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**ADB Working Paper Series**

**BARRIERS AND SOLUTIONS TO  
ECONOMIC INTEGRATION OF  
CASPIAN SEA COUNTRIES**

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**Abstract**

The aim of this paper is to analyze the barriers to economic integration of Caspian Sea countries – specifically the Russian Federation, Kazakhstan, Azerbaijan, Turkmenistan, Uzbekistan, Iran, and Georgia – and suggest solutions. A literature review is used as a methodology for conducting this research, synthesizing research findings to determine the current level of integration in the Caspian Basin, barriers to it, and to uncover solutions that can deepen it. It was concluded from this research that Caspian states have a long experience of economic integration. However, it was found that the obstacles that prevent economic integration among Caspian states can be summarized under three main headings. First of all, the geographic location of Caspian states is so critical that it is impossible to define clear borders in the region. Second, the different governance structures of Caspian states make it difficult to evaluate the co-benefits of economic integration. Third, the geopolitical interests of foreign actors are a serious handicap for the region's economic integration. On the other hand, ongoing geopolitical and economic processes are increasing Caspian states' need for each other. In this context, existing bilateral and trilateral agreements can be classified by the number of sides and subjects so that a multi-speed integration can be achieved among the region's countries and they can choose the level of integration according to their own interests.

**Keywords:** Caspian Sea, economic integration, energy cooperation, geopolitical interests

**JEL Classification:** F02, F15, F50

## Contents

1.	INTRODUCTION .....	1
2.	METHODOLOGY .....	2
3.	EXISTING COOPERATION PLATFORMS AMONG CASPIAN SEA COUNTRIES ...	2
4.	A DELAYED CASPIAN INTEGRATION: OBSTACLES AND POSSIBILITIES .....	6
5.	CONCLUSION .....	11
	REFERENCES .....	12

## 1. INTRODUCTION

“International integration is a process by which countries remove the barriers to free trade and the free movement of people across national borders, with the goal of reducing the tensions that can lead to international conflict” (Garza 2006). According to Balassa (1961, 174), “economic integration encompasses measures designed to abolish discrimination between economic units belonging to different national states; it can be represented by the absence of various forms of discrimination between national economies.” Depending on varying degrees of integration, economic integration can take several forms, namely a free-trade area, a customs union, a common market, an economic union, or complete economic integration (Balassa 1961, 174).

Regional integration trends aimed at stimulating deeper and comprehensive economic cooperation between countries accelerated after the Second World War. As a result, several integration models have been created, such as the European Union (EU) (formerly the European Community [EC]), the USMCA (formerly NAFTA), and ASEAN, which represent three major regions of the world – North America, Western Europe, and Southeast Asia.

With its *sui generis* structure, the EU represents the best model of integration among nation states, and has achieved more than removing the barriers to free trade and free movement of people. During the last few years, blocs such as ASEAN, USMCA, MERCOSUR, APEC, etc. have presented a different integration structure because of the geographic, political, economic, social, and cultural features of the regions that they represent. But in any case, economic integration is still a preferable cooperation option among states.

The Caspian region has become one of the most attractive regions of the world in recent years mainly due to its geopolitical location and natural resources. The dissolution of the Soviet Union and increasing global trade movements created new opportunities for the region’s economic development. In this context, the emerging states of the region have adapted to the free market economy and opened up to the world. However, evidently it has not been possible to transform these individual achievements into an initiative to establish regional economic integration. Considering the characteristics of the region, the barriers to developing the EU model of economic integration among the Caspian states are understandable. But there are also significant opportunities for the Caspian states to come together in the region for a common cause and to benefit from a type of economic integration like that among the ASEAN countries.

So the aim of this paper and its five constituent parts is to research the possibilities of economic integration of the Caspian Sea countries and the barriers to it. Following the introduction, the second section explains the chosen methodology. Existing cooperation platforms among Caspian Sea countries are reviewed in the third section. In the fourth and main part of the study, the possibilities of deeper integration and barriers to it are discussed. The final section – the conclusion – presents the article’s findings and policy implications.

