

Iran and Central Asia

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*Iran, Central Asia, and Afghanistan:
Recent Developments*

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Silk and Spices Roads



Civilization is unique
Cultures and traditions are the same



Iran's advantages

- ❑ Iran's geographical position,
- ❑ size,
- ❑ economic stature
- ❑ military muscle

give it the potential to play a leading or pivotal role in a number of regional configurations:

Persian Gulf,

Central Asia and Afghanistan,

Caspian Basin

Iran and its Subregions

- ❑ Middle East
- ❑ Persian Gulf
- ❑ South West Asia
- ❑ Central Asia, Caucasus, and Afghanistan
- ❑ Caspian Basin



Regionalism as priority in Iran's foreign policy (1)

- ❑ The Collapse of Former Soviet Union was the most important event in Iran's Foreign Relations.
- ❑ Instead of 1 Country, 10 countries became Iranian neighbors in the north.
- ❑ All of them have Muslim populations with historical ties with Iran.
- ❑ Armenia is the Iran's window to the world of Christianity.



The Caucasus and Central Asia



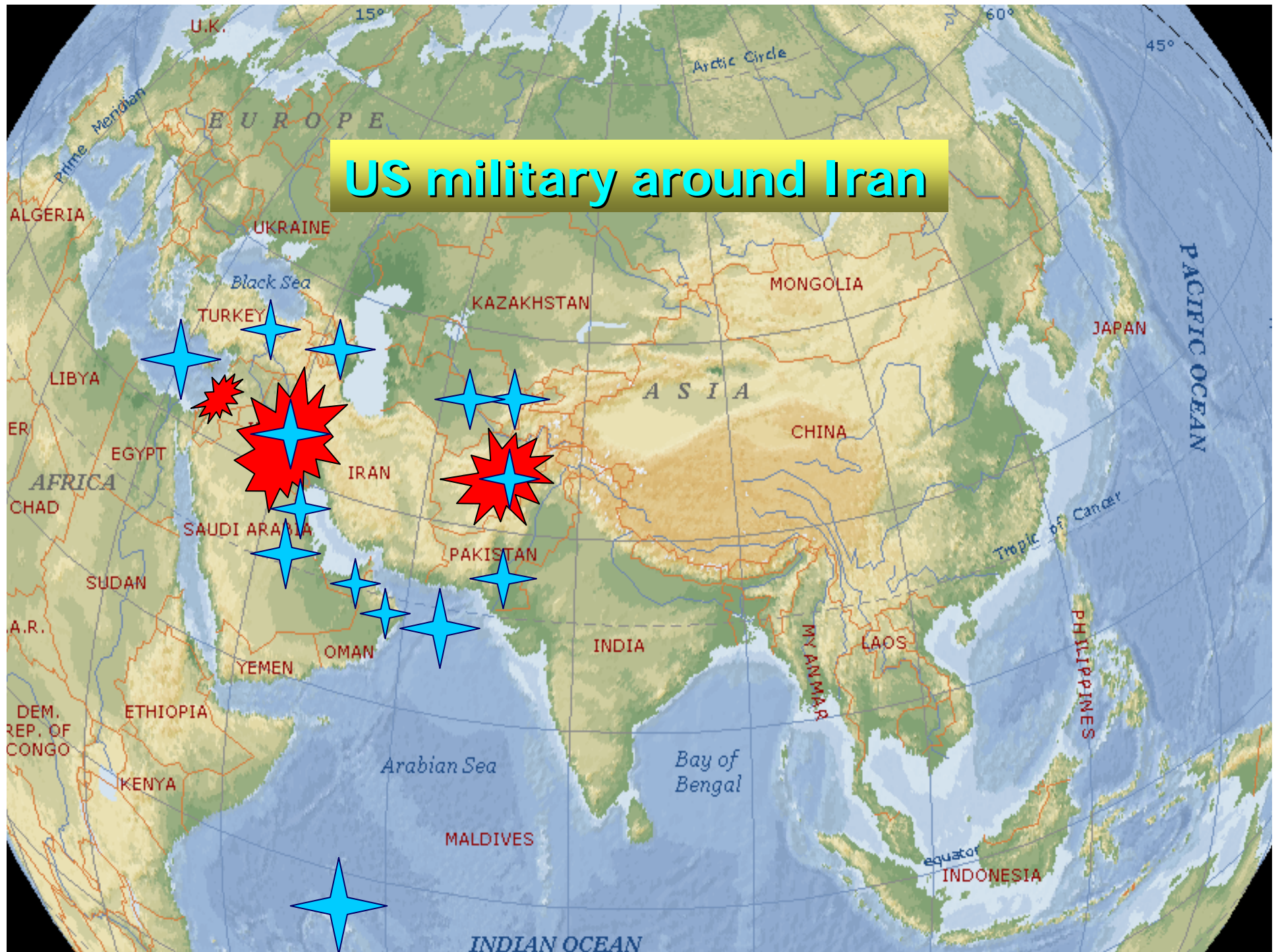
Regionalism as priority in Iran's foreign policy (2)

