

IRAN, TURKEY, AND RUSSIA: SEMI-PERIPHERAL STRATEGIES IN CENTRAL ASIA AND THE SOUTHERN CAUCASUS

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ABSTRACT

The author discusses the semi-peripheral strategies of Iran, Turkey, and Russia in Central Asia and the Southern Caucasus, as well as their trade expansion; he establishes that the semi-periphery countries, Russia and China in particular, dominate the region's imports.

He looks at all sides of Iran's "struggle against exploitation" strategy, analyzes its

impact on individual economies, and reveals the semi-peripheral function of neo-Ottomanism from the world-systems perspective.

The author's analysis of Russia's strategy allows him to conclude that after switching from mercantilism to integration with the leaders of the capitalist world-system, Russia can increase its semi-peripheral role and strengthen its position in the region.

KEYWORDS: *Iran, Turkey, Russia, Central Asia, semi-periphery, the Southern Caucasus, Armenia, Georgia, Azerbaijan, trade expansion of the semi-periphery.*

Introduction

Immanuel Wallerstein, who looks at the world-systems theory as consisting of the core (the developed countries of the West) and the periphery (Third World countries) put the term "semi-periphery" into academic circulation. The world-system cannot function in conditions of strained relations between these two elements; it needs another structure (the semi-periphery) to ensure that the exploited periphery does not revolt against the exploiting core.

There are no economic reasons behind the semi-periphery, however without it the world-system would be too polarized to retain its political stability. In other words, to quote Wallerstein, "the semi-periphery is needed to make the capitalist world-economy run smoothly."¹

This means that the economic role of the semi-periphery, which changed together with the world-system, is unimportant; what is important is its political role.

¹ I. Wallerstein, "The Rise and Future Demise of the World Capitalist System," *Comparative Studies in Society and History*, Vol. 16, Issue 4, September 1974, p. 403.

According to Wallerstein, there are over twenty semi-periphery countries, including Turkey, Iran, China, and Russia, all of them are major economic and political actors in Central Asia and the Caucasus.

China is a semi-periphery country for economic reasons, however its place in the capitalist world-economy is somewhere between the core and the semi-periphery: its huge economic potential is steadily growing together with its political significance. In fact, this country is posing a challenge to the present configuration of the capitalist world-economy; here I will limit myself to its role in trade expansion.

The other three countries (Iran, Turkey, and Russia) have very different economic and social structures and development dynamics; the same can be said about their political systems and cultural traditions; this explains their very different regional expansion strategies.

Placed within the context of the world-systems analysis, the Iranian model of economic development can be described as “a struggle against exploitation,” which contradicts, to a certain extent, the liberal model of the West; its economic behavior outside its borders affects Washington’s policies in the Middle East.

The United States is sparing no effort to keep Iran isolated at the global and regional levels; while Tehran, in turn, is sparing no effort to escape from this geopolitical and economic blockade. It should be said that its economic expansion earned Tehran a place in the regional oil and gas sector; it has established good relations with Tajikistan, Turkmenistan, and Armenia.

Its healthy GDP has moved Turkey to a good place in the world economy which is, however, greatly endangered by its negative trade balance and external debt—they make the country dependent on the core of the capitalist world-economy and, therefore, give it the appearance of a periphery country.

Ankara has been exerting great efforts to move into the region, its success being especially impressive in the early 1990s. Later it was pushed back by the United States, the European Union, China, and Russia. Its economic interests in Central Asia and the Caucasus are limited to oil and gas, trade, investment, and construction.

Post-Soviet Russia has found its place among the semi-periphery states of the capitalist world-economy; from the world-systems perspective it looks like a core in Central Asia and the Caucasus. Russian companies are spreading far and wide in many economic spheres, energy and trade in particular.

The future of Russia’s economy is closely connected with guest workers from Central Asia and the Caucasus. Having switched from mercantilism to integration with the leaders of the capitalist world-economy, Russia can expand its semi-peripheral function and strengthen its regional position.

This might not come true if new “power centers” appear in the region. Indeed, China’s stronger economic potential and international status will undermine Russia’s integration projects.

The Semi-Periphery: Trade Expansion

In the context of world-systems analysis, the semi-periphery looks like a link that keeps the core and the periphery together. This is confirmed by its average economic indices as compared with the developed and underdeveloped states, as well as by its very specific place in the capitalist world-economy.² On the one hand, it is trying to gain a place among the core countries; on the other, there is always the risk of sliding down to the periphery.

²See: I. Wallerstein, *op. cit.*

There are fairly large states among the semi-periphery countries with vast territories and considerable natural and human resources (about 70 to 100 million and more); they can rely on their capacious domestic market to develop relatively autonomous national economies and develop resources to modernize their industries and infrastructure. This adds vigor to national integration and state mechanisms.

At the same time, the position of the semi-periphery is ambivalent not only because of instability, but also because of its two hypostases. Seen from the periphery, it is an exploiter and/or a military-political leader; seen from the core, it is a target of exploitation (a source of raw and other materials), that is, an outsider.

The semi-periphery is doomed to remain an intermediary between the core and the peripheries of the capitalist world-economy: it depends on the core and on its own (mainly regional) periphery.³ The technologically more advanced and economically stronger core countries pursue a very aggressive investment policy in the periphery to establish their control over its strategic resources. The semi-periphery pursues an aggressive trade policy in its own periphery.

