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Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse' in Post-Soviet Regimes

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Abstract

This article presents an analysis of two post-Soviet states, Kazakhstan and Azerbaijan, which can be identified as post-Soviet rentier states. Both countries are characterised economically by enormous national resources of gas and oil and low economic diversification as well as politically by strong autocratic presidentialism with neopatrimonial structures. These two factors, combined with further post-Soviet legacies such as a low level of political interest in the respective societies and a basically hierarchical orientation of the population, lead to a specific post-Soviet variety of rentierism. From a political science perspective, this article reveals the impact of resource policies on these comparably new political systems and concludes with a summary of core features of these post-Soviet rentier states.

Notes

Our research is based on the project 'Political and Economic Challenges of Resource-Based Development in Kazakhstan and Azerbaijan', funded by VW-Foundation. This project is based at the University of Kiel. For further information visit <http://www.razkaz.uni-kiel.de>.

See, for example, 'Azerbaijani language policy or the further attempt of establishing new national symbols by Nazarbayev' in February 2007, president's speech 'Kazakhstan 2030—Prosperity, Security and Ever Growing Welfare of All the Kazakhstanis. Message of the President of the Country to the People of Kazakhstan', available at: http://www.akorda.kz/www/www_akorda_kz.nsf/sections?OpenForm&id_doc=DD8E076B91B9CB66462572340019E60B&lang=en&L1=L1&L2=L1-10, accessed 16 July 2008.

Also, for Russia see Ellman (2006), Kim (2003), Höhmann (2005), Bayulgen (2003) and Stykow ([2003](#), [2006](#)); for further research on Turkmenistan see Kuru ([2002](#)). Relevant research in this area is, however, dominated by examples from the Middle East (Anderson [1987](#); Beck [2007](#); Beblawi & Luciani [1987](#); Schlumberger [2006](#)), Latin America and Africa (Smith [2005](#); Basedau & Lay [2005](#); Reno [1998](#); Bratton & van de Walle [1998](#)).

For further research designs in regional studies see Basedau and Köllner (2006) and Munck and Snyder (2007).

This approach has been developed further during the last 20 years by various researchers. For further definitions of rentier states see Ross ([2001](#)), Herb (2005), Moore (2004), Schmid (1997), Smith (2004) and Pawelka (1999).

According to the constitution amendments of May 2007, Nazarbayev, whose term in office officially expires in 2012, has the opportunity to become president for life, while his successor will be allowed to hold only two five-year terms, Eurasia Daily Monitor, 21 May 2007; for more details on the constitution law see 'About the First President', available at: www.akorda.kz, accessed 17 July 2008.

Authors' interview with staff of the Friedrich-Ebert Foundation/Almaty, 21 November 2005.

See OSCE press releases on Kazakh elections, available at: <http://www.osce.org/odihr-elections/14471.html>, accessed 8 June 2008.

Authors' interviews with Nurbulat Masanov, November 2005 and with Sergej Duvanov, March 2007, Almaty.

Authors' interviews with Dossyp Satpayev, November 2005 and March 2007, Almaty.

Examples of such parties include OTAN or Party of Citizens (Zhas Otan), founded by Aleksandr Maskevich, one of the key oligarchic leaders. Examples of oligarchic groups include the Bulat Utemuratov group; the Rahat Aliyev group, which is led by Nazarbayev's former son-in-law; the Timur Kulibayev group, which is led by another of Nazarbayev's son-in-laws; the Nurtai Abykayev group; the 'Eurasian' group, whose leading figures are not ethnic Kazakhs; and the Marat Tazhin group.

Authors' interview with Sergej Duvanov, November 2005, Almaty.

This situation, of the younger Zhus demanding greater political clout, is, in fact, unusual in the Kazakh tradition. Many would subscribe to the old saying, '[T]he younger brother ... has no right to demand power' (Masanov [2002](#), p. 16).

For example, the Revenue Watch programme of the Soros Foundation (established in Azerbaijan, as well as in Kazakhstan) includes regular roundtable meetings between local NGOs and representatives of the administration about the transparency of local budgets. The authors participated in a roundtable meeting on 23 November 2005, Almaty, Kazakhstan. For general information see <http://www.kazakhstanrevenuewatch.org> (for Kazakhstan) and <http://www.osi-az.org/crw.shtml> (for Azerbaijan), both accessed 16 July 2008.