- ❑ Islamic Revolution Slogan:
Neither East, Nor West
 - ❑ The Constitution of the Islamic Republic makes clear Iran's preferences in foreign policy. Four groups of countries are ranked in preference:
 - (1) Iran's neighbours;
 - (2) Muslim countries;
 - (3) Third World countries;
 - (4) countries that furnish political, economic, social and/or military needs of Iran.
 - ❑ Third Worldism raised after the end of Iran-Iraq War (1980-88)
-

Regionalism as priority in Iran's foreign policy (3)

- ❑ Iran was using the game of showing to shift from one super power to another during bipolar system
- ❑ US did not desire to see Iran as Iranistan
- ❑ After US-Iraq war in 1991 and collapse of Soviet Union in 1992, US shifted its policy against Iran:
 - Dual Containment
 - ILSA
 - Rogue States
 - Axis of evils

US military around Iran



Regionalism as priority in Iran's foreign policy (4)

- ❑ In search of ways to frustrate Washington's policy of containment Tehran looked towards cooperation with neighbors, with other nearby and Muslim states
- ❑ Iran became a major player in regional and International organizations as
 - ECO
 - OIC
 - OPEC
 - SCO
 - D8

ECO

(Economic Cooperation Organization)



SCO

(Shanghai Cooperation Organization)

Commonwealth of Independent States - Central Asian States



Regionalism as priority in Iran's foreign policy (5)

- ❑ One of the constant themes of Iranian statements on regionalism has been self-reliance among regional states and the exclusion of extra-regional powers (meaning the United States).
- ❑ For this reason Iranian policy debate refuses to accept the emergence of an international system dominated by a single hostile superpower
- ❑ It rejects the ideas of a **unipolar** world order, arguing that the bipolar should give way rather to a **multipolar** order.

Regionalism as priority in Iran's foreign policy (6)

- ❑ Regionalism figures in this debate through a conception of the world as a set of interlinked and overlapping regions.
- ❑ Iranian conceptions of regionalism generally attach importance to culture both as a defining feature and as a basis for cooperation.

Iran's Role as Sees itself

- ❑ As a result of the current regional crisis, Iran's domestic discourses have been put on a security footing
- ❑ Based on new realities, Iranian leaders have concluded that Iran's only viable approach in international relations is to become the **"indispensable regional player in the West Asia"**

Instruments

- Critical tools:
 - Economic and technological advancement;
 - Regional positioning;
- So far, Iran's response in foreign relations has mainly focused on 3 levels; i.e.:
 - Consolidating Iran's regional position and relations In Middle East
 - Deepening the relations with the European Union as a leverage against potential future US domination in the region;
 - Seeking a new strategic relationship with Asian Countries

Iran's Vision

- ❑ For the first time since the 79 revolution, Iran is focusing on becoming an “economic and technological power”;
- ❑ The 20-Year Perspectives concentrate on “welfare”, “wealth creation”, “agricultural and industrial growth” and “a software movement”

What would be Iran after 20 Years?

- ❑ The first country in the **region** at economic, scientific and technology levels
- ❑ line of thinking, i.e. the prioritization of becoming an “**economic and technological power**” over other policy areas, is very evident in Iran’s 20-Year Perspective Document which has produced the first ever official long-term macro strategy of the Islamic Republic.

Iran's Economic Situation

- ❑ Iran's annual economic growth, average on ten years: 4.3%
 - Peak (2002): 7.5
 - GDP (2005): \$150 b
- ❑ Iran's inflation
 - average on ten recent years: 15.8%
- ❑ Investment; FDI (2004): \$1.5 b
- ❑ Oil and Gas Export (2003): \$9 b
 - (2004): \$36 b
 - (2005): \$48 b
 - From 1997-2005: **\$170 b**

Economic Difficulties of Iran (1)

- ☐ Rent-seeking activities and corruption continue
- ☐ Large state subsidies, especially in oil products, are being paid by the government.
- ☐ Iran is the source of largest brain drain in the world
- ☐ Bureaucracy, red tape and lack of motivation by the government work force continues.
- ☐ During the last 16 years, privatization has not proceeded well.

Economic Difficulties of Iran (2)

- ❑ Transparency and accountability of the government has not advanced significantly.
- ❑ The economy remains much dependent on oil (85 percent of exports and 60 percent of government budget).
- ❑ Government still lacks “monetary and financial discipline” due to large budget deficits
- ❑ No substantive support for small and medium size enterprises is launched
- ❑ using overwhelmingly government-owned banking system

Economic Difficulties of Iran (3)

- ❑ High inflation rates have damaged the business environment, putting pressure on costs of doing business and damaging the management-labor relations
- ❑ The high interest rates, in turn, damage the performance and – indeed – the reputation of “Islamic banking.”
- ❑ No serious attention is made regarding productivity improvement, as the root of growth and welfare.