As a periphery in relation to the core, a semi-periphery country can become the core for the neighboring periphery states; it can protect its domestic market against encroachments of the core, spread to the domestic markets of the weaker countries, and, in general, behave very much like the core.

A semi-periphery state can develop and modernize itself independently, on its national basis, not only because of its economic potential, but also because of its political potential, primarily, according to Vladimir Khoros, because of its capacity as a nation-state.⁴

Their position in the capitalist world-economy makes the semi-periphery countries international players of “secondary importance” but with enough clout in neighboring periphery states.

They cannot avoid trade expansion because of their economic structures: their mid-tech branches of the economy need horizontal expansion of consumer markets lest disproportions in the semi-peripheral economies cause serious economic, social, and political upheavals at home and abroad.

Expansion to new markets gives a semi-periphery country a chance to lower production costs and ensure economic growth and, hence, move forward to greater modernization and economic restructuring.

In the 1990s, when Turkish and Iranian companies gained access to the Central Asian and Caucasian markets, they widened their markets and acquired more money. The share of private export-oriented businesses increased in both countries; this encouraged economic activity, created new jobs, and added to the profits of both semi-periphery countries.

When moved to new periphery markets, the semi-periphery acts like a core because of its companies' special position in the hierarchy of the world-economy. These companies are incorporated into the countries' high-tech economic sectors. With shares in companies in semi-periphery countries, companies of the core countries receive at least part of the profits gained by exploiting the periphery. Turkey and China with their export-oriented companies are two pertinent examples. It should be said that these companies largely depend on companies of the developed countries for the latest technologies and corporate management.

An analysis of the pertinent empirical data suggests that the core of the capitalist economy (the EU in this particular case) is the main consumer of the region's raw materials. Forty-four percent, or

³ See: M.A. Molchanov, “Natsionalnye interesy v epokhu ‘globalnykh respublik’,” available at [http://www.polisportal.ru/index.php?page_id=79].

⁴ See: V. Khoros, “Poluperiferia v kontekste globalizatsii,” *Nezavisimyy Almanakh “Lebed”*, No. 329, 22 June, 2003, available at [<http://www.lebed.com/2003/329.htm>].

\$45 billion-worth (out of \$102.3 billion), of the region's aggregate export goes to the European Union (see Table 1).

Table 1

Export of the Region's Countries to the EU, 2010

Country	Export, \$m	Export to the EU	
		Volume, \$m	EU Share in Export, %
Armenia	1,011.4	501.3	49.5
Georgia	1,575.1	290.4	18.4
Azerbaijan	21,360.2	10,853.9	50.8
Kazakhstan	59,830.3	30,782.3	51.4
Uzbekistan	5,898.7	547.8	9.3
Kyrgyzstan	1,755.9	1,539.5	87.7
Tajikistan	1,195.0	42.8	3.6
Turkmenistan	9,700.0	483.1	5.0
Total	102,326.6	45,041.1	44.0

Source: Author's calculations based on the figures of the national statistical services of the region's countries and Eurostat.

Semi-peripheral Russia and China with 41.5% of the region's total imports are the region's leaders (see Table 2).

Table 2

Ranking of Russia and China in the Imports of the Region's Countries, 2010

Country	Volume of Import, \$m	Russia		China	
		Share, %	Score	Share, %	Score
Armenia	3,782.9	16.0	1	6.6	3
Georgia	5,156.3	5.6	5	6.5	4
Azerbaijan	6,600.6	17.3	1	8.9	4
Kazakhstan	30,839.3	39.1	1	12.9	2
Uzbekistan	3,525.9	54.0	1	33.6	2
Kyrgyzstan	3,222.8	33.6	1	20.7	2
Tajikistan	2,657.0	32.0	1	9.0	3
Turkmenistan	8,183.0	14.2	1	10.2	2
Total	63,967.8	29.3	1	12.2	2

Source: Author's calculations based on the figures of the national statistical services of the region's countries and Eurostat.

Iran: “Struggle against Exploitation”

Iran opted for the statist Islamic economic model, which contradicted and still contradicts the liberal development model of the West; it does not allow the country to integrate into the capitalist world-economy. The religious, political, and economic elites of Iran insist that they intend to raise their country's economic, scientific, and cultural level to acquire the status of the regional leader.

Giovanni Arrighi, Italian economist, sociologist, and an authority in world-systems analysis, wrote that the “struggle against exclusionary tendencies” and the “struggle against exploitative tendencies” were two mutually exclusive behavioral patterns of the semi-periphery.⁵

Today, Iran is using the “struggle against exploitative tendencies” strategy to set up a division of labor system inside the country that will be relatively independent of the world-system. In other words, Iran is pursuing an autarchic strategy.

Its geographic location, natural resources, and the predominantly young 80-million-strong population can be counted among Iran's advantages. The steady flow of petro-dollars into the country made it possible for it to achieve some success in pursuing a fairly independent policy. Today, it is developing its nuclear program. This explains why Washington is determined to isolate Iran. It does not hesitate to apply economic sanctions to keep the country away from rich markets and sources of innovations. This will cost Iran its accumulated advantages and will force it to join the capitalist world-economy.

Iran responds with maximally pragmatic foreign policies: unwilling to become part of unequal exchange with the core, it is staying away from it. On the other hand, Tehran is establishing unequal exchange relations with the periphery and more or less equal exchange relations with the semi-periphery; it is pouring a lot of energy into its economic ties with the Gulf countries, Central Asia, and the Caucasus and is also building multilateral relations with the SCO member states.

