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THE ISSUE OF THE LEGAL REGIME OF THE CAPIAN SEA AND ITS ECONOMIC
AND POLITICAL EFFECTS IN THE REGION AND IN THE CONTINENT

by Gregorio Baggiani

Eurasia Strategy, a Link Campus University and Centro Studi Gino Germani project, pursues two major goals:

1) to contribute to the strengthening of the “strategic knowledge” directed to Italian institutional and business decision makers, on the political, economic, energetic, technological, environmental

and security transformations that are taking place in the countries of the Eurasian area (in particular in the post-Soviet context) and on the consequent opportunities and risks for Italy and its companies;

2) to contribute to the study and drawing up of ideas concerning Italian and European political strategies in the countries of the Eurasian area.

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EXECUTIVE SUMMARY

The Issue of the Legal Regime of the Caspian Sea

by Gregorio Baggiani

Two decades after the demise of the Soviet Union, fundamental issues regarding the Caspian Sea remain unresolved. Nevertheless, more progress has been made behind the scenes than what appears evident in public pronouncements. Initially, Russia's preferred option had been the joint utilization of the Caspian Sea- encompassing both the seabed and the surface waters - in a condominium arrangement. However, faced with strong resistance by its Caspian neighbors, Kazakhstan and Azerbaijan, Russia has given in some elements of its ideal solution to the long-standing and unresolved issue of the overall legal regime of the Caspian Sea, and has accepted bilateral divisions of the seabed. After more than a decade of disputes and arguments, the only joint expression by the five Caspian states has then been that the legal regime of the Caspian Sea should be decided by all these states through a multilateral agreement.

As already mentioned, the only progress towards a legal regime change of the Caspian Sea has been achieved through a series (although not comprehensive) of bilateral agreements in the Northern part of the Caspian Sea. Russia has then, notwithstanding this necessary compromise with the above mentioned states, succeeded in retaining its surface navigation rights on the entire surface of the Caspian Sea.

Thus, in the northern part of the Caspian Sea, a de facto legal regime has been established by the division of the seabed along a modified median line, with joint utilizations of the surface waters for navigation, included military navigation, and fishery. However, it is still not clear whether such an arrangement could also realistically be extended to the Southern part of the Caspian Sea. This would essentially depend upon the willingness of Turkmenistan and Iran to come to an agreement or at least to a viable compromise.

The current dual system in the Caspian Sea is being implemented without, up to now, the occurrence of major rows among the riparian states. This, however, remains a temporary solution. Tensions among, on one hand, the supporters of a division on an equality share principle, and, on

the other, the supporters of a division along a modified median line, could soon or later lead to a serious military or political confrontation, should one party refuse to give in to the other one, provoking thus an ensuing regional instability crisis which might severely put at risk European and US energy security.

The stakes involved in the legal regime change of the Caspian Sea are undoubtedly very high, but also the need of the riparian states to develop their own energy resources without legal obstruction by the other states might play a decisive role in the reach of a settlement of the outstanding legal dispute because, as it is well known, foreign investment needs security and legal certainty.

The stakes involved in the legal regime change of the Caspian Sea are thus decisive for the future regional set-up, and they extend also well beyond the region, with consequences of paramount geopolitical relevance for the balance of power in the Eurasian continent. Especially, the containment of Russia, and in perspective, of China, plays a decisive role in this geopolitical context. Energy dependence is not only an economic factor leading to a price reduction of oil and gas for European consumers, but might also represent a serious political threat to the independence of the European continent and at the same time to the independence of some Caspian states from the potential blackmail by Russian energy leverage.

This outstanding energy commercialization issue which has serious political implications for the whole Eurasian continent could also find a viable solution when Russia expectedly enters WTO next year as WTO commercial regulations are legally binding for participating states. The OSCE could also prove a precious tool to solve some burning regional political issues which are, directly or indirectly, linked to the Caspian energy issues.

INTRODUCTION

The question of the legal regime of the Caspian Sea, though apparently characterized by a merely legalistic and economic aspect, really hides a political and geopolitical issue of great relevance. Situated at the geopolitical confluence of actors of international importance such as China, India, Russia, the United States and the European Union and of regional importance such as Iran and Turkey, since the 90's of the last century, the Caspian Sea has gradually assumed a strategic role and has attracted the attention of a great number of state and non-state actors present on the international scene.

This research will specifically analyze the following issues:

- How will a change in the legal regime of the Caspian Sea, from the present joint utilization to a regime of partition, affect the geopolitical dynamics between states and, in particular, the possibility of exploitation of its considerable energy resources by important Italian, European and US corporations?
- Will this change widen the perspectives of a diversification of the energy sources for Italy and Europe?
- How greatly are the political and commercial needs of the Caspian Sea area mutually conditioned?
- What regional consequences will ensue from a further delay in the determination of the legal regime of the Caspian Sea?
- What are the main obstacles to its realization?
- Who is in favor of a change in the legal regime of the Caspian, and why? Who opposes it, and why?
- Who has something to gain from this change and who has something to lose?
- How will the distribution of the great incomes deriving from the energy resources influence the internal and international social balance of the region?

- And, above all, what should Italy conveniently do? What policies should be adopted to intervene effectively in the area?

This article will try to analyze a series of points in reference to the main web sites of international politics that have dealt with this issue.

1) THE GENERAL GEOPOLITICAL FRAME OF THE REGION

In 1993, the successor states of the Soviet Union, the so-called CIS (Commonwealth of Independent States, SNG Soyuz Nesavisimix Gosudarstv in the Russian acronym), with the Alma Ata Declaration, have declared themselves in favor of the maintenance of the former agreements signed by the Soviet Union. This argument relating to the compulsoriness of the continuity of agreements is brought forward by Russia, as the official successor state of the Soviet Union, to favor its thesis of a partition of the Caspian Sea resources whose execution would be delegated to a supervisory authority presided by all five riparian states of the Caspian. Another specious argument brought forward by Russia regards the safeguard of the Caspian ecosystem that, according to the Russians, would be menaced by a further expansion of the offshore exploitation of oil. It is needless to say that this environmental concern expressed by the Russians appears totally instrumental as the Caspian has already suffered considerable damages caused by the exploitation of energy resources, even on the part of Russia itself.

