

## US Sanctions on Iran: Implications for the Economic Cooperation Organization (ECO)

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### Abstract:

Inspired by the success of European integration process, the Economic Cooperation Organization (ECO) members decided to take advantage of their potency and resources through collaborative efforts. They prioritized trade, transport and energy as the core area of activities. However, the US sanctions on Iran, the core member of ECO, proved catastrophic for the performance of ECO in its core areas of operation. The paper primarily aims to investigate how far the US sanctions impinged upon the performance of ECO in its major priority areas in general and the energy cooperation in particular? The paper argues that the growing the US-Iran animosity imperiled the prospects of success for many ECO projects and plans. The study is qualitative, descriptive and analytical and its findings suggest that for smooth and successful operations of ECO, it is essential to create ease for all the member states. Otherwise, it will hinder the ambition of regional as well as global prosperity, growth and sustainable development.

**Key Words:** Iran, sanctions, regional cooperation, global economic order, pipelines.

### INTRODUCTION

In the post- cold war era, many regional organizations opened new avenues for regional cooperation in many places. The member states, in many cases, have successfully utilized their resources and potential for development in many fields. It has been argued that like many other cases, the members of Economic Cooperation Organization (ECO) were inspired by the successful political and economic configuration of the European Union (Collins, 2009). In 1985, Iran, Pakistan and Turkey reinvigorated the Regional Cooperation for Development (RCD) under the title of the ECO and termed this initiative as a “masterstroke” which would unite rich resources regions of the world (Abbasi, 2019). They determined to work together for the promotion of regional cooperation, economic development, and the regional integration (Peimani 2009, p.303). They prioritized trade, transport and energy as their core areas of activities. In 2003, the member states painted ECO Vision 2015, and envisioned the growth of intraregional trade from 6 % to 20%. Equally, it was planned to have a free trade area by 2015 (Haider, 2015). Trade and transport, the interlinked areas, are considered strategic domains of cooperation. For promoting connectivity of the member states through road and railway routes, ECO signed multiple agreements including the Almaty Outline Plan (1993), ECO decade of Transport and Communication (1998-2007), and the Transit Transport Framework Agreement (1998).

Meanwhile, Iran being one of the founding members of the ECO witnessed conflict with the United States (US). Consequently, it encountered great difficulties including sanctions which not only

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transformed the regional politics but also redesigned the Iranian role in contemporary global and regional politics that negatively influenced evolutionary process of ECO (Hussain 2016, p.83). This study evaluates how the post-sanctions regional role of Iran contributed to its conduct towards ECO and the ECO region. The study mainly focuses how did the US sanctions on Iran affect the performance of the ECO? The study asserts that the US sanctions on Iran impeded access of capital and technology required for the oil and gas pipelines from the Iranian route that adversely affected the project. The US-Iran rivalry brought with it fundamental strategic divergence among the ECO members, a phenomena that does not match with the desired spirit of the regional cooperation strategies. While Iran is the strategic rival of the US, most of its ECO partners have strategic convergence with the US in the geopolitical domain of the region. In many ways, the animosity between Iran and the US is detrimental to certain priority areas the ECO.

The paper is structured around four sections. The next section introduces the ECO to the reader. The following section illustrates the nature of US sanctions on Iran. Then the next section presents impact of the US sanctions on ECO's projects and plans. The final section concludes the paper.

### **Methodology**

This study analyzes how far the US sanctions impinged upon the performance of ECO in its major priority areas in general and the energy cooperation in particular? The article is a case study which evaluates repercussions of the US sanctions on ECO and it involves qualitative research based on descriptive and analytical techniques. Both primary and secondary data have been used to measure influences of sanctions on ECO. Interviews from former ambassadors have also been conducted in this regard.