In the 1990s, the Iranian presence in the Central Asian and Caucasian markets was fairly limited against the background of Chinese or even Turkish involvement.⁶ In the next decade, Tehran stepped up its efforts and switched to a more balanced policy; today, however, it trails far behind Russia and China with respect to trade turnover volume.

It is trying to achieve at least three main things in the oil and gas sphere: to become an energy transportation hub; to identify the best route for gas exports (to Europe across the Southern Caucasus as one of the options); and to organize sustainable Caspian oil imports to keep the oil refineries in the country's north in business.⁷

So far, Iran and its advantageous geographic location (it offers the shortest export route for Caspian resources) remain outside the big export game. It was expected that the Kazakhstan-Turkmenistan-Iran oil pipeline would move 1 billion barrels of Kazakh oil a day to Iran. Today, the project geared at Kashagan has been frozen. The Iranian route cannot function in the present political context, while Washington's tighter position makes its future dim.

⁵ See: G. Arrighi, “The Developmentalist Illusion: A Reconceptualization of the Semiperiphery,” in: *Semiperipheral States in the World-Economy*, American Sociological Association, Greenwood Press, New York, 1990, pp. 11-44.

⁶ See: A. Kniazev, “Regionalnaia strategiya Irana v Tsentralnoy Azii: evolutsiya i priority,” available at [http://www.knyazev.org/stories/html/chang_200508.shtml].

⁷ For more details, see: A. Zulkharniev, “Energeticheskie interesy Irana v Kaspiyskom regione,” *Tsentralno-politicheskiy issledovaniy Rossii*, available at [<http://www.pircenter.org/index.php?id=1248&news=5829>].

Iran is second only to Russia in terms of natural gas deposits—they are estimated at 28 trillion cu m (16% of the world's total), however as late as 2007 the production volume was as high as the domestic consumption volume (110.5 bcm).⁸

Political and economic isolation keeps Iran away from the Asian (the Iran-Pakistan-India project) and European (Armenia-Georgia-the Black Sea-Ukraine-Europe project) gas markets. The country did not join Nabucco, which was planned as a transportation project for Iranian gas.

We should bear in mind that the European gas market is vitally important for Russia, which explains why Gazprom (which controls Armenia's gas transportation system) blocked off Iran's efforts to move its gas to Europe via the Southern Caucasus.

Iran, however, managed to organize oil and gas deliveries from Kazakhstan and Turkmenistan to its northern provinces⁹; the country also buys gas from Turkmenistan¹⁰ to sell it in the Southern Caucasus.¹¹

Iran sees closer contacts with the Central Asian and Caucasian states as one of its *foreign policy* priorities; it has close relations with Tajikistan: both belong to the same ethno-cultural community; it is contemplating a Union of Farsi-Speaking States (Tajikistan, Iran, and Afghanistan).

Iran is currently involved in several projects in Tajikistan, including tunnels in the mountains and hydroelectric objects (the second phase of the Sangtuda Hydropower Station); there are plans to connect Tajikistan and Afghanistan with power lines and build a network of highways and railways (Kolkhozabad-Lower Panj-Kunduz-Mazar-e Sharif-Herat-Mashhad).

In 2010, trade turnover between Iran and Tajikistan reached \$201.7 million which means that Iran let not only Russia (\$959.8 million), China (687.1 million) and Turkey (\$438.6 million) ahead of it but also Kazakhstan (312.8 million).

The country is seeking a more prominent place in the region's hydropower projects (it sees the Rogun Hydropower Station, the region's largest, as one of the possibilities); so far, numerous geopolitical subtleties beyond Tehran's power keep the country away.

Together with Russia and China, Iran is the largest investor in the Tajik economy.

It is quite satisfied with Turkmenistan's neutrality policy; in 2010, their trade turnover reached \$3.9 billion; the larger part of it was gas imports from Turkmenistan along the Korpeje-Kurdkuy pipeline.

Iran pushed Russia, previously Turkmenistan's largest trade partner, into second place (according to the RF Ministry of Economic Development): in 2010, Russia's share in Turkmenistan's trade turnover was 18%; Iran accounted for 21.7%; Turkey for 16.3%; and China for 10.7%.

In Turkmenistan, Iranian companies invest in telecommunications, the water industry, construction, modernization of highways, oil refineries, etc.

Their cooperation is further strengthened by the fact that Turkmen constitute a large share of the population in the north of Iran.

⁸ See: "Iran. Energy Overview. Iran Energy Data," IEA, available at [<http://www.eia.doe.gov/emeu/cabs/Iran/Background.html>].

⁹ Every year Kazakhstan exports 4 million tons of oil across Iran under the swap scheme; Kazakhstan's share is not large, about 7%. Turkmenistan uses the swap system to move nearly 90% of its annual oil export (about 3.2 million tons), or 43% of the total volume of swap operations (see: "Oil Flows and Export Capacity in the Caspian Sea and Black Sea Regions," Kazakhstan. Energy Information Administration, p. 12, available at [<http://www.eia.doe.gov/emeu/cabs/Kazakhstan/Oil.html>]).

¹⁰ The combined designed annual capacity of two gas pipelines, Korpeje-Kurdkuy and Dovletabat-Serakhs-Khangeran, is 12.5 billion cu m.

¹¹ The Iranian presence in the gas market of the Southern Caucasus is fairly limited. Azerbaijan sells gas to the northwestern provinces of Iran and receives Iranian gas for Nakhchivan. Iran supplies Armenia with 400 million cu m of natural gas in exchange for electric power in a ratio of 1:3.