## **2. METHODOLOGY**

In conducting this research, a literature review is used as a methodology, with the aim of synthesizing research findings to determine the current level of integration in the Caspian Basin and barriers to it, and to uncover solutions that can deepen it. This study is based on primary sources, academic research articles, policy documents, scholarly journals, working papers, workshop reports, interviews, political speeches, and declarations, as well as newspaper articles in four languages: English, Russian, Turkish, and Azerbaijani. It was preferred to examine the research topic from several perspectives in different languages, referring to the academic research articles indexed in prevalent and reputable databases. Using empirical data collected from the aforementioned sources, the aim is to measure the level of the possibility of integration among Caspian states and to determine the specific obstacles to it. Thus, first of all, the existing cooperation platforms among the Caspian states are examined, using these sources. Then, the study attempts to define the concrete barriers to integration in the Caspian Basin. The article mainly focuses on the period after the 2000s, although it also covers the important events of the 1990s – the first years following the dissolution of the Soviet Union.

Because of various challenges and limitations, the study has been limited to five Caspian Sea littoral states, Georgia, and Uzbekistan. Armenia, the Kyrgyz Republic, and Tajikistan have been left out of the research scope. Because of the ethnic dispute, it is not logical to think about any economic interaction in the near future between Armenia and Azerbaijan, which is one of the leading economies of the region. The Kyrgyz Republic, with its landlocked position and poor economy, needs to act more rationally, such as by building close relations with the neighboring and cheaper People's Republic of China (PRC) rather than distant Caspian ones. In order to participate in any economic integration, first of all, Tajikistan needs to improve its basic internal political and legal structure. Moreover, it was found that existing sources mainly address the regional cooperation among the above-mentioned Caspian states rather than the integration between them. More importantly, there is a serious difficulty in gaining access to national economic data as well as data regarding bilateral and multilateral economic transactions. These three points represent a limitation of the study.

## **3. EXISTING COOPERATION PLATFORMS AMONG CASPIAN SEA COUNTRIES**

In order to draw a picture of the Caspian Basin in terms of any possible economic integration, the current situation in the region needs to be understood. Apart from Iran, other countries that are the subjects of this study – the Russian Federation, Azerbaijan, Georgia, Kazakhstan, Uzbekistan, and Turkmenistan – were part of a unique state-controlled economic system for approximately 70 years. There has been a “type of obliged integration” among these states, allowing them free movement of people, goods, and services inside the union, isolating them from the outside world. The relations between the former Soviet Union and Iran continued in a restrictive cooperative environment in the shade of political issues.

The dissolution of the Soviet Union changed the map of the Caspian Basin, with an increasing number of states in the region gaining the opportunity to act independently. Iran was among the first states to recognize the independence of new emerging countries around it, specifically the Russian Federation, Azerbaijan, Georgia, Kazakhstan, Uzbekistan, and Turkmenistan, and since then the countries have been developing relations. Contacts have certainly not been limited to the bilateral relations among these states, and some attempts have been made to undertake common actions.

The Commonwealth of Independent States (CIS) was created by the Russian Federation, Ukraine, and Belarus before the collapse of the former Soviet Union with the aim of helping to ease its dissolution and coordinate interrepublican affairs. Although Azerbaijan, Georgia, Kazakhstan, Uzbekistan, and Turkmenistan also joined the CIS in the 1990s, later – in the 2000s – Turkmenistan changed its mind and Georgia left the organization for several reasons. There are primarily nine areas of cooperation within the framework of the CIS and the main purpose of this organization is the development of multilateral relations among CIS member states in economic, humanitarian, military, and political spheres. However, the CIS has been perceived as an attempt by the Russian Federation to collect the post-Soviet states under a single frame in order to preserve its influence in the region and in the world rather than as an integration initiative, which has also kept the members of the organization at a distance. According to another widespread view, as a priority of the Russian Federation's foreign policy, the establishment and development of Eurasian integration in the post-Soviet region was mainly aimed at overcoming the destructive results of the former Soviet Union's collapse in the geopolitical and socioeconomic context (Bykov 2016, 285). But existing serious problems, especially related to ethnic issues among the member states inherited from the former Soviet Union, are the main reason for its ineffectiveness. That is why at the end of the 1990s, it was already recognized, especially by the Russian Federation, that the CIS could not be turned into an effective integration tool. About 90% of all decisions made by CIS institutions are simply not implemented. The CIS was created as an interstate-type organization in which decisions are made on the principle of consensus among member countries. The absence of supranational institutions predetermines that the integration of the CIS takes place on an ad hoc basis and selectively, i.e., only among those member countries who are interested in a particular policy. For example, Azerbaijan clearly expressed its official attitude on this matter: "Azerbaijan conducts cooperation with CIS member states mainly on a bilateral basis. At the same time, Azerbaijan continues cooperation within the framework of the CIS on the basis of the national interests and considers the above-mentioned organization as a platform for dialogue" (Republic of Azerbaijan Ministry of Foreign Affairs 2018).