### **ECO: ORIGIN, INSTITUTIONS, AND RESOURCES**

The Iranian Revolution in 1979 was a major development as it brought substantial shift in its character in the global politics. Accordingly, the Iranian conduct towards RCD, formed in 1964, underwent a fundamental change, and virtually the organization became defunct. Much later, in 1985, it was revived under its new (current) title, i.e. ECO. Finally, it was expanded in 1992, with the inclusion of five Central Asian Republics (CARs) which gained independence after the demise of Soviet Union. Afghanistan and Azerbaijan also joined the organization. At the moment, the ECO comprises ten member states, namely: Iran, Pakistan, Turkey, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan and Afghanistan (Abbasi, 2019).

In the policy decisions of the ECO, the Council of Ministers (COM) comprising the foreign ministers of member states plays a vital role. The Council organizes regular, informal and extraordinary sessions to converse about and decide ECO policies and strategies for promoting economic cooperation among the members. Furthermore, it monitors the matters related to the budget, audit, fiscal and administrative rules and appointment of the senior management of ECO such as Secretary General and Deputy Secretaries. On behalf of COM, the Council of Permanent Representatives, comprising the permanent representatives or ambassadors accredited to ECO, pushes forward the policies of ECO to make necessary preparations for decisions to be taken by COM. The Regional Planning Council facilitates the aforesaid councils to develop One-Year programs of work and ECO calendars of meetings. The Secretary General is the administrative head of the organization who initiates, coordinates and monitors the implementation of ECO activities (Abbasi 2019). The

Secretary General supervises the directorates of Industry and Agriculture, Trade and Investment, Energy, Mineral and Communications, Transport and Communications, Economic research and statistics, and Project Research.

The geographic location of the ECO makes it a highly significant organization of the world because it includes areas like the Persian Gulf, the Indian Ocean and the Mediterranean Sea. The region has assumed considerable importance in the domain of energy security. In the broader context, it has become confluence of competition among the US, Russia, China, Iran, and Turkey to control hydrocarbon wealth. The multinational companies (MNCs), particularly dealing with the exploration, extraction and transportation of oil and gas have also been vying for gaining influence in the region (Mousavi, 2010). According to Hess, the strategic domination thinking includes the areas of Eurasia formed by the Central Asia and the Caucasus. Hess believes that the “Strategic domination involves exclusive access to energy resources, and Mackinder thought the World Island would contain significant portions of those resources” (Hess, 2004). The detail of the underground riches or hydrocarbon wealth of the ECO region as given below clearly indicates the potential of the region.

**Table: 1. Proven Oil and Gas Reserves of Selected ECO Countries (2019)**

Name of Country	Natural Gas Reserves (Trillion cubic feet)	Name of Country	Oil Reserves (Thousand million barrel)
Iran	1130.7	Iran	155.6
Turkmenistan	688.1	Kazakhstan	30.0
Azerbaijan	100.5	Azerbaijan	7.0
Uzbekistan	42.7	Turkmenistan	0.6
Kazakhstan	93.7	Uzbekistan	0.6
Pakistan	14.2		

Source: BP Statistical Review of World Energy 2020

The table illustrates that Iran’s share in the oil and gas reserves is central to ECO’s role for promoting economic cooperation among member states. While, Turkmenistan, Azerbaijan, Uzbekistan and Pakistan collectively preserve eight hundred and fifty-four trillion cubic feet gas, Iran alone preserves approximately eleven hundred and twenty-eight trillion cubic feet gas. Likewise, Turkmenistan, Azerbaijan, Uzbekistan and Kazakhstan collectively preserve thirty-eight thousand million barrels of oil while Iran preserves approximately one hundred and fifty six thousands million barrels of oil. Despite centrality of Iran in the realm of hydrocarbon wealth of the ECO region, its role has been impeded by the continued threat of the US sanctions.