In 2010, trade turnover between Iran and Kazakhstan was \$1,120.3 million, Kazakhstan exported products totaling \$1,093.3 million.¹² Iran buys grain and the products of oil refineries and metallurgical plants from Kazakhstan.

Relations between Iran and Uzbekistan are complicated by the Tajik nationalism and Islamic ideas widespread in the latter. The two countries, however, are developing trade in agriculture, the oil and gas sector, pharmaceuticals, construction, and banking. In 2010, their trade turnover reached \$609 million.¹³ Iran sells construction materials, detergents, foodstuffs, tea, and fruit to Uzbekistan and buys cotton, ferrous and non-ferrous metals, fertilizers, chemical fiber, etc., from it.

Transport infrastructure figures prominently in the relations between the two countries; in 1996, they commissioned the Tejen-Serakhs-Mashhad railway connecting the railway systems of Iran and Central Asia; and in 2006, they built the Bafk-Bandar-e 'Abbas railway to give Uzbekistan an outlet to the Persian Gulf. The territory of Uzbekistan, in turn, provides Iran with access to the CIS countries.

In 2010, Iranian trade turnover with the countries of the Southern Caucasus was \$580 million; Armenia is Iran's closest partner—they are working together on energy and transportation projects and plan to connect their railways.

Neo-Ottomanism: Semi-Peripheral Function

Its GDP of \$729 billion makes Turkey Europe's 7th and the world's 17th economy (2010 figures); it ranks 17th in the world in terms of population size (77.8 million).

The above has not earned it a place among the core countries of the capitalist world-economy; Turkey is a semi-periphery state. Its economy is dominated by the textile industry, mechanical engineering of a mid-tech level, resource-intensive branches (metallurgy and the food industry), tourism, and building contracts. The nagging domestic problems and persisting negative trade balance and external debt make Turkey partly a periphery country. It depends on the United States for its military-political status, while its economy depends on Europe.¹⁴

Ankara tried to capitalize on the downfall of the Soviet Union; it hastened to spread its economic presence to Central Asia and the Caucasus, its advance being cut short by the economic crisis of the 1990s.

Turkey comes after the U.S., EU, China and Russia in terms of investments in the region and trade volume. It has established good economic ties with Kazakhstan, Kyrgyzstan, Tajikistan, Azerbaijan, and Georgia, its relations with Uzbekistan being much cooler.

The closed border with Armenia and the absence of diplomatic relations did not affect trade turnover between the two countries: in 2010 it amounted to \$212.1 million,¹⁵ which made Turkey Armenia's 7th largest trade partner.

Turkey is Georgia's main trade partner with a trade turnover of \$1,105 million at year-end 2010.

¹² See: *Kazakhstan v 2010 godu. Statisticheskiy ezhegodnik*.

¹³ See: UzDaily.uz, 9 February, 2011, available at [<http://www.uzdaily.uz/articles-id-5622.htm>].

¹⁴ For more details, see: S. Taşhan, "Turkey's International Relations after Iraq War," *Foreign Policy*, Issue 12, 2003, available at [www.foreignpolicy.org.tr/documents/periodicals/vol30.pdf].

¹⁵ See: "Social and Economic Situation of the Republic of Armenia in 2010; External Sector," The National Statistical Service of Armenia, available at in Russian [http://www.armstat.am/file/article/sv_12_10r_411.pdf].

Turkey, with a volume of \$771.4 million, is Azerbaijan's second largest import partner after Russia.

Turkey could not move to the fore on the regional political scene and dominate it for two reasons: first, most of the region's natural riches are controlled by the core of the capitalist world-economy; second, it failed to overcome the tough competition with the other semi-periphery countries (Russia, with its traditionally strong position in the region; China, which is consistently gaining strength and can spend much more money than Turkey; and Iran, with its pragmatic economic policy and cultural and historical ties with the region).

The current policies of the Turkish ruling elite testify that its political and economic ambitions are moving closer to those outlined by the doctrine of neo-Ottomanism, in this case a political component of the semi-periphery function.

Recently, Ankara has shifted the emphasis to the Middle East, with which it largely shares a common cultural heritage and history. It has another enormous strategic advantage. I have in mind its huge fresh water reserves. Water shortage in the Middle East has already caused many wars; it seems that in the coming decades the problem will become even worse.

Turkey is seeking a place in the oil and gas sector, trade, investments, and construction in Central Asia and the Caucasus.

The Turkish economy greatly depends on imported energy resources; imported oil and gas account for half of the country's trade deficit; in January-October 2011, it amounted to \$90 billion.¹⁶ To lighten the burden, Ankara joined several of the energy projects as a junior partner¹⁷: it invested in Azeri and Kazakhstan oil and gas projects and is one of the most active lobbyists of the Trans-Caspian gas project.

Turkey is trying to use its geographic location to become an energy bridge between Europe and Asia¹⁸; this makes it a rival of Russia.¹⁹ Some experts think that the Blue Stream (which brings Russian gas to Turkey) was Ankara's strategic mistake because it increased the country's dependence on Russian gas.²⁰

Russia's oil and gas deliveries to Turkey are large enough for Ankara to seek mutually acceptable compromises with Moscow on energy projects.

Turkey is very interested in the pipeline projects reaching the Mid-Eastern, particularly Iranian, hydrocarbon sources. Profits and political dividends do not exhaust its interests—it seeks greater security as well.