Another point, that will need to be analyzed briefly, concerns the international regulations regarding the laws of the sea. The question of the legal regime of the Caspian Sea has been addressed at the United Nations Convention on the Law of the Sea in Montego Bay in 1982, although a definitive solution to this long-standing problem has not been found. In fact, the age-old discussion of whether the Caspian Sea is an internal lake or a sea, hides the Russian and Iranian ambition to prevent, through specious and legally vague objections, the full exploitation of the oil deposits located beyond the limits of the territorial waters of the other riparian states, Kazakhstan, Azerbaijan and Turkmenistan, that would lead to their full independence from Moscow.

Furthermore, Moscow fears that, alongside western oil companies, NATO forces might settle in the area, threatening Russia's and Iran's security. Since 1979, Iran's diplomatic relations with the United States have considerably worsened, or, to say it better, at an official level they have been

almost completely interrupted. The US also have a vested interest in damaging the Iranian regime through a change of the legal regime of the Caspian Sea that would assign to Iran the smallest and energetically poorest part of the Caspian Sea. It is evident that a reduction of the income from the Caspian Sea would contribute to a considerable destabilization of the Iranian regime also from within.

This is obviously a very pleasing hypothesis for the government of Washington, engaged in a merciless war against the Teheran regime because of the issue of Iran's nuclear power and of its vehement anti-Israeli position, as well as for its financing of international terrorism and Islamists groups such as Hezbollah. From the United States' point of view, this is also valid for Russia as it would not be able to maintain its control on the Caspian Sea and would be substantially ousted from the area as great power; thus fulfilling Brzezinski's strategic project, eliminating Russia from what the Americans call the Southern Tier, that is the southern territories, once part of the Soviet Union, that are now at the southern borders of Russia. The United States have no intention of "destroying" Russia, but they want to put an end to its hegemony on an area that they mean to reserve to themselves and, in part, to friendly or at least not hostile nations. This contributes to the welding of a de facto anti-US alliance between Russia and Iran also through a substantial preservation of the present legal regime of the Caspian Sea. The outcome of the Caspian Sea "match" will therefore determine extremely important geopolitical and economic interests that will define the new energy and strategic assets of the continent for the next decades.

It is evident that the outcome of the conflict for the energy resources of the Caspian Sea will design a new hierarchy among the powers of the area and even among those that are not geographically part of it as the European Union, the United States and China that aspires to draw a profit from the considerable energy resources of the area and assume a dominant role in Central Asia. Mackinder's Heartland shows itself, once more, a fundamental reality of the history and geopolitics of this area where the political and strategic interests of the great powers meet and collide; an area also characterized by the encounter/collision of the civilizations and cultures present for centuries in this region: Orthodoxy and Islam.

Russia is carrying out its traditional Eurasia politic, becoming essential in the negotiations between the West and Iran, thus regaining the international role that the progressive eastern enlargement of the NATO seemed to want to challenge, relegating Russia to the role of a besieged nation. Iran, it must be said, considerably influences, though negatively, the geopolitics of the Caspian area, as the United States have always successfully managed to prevent Iran from sharing its infrastructures

for the transportation of energy products to the Gulf with other countries of the area, thus forcing several oil companies to find alternative routes for the pipelines.

In this case, we can see how the oil companies mainly interested, it is obvious, in the economic rationality of their project and in the profits coming from the exploitation of energy resources, often find themselves on a collision course with the political and geopolitical priorities of the states, whose interests are not strictly economic. For this reason, a final definition of the legal regime of the Caspian Sea and hence of the proprietors structure for the exploitation of its resources would allow the oil companies, Western ones firstly, among which the Italian ENI very present in Azerbaijan and Kazakhstan, to precisely relate the costs for the necessary infrastructural investments and the incomes concretely obtainable in concert with the other international partners of the consortium who owns the rights for the extraction of the Azerbaijani offshore deposits. Azerbaijan, or rather SOCAR the national oil company, extracts about 80% of its oil from offshore deposits, beyond the limit of its territorial waters of 12 naval miles (1 naval mile is equivalent to 1,852 meters), and would be particularly vulnerable in case of a victory of the thesis in favor of the indivisibility of energy resources, supported basically by Russia and Iran.

The United States, in turn, point at the strategic diversification of their energy supply sources, finding in the Caspian Sea a partial alternative¹ to the Persian Gulf that is no longer considered reliable because of the delicate political situation of the area (radicalism in Saudi Arabia, Iranian regime, political instability in Iraq). This US strategic project interferes with what Russia considers its area of influence the so called “near abroad” promoting, where the necessary conditions are present, a series of “orange” revolutions that space from Ukraine to Georgia, to Kirghizstan. In these years, the United States have shifted between a sincere commitment in favor of the development of democracy in this area directed at a gradual regional stabilization and a more short termed strategy; to obtain geopolitical results of immediate American interest, they have at times sacrificed democratizing instances, particularly when the United States needed military bases in Central Asia to support their military efforts in Afghanistan.

- 1 http://www.carnegie.ru/publications/?fa=399&zoom_highlight=caspian+sea

The Caucasus area, divided between North Caucasus in Russian territory and South Caucasus composed by Georgia, Armenia and Azerbaijan, west of the Caspian Sea, assumes a strategic role

for its position in the transit routes of the pipelines, through Turkey to Western Europe. Europe means to reduce its strong economic dependency on Russia² for both political and economic reasons as a diversification of energy sources would necessarily lead to a reduction of prices that would considerably favor European consumers and economy in general thus increasing its possibility of growth³. In the perspective of a diversification of the energy sources, the United States and the European Union have identified in the Caspian Sea region an area of potentially great economic development that would in turn contribute to a stabilization of the region, torn by several conflicts or possible conflicts of ethnic, economic or religious nature that make the extraction and the transit of the hydrocarbons towards Europe an uphill job dependant on a multiplicity of variants.

² http://www.ispionline.it/it/documents/PB_175_2009.pdf

³ http://www.eeas.europa.eu/central_asia/docs/factsheet_energy_en.pdf

Until 1991 the Caspian Sea, that has a surface of about 371,000 square kilometers, was divided between the Soviet Union and Iran on the basis of agreements stipulated in the 19th century by czarist Russia and Persia, followed, in 1921 and 1940 respectively, by two treaties between the Soviet Union and Iran. These treaties regulated the navigation and the exploitation rights of the fish resources of the Caspian but granted the Soviet Union alone the possibility to maintain a military presence in the Caspian Sea, precisely in the harbor of Astrakhan. This determines a potential danger of regional instability because if the question of the legal regime of the Caspian should not be settled in a reasonable time, a few years, Russia, successor state of the Soviet Union and rightful heir to a great part of the military fleet of the Caspian Sea, could decide to start a progressive and dangerous military escalation against the other Caspian states to reaffirm its rights to the exploitation of the energy resources.