As Iran is the core member of the ECO, the Iranian global and regional conduct exerts influence on the performance of the ECO both directly and indirectly. The initiatives taken by Iran to expand its sphere of influence in the central Asia were curtailed by the decisions taken by President Clinton which left Iran isolated (Nori, 1997). It has been reported that the United States would convince other countries energetically that “Iran is a bad investment in both commercial and strategic terms for all responsible members of the international community” (Hunter 2010, p.51).

The US did not sanction the ECO as an entity as it sanctioned the Islamic Revolutionary Guard Corps (IRGC) or other institutions of Iran. However, ECO is a multilateral economic grouping which comprises ten members. In the era of complex interdependence, states cannot escape from regional and global influence of the policies pursued by the regional and the global powers. That is why, the

former Pakistan's permanent representative to the ECO, Ambassador Javaid Hussain opined "the strained US-Iran relations and the Western sanctions against Iran on account of its nuclear program had a negative effect on the evolution of the ECO as an effective regional cooperation organization" (Hussain 2016, p.83). It is also asserted that the US "opposes the growth of a regional organization in which Iran plays a pivotal role" (Peimani 2009, p.304).

### **THE NATURE OF THE SANCTIONS ON IRAN**

Proliferation of weapons of mass destruction, acquiring of nuclear weapons, and support for the organizations like Hizbelluh of Lebanon and Hamas of Palestine, and violation of human rights became major causes for the sanctions to be imposed by the US on Iran (Rome, 2015). It is commonplace globally that the powerful actors employ sanctions rather than coercion to weaken targeted regime (Renwick, 1981) and the US used sanctions to weaken the Iranian regime.

Since Iranian revolution the US-Iran relations remained antagonistic mainly because of the hostage crisis of 1979. Then in 1983, The US President, Jimmy Carter, coupled Iran with the states that sponsors terrorism (Rome, 2015). Since the Iranian Revolution, the US employed multiple tools like incentives, diplomacy, and in some cases indirect military force, for instance in the case of Iraq and Syria, to weaken or replace the Iranian regime. However, the sanctions always remained the most powerful instrument of the US to "alter Iran's objectionable policies by exacting considerable costs for such behavior" (Brzezinski, Gates, & Maloney, 2004).

Among these multiple tools, the most horrible blow came from President Bill Clinton in the form of Iran Libya Sanctions Act (ILSA) signed in August 1996. The act sanctioned companies that invest more than \$40 million in Iranian oil sector. It was renamed as the Iran Sanctions Act in 2006 in which the "Companies not based in the United States were also subject to sanctions by virtue of a threat if companies chose to do business with Iran's energy sector, they could not also do business with the United States" (Rome, 2015). In July 2010, President Barak Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). It not only circumscribed further firmly the already restricted of the US trade with Iran but also outlawed some high technology transfer. With the CISADA, developing of oil and gas fields and selling of the Iranian refined petroleum, gasoline, and gasoline production-related services became quite difficult for Iran (Rezaei, 2018). On March 15, 2012, the Belgian-based Society for Worldwide Interbank Financial Telecommunication (SWIFT) broadcasted that it would bar the Iranian banks from its network. The announcement of SWIFT - the world's largest electronic payment system - converted smart sanctions into super smart ones (Rezaei, 2018). The European Union (EU) restricted trade domains of Iran on January 2012 under Council Decision 2012/ 35/ CFSP which banned "import, purchase or transport" of Iranian crude oil and petrochemical products. It prohibited provision of financing, insurance or reinsurance related to Iranian crude oil sale or transportation and it also prohibited export of equipment for petrochemical industry and provision of technical or financial assistance to Iran (Rome, 2015).

Besides targeting energy sector of Iran, the businesses of the IRGC, Iran's commercial and financial service sector, and the country's shipping industry also came under the influence of the sanctions (Rezaei, 2018). The IRGC has decisive influence in the economic sector of Iran and it controls approximately one hundred commercial enterprises (Saikal 2019, p.104).

