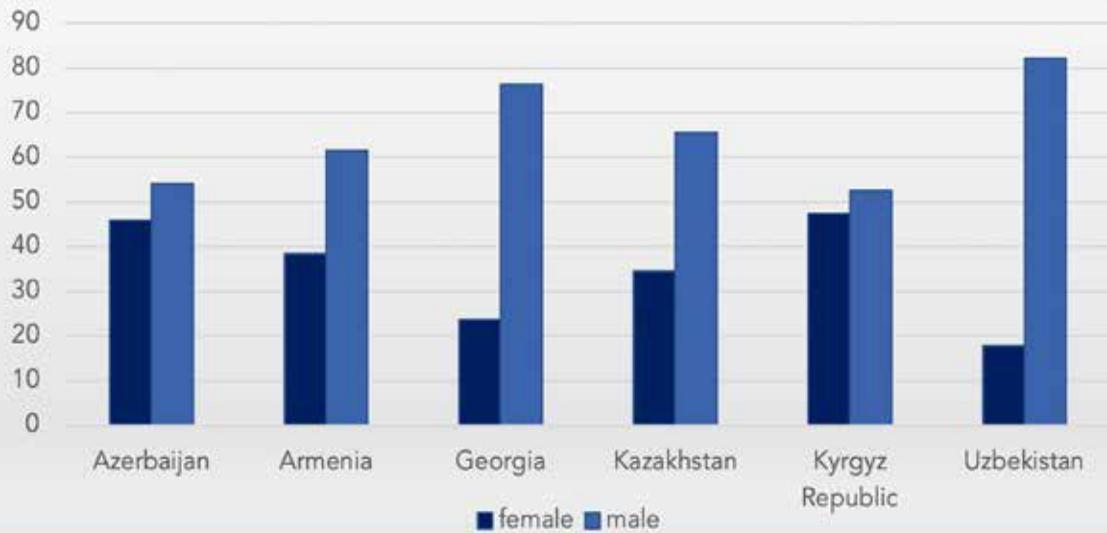
ately affecting women. The International Labor Organization (ILO) data also shows that more women than men are engaged in agriculture, which is low-productivity work with low wages. As Figure 2 suggests, more than 40 percent of women in Azerbaijan were employed in agriculture, compared to 30 percent of men in 2018, while in Tajikistan more than 60 percent of women worked in the agricultural sector compared to nearly 35 percent of men. Given that employment in agriculture is itself a low-wage occupation, export bans on staple food and disruptions to trade routes and supply chains induced by the pandemic have further exacerbated the situation in the sector. Many farmers experienced significant decreases in revenues, which also negatively impacted their plans for the next harvesting season.

## **Main Barriers to Empowerment of Women**

The primary factors that prevent women from being employed in higher-productivity and higher-paid jobs, including in STEM (science, technology, engineering, and mathematics) and ICT (information and communications technology) fields, are gender gaps in education and unequal child-care responsibilities. Although women are more educated than ever before, much still needs to be done to ensure they get the same level of education as men. For example, less than 40 percent of women in Tajikistan, Turkmenistan, and Uzbekistan enter tertiary education programs. Figure 3 also shows that the share of female graduates in ICT is substantially lower in the Caspian region, with Uzbekistan having the largest gender gap in this regard. Facing disproportionate opportunities in education, women are more likely to end up in part-time and low-skilled jobs, usually in the informal sector. Gender digital divide is another crit-

ical issue that prevents women from utilizing virtual platforms or accessing online resources for educational purposes. Around 30 million people in Central Asia do not have internet access, with women in suburban and rural areas constituting the largest share of this number. As a result of the ongoing pandemic, the gender digital divide is becoming pronounced, with more women lacking adequate access to digital operations, which impedes their ability to engage in economic activities or transition to remote learning and working.

## Share of Female vs Male Graduates in ICT in the Caspian Region



SOURCE: ILOSTAT database



Societal norms that place household responsibilities exclusively on women also result in an average of three to ten hours of unpaid care work daily. The unequal share of household duties considerably restricts the number of hours women can allocate to actively engage in the labor market. Given the constraints imposed by the unpaid care work, women usually choose to pursue part-time and low productivity jobs that do not offer good career prospects. Not being able to fully participate in the market, women are also

more likely to engage in occupations below their skills level. An increase in family care responsibilities and unpaid household work induced by COVID-19 has put additional pressure on women's ability to pursue economic opportunities.