A hypothetic, lasting state of military tension⁴ would provoke a considerable increase of energy prices and a general instability in the region, a possibility that most of the states of the area do not desire. A massive arms race, besides greatly endangering the stability of the area, would contribute to a delay in the socio-economic development of the region, with easily predictable consequences: poverty, unemployment, lack of perspectives and, last but not least, a potential growth of Islamic radicalism. A definition of the legal regime of the Caspian is therefore absolutely essential for the stability of this area that constitutes, according to some experts, the third most important area of the

world for ascertained oil and gas reserves (4% and 7% respectively) after Russia and the Persian Gulf.

4 <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?id=16714&lng=en>

Furthermore, a concrete and not only technical availability on the market of the oil and gas of the Caspian Sea, no longer at risk of a legal action by the other riparian states to contest the rights of extraction, would probably lead to a considerable reduction of the price of oil on an international scale. A possibility that the oil producing nations, at present massively present on the market (Russia and Iran), do not consider positively, interested as they are in maintaining a monopoly (or almost monopoly) on the oil market, even through the control of the pipelines.

For the producing nations of the Caspian area the exploitation of the energy resources appears essential to guarantee their future development and to prevent the possible growth of Islamic fundamentalism in the region that often, but not always, originates from a state of economic and social unease of the population whose situation, in some of the States of the Caspian area, has considerably worsened if compared to the Soviet Union period.

In this respect one should say that almost all of the actors in this affair are interested, in very different terms at times, in the containment of Islamic terrorism. Hence, they are also interested in keeping the political and social situation in Central Asia, and in the states that border the Caspian Sea, from deteriorating beyond a certain limit. The solution or non solution of the legal regime of the Caspian Sea will certainly have a great impact on the social and political situation of the area, a fact that all the states involved will have to necessarily consider.

THE ISSUE OF THE LEGAL REGIME OF THE CASPIAN SEA5: SPECIFIC INTERESTS AND POLITICAL STRATEGIES OF EACH STATE

5http://www.carnegie.ru/publications/?fa=399&zoom_highlight=caspian+sea

1) ITALY

The West and Italy in particular, have an interest in encouraging an agreement between the riparian states on the legal regime of the Caspian Sea. This would lead to a higher legal certainty on the exploitation of its energy resources that would, in turn, determine a reduction of the prices of the energy resources on the European market and a greater stability of this geopolitical area, torn by age-old regional conflicts that often, but not uniquely, originate from the energy issue.

To reach this goal, a long term political transformation of Russia is also necessary. Russia should gradually become less dependent on its energy resources and set itself on the way of scientific modernization, namely of the economics of knowledge and technical abilities, that would allow the country to compete adequately on the international markets. In the long term, this would determine a greater political stability in the area and a decrease of the prices of oil and gas as Russia would have lowered its dependency on the exports of raw materials. Concretely, to obtain advantages from a reduction of the prices of raw materials, Italy should shortly offer a legal, technological and financial support for the construction of the trans-Caspian pipeline to states such as Turkmenistan, even at the cost of deteriorating its relations with Russia.

These states represent an important economic potential that must be adequately tapped by Italian companies in spite of the inevitable difficulty of establishing advantageous commercial relations with the regimes in power. The opening of these regions to Italian business represents a great opportunity for the companies and for Italy in general. The necessity of a modernization of the local infrastructures appears self evident to the observer. The long term economic advantages, in spite of the evident political drawbacks of a deterioration of the relations with Russia, will become perceptible in the short-medium term. For geopolitical reasons, Russia will remain an indispensable partner in the area but its “hold” on the area, at times a substantial hegemony, will have to be loosen through actions in the appointed international seats. Italy’s pressure in this case should be both direct and indirect, through the appropriate international organizations such as OSCE, UN, EU and above all WTO. Unlike other international organizations, WTO’s prevailing logic is commercial rather than political and is therefore legally binding and not subject to showdowns of political or military strength in which Russia often excels. At the other end of the balance, the European Union frequently appears divided and bears different interest on the part of its members, in particular concerning energy policies and Russia is often ready to take advantage of this weakness.

Through these mainly commercial organizations, Moscow will be induced to leave behind its outmoded concept of “spheres of influence” to pass to a more modern one of economic competitiveness on the markets. In effect, the new strategic and economic vision, recently presented by Medvedev who wants to abandon the progressively obsolete infrastructural heritage and

ideology of the ex Soviet Union to build a new Russia, economically and technologically equal to the other world powers, seems to point in this direction.

Within certain limits, Russia will have to be “helped” to leave behind not so much the practical geopolitical and economic reasons at the origin of its present behavior, objectively immutable facts, but the rather recent cultural and ideological habits that, to a certain extent, still influence its action. In the first place, the idea of “empire” that is still rooted in part of the Russian elite will necessarily have to be replaced by the more modern concept of “legitimate interest” that can safeguard Russia not only from an economic point of view but also in relation to questions such as Islamic terrorism, drug trafficking or the potential threat deriving from the NATO advancement in the territories near its southern borders that only two decades ago still constituted an integral part of the Soviet Union. Economic issues are often intrinsically connected to questions of historical and cultural matrix, as the interpretation of the form and principles that the Russian state must assume and embody, (“gosudarstvennost”, literally statehood, at present a “managed democracy”, a strong state, internally and externally, organized in a strictly hierarchical form according to the principle of the “vertical of power”, still very distant from western parameters of parliamentary democracy), or questions of different nature regarding security and how it is perceived by the Russians.

A positive solution of the issue of the legal status of the Caspian Sea could represent a decisive element, a sort of “litmus test”, for the internal and external political transformation of the Russian Federation, characterized by a lower dependency on energy resources and a less “invasive” foreign policy towards the states located at its southern borders. This last element must necessarily be kept into consideration by the states and private actors, in particular the energy companies that have their interests in this area.

A clear division line must be drawn between legitimate Russian interests, (political, economic or security) and its illegitimate claims to hegemony or monopoly on the energy resources of the area, to obtain excessive profits or to blackmail politically the nearby states or even the whole European Union. This energy blackmail is primarily carried out through the use of bilateral agreements that weaken considerably the negotiating power of an individual state compared to the entire European Union that, often lacking in internal cohesion becomes an easier victim of blackmail. Clear and legally binding rules, not subject to long and exhausting negotiations, will help to stop further showdowns between Russia and the European Union.