Russia deliberately promotes pipeline projects that exclude Turkey; Moscow cannot but be concerned about Turkey's stronger position: there are fears that after strengthening its position in the Middle East, Ankara will turn to the Caucasus and Central Asia.

In the last twenty years, the gap between the two countries' economic potential narrowed: in 1990, the Turkish GDP was 29% of Russia's; in 2010, it reached 48.6%. Turkey intends to commemorate the 100th anniversary of the Turkish Republic in 2023 by joining the ten largest world economies.

¹⁶ See: "Turtsia namerena snizit zavisimost ot rossiiskogo gaza," *Armenia Today*, 16 December, 2011, available at [http://www.armtoday.info/default.asp?Lang=_Ru&NewsID=57254&SectionID=0&RegionID=0&Date=12/16/2011&PagePosition=1].

¹⁷ For more details, see: A. Egiazarian, *Turtsia i Rossia vo vnesheekonomicheskikh otnosheniakh Azerbaidzhana (1995-2006)*, Kavkaz Analytical Center, Regnum, Erevan-Moscow, 2007, 66 pp.

¹⁸ See: S. Laçiner, "Turkey's Pipeline Politics," *Review of International Law and Politics (Uluslararası Hukuk ve Politika)*, Issue 19, 2009.

¹⁹ For more details, see: N. Ulchenko, "Geostrategic Aspects of Gas Export from Russia and Turkmenistan to Turkey," *Foreign Policy (Dış Politika)*, Issue 34, 2002.

²⁰ See: *Segodnya*, 2 September, 1997.

Turkey invested \$6 billion in Azerbaijan,²¹ about \$2 billion in Kazakhstan,²² and \$1.3 billion in Turkmenistan.²³ Turkish money is concentrated in power production (85% of the total), the processing industry, telecommunications, culture, and tourism. Until 2006, about 98% of Turkish exported capital went to Central Asia and the Caucasus: Turkey was involved in the Caspian fuel projects (production and transportation); this indicates the region's huge importance in the country's energy security.²⁴

Although geographically close neighbors, the Central Asia and Caucasus region and Turkey have no direct transportation links. A railway crosses Armenia; there is another railway in the east, on the Iranian border (Karykoy). Karykoy's Kurdish population and the railway's limited transportation capacity make it hardly suitable.²⁵

Turkish companies are doing their best to resolve the problem with the help of their investment and trade strategies and local infrastructures. Turkish businesses reach the Russian market via Azerbaijan; this is amply demonstrated by the structure of Azeri export to Russia. The Turks are investing their money in export-oriented industries in Azerbaijan to remain in the domestic markets and reach the neighboring markets, particularly Russia's.²⁶

Turkey joined forces with Georgia to build the Kars-Akhalkalaki railway.

Construction is another sphere of Turkish interests; this is especially true of Kazakhstan and Turkmenistan. Turkish companies are no rivals for European, American, Japanese, or Chinese companies, however the Turks are present in nearly 80 countries. Between 2000 and 2008, the overall value of the Turkish projects abroad increased from \$750 million (596.71 million euro) to \$23.6 billion; the government plans to bring it up to \$50 billion by 2015.

In 1999, *Engineering News-Record*, the leading journal in the construction industry, listed four Turkish companies among the world's 225 best international contractors. Ten years later, there were 31 of them; together they brought \$14.05 billion in profit into their country, or 3.6% of the aggregate international income of the world's best building contractors. All of this makes Turkey a global player in the construction business.²⁷

Russia: From Mercantilism to Integration

Immanuel Wallerstein has written that post-Soviet Russia became a semi-periphery country in the capitalist world-economy, a place it has occupied throughout its 300-year-long history.²⁸

In terms of international labor division, Russia looks like a periphery country, however it is too large and too strong to be counted as such. "Even a weakened country Russia is too dangerous an adversary to let it slide to the South."²⁹

²¹ See: *Vestnik Kavkaza*, 12 November, 2011, available at [<http://www.vestikavkaza.ru/news/ekonomika/gaz/46205.html>].

²² [<http://news.mail.ru/inworld/kazakhstan/politics/7593642/>].

²³ See: I. Svistunova: "Turtsia-Turkmenistan. 'Dva gosudarstva—odin narod,'" 8 June, 2011, available at [<http://www.centrasia.ru/newsA.php?st=1307512620>].

²⁴ For more details, see: A. Egiazarian, *Gruzia: Strukturnye problemy ekonomiki i turetskaia ekonomicheskaiia ekspansiiia (1994-2007)*, Kavkaz Analytical Center, Regnum, Erevan-Moscow, 2007, 85 pp.

²⁵ See: *Ibidem*.

²⁶ For more details, see: A. Egiazarian, *Turtsia i Rossia vo vneshneekonomicheskikh otnosheniakh Azerbaidzhana (1995-2006)*.

²⁷ See: "Turtsia stanovitsia globalnoy siloy v stroitelstve," available at [<http://antalyatoday.ru/articlerd/antalya-46.html>].

²⁸ See: I. Wallerstein, "Rossia i kapitalisticheskaia mir-ekonomika," *Svobodnaia mysl*, No. 5, 1996, pp. 37-38.

²⁹ *Ibid.*, p. 41.