### Ways to Support and Empower Women

To help women realize their full economic potential and elevate their sociopolitical standing, it is necessary to make meaningful changes to both labor and education policy. Particularly, it is

critical to ensure women's access to financial services and lending programs. While doing so, it is also essential to create an effective bridge-financing mechanism for women-led businesses that have exceeded microfinance lending capacity but do not yet qualify for small and mid-size enterprises' (SMEs) loans.

Growing research on the effectiveness of economic empowerment interventions also indicates that access to finance, while necessary for advancing women's economic standing, is not suffi-

cient to address systemic barriers that prevent women from engaging in economic and entrepreneurship activities in the first place. Pre-existing inequalities in the distribution of assets, such as education and capital, are more likely to translate into disproportionate benefits offered in the marketplace. Lack

of relevant skills for how to manage a business, including the knowledge of marketing, production, and negotiation strategies, plays a crucial role in women's ability to fully utilize available opportunities and make an informed and effective use of resources. However, when complemented with relevant training

programs and mentorship opportunities, these economic interventions prove to have a significant positive effect on the growth of female entrepreneurship. Reducing institutional barriers to ensure support for women's participation in the economy should also be a major priority.



Source: Aga Khan Foundation

## Current Projects and Programs Toward Women Empowerment in the Region

Countries in the Caspian region, both unilaterally and with the support of international organizations, have already initiated measures to advance women's economic empowerment. The European Bank for Reconstruction and Development (EBRD) has allocated considerable resources to promote its Women in Business Project in 18 countries around the world, including regions of Central Asia (Kazakhstan and Tajikistan) and the South Caucasus (Azerbaijan, Georgia, and Armenia). It has partnered with local banks to simplify

lending to women-led SMEs through the expansion of already existing financing mechanisms. For example, the EBRD has provided continuous support for Kazakhstan's ForteBank to advance women empowerment in the country through funding and training. To complement these efforts, ForteBank has also developed its own ForteBusiness Woman initiative and supported the projects of more than 500 female entrepreneurs.

The United States Agency for International Development (USAID) has also been active in promoting women's economic empowerment in Central Asia. For example, it has set up entrepreneurship programs and partnered

with Kazakhstan's Atameken National Chamber of Entrepreneurs and Kazmicrofinance to provide technical assistance and management strategies for women-led businesses. USAID will also help deliver the White House-led Women's Global Development and Prosperity (WGDP) Initiative's resources and services in Central Asia to help remove legal and financial barriers that prevent women from realizing their full economic potential. The WGDP has also announced it would allocate \$122 million in new funds to provide women with relevant training sessions, technical assistance, mentoring, and networking.



Source: Getty Images/ Shannon Fagan

## Recommendations

Although some significant steps have been made to improve women's economic standing, governments need to allocate more resources to promote women's empowerment, especially during and in the aftermath of the pandemic.

- In addressing the issues facing women, leaving the matter to a ministry for women's affairs or for families is insufficient. The economics and finance ministers need to be involved as well, putting women in the mid-

dle of investment and growth strategies.

- Special credit lines and a focus on educating women and girls will be crucial. Moreover, it is important to focus on vocational and other training in a broad range of areas and skills, not just those traditionally associated with employing women. Attention to the role of women in the digital economy is also important.

- Coordination among governments in the region will also be fundamental in an effective

recovery and greater growth after the pandemic.

Ensuring that women are equally engaged in economic activity is crucial for economic productivity, human development, and overall stability, especially in a post-pandemic world. Therefore, advancing women's economic standing should be a priority for governments in the Caspian region to quickly recover from current COVID-induced disruptions and ensure an inclusive economic environment. 🌊

**“Women represent an immense global opportunity but we still face persistent challenges, including limited access to credits, which prevent women from realizing their full economic potential.”**

*- Charity Wallace, Managing Director of Global Women's Issues at U.S. International Development Finance Corporation*



# Caspian Conflicts: Where are They and What Should the United States Do?

Source: Reuters

The Caspian region, a strategic crossroad between Asia and Europe and rich in natural resources like oil, natural gas, uranium, and iron, could become a truly prosperous region. However, it is also vexed by long-standing conflicts running the gamut from Islamic extremism and civil war in Afghanistan to the frozen conflicts of the Caucasus kept unresolved by Moscow for Russia's benefit. These conflicts threaten U.S. and European interests,

while Russia seems more determined than ever to cling to its own isolationist interests. This article will look into the major conflicts in the region, their implications, and what measures the United States could take in response.

