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

ANJA FRANKE, ANDREA GAWRICH &
GURBAN ALAKBAROV

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.

THIS ARTICLE PRESENTS AN ANALYSIS OF TWO post-Soviet states, Kazakhstan and Azerbaijan, which we identify and analyse as post-Soviet rentier states (PSRS). In order to understand the particular political systems of both of these countries, it is necessary to take a closer look at the interrelation between resource incomes and resource policy, as well as the polity (the institutional frame) and politics (the decision-making processes) of these countries.¹

Both countries share similarities and structural parallels that are especially apparent in post-Soviet states in the region around the Caspian Sea. To begin with, we see similarities in the presidential, autocratic, neopatrimonial and centralised political systems of both countries. Secondly, we see similarities in the structures of traditional social relations of clan, tribe and family, which find their roots in the pre-Soviet era (Collins 2002). Finally, we find weakly developed national identities, due to 70 years of

¹Our 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>.

repressive Soviet rule, despite constant attempts by these states to promote a revival of national loyalties.² These dynamics, evident in many post-Soviet states, have exacerbated ethno-national cleavages between, on the one hand, minority ethnic groups (for example various Slavic ethnicities) and, on the other hand, the dominant Kazakh and Azeri nationalities of these countries. We also see the imprint of communism on the political institutions and economies of these countries.

For our analysis, the uneven development in different branches of the economy (resource and non-resource branches) due to the character of the exploitation of natural resources, and the consequences of this for resource-related branches, is particularly crucial. There is a general belief that natural resources raise the rate of investment and imports, thereby necessitating and accelerating a restructuring of the economy, as well as strengthening social security, therefore easing the social costs of unemployment. Yet the Caucasus and Central Asian region disproves this theory; it has had relatively slow economic reform and yet its governments have become authoritarian. In this article, we use an inductive analytical framework for the analysis of Azerbaijan and Kazakhstan as rentier states. The correlation between elements of post-communist regimes and rentierism has scarcely been examined until recently (Auty & de Soysa 2006b; Esanov *et al.* 2001).³

In analysing Kazakhstan and Azerbaijan as rentier states, our focus is, first and foremost, political, examining the regime in post-communist countries, under the conditions of rentierism. However, we also examine the economic level insofar as it is relevant to policy making. Due to a general lack of empirical data on these states (Jahn 2006, p. 303), we decided to conduct qualitative case studies. We utilised an intra-regional research design which views post-Soviet states as one region with a common post-Soviet legacy, although naturally this varies somewhat from country to country.⁴ Furthermore, both Azerbaijan and Kazakhstan combine enormous rent incomes and natural resources with incumbent autocratic regimes.

Our empirical findings, in both countries, are based on a wide range of written documents from state institutions, as well as the media, and international and national governmental and non-governmental organisations. Our findings are also based on a number of qualitative interviews with members of state institutions and representatives of civil society, as well as with members of the political opposition and members of international organisations in Kazakhstan and Azerbaijan. In addition to this, we

²See, 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.

³Also, for Russia see Ellman (2006), Kim (2003), Höhmann (2005), Bayulgen (2003) and Stykrow (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).

⁴For further research designs in regional studies see Basedau and Köllner (2006) and Munck and Snyder (2007).

employed active observation as a research method, which we achieved by taking part in several national roundtables in both countries.

We begin with a brief overview of the main debates in the current literature on rentier states and an outline of our methodological framework. We then explicate the general characteristics of the political systems of Kazakhstan and Azerbaijan. This will allow us to move on to an analysis of the implications of post-Soviet economic transformations and resource policy in these countries. These points will simultaneously assist us in classifying the key features of the post-Soviet rentierism and the post-Soviet rentier state.