IRAN has

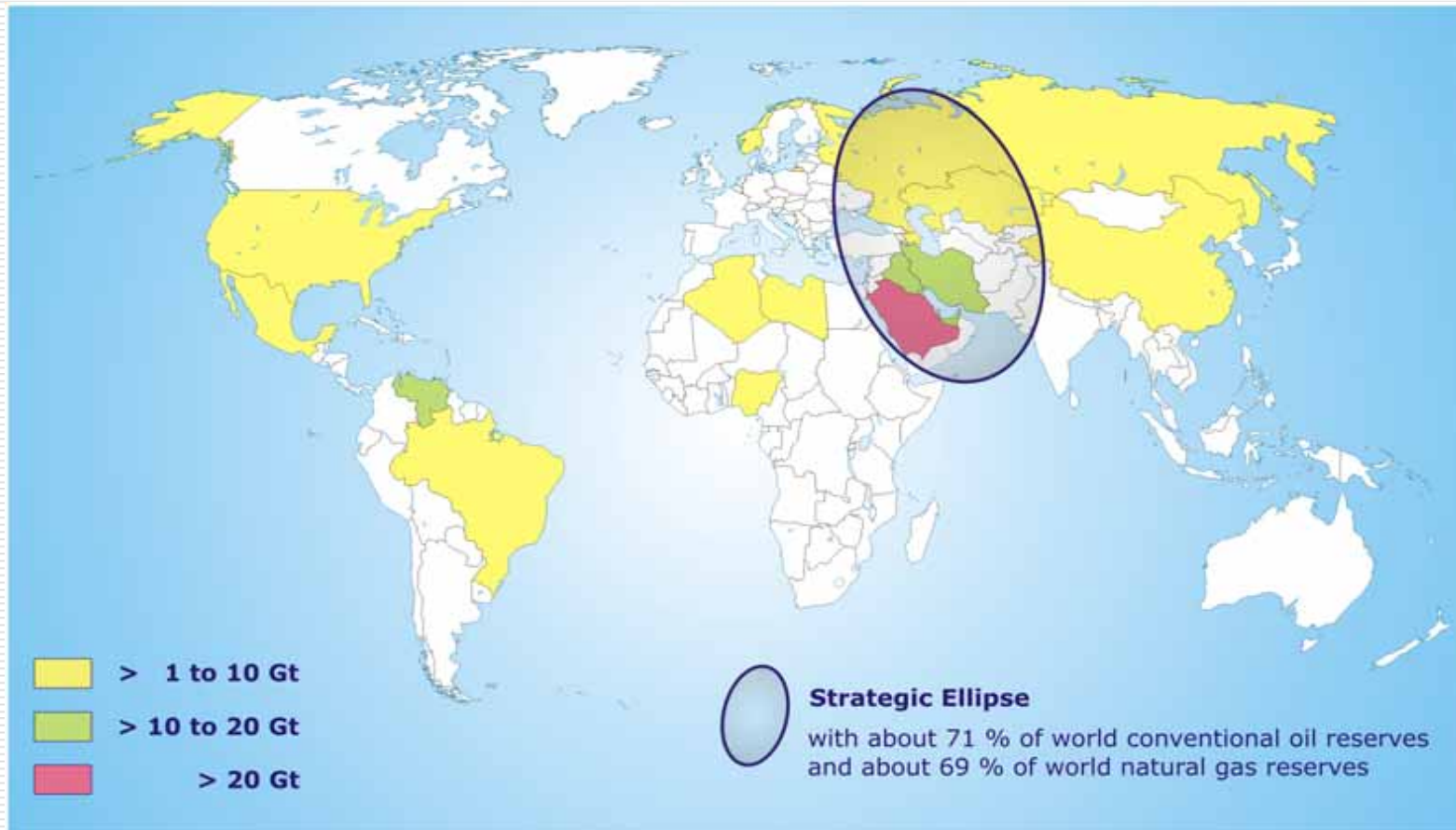
- ❑ 1% of the world's population,
- ❑ 7% of the world's natural reserves including
 - 10% of the global proven oil reserves
 - 16% of the world's natural gas resources.

130 b barrel oil (17 billion tons)

27 trillion cm gas

which means **\$3000 billions**

Iran is situated at the heart of the world's most important petroleum hub



Iranians are sitting on huge land mass controlling the transportation lines which pass between landlocked Central Asian countries and high seas



Population

(Thousand people, 1995)(population Growth Rate %)

Iran	67,477 (1.47)
Kazakhstan	15,364 (0.4)
Kyrgyzstan	5,092 (1.1)
Tajikistan	6,780 (0.9)
Turkmenistan	6,250 (5.8)
Uzbekistan	26,864 (1.2)
Total	127,823

Iran's Gates to Central Asia



Great Khorasan Network



GDP/Capita US\$

❑ Iran \$2300

❑ Kazakhstan \$2350

❑ Turkmenistan \$1100

❑ Uzbekistan \$820

❑ Kyrgyzstan \$450

❑ Tajikistan \$280

Oman \$9000

Saudi \$12000

UAE \$23000

Qatar \$25000

Iran and Central Asia

□ Iran's border with Central Asian countries:

1200 km with Turkmenistan (territorial)

1300 Km with Kazakhstan by Caspian

1150 Km with Turkmenistan by Caspian

Iran's Borders with Central Asia



Central Asia Bottleneck

- ❑ Central Asian Countries are landlocked
- ❑ Uzbekistan is double landlocked

Uzbekistan is double landlocked



Ira's Strategic Interests in CA

Iran has long considered itself to be the first neighbors of Central Asia

- ❑ Developing positive political relations with the states of the region, to include expanded trade and investment
- ❑ Protecting open access to energy supplies, including the development of energy-based industries that complement rather than compete with domestic industry.
- ❑ Building relationship that helps it escape from international isolation, which it sees as guarded by US global hegemony.