Another very important factor that predetermines the inefficiency of the CIS is the lack of a driving force for integration. The EU experience shows that the driving force of a political organization is a growing economic dependence among member countries. The role of the CIS in respect of economic integration is limited. Between the years of the Russian Federation's financial crisis of 1998 and the global financial crisis of 2008, the countries of the CIS enjoyed robust economic growth. From 2000 to 2008, the economies of CIS countries grew at an average rate of over 6% (excluding the Kyrgyz Republic) (Jenish 2013, 4). However, the roots of these developments have been sourced mainly from outside the CIS as in the period 2000–2006 all CIS countries, except Belarus, Moldova, and the Kyrgyz Republic, had more export and import ties with non-CIS countries than within the CIS. For example, in 2007, trade between the EU and the CIS countries was 87% higher than the volume of trade within the CIS (Kaschunas 2007). In order to promote trade and economic cooperation between the CIS member nations, the



Free Trade Zone Agreement was signed on 18 October 2011 in Saint Petersburg; this was designed to give additional impetus to the growth of national economies and the CIS potential in general. Currently nine countries (the Russian Federation, Belarus, Ukraine, Moldova, Tajikistan, Armenia, Kazakhstan, the Kyrgyz Republic, and Uzbekistan) from the CIS have ratified a Free Trade Agreement (FTA) that allows free movement of goods within the territory of the member states. On the other hand, the ongoing conflict between the Russian Federation and Ukraine has resulted in severe disruption of trade between the two countries (The International Trade Administration 2019).

Three countries – Belarus, Kazakhstan, and the Russian Federation – initiated a customs union in 1995, which the Kyrgyz Republic and Tajikistan agreed to join in 1996. The remarkable point here was the relations among member countries themselves. There was no glaring conflict among them at last. This was accepted as a factor in increasing the functionality of the union. However, it was clear that the aims of the customs union were unrealistic in the short term given the member states' continuing economic decline, their different economic policies, and their substantial disagreements over trade policy with other countries (Kembayev 2013 718). In October 2000, member countries decided to upgrade it to the Eurasian Economic Community (EurAsEC). This decision was ratified in May 2001. The countries aimed to set a common external tariff with respect to the rest of the countries of the world (non-CIS) and harmonize the nontariff barriers. The Russian Federation has emphasized the union's purely economic nature based on compatible markets of interdependent states far from any political ambition. Moscow called on the EU to recognize the customs union and invited Brussels to deal with the Eurasian Economic Commission, the union's one regulatory body, on trade matters related to the Russian Federation. According to some, the customs union had a chance of becoming more than just a paper tiger (Shumylo-Tapiola 2012, 3). However, they failed to fulfill the announced aims (Tochitskaya 2010, 4). The diverse structure of the economy and different level of economic development in Belarus, the Kyrgyz Republic, Kazakhstan, the Russian Federation, and Tajikistan and the lack of an instrument to remove such obstacles were the major reasons. As a consequence, the countries' willingness to accept protection and their openness to international competition among the economic sectors did not coincide. Besides, the Kyrgyz Republic has been a WTO member since 1990 and hence should conduct its trade policy in accordance with accepted obligations, including the level of external tariffs. In addition, for different reasons, countries have increasingly reoriented their trade away from regional trade agreements (Tochitskaya 2010, 4). The reluctance of member states to unify national tariff regimes has restricted the gaining of desirable results.

A new step was taken toward regional economic integration and the Agreement on the Eurasian Economic Union (EAEU) was signed by Belarus, Kazakhstan, and the Russian Federation on 29 May 2014 and came into force on 1 January 2015. The Kyrgyz Republic and Armenia entered the union in 2015. The EAEU is a great market with 183.8 million people (2.4% of the global population and a GDP of \$1.9 trillion [3.2%] of the world market). Providing 14.5% of the global oil production, the EAEU ranks first in the world and, in providing 20.2% of the global gas production, it ranks second (EAEU 2019).