## Central Asia: Afghanistan

While the post-Soviet 'stans' of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan are frequently

referred to as Central Asia, excluding Afghanistan from this framework is a mistake. In fact, the Afghanistan dilemma is inextricably tied to its future reintegration into Central Asia – economically, politically, and, above all, psychologically. An integral part of Central Asia for centuries, Afghanistan was traumatically and artificially cleaved from the rest of Central Asia by tsarist armies in the nineteenth century, culminating in the Anglo-Russian Convention of 1907 that

finalized Afghanistan's contemporary borders. From that point, northern Central Asia, that soon became Soviet Central Asia, followed a radically different trajectory – politically, economically, and socially – from Afghanistan.

Just as tsarist Russia forcibly cut off Afghanistan from Central Asia, the Soviet Empire attempted to forcibly reincorporate Afghanistan into Central Asia through invasion and the imposition of an alien communist regime in Kabul in 1979. The fundamentalist Taliban regime then eventually rose to power, with the help of Pakistan and Saudi Arabia following the Soviet Union's defeat. It was the natural alliance of this regime with Osama bin Laden's al-Qaeda (the self-styled 'quarter-master of jihad'), and its refusal to turn against al-Qaeda following 9/11 that led to the U.S. invasion of Afghanistan in 2001. From there, the United States toppled the Taliban and began the War on Terror that has

yet to resolve the current regionally destabilizing Afghan civil war.

Afghanistan's civil war has a bad habit of spilling beyond its borders, most notably into Pakistan but also, at times, into Central Asia. When the Russian and then the Soviet empires drew the lines of Afghanistan's northern border, it divided ethnic communities, with Turkmen, Uzbeks, and Tajiks living in Afghanistan's north. This situation has, in part, made for porous borders between Afghanistan and Tajikistan, Turkmenistan, and Uzbekistan, with the war in Afghanistan sometimes spilling across those borders. In 2015, the Taliban kidnapped Tajik border guards, returning them after seizing their weapons. And in 2019, after the Taliban chased 150 Afghan border security guards into Turkmenistan, the Turkmen government handed those guards over to the Taliban. Meanwhile, the porous border also allows the Taliban to export its heroin and other drugs

through Central Asia to Russia.

The United States and NATO, so far, remain committed to doing their part to resolve the Afghan civil war, and the recent peace talks between the Afghan government and the Taliban are signs that a peaceful resolution could be possible. However, the northern Central Asian countries, already pushing for stronger regional integration among themselves, are realizing that for not only regional sovereignty but also for general prosperity, Afghanistan must also be included in any future integration. To this end, the five Central Asian countries have committed themselves to projects aimed at integrating Afghanistan in various degrees.

Kazakhstan has sponsored Afghan women in its universities. Tajikistan and Kyrgyzstan have, with Afghanistan, begun construction on the Afghan section of the CASA-1000 electricity-transmission project

that will transmit electricity from Tajikistan and Kyrgyzstan into Afghanistan and onward to Pakistan. And while it is still more on paper than real, the TAPI (Turkmenistan, Afghanistan, Pakistan, India) Pipeline designed to provide Turkmen natural gas to Afghanistan, Pakistan, and India still receives positive lip service from all four countries.

While the Taliban is increasingly signaling its willingness to share power with the Afghan government, the threat of a Taliban putsch following negotiations and an American withdrawal is always present. Beyond that, the war has turned Afghanistan into a major training and battleground for international jihadis, among them a reconstituted Islamic

State (known as Islamic State-Khorasan Province, or ISKP) that is drawing now on Central Asian and Indian recruits.

For a peaceful and prosperous Central Asia, the United States and the five Central Asian countries will need to cooperate.

This means that the United States should help sponsor regional integrative dialogues, forums, and projects including all six Central Asian states.

The United States must impress on the Taliban that it will not tolerate an attempted putsch against the elected leaders of Afghanistan, nor tolerate the Taliban turning Afghanistan once again into a launchpad for international jihad (as Hezbollah has done with Lebanon).

Only then can there be peace and prosperity in the region.

## **South Caucasus: The Nagorno-Karabakh Conflict**

Violence began in 1988 when Nagorno-Karabakh's regional government passed a resolution to join Armenia. Following independence in 1991, Armenia and Azerbaijan waged a bloody war over the territory, which led to Armenia occupying Nagorno-Karabakh and seven surrounding Azerbaijani territories, including the strategic Lachin corridor that connects Armenia to Nagorno-Karabakh. Following the 1994 ceasefire, almost a million Azerbaijanis were displaced, with 20 percent of Azerbaijani territory occupied by Armenia.