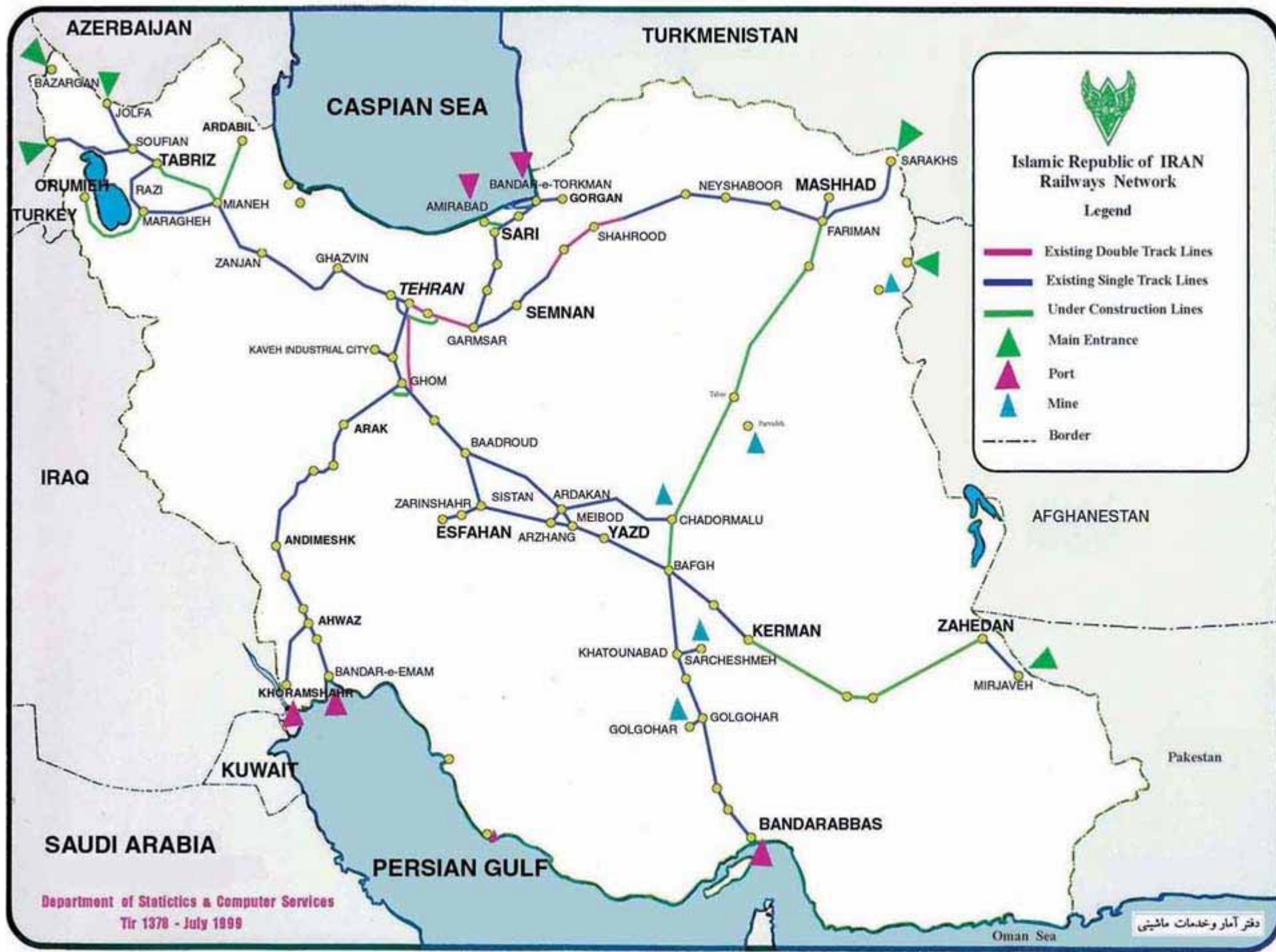
Economic Relations

Iran aims to accomplish the following:

- ❑ Expand its infrastructure, especially its railway network;
- ❑ Gain political and economic influence in CA through the Economic Co-operation Organization (ECO);
- ❑ Acquire shares in a number of Caspian oil and gas development and export ventures.

Railroads

- ❑ Railroads: Iran linked Russia, Central Asia to Persian Gulf.
 - 1995, Bafgh-Bandar Abbas (700 Km)
 - 1996, Mashhad-Sarakhs-Tejen (300 Km)
 - 2005, Bafgh-Mashhad (650 Km)
- ❑ The first train from Almaty moved to Istanbul at 2002
- ❑ As a whole 10 millions tons of raw materials are predicted to be carried from en-route ore mines (in Iran) to the steel mills (in CA).