So far as the rational approaches of the global politics are concerned, Iran might surrender before the sanctions. But it has not happened so as was conceived by the practitioners of the US State department. Ayatollah Jannati, the head of the Guardian Council proclaimed: "We will tolerate sanctions and enmities and continue in our Islamic stance" (Takeyh 2009, p.204). In the same vein, the former deputy secretary of the Supreme National Security Council, Ali Husayn-Tash asserted, "A nation that does not engage in risks and difficult challenges, and a nation that does not stand up for itself, can never be a proud nation" (Takeyh 2009, p.204).

### **US SANCTIONS AND ECO'S PLANS AND PROJECTS**

This section analyzes the impact of US Sanctions on ECO's plans and projects in the fields of trade, transportation, and energy and pipeline projects.

#### **Aftermaths of Sanctions on Trade**

In the domain of trade, the ECO Vision 2015, the main agenda of the Organization for the decade (2005-2015), stipulated that intraregional trade would be increased from six percent to 20 percent. The Economic Cooperation Organization Trade Agreement (ECOTA) concluded by Iran, Pakistan, Turkey, Afghanistan and Tajikistan, in 2003, was meant to provide reduction of tariffs to a maximum 15 percent on 80 percent traded goods for the eight years. The major task of the ECOTA was to pave way for achieving Free Trade Agreement (FTA) in the ECO region by 2015 (Haider, 2015). The Turkish president, in his address on the occasion of 13<sup>th</sup> ECO Summit, held in Islamabad on March 1, 2017, summed up performance of the ECO and said, "We have to admit that the 7 % intra-trade is a failure for all of us. If we make a comparison, the intra-trade in the European Union equals to 65 % of the total trade volume of the EU" (ECO, 2017).

The ECO Vision 2025 - the main agenda of the Organization for the decade (2015-25) also echoed the operationalization of the ECOTA and determined to convert the preferential trade to free trade agreement. The report of the 24<sup>th</sup> meeting of the COM held in Antalya (Turkey) on November 9, 2019 admitted that considerable time had been passed and the task of implementation of the ECOTA or Free trade area could not be accomplished so "this agreement needs to be revisited" (ECO, 2019). The slow rather insignificant progress on trade liberalization shows dismal performance of ECO. The seven percent intra-regional trade is a positive indicator of the ECO performance but mostly the nature of this trade is bilateral one.

Promoting intra-regional and inter-regional trade are the key objectives of the ECO. World Trade Organization (WTO) determines the parameters of inter-regional trade. As the global political and economic order is being led by the US, whose sanctions on Iran contribute significantly to the intra-regional and inter-regional trade. International financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF) are under the US influence that also exerts considerable influence on many MNCs. Iran's application to join the WTO was rejected on account of its strained relations with the US (Afrasiabi & Maleki, 2003). WTO membership is essential for inter-regional trade. So far as the intra-regional trade in ECO region is concerned, it is also disappointing one. For example, Iran's exports to ECO countries in 2018 were USD 7,735 million out of its total exports of USD 96,618 million. It is noteworthy that Iran's intra-ECO export was just 8 percent of its total exports (Safdar, 2019). Similarly, Pakistan used to import oil from Iran in sufficient quantity in the past but it had to cut down its import from Iran due to the US sanctions (Hussain, 2016). J. Hussain

(personal communication, May 29, 2019) while explaining low level of intra-regional trade told: "Because of the sanctions, element of fear is prevalent among the regional members which feel that trade relations with Iran may invoke the US sanctions for them. This American fear has become a major cause of low level of trade in the ECO region. If the members are unwilling for trade at the bilateral level, how can they move for multilateral arrangements in the ECO?"

### Impact of Sanctions on the Road and Railway Projects

Trade and transport are interlined and the more efficient network of transportations guarantees more likelihoods of enhanced intra-regional and inter-regional trade. The documents like Almaty Outline Plan, ECO decade of Transport and Communication (1998- 2007) and the Transit Transport Framework Agreement (1998) adopted by the ECO were meant to interconnect the ECO states particularly landlocked members. In 2012, railway and road network developments were adopted by the ECO. A brief review of these plans is essential to understand scope and limitation of the transport sector of the ECO.