Wallerstein describes “the army and everything which is connected with it in Russia” as elements of the core.³⁰ In all other respects—resource potential, the nuclear industry, space research, and its surviving science and education sphere—Russia belongs to the semi-periphery. It can be said that it is still holding onto the position it has been occupying for nearly 300 years. However, if the destructive tendencies of the last two decades continue, in some 10 to 15 years Russia will become a permanent member of the “periphery community.”³¹

Today, as part of the capitalist world-economy, Russia is positioned as a raw-material appendage of the post-industrial and industrial countries; indeed, mineral resources and metallurgical products account for 80% of its export. It is working hard to switch to a different export structure by extracting and processing its rich natural resources with the help of its still existing industrial potential (the Canadian development scenario).

Russia will have to revise its policies (so far obviously mercantilist) and rhetoric. Since the 17th century, mercantilism has been and remains an instrument of semi-periphery countries seeking a core status. It remains to be seen whether it will help Russia in the same way it helped France, Germany, and other countries.

In the last fifteen years Russia has remained devoted (at least externally) to the principles of mercantilism, which failed to encourage structural changes in its economy. It seems that Russia intends to use its newly acquired WTO membership to leave mercantilism behind and establish closer relations with the leaders of the capitalist world-economy.

This means that Russia might expand its semi-periphery function and consolidate its position in the region: Iran remains isolated, while Turkey has turned to the Middle East.

It is commonly believed in Russia that the region’s countries belong to the sphere of Russia’s exclusive influence, a conviction rooted in the surviving memories of the Soviet past.

In fact, the periphery neighbors of a semi-periphery country are invariably included in the sphere of its interests, its security interests in particular. Indeed, Russia’s national security can be undermined by instability in Central Asia (Islamism, refugees, drug trafficking, lost control over pipelines and uranium mining, contracted trade volumes, etc.) or the Northern Caucasus (very much affected by instability in the Southern Caucasus).

To preserve and consolidate its position in the region, Russia is actively using all the tools at its disposal, including the transportation and communication infrastructure inherited from the Soviet Union. Moscow spares no effort to retain its dominant position in the European market (today the EU receives 50% of imported gas and 30% of oil from Russia³²) and to preserve its economic and political advantages; it tries to block off all alternative oil and gas pipeline projects in the Caspian.³³

The configuration of the region’s gas pipeline system is of primary importance for Russia; so far, it dominates it; its position in the oil pipeline system is less impressive. In an effort to gain access to vitally important resources, the European countries prefer not to spoil relations with Russia. This explains why their companies sometimes play against each other and why Gazprom has entered fairly advantageous contracts with ENI of Italy, Gasunie of the Netherlands, BASF and E. ON Ruhrgas of Germany, and Gaz de France of France.

³⁰ See: *Ibid.*, pp. 38-39.

³¹ V. Khoros, *op. cit.*

³² See: “An External Policy to Serve Europe’s Energy Interests. European Commission and EU Secretary-General/High Representative,” June 2006, available at [http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/EN/reports/90082.pdf].

³³ For more details, see: Z. Baran, “EU Energy Security: Time to End Russian Leverage,” *Washington Quarterly*, Vol. 30, No. 4, 2007.

Late in the 1990s, Russia promptly responded to the plans to build a gas pipeline across the Caspian (from Turkmenistan to Turkey and Europe) by building the Blue Stream across the Black Sea to Turkey.

In 2007, Gazprom and ENI of Italy announced that they intended to build South Stream (a gas pipeline designed to push Nabucco away). Simultaneously, Russia, Kazakhstan, and Turkmenistan signed a tri-partite contract to build the Caspian pipeline along the eastern shore of the Caspian Sea and expand and modernize the already functioning pipelines in the region. When implemented, this project was expected to give Gazprom control over at least some of the Central Asian gas exports. Gazprom has an agreement with Turkmenistan to increase gas purchases from 50 bcm to 90 bcm in 2008. Despite the higher prices established by the Central Asian countries, Gazprom is buying more and more gas.³⁴ Other (already existing) joint projects—the Central Asia-Center and Bukhara-Urals gas pipelines—are used to increase the flow of Uzbek and Turkmen gas to Russia.³⁵

Central Asian gas plays an important part in Russia's energy balance; today Gazprom needs it to cover its European contracts. According to expert assessments, in the next decade Russia will remain the world's largest exporter of natural gas, and the EU its largest importer.

The unimplemented Trans-Caspian and Trans-Afghan projects could have become alternatives to the Russian routes; this means that there are no western and southern gas transportation routes to compete with the Russian—something that the United States and the European Union like very much. Indeed, oil as a resource of strategic importance goes to the core, while gas, a less important resource, to the semi-periphery.

In 2006, Gazprom bought three of the largest gas fields (Urga, Kuanysh, and Akchalak) from Uzbekistan; the deal also guaranteed Russia's tolerance of the Uzbek regime. This made Gazprom practically a monopolist exporter of Uzbek gas.

From the world-systems perspective, semi-peripheral Russia relieves the core-periphery tension. Russia, a semi-periphery country, plays the role of the core in relation to Uzbekistan as a periphery country; this should not be taken to mean that the core has slackened its grip on the semi-periphery. The United States and the European countries have commercial and technological tools at their disposal to be presented to Russia at the negotiation table:

- Western investments in the oil and gas sphere—something which Russia badly needs;
- Transfer of Western oil and gas technologies to Russia;
- Cooperation in nuclear power production;
- Coordination of efforts to achieve more efficient use of energy in Russia and the EU;
- Western technologies to be used to achieve higher efficiency of the Russian power sector.