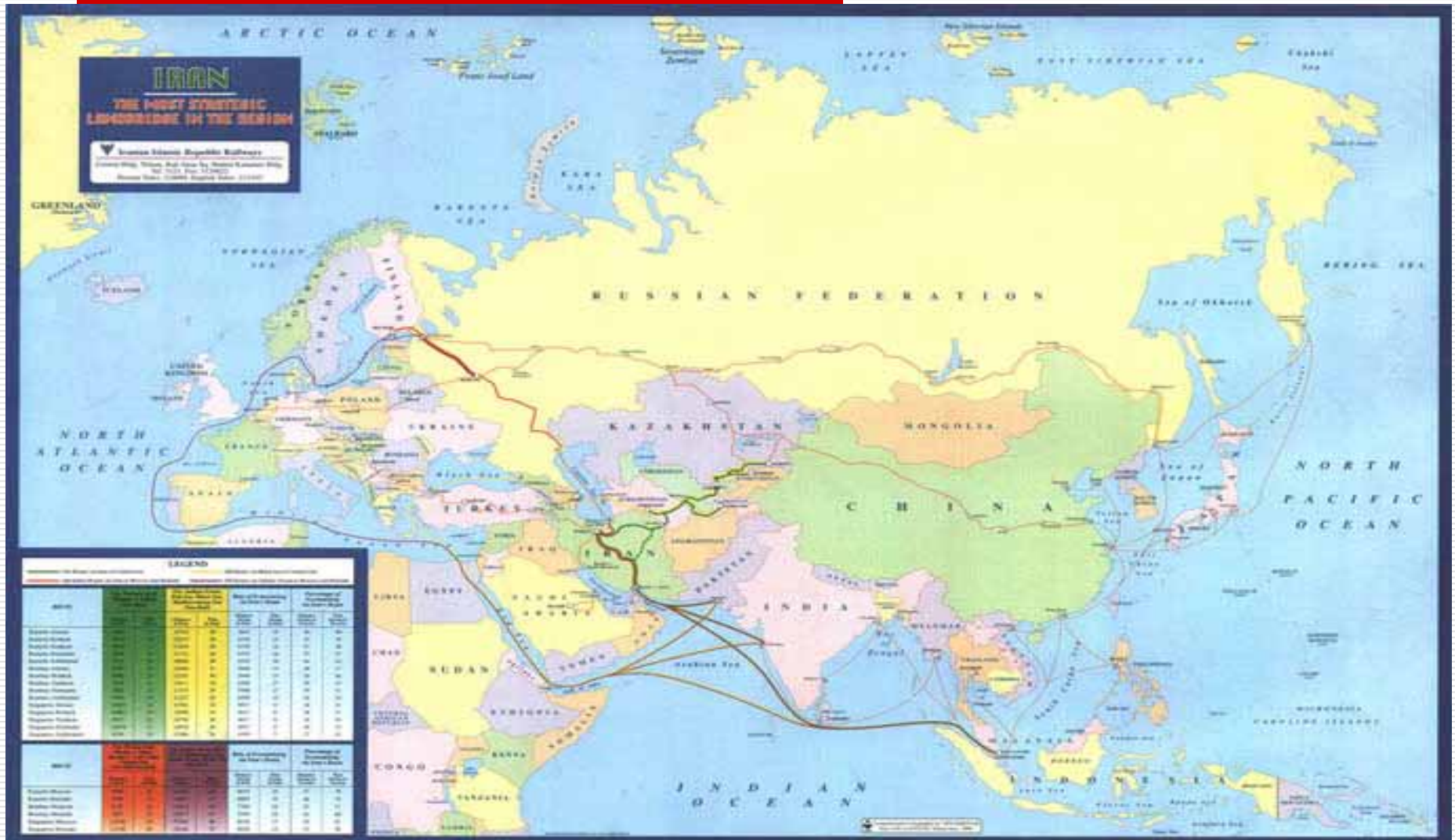
North-South Corridor

- ❑ The idea of linking Europe and Asia along the Volga and across the Caspian Sea is an old one.
- ❑ The multilateral arrangements forwarding systems permits to send products to Bandar Abbas, then by rail to Central Asia, or by ship from Caspian Sea to Russia, or by paved ways to Afghanistan.
- ❑ The Baltic–Persian Gulf corridor could soon be handling 20 million tones a year.

North-South Corridor (2)