The creation of the EAEU was evaluated as a natural and logical desire on the part of the Russian Federation to bring together historically related people and to slow down the stripping apart of the post-Soviet space by foreign powers (Bykov 2016, 290). However, similar reasons – such as conflicts between states, and a lack of economic interest and desire to trade with developed economies – have kept Azerbaijan, Georgia, Turkmenistan, Ukraine, and Uzbekistan away from the EAEU and overshadowed the future success of the union. Considering the potential of the aforementioned countries, it is hard to envisage full integration in the post-Soviet area.

Another concrete initiative in the Caspian region toward integration is the Central Asian Cooperation Organization (CACO). This was initially created under the name of the Central Asian Economic Union (CAEU) in 1994 by Kazakhstan, the Kyrgyz Republic, and Uzbekistan. Tajikistan joined the group in 1998, and the organization was then renamed the Central Asian Economic Cooperation (CAEC) Program. On 28 February 2002, the CAEC was transformed into CACO. On 28 May 2004, the Russian Federation joined CACO as a member. In 2005, Uzbekistan applied for EurAsEC membership and at the same time the member states of CACO decided to disband their organization and to conduct mutual cooperation only in the framework of EurAsEC. Unification of CACO and EurAsEC was a logical step as the two structures were very similar in composition. The only difference was that Uzbekistan was a member of CACO but not of EurAsEC, while Belarus was a EurAsEC member but not part of CACO (Kembayev 2013, 719).

As can be seen, there has been no attempt to achieve more comprehensive regional integration of the Caspian countries since the collapse of the Soviet Union. Rather, there have been experiences of Eurasian economic integration under the leadership of the Russian Federation and, with the notable exception of Iran, some of the Caspian Basin countries have participated in these initiatives. However, the Caspian Basin is a sufficiently great market with more than 295 million people (Table 1).

**Table 1: Population of Caspian Countries, 2017**  
(million people)

<b>Country</b>	<b>Population</b>
Azerbaijan	9,854
Georgia	3,728
Iran	81,164
Kazakhstan	18,038
Russian Federation	144,497
Turkmenistan	5,758
Uzbekistan	32,387
<b>Total</b>	<b>295,426</b>

Source: World Bank 2019 (<https://data.worldbank.org/indicator/SP.POP.TOTL?view=chart>).

But the trade relations of the Caspian states developed on a bilateral basis over these years (Table 2). Due to the sectoral diversification of the Russian economy, geographic proximity, and, moreover, well-developed trading channels as well as a trading culture and perceptions inherited from the Soviet Union, the Russian Federation is the biggest trade partner of other Caspian states. However, all these countries are dependent on developed economies in heavy industry, machinery, and innovative technology. Thus, fast consumer goods, energy, transportation, tourism, education, and health are the main trade areas among the Caspian states.

There has been no integration initiative involving Iran as well as by Iran. Instead of this, the Caspian countries negotiate with each other to increase trade volumes on a bilateral basis. They frequently express their wishes in this regard during their high-level official meetings.

**Table 2: Trade among Caspian Countries, 2015–2017**  
(\$ million)

<b>Azerbaijan</b>	<b>Azerbaijan</b>						
<b>Georgia</b>	1,594,203.2	<b>Georgia</b>					
<b>Iran</b>	602,991.1	440,100.0	<b>Iran</b>				
<b>Kazakhstan</b>	383,374.6	168,308.5	1,784,400.0	<b>Kazakhstan</b>			
<b>Russian Federation</b>	6,047,766.5	2,571,386.9	5,172,128.5	43,821,600.0	<b>Russian Federation</b>		
<b>Turkmenistan</b>	368,845.6	****	2,379,000.0	561,000.0	2,317,021.0	<b>Turkmenistan</b>	
<b>Uzbekistan</b>	62,371.2	242,800.0	868,000.0	5,166,500.0	9,214,897.1	667,500.0	

\*\*\*\* Data not available.

Source: Author's own using countries' national trade statistics.