**Table 2: Road and Railway Projects of the ECO Region**

Road Routes	Railway Routes
Turkey- Iran- Pakistan	Turkey- Iran- Pakistan
Turkey-Iran-Afghanistan-Tajikistan-Kyrgyzstan	Kazakhstan-Uzbekistan-Turkmenistan-Iran
Turkey-Iran-Turkmenistan-Uzbekistan-Tajikistan-Kyrgyzstan	Turkey-Iran-Afghanistan-Tajikistan-Kyrgyzstan
Azerbaijan- Iran	Azerbaijan- Iran
Kazakhstan- Turkmenistan- Iran	Kazakhstan-Turkmenistan-Iran
Kazakhstan-Kyrgyzstan-Uzbekistan-Turkmenistan- Iran	Turkey-Iran-Turkmenistan-Uzbekistan-Kazakhstan
Kazakhstan-Kyrgyzstan-Tajikistan-Afghanistan-Pakistan	
Kazakhstan-Uzbekistan-Afghanistan- Pakistan	

Source: (Tsamboulas, 2012a, 2012b).

The ECO reports illustrate details of these projects which are presented in the following table:

**Table 3: Country Wise Division of Road and Railway Projects**

Name of Country	ECO Road Projects	ECO Rail Projects	Cost of the Projects in million USD
Iran	7	8	8013
Pakistan	22	7	21429
Turkey	3	11	16866
Kazakhstan	8	6	12391
Kyrgyzstan	4	1	2290
Tajikistan	3	3	3449

Source: (Tsamboulas, 2012a, 2012b).

Efficient network of transport is prerequisite for enhanced trade activities. Therefore, it was planned to develop infrastructures that would connect all sections of the significant Silk Road by

creating a viable impetus for trade and increasing the region's access to South and East Asia (Ali & Mujahid, 2015). The presence of Iran in the road and railway projects is visible from the proposed road and railway routes. Total seven road routes have been suggested in the ECO Road Network Plan. Iran is present in six routes. Similarly, Iran is present in all the six rail routes proposed in ECO Railway Network Plan (Table, 2). According to these reports, 38 percent funding for the rail projects and 48 percent funding for the road projects have been secured by the ECO secretariat (Table, 3). Still huge finance is required for the completion of road and railway projects, which is holding up the progress of these projects. Manouchehr Mottaki, the Foreign Minister of Iran conceded lack of financing as the major obstacle which left decisions suspended (ECO, 2009-a). IFIs and other donors did not finance these projects because the US was opposed to both the bilateral and multilateral projects which might grant Iran huge political and economic influence (Weinbaum, 2006). The sanctions on Iran discourage MNCs too to undertake such projects in which Iran is involved.

### **Impact of Sanctions on Energy and Pipeline Projects**

Focusing on the energy projects, Shamsad Ahmad Khan, the former Secretary General of ECO, reiterated on the occasion of the fourth summit of the ECO held at Ashgabat on May, 15 1996, that:

“Important bilateral and regional arrangements envisaging networks of gas and oil pipelines and inter-connection of power grids are being pursued. Notable among them are the proposed gas pipeline from Turkmenistan to Pakistan via Afghanistan, from Turkmenistan to Europe via Iran and Turkey and from Iran to Pakistan. Efforts are also being made for the development and processing of energy resources of the ECO region” (ECO, 1996).