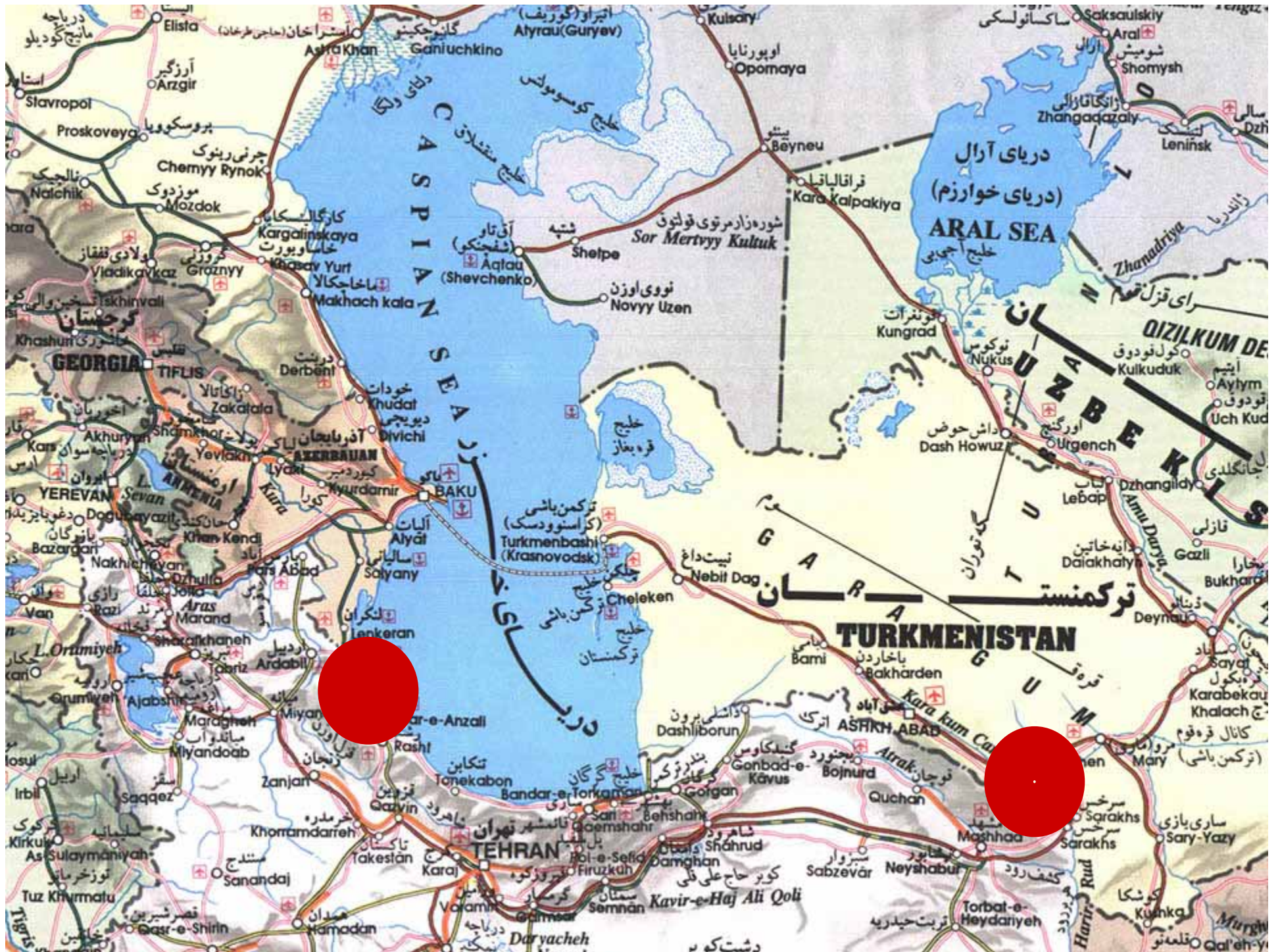
- ❑ In Sarakhs-Bandar Abbas route which connects Central Asia to international waterways, it should slash the transit time of 6 days to 4 days and distance of 2431 km to 1617 km
- ❑ It will cut transportation costs by about 15-20% thanks to a 800 reduction in distance which ultimately add to tonnage increase and foreign exchange income.
- ❑ Trans-Asian Railway (Tar) from Singapore to Istanbul, 14000 Km