In addition, a temporary agreement on the formation of a Free Trade Zone between the EEU and Iran was signed on 17 May 2018. The deal sets the main rules of trade between the EEU and Iran most closely to those of the World Trade Organization (WTO), which Iran has not yet joined. The document creates conditions for boosting the development of trade and economic cooperation between countries through the liberalization of trade rules. It defines the obligations of the parties, providing for the reduction or elimination of tariffs and nontariff barriers in relation to certain goods. The agreement also establishes preferential rates for customs duties that apply to such goods. It is agreed that the importing party recognizes the sanitary and phytosanitary measures of the exporting country as being equivalent, even if these measures differ from its own or other measures used by third-party countries. The deal establishes the rules for determining the origin of goods that are to be included in the preferential tariff regime. The interim agreement covers 50% of the trade between the parties (Zanganeh 2019). In the initial phase, Iran will sell some 350 items to the bloc, while 180 items will be available in the Iranian market (Azernews 2019). The deal is expected to increase trade between Iran and the EEU. This is certainly a positive development. But considering that Azerbaijan, Georgia, Uzbekistan, and Turkmenistan are not members of the EEU, it is impossible to think about the full regional economic integration perspectives.

#### 4. A DELAYED CASPIAN INTEGRATION: OBSTACLES AND POSSIBILITIES

After the Cold War, the integration initiatives among the post-Soviet Caspian states were demonstrated by the participation of those states in the network of regional organizations discussed above. While another Caspian state, namely Iran, was not a direct participating country of these creations, it developed close economic relations on a bilateral base. With respect to the post-Soviet states – specifically Caspian ones (excluding Iran) – the term “integration” is used for two possible variants. These are a reconstitution-type integration of the Soviet space under the Russian Federation’s leadership according to its priorities and rules of engagement and the Euro-Atlantic integration oriented toward Western organizations (Pourchot and Stivachtis 2014, 68). Here, the Caspian states can be identified in three major categories. The first group of states comprise those that officially declared their interest in joining the EU and NATO. Georgia is in this group. The second group of states, which includes the Russian Federation, are interested in Moscow-centered integration. The third group of states prefer a more multivectoral approach, keeping balanced contacts with both Brussels and the Kremlin (Pourchot and Stivachtis 2014, 69). Iran could be included in this group before the breakdown of the nuclear deal.

The current state of the basin shows that compared with the other three in Eurasia – namely the Mediterranean, Black, and Baltic Seas – the Caspian region is characterized by the lowest intensity of integration in human contact, trade, business, and investment, as well as in the environment, economy, politics, and security (Alieva 2012, 443–444).

Considering the location of the Caspian states – the Russian Federation, Azerbaijan, Georgia, Kazakhstan, Turkmenistan, Uzbekistan, and Iran – on the globe, it is too difficult to identify them as belonging to any particular region. These countries are parts of different geographic regions at the same time – the South Caucasus, Central Asia, the Middle East, Eurasia (Alieva 2009, 43), and even the Black Sea. The Russian Federation in particular – the largest country in the world – extends from the Baltics to the Balkans as well as to the Far East. Moreover, the Caspian Basin is a decomposition point as well as a meeting point of two dominant civilizations – Christianity and Islam. It is on the dividing but also uniting line of two continents – Europe and Asia. The absence of a common “Caspian” identity leads one to the conclusion that the Caspian Sea divides more than it unifies (Alieva 2009, 43).

Being located in such a large geographic area poses a handicap in terms of social and cultural identity as well as in economic terms. It is impossible to discuss any regional integration in such an enormous territory where one of the purposes is to reduce costs (production, transportation, distribution, etc.). Different economic structures based on different political systems in a wide geographic area prevent EU-type integration in the Caspian region. These differences make it difficult to harmonize the acquis and implementations that are required by a regional economic integration, mainly removing technical barriers in trade, expanding trade in services, engaging in regional trade agreements, establishing special economic zones, and facilitating customs clearance and border crossings.