In the field of energy cooperation, the oil pipelines like Kazakhstan-Uzbekistan-Turkmenistan-Afghanistan to Pakistan and Central Asia to Persian Gulf via Iran were proposed. The gas pipelines like Turkmenistan-Iran-Turkey to Europe and Uzbekistan and Turkmenistan via Afghanistan to Pakistan were also proposed on the forum of the ECO (Haq, 2011). Besides oil and gas pipelines, “Interconnection and parallel functioning of power systems of ECO member States are under the plan of action for energy/ petroleum cooperation in the ECO region” (2001- 2005). Later on, feasibility study on interconnection on electric power system in the ECO Region was terminated (ECO, 2009-b). While lamenting on the modest performance of the ECO in energy cooperation, Foreign Minister of Iran Dr. Ali Akbar Salehi said, “No eye-catching activity has taken place so far in this field” (ECO, 2011).

The exploration of the foreign policy approaches of the US and Iran in the Middle East, Caucasus, Central Asia and the Gulf are intertwined. Oil and gas pipeline routes are among the major areas through which the nature of existing conflicts between the US and Iran can be comprehended (Tarock, 1999). Pipelines are efficient means of transporting oil and gas. They build new corridor of power and trade for the transit states. Through the pipelines, the states get national security, economic prosperity, international power and royalties. They also gain influence over oil and gas markets (Mousavi, 2010).

The worth of the pipelines has increased in areas like Central Asia and the Caucasus. Being landlocked, these states have to rely on other states to access open sea. In Central Asia and the

Caucasus, the US has considerable economic and diplomatic sweepstakes. The Americans have been showing determination to exploit the hydrocarbon wealth of the ECO region under the banner of the US energy companies. Hydrocarbon resources of the ECO region have “additional components of the competition” not only in Afghanistan but also in Central Asia (Shabbir, 2017). In 2006, The U.S. State Department official Steven Mann clarified the US position on the issue of pipelines from Central Asia and the Caucasus. He said, “The US government supports multiple pipelines from the Caspian region, but remains absolutely opposed to pipelines involving Iran” (Cook & Roshandel 2009, p.86).

For the transportation of hydrocarbon wealth of the Caspian Sea region and the Central Asia to the world market, the Iranian route is considered the shortest, the safest and the most economical one with 40 to 50 percent cheaper cost. It offers the shorter transit distances having extensive network of existing refineries (Leach, 2003) due to which it is preferred by the oil and gas producing states of the region and MNCs. Again the US sanctions on Iran barred all the stakeholders from undertaking oil and gas pipeline projects from this route. Resultantly, the proposed oil and gas pipelines from Caspian Sea region and Central Asia like oil pipeline from Central Asia to Persian Gulf via Iran and gas pipeline from Turkmenistan-Iran-Turkey to Europe have been barred. Iran implemented strategy of “oil swap” deals with neighboring Kazakhstan and Turkmenistan as an alternative of sanctions (Atai, 2008, p.131).

The effects of sanctions are visible from gas swap deals between Iran and Turkmenistan. The launching of the Korpedzhe-Kurdkui at the end of 1997 was considered as the success of the ECO. It was to export eight billion cubic meters (bcm) gas annually. Another major pipeline is the Dualatabad-Saraks- Kangarian gas pipeline which was scheduled to export 12 bcm annually. Iran concluded two agreements with Turkmenistan. In the light of those agreements, Turkmenistan must provide 14 bcm gas to Iran annually. Due to the US sanctions, “Asghabat supplied only 7.5 bcm gas to Iran in 2014” (Parkhomchik, 2015). Kazakhstan has 30 million thousand barrels oil which it has to transport through the Russian route. The Iranian route is the safest, and the cheapest to transport the Kazakh oil but “the path is blocked due to U.S. sanctions” (Miguel & Martín, 2009).

The US has vehemently opposed the Iranian route and fervently supported the pipeline routes through Turkey (Kardaş, 2012). The Iranian efforts of making Iran as a transit country for pipelines have been hampered by continued American involvement in the Caspian region (Wastnidge, 2017). The success and failure of oil and gas pipeline projects of the ECO region depends upon the US role and behaviour towards Iran.