Armenia proceeded to create a semi-independent statelet in the internationally recognized Azerbaijani territories as the Republic of Artsakh in violation of Azerbaijani sovereignty. Kept alive by Armenian occupation forces (themselves dependent on Russian supplies received at a discount), Nagorno-Karabakh's occupation government settled Armenians beyond Nagorno-Karabakh proper into the surrounding Azerbaijani territories. Over the past decades,

Armenia and Azerbaijan have been at daggers drawn over the territory, a prolonged conflict that the Organization for Security and Cooperation's (OSCE) Minsk Group, co-chaired by Russia, France, and the United States, was designed to mediate. This long-simmering violence began again in July 2020 and came to a head in September as the two sides waged full-scale war, by far the worst violence since the early 1990s. However, Azerbaijan's military this

time was supplied with modern weapons systems like the Israeli Harop suicide-drones that decimated the Russian tanks used by the Armenian forces. Both sides broke three ceasefires negotiated by the co-chair countries of the OSCE Minsk Group co-chairs, each one lasting only a few minutes. Azerbaijani forces regained its occupied territories and took the strategic city of Shusha (which sits above the Nagorno-Karabakh capital of Khankendi/Stepanakert).

### Armenia-Azerbaijan peace deal



It was with this Azerbaijani victory that Russian President Vladimir Putin was able to impose a so far successful ceasefire. The ceasefire included a provision for a Russian peacekeeping deployment to Nagorno-Karabakh (with a token Turkish contingent), the return of the surrounding occupied Azerbaijani territories to Azerbaijan, and a road through far-southern Armenia connecting the Azerbaijani exclave of Nakhchivan to the rest of Azerbaijan proper. This peacekeeping force is to remain in place for five years, with the option for additional five-year terms, although Azerbaijan can veto a continued Russian presence.

A final, long-term peace, however, is unlikely because Armenia, though weakened and dealt a crushing blow in the recent war, is highly unlikely to accept that the rump portion of Nagorno-Karabakh remains as a part of Azerbaijan. And victorious Azerbaijan is not likely

to rest until the entirety of Nagorno-Karabakh is returned to full Azerbaijani sovereignty (though perhaps with significant autonomy). The United States, which kept a low profile during the recent war, needs to work hard in its Minsk Group co-chair capacity to push for a full and peaceful resolution of the conflict through the existing Madrid Principles of the OSCE Minsk Group.

## Georgia's Prolonged Conflicts

Since 2008, Georgia's territorial sovereignty has been violated through the Russian occupation of Georgia's two breakaway provinces of South Ossetia and Abkhazia. The conflicts trace their origins to the final days of the Soviet period over questions of minority rights and the place of Georgian language and culture in the autonomous territories. In the first days of independence, Georgia was convulsed by a war in South Ossetia and Abkhazia,

where mass bloodletting along ethnic lines occurred. By 1992, Russia brokered a ceasefire between Georgian and South Ossetian forces (though they would remain in limited conflict with each other until the 2008 Russo-Georgian war), and a ceasefire between Georgian and Abkhaz forces in 1993 (which was broken when Abkhaz forces successfully captured the regional capital of Sukhumi).

Following the 2008 Russo-Georgian war, the breakaway status of the regions was solidified by Russian occupation. There are, however, notable differences in the Abkhazian and South Ossetian cases. While Russia maintains a garrison in Abkhazia to prevent Georgia from retaking the territory by force of arms, the territory maintains an open border with Georgia, even as Abkhaz border guards patrol the Abkhaz-Georgian line with Russian border guards and FSB agents. The South Ossetian-Georgian line,



however, is closed and volatile. Russia has continued to build up its armed presence in the territory, now with what is estimated to be 4,000 military personnel. Russian border guards frequently carry out illegal seizures of Georgian land in a process called ‘borderization,’ where Russian guards incrementally move barriers further into Georgian territory, arrest Georgians, and literally divide households. The situation is even more dire as the borderization moves the line of contact ever closer to the strategic East-West

Highway that connects the country. Russia has, since the 2008 war, also been moving to integrate South Ossetia and Abkhazia into the Russian Federation. South Ossetia, with its small population of just over 30,000, has ethnic cousins in the much larger (in territory and population) North Ossetia bordering it within Russia. The Kremlin, which justified the 2008 war as a defense of ethnic Russians within the territory, has been distributing Russian passports to residents in the nominally independent republic of

South Ossetia. Further, Russia is also South Ossetia’s sole economic life-line. In 2015, Russia and South Ossetia signed a treaty that, in its essence, called for full integration by folding South Ossetia’s military and economy under Russian guidance. Essentially, Russia has all but annexed a chunk of territory belonging to sovereign Georgia.