The size of the region allows the EU, Turkey, the PRC, and the US to act here as main actors from outside and to encourage multilateralism. When the foreign trade partners of the countries are examined, it can be seen that these actors are in the top ten. The EU promotes its relations with the Caspian countries both on the union and member state levels in the context of soft power. On the union level, it uses concrete instruments like TACIS, INOGATE, TRACECA, a Partnership and Cooperation Agreement, a Deep Comprehensive Free Trade Area, and an Association Agreement, and creates several attractive platforms such as the *European Neighbourhood Policy*, the *Eastern Partnership*, and the *Central Asia Strategy*. Thus, the EU, and the West in general, keeps its fascination, not only economically but also in terms of democratization for the Caspian societies. On the other hand, the West's biggest companies – BP, Chevron, ExxonMobil, ENI, Total, Statoil – are the main contracting parties of the important energy agreements of these countries. Newly emerged Caspian states in particular prefer to cooperate with developed Western countries that provide advanced technological opportunities for energy exploration and production and uninterrupted energy incomes. All Caspian states are energy-producing countries and their economies are mostly based on oil and natural gas production. This pushes them toward the energy-consuming countries. Maybe in the post-Soviet years the Caspian countries did not fight each other over the rich oil and gas resources that are usually accepted as a source of instability, but they also could not agree on the legal status of the energy-rich Caspian Sea for a long time, thereby preventing regional cooperation. Moreover, the counter attitudes of traditional powers of the region – the Russian Federation and Iran – on the energy transportation projects of new Caspian states have turned Turkey into an active player in this regard here. As a result, there is a close trilateral Turkey–Georgia–Azerbaijan partnership in the region.

Generally, Turkey has become one of the effective economic partners in the Caspian region, shifting its policies from emotional ground based on ethnic and historical ties to strategic cooperation based on mutual interests. The success of the trilateral Turkey–Georgia–Azerbaijan cooperation motivated Turkey to apply the same format in relations with Kazakhstan and Turkmenistan. Moreover, Georgia was included in the initiative on linking the Trans-Caspian pipeline to the EU-supported Southern Gas Corridor, which aims to deliver Turkmen natural gas to Europe.

One of the biggest beneficiaries of the integration gap between the countries in the Caspian region is the PRC. Both the PRC's attractive trading conditions and the Russian Federation's geopolitics-based integration initiatives foster bilateral cooperation with the Caspian states. With the launch of the PRC's regional infrastructure project for Eurasia – the “Belt and Road Initiative” – the aim is to elevate the bilateral relations with the Caspian states to a more comprehensive and multilateral level.

Another integration-focused program has been developed by the Central Asia Regional Economic Cooperation (CAREC) Institute, which is supported by the Asian Development Bank (ADB) to encourage economic cooperation among countries in the Central Asian region. Some of the Caspian countries – Azerbaijan, Georgia, Kazakhstan, Turkmenistan, and Uzbekistan – are part of the aforementioned intergovernmental organization dedicated to promoting economic cooperation in Central Asia and along the Silk Road through knowledge generation and sharing. The Institute acts as a knowledge connector among the five CAREC themes – economic and financial stability; trade, tourism, and economic corridors; infrastructure and economic connectivity; agriculture and water; and human development – to ensure coherence in the design and implementation of policies, programs, and projects to promote regional economic cooperation and integration.

Actually, newly emerged states in the Caspian Basin present an alternative for Iran. However, Iran's position in the international community and its relations with the Western countries also determine the distance between these countries and Iran. Both the Russian Federation and Iran sensitively react to other players in the region. Pro-Western energy and energy transportation policies of newly emerged Caspian countries, including Georgia's position as a transit state, have faced rigid arguments by the Russian Federation and Iran on the determination of the legal status of the Caspian Sea. The controversial attitudes of the Russian Federation and Iran on regional ethnic conflicts are also an important obstacle to regional integration. On the other hand, new Caspian states prefer to be cautious in their relations with these two countries based on historical facts, “refusing to join the deeper form of post-Soviet regionalism” (Samokhvalov 2016, 83).

The above-mentioned facts show that the states discussed in this research could not integrate economically in the post-Soviet era. But the practices maintained across the world demonstrate that an economic integration can be achieved if the parties so wish at any time. Based on this, it can be argued that a “limited” or “core” integration among the Caspian countries is still possible, albeit not like that of the EU or USMCA. This argument is based on ongoing political, economic, and financial developments. Namely, as a new trend in the international relations of recent decades, globalization deepens the intertwining of ties between states (Alimov 2018, 114). While James (1993, 275) argued that all states' interests are far from common, given that today globalization limits states' ability to solve their problems alone, especially developing ones, providing an opportunity to solve problems together, regional integration trends are inevitable. It is evident that regional integration positively affects the economic growth in these countries and lightens

the balance of payment problems. It is a fact that the Soviet Union left an enormous potential behind in the Eurasian region.