The US supported Turkmenistan -Afghanistan-Pakistan-India (TAPI) Gas Pipeline project in order to deprive Iran of the South Asian Market (Tarock, 1999). The TAPI was being funded by the US and Saudi Arabia. It was a strategic setback for Tehran’s regional ambitions of becoming energy conduit for world markets (Vatanka, 2015, p.220). The American Union Oil Company of California and Unocal Corporation (UNOCAL) and Delta Oil of Kingdom of Saudi Arabia (KSA) were to finance the TAPI gas pipeline project. The Clinton Administration also supported this project. KSA and Pakistan convinced the US administration that the Taliban would provide a safe entry for the US interests in Central Asia (Milani, 2006). The progress on TAPI Pipeline Project has been slow mainly because of instability of Afghanistan but the US support to it demonstrated latter’s policy of isolating Iran in the geopolitics of pipelines.



Like the TAPI Pipeline Project, the case of Iran-Pakistan-India (IPI) Gas Pipeline project popularly known as “Peace Pipeline” confirms the US policy of squeezing Iran economically and preventing the building of pipelines either through Iran or from Iran. The US exerted enormous pressure on India to relinquish the deal and offered the sale of nuclear reactors to India just to isolate Tehran (Hunter 2010, p.131). Eventually, India withdrew from the peace pipeline project (Vatanka 2015, p.213). Former Prime Minister of India, Manmohan Singh, commented about IPI Gas Pipeline project in these words: “I am realistic enough to realize that there are many risks, because considering all the uncertainties of the situation there in Iran I don't know if any international consortium of bankers would probably underwrite this” (Kumaraswamy, 2012).

Pakistan's heavy dependence on the US became a major hindrance to implementation of the Iran-Pakistan (IP) gas pipeline project (Hussain 2016, p.159). Besides the US, Saudi Arabia, another major trade partner of Pakistan, also opposed IPI. In order to compensate Pakistan, Riyadh was reportedly willing to provide Pakistan \$12-15 billion in oil supplies over three years with deferred payment (Vatanka 2015, p.255). Besides, its hostility towards Iran, KSA like the US had economic interests as well. The American UNOCAL and Delta Oil of KSA had agreed to capitalize from TAPI gas pipeline project. Thus, Both the US and KSA considered IPI as a challenge to their strategic economic interests in Central Asia and Afghanistan (Milani, 2006).

The US opposition to IPI gas pipeline project has been quite patent and significant. The US Assistant Secretary of State, Robert Blake told while briefing in Washington “We do not think it is the right time for doing this kind of transaction with Iran.....explaining that because of Iran's dispute with the International community over its nuclear program, the United States opposed large investments in any Iranian project” (Hashmi, 2010). J. Hussain (personal communication, May 29, 2019) argued that: “In regional cooperative mechanism, bilateral links are also part of multilateral links. The nature of bilateralism determines multilateralism. IPI is a typical example of failure of bilateral as well as multilateral nature of framework. IPI as well as IP could not become a successful project because of the US sanctions. If there has been no sanctions, IP even IPI would have been operational.”

Like IPI, the Neka-Jask pipeline also faced the US opposition. It was supposed to transfer one million barrels of crude oil per day from Kazakhstan, Turkmenistan, and Azerbaijan to the Persian Gulf. It could not secure the needed \$3-4 billion investment on time (Dorraj & Entessar, 2013).

Energy geopolitics delineates the nature of relations between the Caucasus states, Turkey and the US. The Baku-Ceyhan oil pipeline and Baku-Erzurum gas pipeline validates this premise (Pomfret, 2010). The US supported both the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) or the South Caucasus or Shah Deniz Gas Pipeline projects. The US and international financial institutions delivered financial and technical assistance to Azerbaijan for these projects. The Baku-Tbilisi-Ceyhan (BTC) Oil Pipeline, a project of \$3.5 billion (Ehteshami 2004, p.11), was successful because of the US patronage. Its successful operationalization showed the US influence and reliability in the Central Asian and the Caucasus states (Cooley, 2012). The Kazakhstan-Turkmenistan-Iran pipeline has been carried out. Inpex, the Japanese Oil Company, and the Kaz MunaiGaz Oil Company became part of this project. Participation of these MNCs confirms one fundamental reality of contemporary energy geopolitics of Central Asia and the Caucasus that the

pipeline projects can only be successful if there is participation of multinational oil and gas companies (Marat, 2008).