Source: Wikimedia Commons/Jelger Groeneveld

### *Borderization of the Administrative Boundary Line (ABL) South Ossetia at Khurvalleti*

Abkhazia has proven harder for Russia to swallow, since Abkhazia, with its access to the global economy through the Black Sea, prefers independence. The territory, like South Ossetia, is dependent on Russia for its economy that consists mainly of tourism and niche agricultural products like wine and citrus fruits. But calls for union within Russia have been met with skepticism, if not outright disdain. For

example, when in October 2020, the former Vice President of Abkhazia called for Abkhazia to join the Union State of Russia and Belarus, this was met with Abkhaz accusations of treason. And there was uproar from the Abkhaz government itself upon discovery of a Russian-built bridge into Abkhaz territory from Sochi, which was seen as an infringement of Abkhazian sovereignty. The greatest problem of

these conflicts is that it prevents Georgia from fully moving beyond its Soviet past and out from Russia's shadow. As long as these entanglements continue, Georgia cannot fully pursue its goal of Euro-Atlantic integration or its dream of joining NATO. A peaceful resolution to the conflict could be achieved through placing Abkhazia and South Ossetia under the auspices of the United Nations, while

tying them to Georgia in matters of sovereignty, foreign policy, and security, while allowing them full autonomy for their domestic economies and policies.

The fundamental problem with all these conflicts – Afghanistan, Nagorno-Karabakh, South Ossetia, and Abkhazia – is that they are in (or adjacent to) Russia’s self-proclaimed “special sphere of influence.” As a matter of public policy, Washington has repeatedly stated over the years

that it does not recognize any such sphere of influence; and, indeed, the United States maintains a full diplomatic presence throughout the Caspian region with multi-faceted support programs. But over the past nearly three decades, it has, inch by inch, almost by default, somewhat acceded to Russia’s proclamation of Moscow’s sphere of influence, mainly because of Washington’s discomfort with the region’s imperfect practices of human rights, democracy, and

good governance. While the United States will always stand for its ideals, it should include a greater degree of realpolitik in its relations with these independent nations to encourage them, to the fullest extent possible, to take firmer stands against Putin’s imposition of his “special sphere of influence.” 

**“America has the capacity to convoke international meetings to engage other countries in the peace-building effort, including to help encourage the investment and other economic engagement needed for Armenia and Azerbaijan to rebuild peace.”**

*- Ambassador (ret.) Robert Cekuta, Former U.S. Ambassador to Azerbaijan.*

# International Players in the Caspian Region



## Introduction

Since their independence in 1991, the nations of Central Asia and the South Caucasus have been increasing their connectivity regionally and globally. With historical, economic, and political ties to Russia; growing Chinese interest in the region, especially through the Belt and Road Initiative (BRI); U.S. and European Union

presence and attention; and their own memberships in regional and international organizations, the nations in this pivotal crossroad between Asia and Europe have affirmed their independence and are increasingly visible on the international stage. They all, to varying degrees, practice a foreign policy that Kazakhstan first defined as multi-vector, balancing the interests of Russia,

China, the European Union, and the United States while asserting their own independence, sovereignty, and national interests.

## Russia

Russia's historical ties to the Caspian region span several centuries of political, economic, and security engagement. President Vladimir Putin has frequently

described these former Soviet Socialist Republics as Russia's special sphere of influence. Moscow wields this influence through bilateral relations and multilateral organizations like the Collective Security Treaty Organization (CSTO) and the Eurasian Economic Union (EAEU). Through the CSTO and bilateral defense relations, the Kremlin seeks to remain the dominant supplier of materiel and the primary promoter of security cooperation. It also

maintains its position by promoting security cooperation and supporting Russian military bases throughout the region. Moscow attempts to combat security threats such as narcotics trafficking and Islamic extremism arising beyond its southern border through continued security cooperation and information sharing with Caspian governments. Russia leads multinational military exercises hosted in CSTO member countries and is the top defense

supplier to the Central Asian states, Armenia, and Azerbaijan. Additionally, Russia maintains military bases in Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan; and Moscow's military forces are present in the territories of Georgia it occupies. Most recently, it deployed peacekeeping forces to Azerbaijan and Armenia in a November 2020 agreement that halted their war over Nagorno-Karabakh.