The necessary transformation is mainly cultural and it will have to move simultaneously in two directions. On one hand, it will involve the transition of the European Union from an eminently

legal entity to an entity of greater cohesion and political decision, capable of eventually using, or at least of threatening to use, military force (that would necessarily imply a strong political cohesion between the European states), to solve the international issues that could determine the future geopolitical and military assets of the region. On the other, it will require the setting of energy issues in a guaranteed legal frame in WTO ambit to reduce the possibilities of a conflict or of the failure of an agreement between Russia and the European Union.

For Italy, this will necessarily have to affect international organisms such as OSCE; undoubtedly, this organization plays an important role in the negotiation of international controversies between member states but it should progressively assume a more legally binding role in the solution of strictly economical questions such as the difficult redefinition of the legal regime of the Caspian Sea. The public opinion's control on the management of national economies in the post-communist states according to national (and eventually international) legislation should gradually become one of the principal goals of the OSCE. This would determine an analysis of the economic causes at the origin of regional conflicts and monitor the local regimes' exportation of capitals to foreign countries that weaken or delay the economic development of the region, exposing it to the danger of a growth of Islamic terrorism and consequently of a serious regional instability. The proceeds from energy revenues are in fact one of the most delicate questions and the best kept secret of this area, safeguarded through unclear accounting practices or under the counter negotiations with foreign states that completely elude the public opinion's control.

The solution of the issue of the legal regime of the Caspian Sea would change the geopolitical scenery of the Caspian area, freeing some of the states from a substantial dependency from Russia for the transit routes of the hydrocarbons, but it would not solve the problem of the absence of an internal democratization in these states and would increase their dependency on the exports of the energy resources. The considerable oil income has therefore important political effects on the relations between states but it also conditions their internal situation. In this regard, the economic reasons at the base of many ethnic and territorial conflicts, (for example, the Nagorno-Karabakh) that characterize the area, must necessarily be discussed so as to reach solutions that may guarantee the stability of the area thus avoiding generalized military conflicts that could have serious destabilizing consequences.

Italy's should invest, in its own interest, in the OSCE, the only important international organization in the area, so that it might contribute, within the limits of its essentially advisory function of discussion/relation between member states, to an understanding of the real economic causes at the base of regional conflicts in order to defuse them. Even the large presence of international

observers would give the impression that Italy is seriously willing to contribute to the slow process of democratization of the region, in spite of the difficulties due to the non democratic nature of its regimes. Even Italian business would gradually be advantaged by a larger Italian presence in the international organizations active in the area. In the medium and long term, a higher degree of legal certainty and the transparency of the governments' decisional mechanisms would also advantage international investors from the point of view of institutional transparency and geopolitical stability of the area; even if a direct and immediate connection between democratization and transparency is difficult to find as it is usually a very gradual process, certainly not devoid of difficulty and opposition by the local autocrats who, in order to justify the almost absolute absence of democracy in their countries, refer to the threatening presence of Islamic forces that would not consent the creation of a really democratic state.

Nevertheless, Italy and Europe should push in the direction of a democratic transformation of the regimes of the region because in the case of an economic crisis and of a drop in the world prices of oil and gas, the economic "pillow", meaning the financial resources to promote the population's economic growth and welfare, on which these authoritarian regimes sit would fail. Paradoxically, the presence of considerable economic resources constitutes an obstacle to the progressive democratization of the societies of the area as it prevents, or delays, the formation of the productive class that has been present in the West for centuries. In case of a reduction of the considerable energy sources income, the population would be exposed to the risk of a substantial impoverishment and consequently to the call of fundamentalist Islamic groups that constitute a real threat to the stability of the area and hence even to Italy and Europe. It is therefore Italy's interest, from an economic but also political point of view, to supply the technological instruments and, above all, the infrastructures (transportation, machinery, banking and political system) that would allow the Caspian Sea states to modernize their obsolete infrastructures of Soviet period.

This way, besides obtaining considerable economic resources from hydrocarbons and gas, they could also develop an economy based on the diversification of the economic revenues that would make them competitive on the global market. This competitiveness would deliver them from the risk of a possible reduction or progressive depletion of the energy products in the course of the next decades and protect them from the potential dangers of impoverishment and consequent threat of Islamic extremism that considers the region a potentially important area for the development of Islamic radicalism. The implications entailed by the issue of a modification of the legal regime of the Caspian Sea are therefore not limited to questions, though very important, of an exclusively

economic type. A solution of this issue would also prevent a phenomena of political and social instability that could have serious consequences for the area and therefore for Italy.

Furthermore, the weaker a state is economically and politically the more it will need to be assisted by the nearby economically and militarily stronger states, as it now happens with Russia that has considerable monetary resources and not first rate army forces, sufficient though in the post-Soviet context. Russia's role in the area must be carefully differentiated and correctly interpreted by the Italian and European decision maker. On one side, its action is positively stabilizing, as in the case of the Russian troops in Tajikistan in an anti-terroristic and anti-narcotics role or the Russian expertise regarding Central Asia and, for historical reasons, Afghanistan. On the other it obviously betrays Moscow's intention of expanding its "longa manus" to exercise a strongly hegemonic role in the region, prevalently through the unscrupulous use of the energy instrument in order to maintain or increase its political influence in an area that it still considers, rightly or wrongly, part of its "sphere of influence".

Russia must be necessarily consulted to settle the main economic and political questions regarding the region but this must not automatically turn into a sort of Russian "right of interference" in the area of Breznevian memory. Historically, it must be considered, the attitude of the central-Asian populations is not hostile to Russians as they are conscious of the fact that Russia/Soviet Union has represented a strong political oppression in the past but that it has also contributed to the social, cultural and economic progress of the area.

At present, the situation is obviously very different from the Soviet period. Russia no longer acts according to a redeeming and international ideology, but it is motivated exclusively by economic, political and security reasons and for the prestige linked to its status of Eurasian continental power who aspires to a predominant position in the area. Today, pragmatism essentially prevails in the relations between Russia and the states and populations of the area that have in most cases experienced a strong reduction of their living standards and therefore long for help without necessarily having to pay it with a political subjection to a foreign state. From this point of view, in the eyes of its Eurasian and Caspian interlocutors, Italy can assume a positive role in comparison to Russia because it has technologies and capitals to invest in the economic and infrastructural modernization but it is not interested, nor capable, of exercising a hegemonic political role in this, too distant, area.

Italy's capacity to invest economically without imposing a political compensation to the politically and economically weaker states certainly represents an advantage point. Its military weakness in the

Caspian area holds a double meaning for its local interlocutors: it positively implies that Italy cannot represent a potential threat in the area, as it often happens with Russia, but it negatively indicates that Italy cannot be a potential ally in case of a military or even simply political, conflict.