The aim of regional economic integration can be economic or political, and both goals are even likely to coexist. However, in the case of integration among developing countries, political reasons remain secondary. Developing countries think that the integration established by developed countries creates unfair competition for themselves. On the other hand, large markets reduce uncertainty compared to small markets. Resource allocation and low cost can provide more competitive opportunities in the big markets (Balkir 2010, 421–422).

The EU, which is regarded as the best example of integration in the world, started being formed after two devastating wars. The customs union between the Russian Federation, Belarus, and Kazakhstan was also established after the global financial crisis of 2008–2010, following a decade of rapid economic growth (Vinokurov and Libman 2014, 341). Therefore, this situation conflicts with the argument about crises leading to a surge of protectionism, especially when all the cooperating parties are affected simultaneously (Vinokurov and Libman 2014, 341–342).

The 2008 financial crisis, which particularly affected the EU, caused an economic contraction in the member states and slowed the trade with the Caspian states. Before overcoming the full negative effects of the crisis, the decline in oil prices in the world markets stopped the economic growth of the former Soviet countries in the Caspian region. The sanctions imposed against the Russian Federation after the annexation of Crimea, the negative atmosphere created by the Syrian crisis worldwide, and the sanctions imposed against Iran, which already had unstable relations with Western countries, have increasingly forced the Caspian countries to enter into closer cooperation in the region. Various initiatives, such as trading with national currencies, reducing dependence on the US dollar, and even Iran's membership of the Eurasian Economic Union, have emerged.

Besides the current suitable geopolitical and economic ambience, the establishment of technical infrastructure is also achievable. The post-Soviet Caspian states have left behind the difficulties of transition to a market economy. The economic growth in the 2000s allowed them to improve their IT capacities and resources. Modern IT technologies enable the achievement of technical harmonization in a short time. Moreover, these countries, including Iran, benefit from several development programs provided by the EU, the World Bank, CAREC, ADB, etc. This provides the opportunity to take advantage of support projects for regional economic integration.

Given that private sectors of the Caspian countries are willing to cooperate more deeply with each other in order to minimize the negative effects of the existing international political economy, crisis-driven integration is possible.

In the framework mentioned above, the Caspian states still have a serious chance of economic integration. First, they can clearly define the areas of economic integration. Actually, the experience of bilateral cooperation among the Caspian states in the post-Soviet era gives them an advantage in terms of defining their priorities. A prioritization of the integrable areas of the countries on the individual level can be matched, and thus common priorities can be determined. The identified common priorities can be a sustainable start as well as a spreadable continuity for economic integration in the Caspian Basin. The countries can consolidate their stakes. A newly established joint commission can review the already existing bilateral, tripartite, and multilateral agreements between the countries of the region and overlapping areas can be determined for negotiating within a common framework. In this respect, it is possible to act jointly on issues such as trade in goods and services, energy, transportation,

tourism, visa facilitation, border transits, customs duties, health, and education, which are already prominent fields of cooperation on an individual level.

More specifically, it will be better to remember the European Commission's White Paper of 1 March 2017, which set out possible paths for the future of Europe. Facing many challenges from globalization, from the impact of new technologies on society and jobs, to security concerns and the rise of populism, five priority-based integration models were announced to the public in order to overcome the crisis of the EU as a union:

1. Carrying on: The EU27 focuses on delivering its positive reform agenda.
2. Nothing but the Single Market: The EU27 is gradually recentered on the single market.
3. Those who want more do more: The EU27 allows willing member states to do more together in specific areas.
4. Doing Less More Efficiently: The EU27 focuses on delivering more and faster in selected policy areas, while doing less elsewhere.
5. Doing Much More Together: Member states decide to do much more together across all policy areas (European Commission 2017).

The above-mentioned five scenarios can offer a hint on how to start initial regional integration in the Caspian Basin. In accordance with this five-speed economic integration scenario, the Caspian states can form an integration chain at the stage that suits their interests.