North-South Corridor



Free Trade Zones

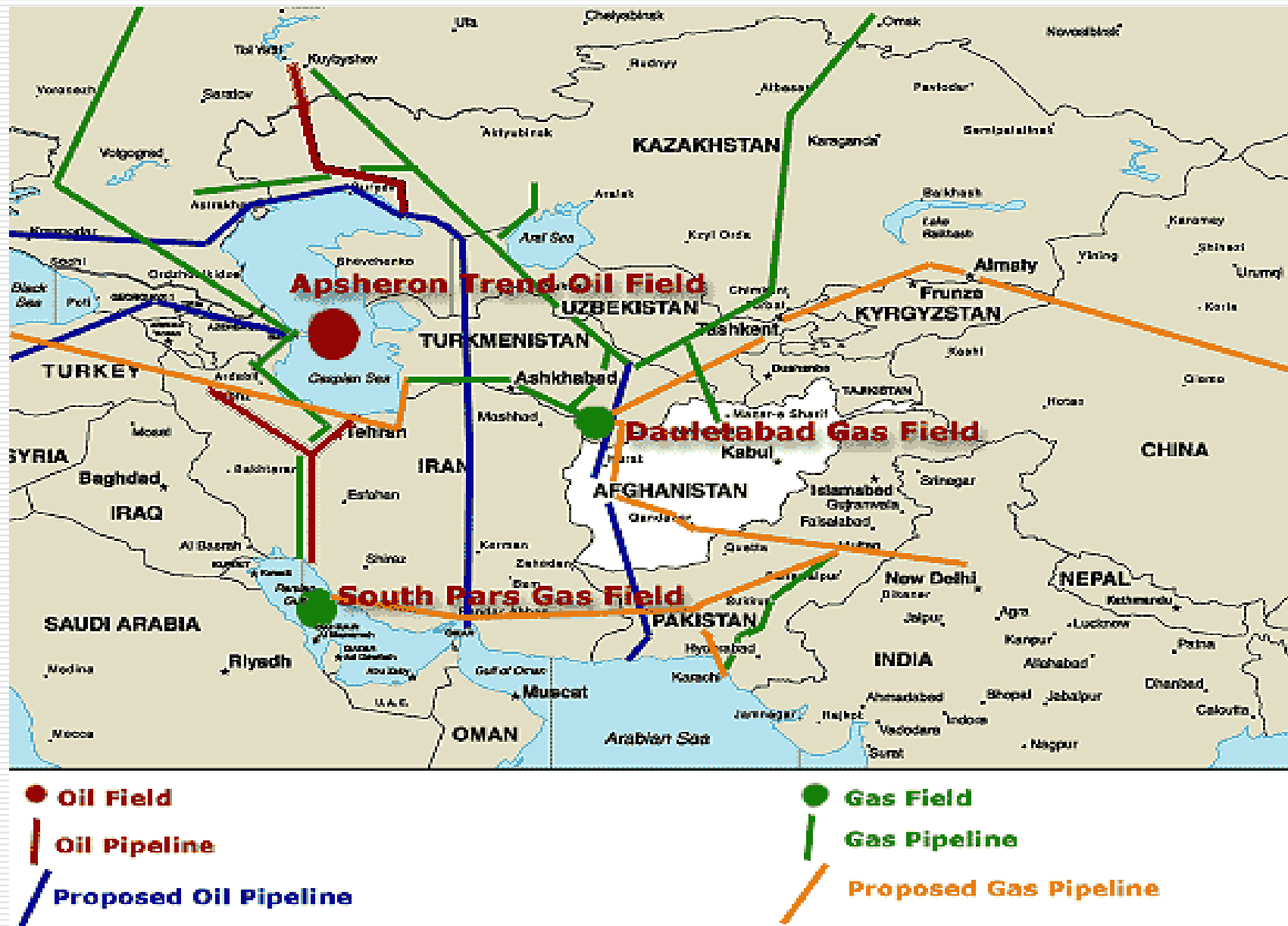
- ❑ Road Construction between Iran and Tajikistan via Afghanistan
- ❑ Establishment of a number of free trade zones intended to stimulate regional trade:
 - Sarakhs
 - Bandar Anzali



Oil and Gas

- ❑ Oil Swap:
 - Iran is a consumer for Caspian oil
 - Neka-Ray pipeline has capacity to transit 500,000 barrels per day
 - The great game in the Caspian is over, because the routes of oil and gas is designated.
- ❑ Gas Pipeline between Korpejeh to Kurkui, 200 Km, 8 bcm annually,
- ❑ Project on Turkmenistan-Iran-Turkey gas pipeline
- ❑ KTI oil pipeline

The Great Game is over



Caspian Oil Terminals and Neka



Electricity

- ❑ Connection of Turkmen-Iran electricity grids in 2000
- ❑ Iran builds SangToudehII Power plant over Vakhsh river in Tajikistan
- ❑ Iran builds Anzab hydro-tunnel in Takikistan
- ❑ Total investment should reach to \$700 million

The barriers of Iran's export to Central Asia

- ❑ Internal domestic export barriers:
 - availability of market for Iranian companies inside Iran
 - the lack of enough production
 - lack of skilled staff familiar with export
- ❑ External domestic export barriers:
 - huge cost for financing of projects,
 - the lack of knowledge in management skills,
 - weak program of the government for encouraging the export policies

The barriers of Iran's export to Central Asia (2)

- External foreign export barriers:
 - these are related to the regional environment for Iranian products and goods.
 - different tariffs
 - the lack of knowledge on commercial agreements of the host country