Italy's instruments to guarantee its access to the Caspian Sea resources are the following:

- a gradual modification of the legal regime of the Caspian Sea, ratified also in a UN context;
- an OSCE advisory forum between the riparian states to define the terms of resolution of conflicts, or potential conflicts, in the area;
- a legal enforcement for the definition of international rules on competition in the energy field in a WTO context;
- a greater cohesion, also political and military, in the European Union;
- a strengthening of NATO bonds with the states of the area;
- an economic diplomacy capable of making profits but also of stabilizing this area characterized in this historical period by great economic growth accompanied by great cultural and social transformations, in spite of strong do-nothing policies originated by eminently personal conceptions of the political life of the state, often embodied in presidents bestowed of very strong if not absolute powers, as for example in Kazakhstan.

For this reason a legal solution to the question of the regime of the Caspian Sea must be found as soon as possible but this solution will have to keep into account the political and security necessities of the many states of the area. Business companies obviously concentrate on the economic profit they might make, but the Italian political decision maker must consider the fact that Italian and European investments could strongly contribute to the political and social stability of the potentially turbulent area of the Caspian Sea. The Italian economic investment, further advantaged by a change in the legal regime of the Caspian Sea from the regime of joint utilization, in force today, to a regime of partition of the energy resources on the basis of the median coastal line, would have an eminently stabilizing effect on the Caspian area.

The MAE (Ministry of Foreign Affairs) can sensitize Italian investors and state or private economic-commercial organisms (ENI, INFORMEST, SACE, ICE, SIMEST etc.) on these issues setting them in the wider context of international relations even though they lie, it is evident, outside the strictly economic considerations of investing companies. Only a close cooperation or synergy between Institutions (the MAE in particular) and the economic world, the so called economic

diplomacy⁶, will increase greatly Italy's possibility of penetration in this strategic but difficult and complex area of the world. In order to reach this objective, Italy will have to develop adequate cultural, economic and institutional instruments, still partially in progress. Only the projection of the entire "country system" will achieve the multiplicity of fundamental objectives that Italy faces ahead: the political stabilization of the area and the largest penetration possible of Italian companies, in particular medium-small companies, that see in this economically growing area an excellent occasion for investment made possible, for example, by the considerable energy resources of Turkmenistan or in general of the states that border the shores of the Caspian, as Kazakhstan, without doubts the most important country in terms of geopolitics and energy, where ENI has been operating for years.

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<http://www.esteri.it/MAE/IT/Ministero/Servizi/Imprese/DiplomaziaEconomica/Ministeri+ed+Enti.htm>

Italy should also conveniently invest in the analysis of the economic, cultural (i.e. the clan-type structure, founding element of Kazakhstani society, that hinders transparency based on meritocratic criteria), and social mechanisms that regulate politics in these states that still hold a great potential of economic growth for Italy and Europe. After many hesitations, Italy and Europe are now beginning to widen their horizons towards this area that will prove vital for the economic and, above all, political development of the entire European construction. For Italy, and in particular for the MAE, having a Russian speaking diplomatic or MAE personnel would be of some use, as it would make the work of analysis and screening of the post-Soviet context easier and more effective.

2) The European Union

In the attempt to diversify and assure its energy supply⁷, the European Union has begun to show up in this area and has included the Caspian Sea⁸ area in the Energy Security Policy and Southern Caucasus in the Neighborhood Policy.

⁷ <http://www.fas.org/sgp/crs/row/RL33636.pdf>

http://ec.europa.eu/external_relations/energy/events/eu_ukraine_2009/external_energy_policy_en.pdf

This has meant the investment of considerable economic resources in the modernization of the legal and administrative structures of the countries in question and the dispatch of a few hundred European observers in order to monitor the respect of the agreements signed by the Russians and the Georgians after a brief conflict in the summer of 2008. EU observers are a mean to prevent conflicts but to act effectively in this area the European Union will have to create a force of rapid intervention capable of contributing, even through the use of military force, to the resolution of the conflicts that could arise in this area. This will undoubtedly constitute a political problem for the Union's institutions, whose Security and Defense policy is still in progress and awaits a final and complete definition because of possible discordances between the partners.

The European Union must come out of the paradox of having included the area of the Caucasus and therefore Azerbaijan, in its Neighborhood Policy, but of having included it only limitedly in the operative point of view in the Security and Defense Policy considering it too far geographically and part of an extremely complex and unstable⁹ geopolitical scenery, too difficult to analyze with the often insufficient legal, cultural and historical-political categories that characterize the internal political dynamics of the EU. The post-Soviet space cannot as yet be considered a fully democratic area. It is still a hybrid area, in transition from the Soviet period, that comprises some democratic features, as a relatively free press, in a few countries of the area.

⁹ http://www.ispionline.it/it/documents/Analysis_15_2010.pdf

This area though, is still characterized by the authoritarian and unscrupulous behavior of politicians and by a very often violent nationalism against local minorities that end up calling the Russian Federation to their aid, as ally or mediator. In view of a greater political stability in the area but also of a higher level of energy security¹⁰, this explains Europe's marked interest in trying to unload the causes of ethnic-territorial conflicts, (the Nagorno-Karabakh, enclave occupied by the Armenians in Azerbaijani territory, the enclaves of Adjara, Southern Ossetia and Abkhazia in Georgia), and democratize this area.

10<http://www.fas.org/sgp/crs/row/RL33636.pdf>

This would prevent Russia from proposing to act as mediator or from exercising a strong political-military pressure to obtain concrete political and economic advantages, above all in the energy sector. This would recreate an area considerably influenced by Russian political and economic interests and would strongly defer these countries' adherence to the European Union, that could otherwise occur in the next 10-15 years.

The presence of territorial controversies is one of the ways to delay the recovery of a state's sovereignty. This technique has often been employed by Russian authorities that have, probably not casually, favored the creation of enclaves inside the states of the region and have certainly contributed to the creation of years and years of inter-ethnic conflicts. The presence of open territorial controversies prevents a country from adhering to International organizations such as the European Union or the NATO that could guarantee the military security of the area. The progressive democratization of the countries of this area and the substantial autonomy granted to the internal ethnic minorities will prove essential in contrasting the explosion of new conflicts or territorial claims from the minorities. This, jointly with the final solution of the legal controversy on the regime of the Caspian Sea, will favor the geopolitical stability of the area and even Europe's energy security. This new context would, in fact, greatly inhibit the political and geopolitical leverages through which Russia has exercised pressure on the European energy security.