A powerful player in civil society that calls for greater transparency and liberalisation is the Soros Foundation [for the controversial role of George Soros in post-Soviet countries see Berg (2006)]. For example, in Kazakhstan, the foundation is involved in 'bringing together local governments, NGOs, and public libraries to improve information technology systems and to increase citizen involvement in and access to public affairs': Soros Foundation Kazakhstan, available at:

<http://www.soros.org/about/foundations/kazakhstan>, accessed 16 July 2008; in this context, see also Byudzhetnyi Gid. 'Prostoe rukovodstvo dlya grazhdan, kotorye khotyat' nauchit'sya chitat' slozhnye byudzhetny, a takzhe dlya organizatsii, zhelayushchikh aktivno uchastvovat' v byudzhetnom protsesse respubliki Kazakhstan', Vtoroe izdanie, pererabotannoe i dopolnennoe, Kazakhstan Revenue Watch Program—Soros-Foundation, Almaty, 2005, available at: http://www.krw.kz/netcat_files/Image/budjetnii_gid.pdf, accessed 16 July 2008.

For an analysis of the traditional Azerbaijani elite system see Sidikov (2004).

See Freedom House 1995–2007, available at: www.freedomhouse.org (Nations in Transit); BTI (Bertelsmann-Transformations-Index, available at: www.bertelsmann-transformation-index.de); or OSCE election observation reports, for example, 2003 and 2005, available at http://www.osce.org/documents/odihr/2003/10/806_en.pdf and http://www.osce.org/documents/odihr/2005/11/16889_en.pdf, all accessed 16 July 2008.

A complete list of all members is available at: http://www.eiti-az.org/ts_gen/eng/koalisiya/k1.htm, accessed 8 June 2008.

For more information about the sustainability of the Azerbaijani civil society sector see USAID, the 2006 NGO Sustainability Index (Azerbaijan), available at: http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/2006/azerbaijan.pdf, accessed 16 July 2008.

See Economist Intelligence Unit, Azerbaijan—Country Profile/Main Report 2005 and Bundesagentur für Außenwirtschaft, Turkmenistan/Wirtschaftsdaten kompakt—2006, available at: http://www.bfai.de/nsc_true/DE/Navigation/Fachfunktionalitaeten/Matrixsuche/sucheMatrixGT.html, accessed 17 July 2008.

See Economist Intelligence Unit, Azerbaijan—Country Profile/Main Report 2005.

Transparency International, Corruption Index 2006, available at: http://www.transparency.de/uploads/media/05-10-05_CPI_2005_PressKITFinal.pdf, accessed 12 August 2007.

For more information about 'political and economic corruption' see Alemann (2005), OECD (2007) and Lambsdorff (2007).

These corruption rates implicate the judgements in cases of property offences (for example, the theft of public property), various economic crimes (for example, the falsification of plans) and direct abuses of authority (blackmail, bribery or misuse of authority) (see Clark [1993](#)).

The establishment of the State Oil Fund of Azerbaijan (SOFAZ, Azərbaycan Respublikası Dövlət Neft Fondunun, ARDNF) can be seen as a positive exception however, as the fund pursues a relatively transparent policy, based on recommendations by the Extractive Industries Transparency Initiative (EITI) and the Memorandum of Understanding (MOU) between the government, the oil companies and some NGOs (Akhmedov [2006](#); Kalyzhnova [2006](#); Bagirov [2006](#)). In an ideal case, the effects of EITI should lead to benefits for governments and for the citizens of resource-rich countries. The objective of EITI is to show transparently what governments receive and what companies pay, demonstrated by, for example, the 'Publish What You Pay' programme run by the Open Society Institute in both countries. This is a first step toward holding decision makers accountable for the use of these revenues. Civil society should benefit from an increased amount of information in the public domain about the revenues that governments manage on their behalf, thereby increasing accountability and improving transparency. In short, implementing EITI as part of a programme of improved governance will help to ensure that oil and gas revenues contribute to sustainable development and poverty reduction, and will make the allocation of resource rents a more transparent process (Fasano [2005](#); Makhmutova [2005](#)). For more information on EITI see <http://www.eitransparency.org>, accessed 17 July 2008, also the new Transparency International Report on Revenue Transparency of Oil and Gas Companies, 2008, available at: http://www.transparency.org/news_room/in_focus/2008/promoting_revenue_transparency, accessed 17 July 2008.

See Economist Intelligence Unit, Kazakhstan—Country Profile/Main Report 2005.

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See BTI-Kazakhstan, Country Report 2006, available at: www.bertelsmann-transformation-index.de, accessed 17 July 2008.

Authors' interview with Zardusht Alizade, February 2006, Baku.

RFE/RL, 20 October 2005.

Eurasia Daily Monitor, 17 July 2007.

The New York Times, 6 November 2006; Neweurasia Kazakhstan, 5 February 2007.

Apart from Giffen, a further example is the Baker Hughes case. For more information on this see the Litigation Release of the US Security and Exchange Commission, available at: <http://sec.gov/litigation/litreleases/2007/lr20094.htm>, accessed 8 June 2008;

furthermore, for information on Kazakh reactions to this case see the press release of Transparency International, available at:

<http://www.transparencykazakhstan.org/eng/content/124.html>, accessed 8 June 2008.