Advantages of Iran's export to Central Asia

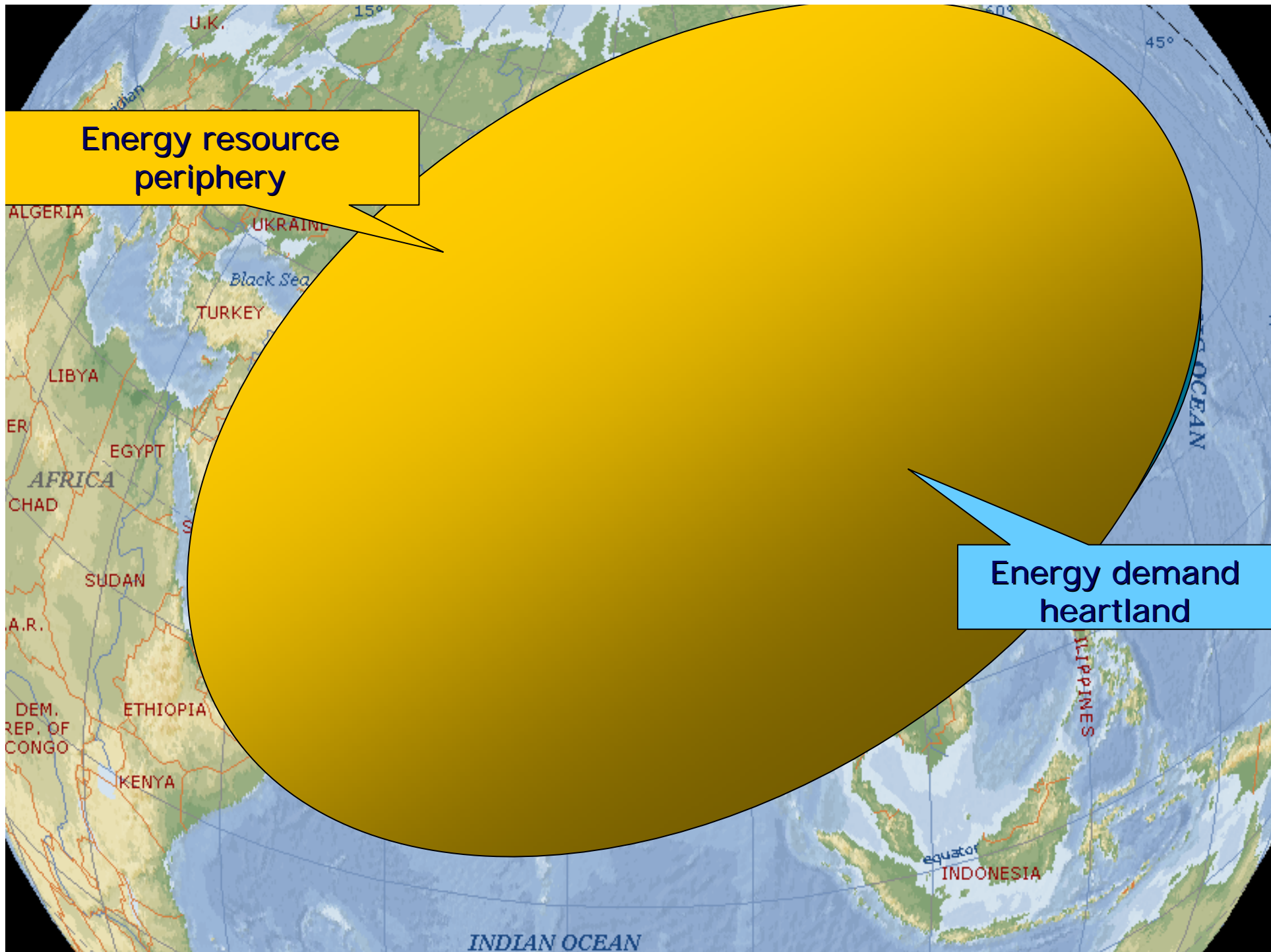
- ❑ Iranian products are well known, because of the historical ties among Iran and CA countries.
- ❑ These products are relatively cheap. Transportation cost is lowest in the region.
- ❑ Iranian products has less complexities of Western products technically, more familiar with the region's cultures and traditions.

Russia Kazakhstan China Oil pipeline



Iran Gas proposed pipeline to China





Conclusions

- ❑ Iran is moving from an originally inward oriented economic structure to a more liberalized and open market structure that wants to interact with the rest of the world.
- ❑ To achieve this, the government will further continue to put forward initiatives aimed at improving the country's overall investment climate.

Conclusions (2)

- ❑ Iran has contributed to the economic development and political stability of the region and is likely to continue to do so in the future.
- ❑ Iran's activity and success have been modest. Because its own economy has been weak, unable to invest much in the developmental projects in the republics, or enter in to joint ventures with other countries in order to do so.
- ❑ It is also because private companies and businessmen in Iran have had little experience in investing in foreign countries.

Conclusions (3)

- ❑ Following international engagement in Central Asia after 2001, Tehran seems to be opting for continued ad-hoc cooperation with the states of Central Asia where it can
- ❑ Tehran avoids any possibility of collision of interests with the countries of the region. (Andijan case)

Conclusions (4)

- ❑ Despite of all potential for cooperation, it has to be noted that Iran in no way is a dominant player in the region.
- ❑ Iran's own internal economic and political problems, which are made worse by the US effort to isolate Iran, hamper investments in the region.

Conclusions (5)

- ❑ Developing routes through Iran would be the most effective and efficient way to permit the countries of Central Asia to break away from the Soviet legacy of dependence on communications routes through Russia territory.
- ❑ The gas pipeline from Central Asia to Iran then Europe is a key project in trilateral cooperation among three regions. The physibility study of the two routes from Iran to Europe via Turkey and Ukraine had been done.

Conclusions (6)

- ❑ One of the Iran's advantages in Central Asia is the close relations and common views with Russia in several strategic and political aspects.
- ❑ What has also greatly helped Iran's position in the CA is that its policy is based not on ideology, but on trade and cultural links between it and the republics.

Conclusions (7)

- ❑ At the same time which Iran is going to be isolated by West because of its nuclear file, Iran returns its eyes more to the East. East for Iran means Asian countries.
- ❑ Naturally economic ties between Central Asia and eastern neighbors is widen. Especially cheap goods in Xinjiang province in China are very attractive for Central Asian traders. Iran's bilateral relations with Turkmenistan and Afghanistan have better performance.

Conclusions (8)

- ❑ Iran's policy is one of economic pragmatism and positive political engagement.
- ❑ But U.S. policy in Iraq and Afghanistan raise the question:
How long Tehran will be able to stay the course?

Thank you
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