In the medium period, the effective democratization of the area is a vital interest for the European Union and not a mere rhetoric exercise aimed at speciously placating European and local public opinion with the supposed values of democracy. However, the pressure in favor of a gradual democratization must necessarily keep into account that an "excessive" European insistence on the question of human rights and democracy carries the risk of bringing, once more, the regimes of the Caspian closer to the main political and economic powers of the area, Russia and China. These two nations, in fact, do not pose any democratic requirement to the regimes of the area and represent a sort of "shield" against potential "orange revolutions"¹¹ promoted by local civil society with the aid of foreign countries. A deep cultural change in the European decisional elites is therefore necessary to face with success the complex questions that concern this area of the planet.

11 http://www.carnegieendowment.org/publications/?fa=view&id=16758&zoom_highlight=orange+revolutions

A strong increase of competence in geopolitical analysis and the strengthening of a European political and military cooperation are necessary. Europe's capacity of military projection is, in this context, not always sufficient to protect its energy security from the conflicts that could explode in this area. Furthermore, its slow penetration in the area submits Europe to an increasingly stronger pressure from Russia that considers the region under its influence in the classical scheme of zero-sum, meaning that the victory of a nation necessarily means the defeat of another. Due to the relative, political and consequently military, weakness of the European Union a military alliance with the United States will prove essential in the future, especially in case of conflicts or tensions in the Area of the Caspian or Caucasus. In fact, the penetration in this area requires the technological capacity to modernize the local economy but also, above all, the political cohesion and the capacity of a military projection still not fully developed in the European Union. To hold the inevitable shift of power that Central Asia is undergoing, from the old balances in force till the end of the Cold War, the European Union will be forced to undergo a deep transformation, without losing completely the characteristics that have defined it till now.

The issue of the Caspian Sea and the new world balances that have their epicenter in the Caspian region and in general in Central Asia constitute a sort of catalyst of deep change and renewal for Italy and Europe. This will happen because the "protected introversion" period (by the United States) that Europe has experience for almost fifty years of its history during the Cold War, has ended. Italy and Europe will have to project themselves in a political context characterized by regional problems and crisis as the question of the Nagorno-Karabakh, the Russian-Georgian conflict, for example, or the difficult (mostly for the US) relations with Iran, on which Europe will necessarily have to take a clear stand within the international community.

If Italy and Europe want to be part of the important centers of power and decision and not "simply" remain great economic powers, they will have to adequately deal with the interests of great political and military relevance hidden behind the merely legalistic appearance of issue of the Caspian; strengthening their intelligence and analysis instruments and their military capacity, the so called hard power, that they would gladly relegate to the background to rely uniquely on their legal and economic power. Furthermore, Europe often lacks the internal cohesion required to organize efficient political instruments essential to develop a foreign policy that goes beyond a gradual, wait-

and-see attitude, dictated by prudence or commercial interests. The Eastern Partnership will have to play out more incisive policies towards the Caucasus and the Caspian areas. Gradual administrative measures and economic support will prove insufficient, in the medium period, to guarantee an effective European Union policy in the turbulent Caspian area and in the post-Soviet context in general. The essential problem is that Europe, for material and moral constitution, has repudiated war as a mean to solve political controversies while the rest of the world, and therefore the post-Soviet context, still believes it a necessary option on some occasions. The question of a substantial refusal of military force, mainly based on a psychological-cultural attitude of denial of the military instrument, if not in cases of extreme necessity, puts the European governments in a position of partial renunciation to their decisional autonomy in the military field; a renunciation they are not always ready to accept. The substantial difference is that while the United States and Russia have covered the Caspian Sea with military bases in order to guarantee their control, for example in Georgia or Azerbaijan, the European Union has completely abstained from doing the same and this will weigh on its credibility in the area.

Military force is only one of the instruments (the others are diplomatic, legal, economic, cultural instruments) that Italy and the European Union could use to guarantee their access to the energy resources of the Caspian Sea and consequently protect the transit routes to Europe. The military instrument though, alongside the political one, is the only one capable of guaranteeing, in the short period, the security of the states of the area gradually promoting their internal democratization, a difficult task in the presence of strong ethnic-nationalistic components in some of the States of the Caucasus and Caspian area, as for example Georgia. In this case, the ethnic-cultural conception of the state has in fact lead to a claim for autonomy or independence of the ethnic islands inside the Georgian state.

Hence, an action in favor of a change in the legislation and dominant culture of these states, that would considerably decrease the tension in the area, contributing to its stability in the future years, would certainly be in the interest of the European Union.

3) Azerbaijan:

In 1994, Azerbaijan signed an important contract with international energy companies for the exploitation of its offshore resources. In order to increase its oil production and to obtain a greater financial income to be destined to economic and social development, Azerbaijan is particularly interested in modifying the legal regime of the Caspian Sea and in keeping the pipelines open to

transport its precious production to Europe. For this reason, it must necessarily keep good relations with Georgia that represents the only possibility to export its oil and gas production to Europe, and sufficiently good ones with Russia, without submitting to its diktats that would limit its choice options. The Azerbaijani cultural identity (a Turkish cultural matrix with the presence of strong Iranian influences) is rather complex and controversial and has naturally influenced its foreign policy.

At present, because of the long Soviet domination and of specific local cultural elements, the influence of Islamic parties in Azerbaijan is very limited, in spite of the fact that most of the income from oil revenues ends up in the pockets of a restricted technical and governmental elite and is only limitedly distributed to the other sectors of the urban population, while most of the rural population is excluded. Even in case of a change of the legal regime of the Caspian Sea the situation would remain substantially unchanged: the economic and social disparity between the elites and the rest of the population would persist, if not increase, triggering dangerous social tensions and perhaps a drift toward Islamic extremism, at present relatively under control. Azerbaijan has also concluded the tightest military bonds of the region with the United States and the NATO within the formula of Partnership for Peace and hence fully benefits from their military and logistic assistance.

This country has, more than any other, raised the legal case against Russia regarding the legal regime of the Caspian Sea. Furthermore, because of its legal-territorial controversies with Armenia for the Nagorno-Karabakh, an Armenian enclave in Azerbaijani territory, it is exposed to pressures, mainly from Russia, that has chosen to side with Armenia on the issue of the contended territories that constitutes a serious cause of friction between the two states with international effects on the stability of the whole area.