In order to develop a clearer framework for possible economic integration here it will also be better to give the example of the Baku-Tbilisi-Ceyhan (BTC) pipeline project. At the end of the 1990s, the Russian Federation and Iran were described as the main opposers to the development of any pipeline in the region. Turkmenistan was also one of the states standing on the opposition side because of the disputes over unsharable oil and natural gas deposits. But after the successful start of the pipeline's operation at the end of the 2000s, Kazakhstan, Turkmenistan, and the Russian Federation began to use the BTC as an alternative option for transportation of their oil. Tehran officials also declared their desire to explore the BTC export option for the Southern Caspian oil, but due to its commercial unprofitability this wish could not be fulfilled (Bayramov 2019, 17). Actually, mutual benefits for the Caspian states promoted pragmatic cooperation on the BTC, in spite of some of their serious opposition at the beginning.

Another example is the *Convention on the legal status of the Caspian Sea*, which was signed at the Fifth Caspian Summit in Aktau, Kazakhstan, on 12 August 2018 by the presidents of the Russian Federation, Kazakhstan, Azerbaijan, Iran, and Turkmenistan. After a long negotiation process, the agreed document could be evaluated as a result primarily of extraregional geopolitical and economic factors that brought the Caspian states together.

Considering the limited economic abilities of the Caspian states, even the lowest level of economic integration would benefit these countries. Recent developments at the global level have helped increase the awareness of Caspian states on this issue. It is important to choose the correct policy implementations in order to achieve the most productive results.

## 5. CONCLUSION

To sum up, after the dissolution of the Soviet Union, the Caspian region seemed to be a conflict arena of states' interests located here as well as among the great powers. Ethnic problems, energy issues, and issues regarding the legal status of the Caspian Sea led to a perception of the region from a purely geopolitical perspective. Economic cooperation between the Caspian countries has been shaped within this perception. In fact, geopolitical policies do not create enough conditions for the region's development and solution of economic problems among the increasing complexities of the contemporary world. A lack of a common Caspian identity based on the region's geographic, historical, and cultural features demotivates the states toward division. Russian-led regional integration initiatives did not achieve the desired results due to its limited resources for integration, which are insufficient to fulfill its leadership ambitions. On the other hand, fear of Russian domination of the Russian Federation's regional partners is one of the great barriers to regional integration (Makarychev 2011, 6). The Russian Federation and Iran's approach to regional ethnic conflicts arouses suspicion from other small states here, who are on the edges of the conflicts. The different political and economic systems among the Caspian states still represent a serious barrier to the harmonization of common implementations. Caspian states are energy-producing countries, except for Georgia, and their economies are highly dependent on energy revenues. These states need energy-consuming countries with stable energy incomes more than each other. This is also one of the major dividing factors in the region.

However, the last crises in the region have been followed by pro-integration trends among the Caspian states. Of course, it would not be realistic to expect the EU type of integration here due to the geographic, historical, political, economic, social, traditional, and cultural realities of the Caspian Basin. It is also not easy to create a new integration structure in such a divided area, which exists between two economic powers, namely the EU, one of the best examples of integration in the world and an economic giant, and the PRC, the world's fastest-growing and second-biggest economy. But the region still has some alternatives that can develop it into a cohesive area. Economic relations among the Caspian states on the individual level are remarkable. By identifying the areas in which the countries of the region primarily want to cooperate, a gradual integration within a multispeed structure may be possible. Thus, it will be better to start from the sectors where the Caspian states already cooperate. Cross-checking of the operating bilateral, trilateral, and multilateral agreements and unifying them under a single structure can be a first initiative. Here, the business communities of the countries in the region can perform perception operations. By utilizing modern technological facilities and the experiences of cooperation achieved thus far, technical infrastructure implementations for easy access, customs operations, and standardization of relative trading documents can be harmonized in a short time. In fact, there are currently several areas of cooperation among the Caspian states. The main aim here is to collect these scattered cooperation areas and organize them under the common integration institutions. Such an integration can motivate other states in the region. It can be particularly encouraging in the context of peaceful settlement of ethnic conflicts, one of the biggest problems in the region. In any case, it is a known fact that ethnic issues in the region have more destructive economic consequences rather than benefits they provide for the national interest of the Caspian states.



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