Source – Caspian News

While Moscow attempts to remain the top partner of the Central Asian states, it has also sown discord in the region by supplying weapons to both the Armenian and Azerbaijani sides of the conflict over Nagorno-Karabakh. Moreover, Russia is often regarded as the source of hacking and disinformation campaigns in Georgia, especially since its occupation of the Georgian breakaway territories of Abkhazia and South Ossetia in August 2008. The Russian-brokered ceasefire between Armenia and Azerbaijan in November 2020 and its subsequent deployment of peacekeeping troops all demonstrate Russia's continued exertion of hard power in the region.

On the civilian side, Russia remains a primary source of economic and cultural influence in the region. Many Caspian families, especially in Central Asia, rely on guest-worker remittances from Russia. Central Asian countries remain

some of the most remittance-dependent countries in the world. In 2019, Kyrgyzstan received \$2.4 billion in remittances (28.5 percent of its GDP), Tajikistan \$2.3 billion (28.5 percent of its GDP), and Uzbekistan received \$8.5 billion (14.8 percent of its GDP). The EAEU, which includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia, provides a path to support the flow of remittances and to boost investment. It has also created a collective confederation of nations designed to allow the free movement of goods and people and a universal protocol for agriculture, trade, industry, and transport.

The EAEU continues to play a vital role in Russia's economic influence in the region. Through the EAEU, Russia can deny Chinese requests for bilateral agreements with its member states and instead encourage multilateral relations, giving Moscow more economic leverage in the region. The Russian lan-

guage remains the lingua franca of the region despite the countries' efforts to promote their own national languages, especially in Central Asia. Seeking a higher education in Russia by students from the Caspian region remains highly popular. In 2015, 74 percent of all Kazakhstani students seeking degrees abroad were studying in Russia. The October 2020 release of a new statement by the Russian and Central Asian foreign ministers committing to many spheres of cooperation, including economic, environmental, cultural, and foreign policy collaboration, demonstrates that Russia continues to be a powerful and influential actor in the region.

## China

Beijing has actively sought to establish and promote strong political, economic, and security ties with its strategic neighboring region. China has steadily increased its market share in Central Asia, and by 2010 it

# BRI in the eastern hemisphere



Sources: Mercator Institute for China Studies; HKTDC Research; *The Economist*  
*The Economist*

had surpassed Russia in trade turnover. Since Beijing’s September 2013 announcement in Astana, Kazakhstan, of what it has come to call its Belt and Road Initiative (BRI), China has continued to invest in natural resources, infrastructure, and industries across the region. For example, the Asian Infrastructure Investment Bank (AIIB) funded the Hadori hydropower plant in Geor-

gia and approved a \$600 billion loan for the construction of a part of the Trans Anatolian Natural Gas Pipeline. Additionally, since 2013, trade turnover with China has increased 60 percent in Georgia, 70 percent in Armenia, and 100 percent in Azerbaijan. Beijing gives countries low-interest loans through what some have called “predatory lending.” If a country fails

to repay loans, it must hand over key infrastructure and other resources to China. For example, in 2014 after Tajikistan failed to pay back loans for a new powerplant outside of Dushanbe built by the Chinese company TBEA, China received mining rights to the Upper Kumarg and Eastern Duoba gold mines. Chinese-controlled sources of national wealth are becoming

increasingly common across the region, such as the Zhong Ji Mining-owned Solton Sary gold mine in Kyrgyzstan and Kashgar Xinyi Dadi Mining Investment Company's ownership of the Yakjilva silver deposit in Tajikistan. Many Central Asian states are also trapped in a borrowing and investing cycle with China as their national debts grow during the global economic downturn caused by the pandemic. Currently, about 40 percent of Kyrgyz public debt and 50 percent of Tajik public debt is owed to Chinese banks, particularly to the China Export-Import Bank. Furthermore, China has expanded into the technological sphere as Chinese telecommunications and technology companies have signed contracts for the establishment of 5G telecommunications systems. State law-enforcement bodies in the Caspian region have partnered with Chinese companies to implement "smart cities" or "safe cities" that use artificial intelligence to