For this reasons Azerbaijan cannot be fully integrated in a permanent military alliance as the NATO, mainly because of a substantial veto from Russia that has an interest in maintaining the Nagorno-Karabakh question legally undetermined so as to prevent the passage of pipelines free from direct Russia control. Thus, Georgia remains the only territory through which the Azerbaijani pipelines from the Caspian Sea can pass but, in case of a new conflict between Russia and Georgia or between autonomist entities and the Georgian army, it would constitute a very vulnerable option.

12For Azerbaijani foreign policy see the article by Carlo Frappi

http://www.ispionline.it/it/documents/Analysis_15_2010.pdf

13For Azerbaijani foreign policy see http://eng.globalaffairs.ru/number/n_11280

In order to maintain as long as possible its substantial monopoly on the energy resources of the Caspian Sea, Russia resorts to a sort of veto to a change of the legal regime and favors the subsistence of a legal indetermination of the regional ethnic-territorial conflicts¹³. The tactic of “divide et impera” or of the “impartial mediator” are policies skillfully played out by Russian diplomacy to preserve a certain degree of influence on the area.

The signature of an comprehensive agreement that would officially acknowledge Azerbaijan’s right to exploit its offshore energy resources, that is a division of the Caspian Sea on a territorial base, would allow Azerbaijan to obtain a legal certainty on its energy resources and foreign oil companies to plan investments and profits without having to dread long and expensive controversies with the other riparian states. Italy, through ENI, has invested conspicuous sums and is therefore interested in a final solution to the issue of the legal regime of the Caspian Sea that would secure those investments against eventual lawsuits filed by the other countries of the region.

4) Iran:

Iran is in favor of the maintenance of the present legal regime of the Caspian Sea. If the legal regime should change from lake to sea, Iran would be assigned, because of the morphologic conformation of its section, an economically almost irrelevant area, about 13%. It is therefore evident that Iran is trying, with Russia, to delay at all costs the process of revision of the legal regime of the Caspian Sea that would put it in heavily disadvantaged position at the negotiation table. Iran cannot officially propose the transit of pipelines through its territories to the other countries of the area, Azerbaijan in particular, as it suffers a total embargo by the US that prevents or at least damages any hypothesis of cooperation with the other riparian states in international negotiations.

Furthermore, Iran does not want Azerbaijan to become an oil power because it fears that this may set off the secession of the 15 million Iranian citizens of Azerbaijani ethnic group who live in the

north of the country. The Teheran regime obviously wants to avoid this mortal threat to the unity of the country that could be easily used by Iran's enemies. Iran, like Russia, considers the issue of the legal regime of the Caspian Sea, a fundamental question that involves not only its economy but also, for the above mentioned reasons, its political and geopolitical certainties.

5) Turkmenistan:

Turkmenistan is unanimously considered, politically, one of the most opaque states of the area. The personality cult established by its President Niyazov has reached alarming proportions in the eyes of the international community. Basically, this country is very interested in solving the issue of the legal regime of the Caspian to exploit the considerable gas deposits present on its coasts through a future trans-Caspian pipeline (Tgco) and not necessarily through the Russian pipeline-net because of the open issue on the legal regime solicited by Russia¹⁴. Turkmenistan's position on the issue of the Caspian has shifted, gradually passing from a position in favor of a joint usage of the energy resources to a position in favor of their partition. A controversy with Azerbaijan has already arisen on the exploitation of some deposits. A solution to the question of the legal regime of the Caspian Sea is vital for the economic and political survival of Turkmenistan. In the Soviet era and until the '90 of the last century, its exports were based on the extensive cultivation of cotton. Recently though, this economic resource is marking time and the solution of the issue of the Caspian Sea and the consequent construction of the trans-Caspian pipeline has become essential for the survival of Turkmenistan that presents a very risky social situation partly caused by the government's bad management of economy.

6) Kazakhstan:

Kazakhstan has expressed its univocal position in favor of the change of the legal regime of the Caspian Sea and has signed a few bilateral agreements with Russia and Azerbaijan for a division of the Caspian Sea on a territorial basis. Kazakhstan's principal problem does not only concern the legal regime but also the pipelines' routes, often forced to pass through Russian territory. For this reason, Kazakhstan, a traditional and important ally of Russia, is now eager to find new routes as an alternative to the passage of its pipelines through Russian territory and to change the present legal regime of joint usage of the Caspian Sea's energy resources. In this case, economic and political

questions are so closely intertwined that separating them is difficult. The balance between economic and political necessities is particularly delicate because it implies the maintenance of good relations with Russia without losing its freedom of action. Kazakhstan's particular attention to its relations with Russia is also motivated by its multi-ethnic composition; in case of a serious internal crisis, the cohabitation of citizens of Russian and Kazakh ethnic groups would be hard to manage and could lead to a bloody civil war or even to a Russian action in defense of its ethnic minorities who live in the northern regions that border Russia. The Astana government operates a "multi-vector" policy that allows substantial openings to the West and excellent relations with Russia in exchange for economic concessions in the energy sector. In 2010, Kazakhstan has obtained the presidency of OCSE, a title that qualifies it as a regional leader, always at work to avoid the degeneration of the difficult regional balances into a conflict.

7) Russia:

In the early 90's, the Caspian Sea region has become an area of strategic interest for the Russian Federation. This gives it a prominent role in the Russian foreign policy aimed at preserving its influence in the area, integral part of the Soviet Union until 1991. In the course of time, Russia has gradually shifted from a position of rigid maintenance of the regime quo to a more flexible position that contemplates the signature of bilateral agreements between the riparian states. These agreements include the subsoil but not the superficial waters that remain open to mercantile navigation and to each country's navy. This obviously allows the militarily strongest state to exercise pressure on the others, setting off an arms race whose outcomes are at present difficult to foresee¹⁵.

15 On the general political situation of the Caspian Sea see http://eng.globalaffairs.ru/number/n_13032

Russia does not mean to accept a territorial division of the Caspian Sea but despite this fact, through the subscription of bilateral agreements, it has pointed the way to a partial solution of the problem that allows it to exploit its energy resources in a legal frame that guarantees, at least temporarily, secure investments. From a political point of view, the economic resources of the Caspian Sea are important for Russia to contribute to the pacification of Russian Caucasus: Chechnya, Dagestan and Ingushetia that are at the near west of the area. For Russia, the maintenance of stability in Northern

Caucasus is fundamental to safeguard the territorial integrity of the Russian Federation, threatened by a potential growth of Caucasian Islamic terrorism along its southern borders.