The study of regional groupings reveals a fact that the powerful states frame rules of international political economies “that suit their interests and their ideologies” (Keohane 1984, p.136). The US supported the EU, North Atlantic Free Trade Area (NAFTA) and Latin American Free Trade Area (LAFTA). It also supported the Association of South East Asian Nation (ASEAN). Most of the members of the ASEAN developed cordial relations with the US Thailand and Indonesia - core members of the ASEAN - considered the organization as a “political defense against Chinese infiltration and influence” (Emmers 2003, p.59). ASEAN adheres to capitalism. According to Kelly “ASEAN has from its inception been locked into a capitalist path to development” (Kelly 1999, p.176). Both Germany and Indonesia renounced ideological course of action. They also developed trust of their partners in their respective regional cooperative configurations. They promoted constructive engagement in their respective regional organizations (Ahmad, 2013). Contrary to these models of regional integration, Iran being core member of ECO challenged the US led capitalist economic system which in turn proved catastrophic for both Iran and ECO.

## **CONCLUSION**

The ECO region witnessed the repercussions of ongoing hostility between Iran and the US. Iran consistently challenged the US-led capitalist global economic order by developing nuclear technology and ballistic missiles. The US sanctions against Tehran is the rejoinder result of an entrenched ideological opposition against the foreign intervention in Iran. Iran is central to every ECO development project and activity including those related to road, railway and energy (pipelines) etc. Low level of foreign direct investment (FDI) to the ECO region is one of the major causes of the modest performance of ECO because dearth of capital and technology is a common problem of the region.

CARs like Uzbekistan and Kazakhstan stress concentrate more on oil pipeline projects to be incorporated in the domains of the ECO. Turkmenistan has gas reserves so it naturally stresses on gas pipelines. Same is the case of Azerbaijan which has natural resources of oil and gas. The states in the international system behave as rational actors. CARs and their leaders are neither revolutionary nor ideological. They prefer material gains over ideological expansion. They developed strategic partnership with the US which is the arch strategic rival of Iran in the ECO region. The BTC Oil Pipeline and BTE Gas Pipeline became attractive and successful because of the guarantee and finance provided by the US. Turkey, Azerbaijan and Kazakhstan joined the BTC Oil Pipeline despite Iranian concerns.

A number of the ECO and other regional integration projects could not make headway mainly due to the US opposition. For instance, IPI could not get success because of the US obstruction. The ECO project of interconnecting power system of the member states is still under process. Roads and railways projects are also incomplete due to lack of finance and investment. The non-implementation of ECOTA and seven percent intra-regional trade shows strategic diversion from the ECO projects. The strategic diversion mainly results from the US policy of keeping Iran isolated. Tehran’s ECO partners are not willing to sacrifice their relations with the US, and material interests for the sake of Iranian revolutionary ideals. The US is unwilling to tolerate a powerful regional

group like the ECO in which Iran plays an influential role. A weak Iran in the ECO is an acceptable option for the US. All the opportunities appeared before Iran after the collapse of the Soviet Union in Central Asia and Caucasus were lost because the US restricted Iran's potency, through the instrument of sanctions, to exploit geopolitical opportunities of the ECO region in the realm of hydrocarbon wealth. In a nutshell, evidences corroborate the argument that the US sanctions on Iran have impinged upon the performance of ECO. The growing frequency and intensity of the US-Iran hostility can be more detrimental to the prospects of success of many ECO plans and projects.

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