monitor the movement of people or vehicles to enforce public security. Citizens' data obtained by this technology and states' security systems are at risk of Chinese exposure due to China's National Security Law that states that all Chinese enterprises, public institutions, and other groups are obligated to maintain national security. Per this law, Beijing has implemented a "Military-Civil Fusion" strategy that aims to integrate Beijing's military and defense sectors with its civilian research and commercial sectors. As Chinese economic power grows, Beijing also has shown interest in selling weapons to the region; however, Russia remains the region's top arms supplier. The China-led collective security group, the Shanghai Cooperation Organization (SCO), of which Kazakhstan, Kyrgyzstan, Russia, and Tajikistan are members, holds joint military exercises emphasizing its role as a collective defense organization in the region. There has

also been reported Chinese military presence in the Gorno-Badakhshan Autonomous Region (GBAO) of Tajikistan near Afghanistan's Wakhan Corridor – a first in Central Asia. An increased Chinese military presence to protect Chinese-owned businesses and natural resources elsewhere in the region is likely. As almost inevitably happens, hard power follows soft power, and an increased Chinese military presence, at least in Central Asia, can be expected.

## European Union

The EU also plays a key role in the region, evident through the multi-vector foreign policy Kazakhstan devised and that is employed to varying degrees by all of the countries in the Caspian region. Though this policy developed in the 1990s, Kazakhstan aimed to establish and promote good relations among all states and international organizations that play a significant role in world affairs while enhancing



its own sovereignty and independence. The mutually beneficial relations among major world players in the region would allow Kazakhstan to remain fully independent as larger powers compete to sweep Kazakhstan into their spheres of influence. It would also create an environment in which Kazakhstan could play competing great powers off one another from time to time to achieve its own policy objectives.

The other Caspian republics have also adopted this multi-vector foreign policy to navigate their complex politics geopolitics.

The EU adopted its first Strategy on Central Asia in 2007, with the most recent iteration published in 2019. The newest strategy stresses the importance of promoting resilience and regional cooperation and stresses Central Asia's critical role in support-

ing an Afghan-led peace process in that war-torn neighbor of Central Asia. Through the framework of the Enhanced Partnership and Cooperation Agreements (EPCAs), the EU continues to support cooperation against security challenges, cyber and hybrid threats, and terrorism, and emphasizes the importance of combatting the economic root causes of radicalization. Since the outbreak of the COVID-19 pan-

demic, the EU has provided Central Asia with \$162 million as a part of its “Team Europe” package to strengthen health systems and address socio-economic repercussions of the pandemic. The EU also works with the South Caucasus through the Eastern Partnership established in 2009. Through this Partnership, the South Caucasian states host European Parliament members as part of the Organization for Security and Cooperation in Europe’s Office for Democratic

Institutions and Human Rights (OSCE ODIHR) election observation missions. The EU remains one of Azerbaijan’s key trade partners, accounting for over 40 percent of its trade in 2018, and stresses the importance of the Southern Gas Corridor as an alternate route for Caspian natural gas to Europe that does not flow through Russia. EU support for Armenia is mainly provided under the European Neighborhood Instrument (ENI). It continues its support for the settlement of

the Nagorno-Karabakh conflict through the international format of the OSCE Minsk Group. Furthermore, the EU supports Georgia’s territorial integrity in the face of Russian encroachment, and the annual EU-Georgia Strategic Security Dialogue reaffirms both sides’ commitment to regional security. While Russia and China are the Caspian’s most geographically linked great powers, the EU continues to fortify its relationships with the Caspian states as it bal-



Source: U.S Army Central/ Maj. Kevin Sandell

*Ambassador William H. Moser, the United States Ambassador to Kazakhstan, stands with senior Kazakhstani Ground Forces’ officials during a visit to a forward operating base at Chilikemer Training Area near Almaty, Kazakhstan June 27, 2019, as part of Exercise Steppe Eagle 19.*

ances Russian and Chinese interests.

## United States

Since the Caspian states' independence, the United States has steadily increased its engagement in the Caspian region, forming valuable bilateral and multilateral partnerships, including through NATO's Partnership for Peace (PfP) and the U.S.-led Central Asian C5+1 meetings. All of the Caspian states are involved in NATO's PfP program, and Armenia, Azerbaijan, and Kazakhstan have all agreed to an Individual Partnership Action Plan (IPAP). Georgia, however, has pursued its strongly held aspiration to join NATO through the development of an Annual National Program.