The issue of the legal regime of the Caspian Sea is therefore important for Russia not only for strictly economic reasons but also for geopolitical considerations concerning its security and territorial integrity menaced by the progressive expansion of the NATO in the area and by Islamic fundamentalism. For strictly political reasons Russia tries to use its strong monopoly on Caspian gas as a mean to maintain its influence on the former states of the Soviet Union (Ukraine, Georgia , the Baltic Countries) and also on the Balkans. To this aim, as it has lost its substantial monopoly on the energy exportation from western Caspian, (Azerbaijan) because of the presence of the BTC (Baku-Tblisi-Ceyhan) and BTE (Baku-Tblisi-Erzurum) pipelines, Russia is trying at least to secure the monopoly of the production of eastern Caspian¹⁶ (Turkmenistan and Kazakhstan).

16 Vladimir Socor Caspian–Black Sea Region: Key to Diversifying

Europe's Energy Supplies n European Energy Security What should it mean?

What to do? ESF – European Security Forum- Working paper Nr. 23

October 2006, CEPS, Bruxelles

The issue of the legal regime of the Caspian Sea is clearly used by Russia as a “Trojan horse” to hinder all energy projects that go against its economic and geopolitical interests. The substantial suspension of the issue of the legal regime of the Caspian Sea appears substantially advantageous to the safeguard of the political and economic interests of Russia, as the trans-Caspian pipelines sponsored by the West would not pass through Russian territories. Moscow's government has always objected that the construction of a trans-Caspian pipeline (Tgcp) will not be possible until the Caspian states will have defined the legal regime of the Caspian Sea. For this reason, Kazakhstan and Turkmenistan have, so far, preferred to transport their gas through Russian territory¹⁷ and Russia is willing to accept a gradual change in the legal regime of the Caspian Sea in exchange for concessions by the other states on the transportation of their oil and gas through Russian pipelines; thus securing profits and the future geopolitical importance of Russia in Central Asia and in the Caucasus.

17 Thrassy Marketos, Eastern Caspian Sea energy geopolitics: a litmus test for the US- Russia-China struggle for the geostrategic control of Eurasia,

Caucasian Review of international affairs, Vol .3 (1) 2009, p. 6 c CRIA 2009

The Russian plan that revolves around the question of the legal regime of the Caspian Sea is not centered on obtaining commercial revenues, though huge, but it aims at the organization of a space in which Russia may still hold a hegemonic political and economic role in a sort of Commonwealth, a confederation or, at least, a customs union of formally sovereign States. The not always successful cooperation between the Foreign Office, the armed forces and the energy companies, each with its specific and at times contrasting interests, is often a problem for Russian politics in the area. Caspian geopolitics will prove fundamental in determining the role and the political regime of Russia in the XXI century that, in the absence of a significant technological and economic modernization, will be extremely dependant on the energy and space resources it will be able to control in the next decades.

The extremely slow pace of economic modernization caused by an absence of political reforms will have important side effects on Russia's foreign policy in the next decades. The connection between economic modernization (and hence a greater entrepreneurial freedom for the citizens) and an internal democratization is rather clear: in the presence of a greater internal democracy even the state capitalism founded almost exclusively on the exploitation of raw materials would lose its importance, at least partially, in the economic life of Russia. Basically, the equation could be simplified as follows: more democracy, more economic development, less dependency on energy resources and consequently less pressure on Russia's neighbors. Ultimately, Russia will cease to insist on the question of the legal regime of the Caspian Sea when the disadvantages that arise from its actual indetermination will outgo the advantages, for example if the legal case should eventually block Russia's exports or if the international community should submit Russia to heavy sanctions.

The international community could decide to do so if Russia should violate, once more, the competition regulations of free international trade in the attempt to establish an effectual energy monopoly. This would apply in particular to a violation of the WTO18 rules that Russia should soon subscribe in order to compete more efficiently on the world markets. This should lead to a gradual reduction of the prices of gas and oil on the European and international market and facilitate the growth of a business bourgeoisie in Russia independent from the bureaucratic and centralizing state whose primary preoccupation is that of defending and increasing the income from the energy

revenues and the conservation of the status quo in the post-Soviet space and therefore in the Caspian Sea area.

18 http://www.wto.org/english/res_e/publications_e/wtr10_7may10_e.pdf

The gradual transformation into a technological and commercial power is the only mean through which Russia will, at least partially, “loosen the hold” on what constitutes today its major source of income: the extraction of oil and gas. The political transformation of Russia could be set off, as it traditionally happens, by a decision from the high ranks or by a transformation of the population’s mentality through an incisive economic reform, also put forward by Russian President Medvedev. The population’s democratic demand will not express itself in a request for greater political democracy but rather in a demand for a simplification of the bureaucratic apparatus in order to accomplish the infrastructural modernization that would allow Russia to compete on the global markets¹⁹, especially after it will have adhered to the World Trade Organization.

19 see the interesting article by Serena Giusti

http://www.ispionline.it/it/documents/PB_134_2009.pdf

Medvedev appears a convinced modernizer of the economic and social structure of the country. The economic modernization he means to carry forward includes a gradual increase of citizen participation in the formation of GDP and, consequently, in the political life of the country. This would mean abandoning the so called “managed democracy” (“upravliaemaia demokratia”), characterized by a strong centralization that has so far characterized Russia. This management has often meant a severe control by the authorities on Russia’s entrepreneurial system that has discouraged the population from undertaking any business activity that would greatly contribute in getting over an economic growth mainly based on its raw materials. This has so far impeded or delayed the formation of an entrepreneurial fabric of small and medium companies capable of competing on the world market.

What remains to be seen is whether Russia’s substantial monopoly on the energy resources of the Caspian Sea and on their transportation routes shall definitely turn into an “oil curse” or if it will be instrumental in modernizing the infrastructures and politics of the country. Russia’s adhesion to the

WTO will entail a transformation of its economy, in the future more largely based on its considerable technological capacity and on service industry, and will consequently lead to a gradual transformation of its foreign trade and hence of its energy sector that constitutes at present a very relevant part of the income, as high as 70% of the country's GDP. In the near future, the interpenetration of commercial rules and geopolitics could lead to important turns in the energy sector. Russia's modernization should cease to be exogenous, that is dependent on foreign technology as it has often been in the past, and become internal to the country, valorizing the considerable intellectual potential of the country. This potential will not be expressed as long as the country's political structure will remain rigid, extremely centralized and bureaucratic, substantially hostile to the free economic initiative of the Russian citizens. The West's interest in Russia's adhesion to the WTO is not only motivated by commercial reasons but also by the awareness that this would favor its internal democratization originated by the need of a class of producer citizens who demands a simpler, more democratic and efficient state capable of withstanding the global economic competition.