'V Baku provodyatsya sel'skokhozyaistvennyye yarmarki', Day.Az., 22 July 2006, available at: <http://www.day.az/print/news/economy/54644.html>, accessed 14 October 2006.

'Minzdrav Azerbaidzhana planiruet perevesti na besplatnoe meditsinskoe obsluzhivanie vsled za bakinskimi i polikliniki v regionakh strany', Media Press, 12 January 2004, available at: <http://mediapress.media-az.com/2004/january/mp120104.html>, accessed 13 October 2006.

Press release of Social Ministry, 1 January 2007, available at: www.enbek.kz, accessed 17 July 2008 (see interview with Satpayev, Almaty, March 2007).

'Zarplata rabotnikov organov vnutrennikh del Azerbaidzhana povyshena', Day.Az., 1 July 2004, available at: <http://www.day.az/print/news/society/9626.html>, accessed 12 October 2006.

Available at: <http://www.akorda.kz>, for more details see also <http://www.cmar.kz>, all sites accessed 17 July 2008.

Authors' interview with Jahangir Aliyev, February 2006, Baku.

See 'Boom and Gloom: Azerbaijan's Economy, Drunk on Oil, is Suffering Rapid Inflation', Economist, 8 March 2007, available at: http://www.economist.com/displayStory.cfm?story_id=8819945&fsrc=RSS, accessed 18 August 2007.

More details available at: www.cluster.kz, accessed 17 July 2008.

Population living below the national poverty line (%), 1990–2004. All data are from UNDP country reports available at: <http://hdr.undp.org/en/countries/>, accessed 8 June 2008.

Decree of The President of the Azerbaijan Republic on the Approval of 'The Long-Term Strategy on the Management of Oil and Gas Revenues', no. 128, 27 September 2004, available at: <http://www.oilfund.az/index.php?n=162>, accessed 18 August 2007.

Bfai (Bundesagentur für Außenwirtschaft, German Office for Foreign Trade) economy data for every country: available at: <https://www.bfai.de/DE/Navigation/Datenbank-Recherche/datenbank-recherche-node.html>, accessed 17 July 2008.

See World Bank database, available at: <http://extsearch.worldbank.org/servlet/SiteSearchServlet?qUrl=&qSubc=wbg&ed=&txtnullalert=You+must+enter+something+to+search+for%21&q=%27white+elephants%27&submit.x=0&submit.y=0&submit=Go>, accessed 17 July 2008.

Statement of State Budget Execution as of 1 August 2007, Ministry of Finance, available at: <http://www.minfin.kz>, accessed 17 July 2008.

In relation to this omission, the international transparency initiative, 'Extractive Industries Transparency Initiative' (EITI), which has existed since 2003 and aims at preventing uncontrolled use of rents, particularly in resource rich countries, offers a possible solution. Azerbaijan and Kazakhstan have both indicated a willingness to participate in the initiative, with Azerbaijan ready to play a leading role. Strategies and general conditions, in order to ensure greater transparency in the domains of governmental budget policy and the distribution of oil revenues, have been made into a Memorandum of Understanding (MOU) to be signed by a troika of representatives from the government, economic institutions and NGOs. On 24 November 2004, the Government of Azerbaijan, local and foreign companies, and a coalition of civil society organisations signed the MOU. In Kazakhstan, a similar memorandum came into effect, signed by representatives of NGOs united in the coalition, 'Oil Revenues Under Public Oversight', on 5 October 2005.

In the case of Azerbaijan a so-called National Budget Group was established and a second national initiative in the area of banking is in the planning stage. See authors' interviews with Ingilab Achmedov (Director PFMC/AZE) on 16 February 2006; for more

information see <http://www.pfmc.az>, accessed 17 July 2008. On Kazakhstan: from the side of the Public Policy Research Center there are a number of projects on controlling of public expenditure; for more information see: <http://www.pprc.kz>, <http://www.soros.kz> and www.kazakhstanrevenuewatch.org, all sites accessed 17 July 2008.

'Plus-R', 2006, 'Azerbaijan: Oil Revenues and the Expectations of Population for their Usage' (in Azerbaijani), available at:

http://www.mediaforum.az/files/2007/02/20/043916161_0.zip, accessed 9 May 2007.

Authors' interviews for Kazakhstan with Anton Artemyev from SOROS Foundation, 22 November 2005; with Sergej Duvanov, 29 November 2005 and for Azerbaijan with Hajizade, 17 February 2006, Baku.

Important in this context is the question of the role of international actors. Even if in our previous argumentative discourse we declared foreign actors partly responsible for the current situation because of their oil interests, we do hold the view that the international transparency initiative, EITI, for instance, constitutes an important step towards national transparency strategies. However, as long as this initiative is based on voluntary cooperation, natural resources remain an obstacle to democracy and are, following Western interpretations, a curse rather than a blessing for the development of the two states.

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