Much of U.S.-Georgian defense relations occur through NATO. The United States and Georgia have closely collaborated in NATO's Resolute Support Mission (RSM) in Afghanistan. Georgia has been a member of

the RSM since its start in 2015 and is its largest non-NATO contributor. Georgia began assisting the NATO-led International Security Assistance Force (ISAF) in Afghanistan in 2004 and joined the RSM in 2015 after ISAF expired. A NATO Liaison Office and a Georgian-NATO Joint Training and Evaluation Centre (JTEC) opened in Tbilisi to aid Georgia in modernizing and strengthening its security and defense. Georgia also participates in NATO military drills; in 2020, it hosted the fifth iteration of the Noble Partner exercises. Through NATO, the United States can train with its allies and provide them with updated materiel.

The Caspian states continue to implement a multi-vector policy when regarding their natural resources. As Europe receives 40 percent of its total natural gas from Russia, the EU and United States look to the Caspian region as an alternative route to alleviate Europe's depen-

dence on Russia. Europe consumes 66 percent of the oil that Azerbaijan transits and exports, making the South Caucasus essential to European energy. The United States strongly supported the building of the Baku-Tbilisi-Ceyhan pipeline and the Southern Gas Corridor.

While the United States no longer has any military bases in Central Asia since the 2010 closing of its temporary base at Karshi Khanabad in Uzbekistan and its Manas Transit Center in Kyrgyzstan in 2014, it continues to support security relations with Central Asia. The annual U.S.-led Steppe Eagle military exercise, hosted in Kazakhstan and joined by the United Kingdom, Kyrgyzstan, and Tajikistan, allows for the strengthening of U.S.-Kazakhstani defense ties and increased interoperability among all participating countries.

Since 2015, the United States has participated annually in multilateral diplomatic talks in the

C5+1 format to promote deepening U.S. engagement with Central Asia. One of the top security priorities outlined in the 2019 iteration of the U.S. Strategy for Central Asia is the security of Afghanistan. The United States has invested over \$90 million in border security in Central Asia to train border guards, update equipment, and establish 13 operational border posts. Additionally, the integration of a stable Afghanistan into Central Asia remains essential to the stability of the region. The United States has supported the Central Asia-South Asia Power Project (CASA-1000) that will boost Central Asian economies by exporting electricity from Kyrgyzstan and Tajikistan through Afghanistan to Pakistan. The United States also continues to offer numerous educational, cultural, and professional exchange programs, including EducationUSA, a Professional Fellows Exchange Program, and a Community Engagement Exchange

Program. Since 1991, the United States has given funding to over 40,000 Central Asian officials, professionals, and students to visit the United States for professional development programs.

## Recommendations

The United States has maintained full relations with every country since their independence from the Soviet Union. While relations have steadily continued bilaterally and through international organizations, the United States should give higher priority to the Caspian region. The Caspian region is home to valuable energy, economic, and security partners who are balancing against the increased influence of other great powers.

The United States also needs to be decisive in securing the regional sovereignty and security of its Caspian allies. Multilateral ties, such as NATO's Partnership for Peace program, through joint military and training exercises geared

toward counterterrorism and border security, also demonstrate U.S. commitment to the security of the Caspian. Washington continues to support Georgia's territorial integrity and participates alongside Georgian forces in NATO's RSM in Afghanistan. While U.S.-Georgian defense relations remain strong, especially through NATO, Georgia should be treated and supported as an energy ally. The United States should, however, take a more active role in not only brokering but building peace in Nagorno-Karabakh: actively engaging Armenians and Azerbaijanis in peacebuilding should be a U.S. priority for stability in the South Caucasus. The United States should encourage and support infrastructure projects and business ventures through encouraging Caspian partnerships with U.S. public and private entities through the Blue Dot Network. At the same time, the United States can continue cooperating with the north-

ern Central Asian states through the C5+1 format. Conducting occasional C5+1 meetings at the presidential level, as opposed to just the ministerial level, would demonstrate the United States' dedication to the region. The United States can

also move forward with boosting regional cooperation and peace in Afghanistan by encouraging a C5+1+Afghanistan format to promote the security of Central Asia. The Caspian is located between Russia and China, which seek to draw

the region into their spheres of influence, and is a geopolitically vital region. The United States needs to demonstrate its full commitment to the region, or else it will be pushed out by other, potentially hostile, players. 🌊



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June 9 - 10, 2021