Russia's position in the gas sphere is strong, but it has no transit monopoly: export no longer depends solely on it. Turkmenistan sells its gas directly to Iran and China; the latter also buy gas from Kazakhstan and Uzbekistan.

Compared with the other international players, Russia's investments in the Central Asian fuel sector look modest. In 2007, it invested from \$4 to \$5.2 billion. The larger part—from 80 to 85% (between \$3.4 and \$4.1 billion)—went to Kazakhstan; Uzbekistan received from \$0.5 to \$1 bil-

³⁴ Iran and especially China are prepared to pay even more for Central Asian gas, which explains the higher prices.

³⁵ See: V. Paramonov, A. Stokov, "Russian Oil and Gas Projects and Investments in Central Asia," *Central Asia Series*, Defense Academy of the United Kingdom, Shrivenham, 2008.

lion; and the other countries (Turkmenistan, Tajikistan, and Kyrgyzstan) acquired up to \$50 million.³⁶

Russia is involved in many of the oil and gas projects in Kazakhstan on a much smaller scale than the West; it should be said that the BTC and BTE pipelines deprived Russia of some of its impact on Azerbaijan and Georgia.

Gazprom operates in many countries; it is involved in geological prospecting in Uzbekistan, Tajikistan, and Kyrgyzstan and in gas supplies and gas distribution in Armenia.

ITERA of Russia is engaged in Turkmenistan in expanding the pipeline system and its modernization, a relatively less capital-consuming sphere. The offshore gas fields require much more money; their development is never smooth because of certain technological and geopolitical factors.

Russia has to compete with Kazakhstan in the gas sector of Kyrgyzstan and Georgia; Kazakhstan intends to start geological prospecting for oil in Turkmenistan. The Kazakh companies might establish their control over the national hydrocarbon resources, which will endanger the Russian projects in this country.

Russia is seeking greater involvement (but not domination) in hydropower production. Inter RAO EES of Russia built the Sangtuda-1 Hydropower Station in Tajikistan with a design capacity of 670 megawatt (today the company owns 75% of the shares). Russia supplies Kambarata-2 in Kyrgyzstan with power generators and controls the Inguri Hydropower Station in Georgia (its storage pool is located in Georgia, while the station itself is in Abkhazia, now under Russia's control).

The hydroelectric power projects in Tajikistan and Kyrgyzstan are hard to implement because of the region's water shortages: about 80% of the Central Asian water resources formed in Kyrgyzstan and Tajikistan are used in Kazakhstan, Uzbekistan, and Turkmenistan.

Uzbekistan, which has the region's largest population, two-thirds of which work in agriculture, feels the shortage more than its neighbors. It depends on the water coming from the mountains of Tajikistan and Kyrgyzstan. It is commonly believed in Uzbekistan that hydropower stations in these countries will disrupt the region's water balance and trigger unpredictable social, political, and ecological repercussions.

Russia's involvement in hydropower projects draws it into the intricacies of the geopolitical game; this might undermine its influence in the region and damage its relations with Afghanistan and Pakistan, two potential buyers of the region's power. It seems that, unwilling to risk its position in the region, Russia withdrew from the project of the Rogun Hydropower Station in Tajikistan.

Turkey, Iran, and even China cannot resolve the region's water supply and power production problems.

Russia's economy largely depends on trade with Central Asia and the Caucasus; it primarily concentrates on power production. As distinct from the West, which consumes energy resources, Russia trades in them.

The raw materials from the region are processed at Russian enterprises, albeit on a much smaller scale than before. Russia sells spare parts to the region's countries, extends technical assistance, and sells some other types of finished products (today, very much like in Soviet times, these countries have no industrial infrastructure to speak of).

Russian companies cannot compete with their Western colleagues in Kazakhstan or Azerbaijan; in the oil-poor countries (Kyrgyzstan, Tajikistan, and Armenia), their position looks fairly strong. China in Kyrgyzstan, Iran in Tajikistan, and Turkey in Georgia confront Russia with fairly stiff competition.

³⁶ See: V. Paramonov, A. Stokov, *Rossiiskie neftegazovye proekty i investitsii v Tsentralnoy Azii*, Advanced Research and Assessment Group, Central Asian Series, Great Britain, 2008. 19 pp.

Russian companies are also interested in uranium mining, power production, the petroleum products market, construction, telecommunications, goods traffic, railways, banks, the military-industrial complex, some of the agricultural branches, etc.

In November 2008, the Government of the Russian Federation adopted the Concept of Long-Term Social and Economic Development of the Russian Federation up to the Year 2020, which formulated the efficiency criteria and identified the landmarks leading to sustainable economic growth and stronger national security.

By 2020, Russia intends to join the top five world countries; by 2020, per capita GDP should be doubled (against 2007); it should increase the share of high-tech and innovation enterprises; spend more on R&D; export more, etc. If realized, these plans will create a workforce shortage inside the country (in the next decade the country will lose 1% of its able-bodied population every year) and will need over 12 million migrants. So far, none of the developed countries has been able to implement the best possible scenario of economic growth in similar conditions.³⁷

The high growth rates of the last decade in some sectors have made Russia even more dependent on migrant workers. According to certain assessments, the total number of labor migrants from Uzbekistan (both legal and illegal) is over 1 million; in Russia, nine out of ten migrants are illegal.³⁸

Russia comes second after the U.S. in terms of number of migrants; they come from Central Asia and the Caucasus (today, Russia is the main host country for the region's labor migrants). Russia's population is growing older, which means that labor migration will develop into a key factor of its economic development; Russia will obviously work hard to consolidate its position in the region.

So far it is losing its grip there: China with its huge economic and political resources is rapidly increasing its presence in the oil and gas industry, as well as in the trade and investment spheres. India, Iran, and Turkey are not strong enough to squeeze Russia out of the region.

The rivalry between Russia and China in the region will most likely dampen their relations. China, which is strengthening and expanding its trade and economic contacts in Central Asia, is building transportation routes to connect the region with its own territory and oil and gas pipelines, which deprive Russia of its levers of influence.

This is fraught with great problems for Russia in the long-term perspective.³⁹ The Final Report of a group of experts on the urgent problems of Russia's social and economic strategy until 2020 pointed out that China is gradually moving into a leading position in the commodity markets of the region's countries (including the countries of Russia's traditional domination).

The document went on to say that "despite the slower (8.5%) average annual growth rates in 2011-2012 compared with 10.0% of the previous period (2010-2011), China remains one of the most dynamic economies because of the greater domestic demands and higher incomes of its population".

The authors deemed it necessary to point out: "In the next 10 years China will fortify its global position thanks to its growing economic might, more positive attitude of the West, and its financial expansion in the world markets (loans, buying-up distressed promissory notes, direct investments in other countries, etc.)."

³⁷ See: M. Dmitriev, "Long-Term Economic Consequences of the Aging Population in Russia," Information Supplement to the Report on Social Development for 2009, Center for Strategic Research.

³⁸ See: S. Ryazantsev, L. Rybakovsky, "International Migration in the Russian Federation," The document was presented at a meeting of U.N. experts in international migration and development, available at [http://www.un.org/esa/population/meetings/ittmigdev2005/P11_Rybakovsky&Ryazantsev.pdf].

³⁹ See: M. Laruelle, S. Peyrouse, *China as a Neighbor: Central Asian Perspectives and Strategies. Silk Road Monograph*, Central Asia and Caucasus Institute, Washington, D.C., April 2009.

The experts concluded that Russia might be confronted with risks and challenges; they do not exclude the possibility that by 2020 the yuan could become a global currency.

They also presumed that “if a more radical scenario is implemented, which will make China the issuer of a regional (or even world) reserve currency, it might shatter the international monetary system, limit the sphere of the Russian ruble in international clearing operations, and cause currency war.” They believe that this will challenge the world community, not to mention Russia.

China’s stronger position in Central Asia may keep the region away from Russia’s integration projects; they could add an edge to the rivalry over Central Asian energy resources and slacken customs control on the border between Kazakhstan and China (the southern border of the Customs Union), which in turn could thwart the plans to enlarge this Customs Union.

The authors deemed it necessary to stress that the interests of third countries, Russia among them, might be damaged by China’s more active negotiation and interventionist activities in the “club of the world leaders;” its stronger position in the WTO and IMF, and the much stronger position of the G2 (the U.S. and China) in governing the global economic processes.⁴⁰

Those who say that under certain conditions, vulnerable Russia will present a grave danger in the context of the interests of the capitalist world-economy now challenged by rapidly strengthening China could well be right. This means that in the short-term perspective, Russia will try even harder to build up its influence in the region.

Conclusion

Wallerstein has written that the period of peaceful development of the capitalist world-economy has ended. Further widening of political rights and redistribution of material wealth will endanger the system of capitalist accumulation. It appears that this contradiction has cropped up in the form of a fiercer struggle for influence and distribution of regional resources among the core and semi-periphery countries.

Turkey, Iran, and China tried to gain domination in the neighboring Central Asia and Caucasus region as soon as the Soviet Union ceased to exist; their companies have been actively pouring money into regional infrastructural and raw material assets and gradually penetrating the local markets.

In the 2000s, Russia, which regained its strength thanks to high fuel prices, demonstrated its intention to draw the region into its foreign policy orbit; the core and the semi-periphery became involved in political and economic rivalry, which not infrequently developed into an open confrontation between them and among semi-periphery countries.

They became much bolder when it came to decisions on many of the current issues; sometimes they formulated initiatives of an anti-systemic nature. The multivectoral policy of the periphery countries seeking more varied sources of money and more markets exacerbated this rivalry.

Today, the United States and its policy of isolation are keeping Iran away from the region.

Turkish expansion is fairly limited not only because it has few resources and possibilities (much fewer than those of China and Russia), but also because of the prominent Middle Eastern vector of Ankara’s foreign policy.

Russia, which is determined to make the region part of its Eurasian integration project, regards its stronger position in the region as one of its foreign policy priorities. China is one of the main obstacles; this means that the relations between the two rivals might deteriorate.

⁴⁰ See: *Itogovy doklad o rezultatakh ekspertnoy raboty po aktualnym problemam sotsialno-ekonomicheskoy strategii Rossii na period do 2020 goda*, pp. 806-807, available at [<http://www.youngscience.ru/files/news-150312-strateg2020.pdf>].

The fight for uranium resources will add new hues to the contradictions between the main players and might ultimately “Balkanize” the region.

Today, oil and gas are two of the main economic advantages, but on the world scale their volume looks fairly modest. The uranium deposits place the region on a par with Australia and Canada, two leading uranium-mining countries.

The region’s oil resources have already largely been distributed, which means that the turn of uranium deposits has come. The West, Russia, China, and, according to certain assessments, Iran, which is interested in Tajikistan’s uranium resources, have already joined the fracas.