Rentier state theory

The origin of the concept of rentier state theory can be found in the writings of Hossein Mahdavy on political and economic processes in pre-revolutionary Iran (Yates 1996, p. 11). In his work Mahdavy defined a rentier state as a state that receives substantial rents from foreign actors, be they individuals, enterprises or governments (Mahdavy 1970). The economists Hazem Beblawi and Giacomo Luciani further elaborated on this idea by arguing that the economy in such states is dominated by various external rents. These external rents could flow into the economy through natural resources, foreign financial aid, transit rents for pipelines or foreign rents (Schlumberger 2006; Beck & Schlumberger 1999). Rentier states can then be further classified into the following categories according to the different types of rent income they receive: 'first grade' or pure rentier states, which obtain rent income mainly from natural resources, such as oil or gas; and 'second grade' or semi-rentier states, which do not have such natural resources (Beblawi & Luciani 1987, pp. 49–61). Pure rentier states are much more likely to become autocratic than semi-rentier states (Smith 2004).

For some writers however, such as Beblawi and Luciani, it is preferable to use the term 'rentier economy', defined as an economy dominated by rents coming from abroad and where the government is the main recipient of these rents (Beblawi & Luciani 1987, pp. 49–62). They consider 'rentier economy' more accurate because the rents are created outside the domestic economy and not outside the state (Yates 1996, p. 13). In this view the rentier state is, in fact, an outcome or subset of a rentier economy, and 'the nature of the state is best examined through its size relative to that economy and the sources and structures of its income' (Beblawi & Luciani 1987, p. 11).⁵

A rentier state is also characterised by the fact that only a few elite individuals act as rentiers, dealing with the development and management of rents. Rentiers can be defined as an autonomous social group (Beblawi & Luciani 1987, p. 50), mainly characterised by a rent-seeking culture (Erdmann & Engel 2006, p. 28) or a rentier mentality (Beblawi & Luciani 1987, p. 52; Yates 1996, pp. 20–22). Yet despite the strong emphasis on rent-seeking imposed by the dominant elite, the majority of the country's population has to passively wait for the distribution or use of these rents (Moore 2004; Yates 1996).

⁵This 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).

The main consequence of this situation is that the state is freed from the need to extract income from the domestic economy or from local citizens through taxes. The government can then embark on large public expenditure programmes without resorting to taxation (Moore 2004; Sandbakken 2006; Schmid 1997). Oil revenues, therefore, give the state a certain autonomy in relation to society—a point which is aptly summarised by Michael Herb in the slogan, ‘no taxation—no representation’ (Herb 2005). Such a state is, what Luciani calls, an ‘allocation state’ as distinguished from a ‘production state’, which relies on taxation and the domestic economy for its income. In a production state, tax payers are more involved in government decisions, since these decisions are supported by their onerous taxes. An allocation state, by contrast, does not depend on domestic sources of revenues. The primary aim of an allocation state is to spend money on egoistic and prestige image oriented projects, delivering profits for those elites that are involved in the extraction of the resource revenues (Beblawi & Luciani 1987, pp. 63–82).

In the allocation state, oil rents accrue directly in the hands of the state, and loyalty to the state is created through patron–client networks which help increase political stability, giving the government a certain measure of legitimacy (Smith 2004). However, apart from this, resource-related wealth creates a social structure that is not favourable to democracy. Following modernisation theories, independent middle and labour classes are important sources of democratic oppositions, and are a tool for democratisation. In a rentier state however, it is the middle class, in particular, that is missing. Instead of the middle class and traditional elites there is a ‘rentier class’ of civilian technocrats in public administration (Sandbakken 2006, p. 139). Douglas Yates views the development of a ‘rentier class’ with a ‘rentier mentality’ as reflecting the fundamental difference between earned and not earned incomes. Rewards and wealth in the rentier class are regarded as the result of rent opportunities, not of work (Yates 1996, p. 22). This is why rentier states are particularly vulnerable to the problems of patronage and corruption, as well as bribery and nepotism (Sandbakken 2006, p. 138).

Neopatrimonialism

In the Soviet Union, the neopatrimonial, vertical and horizontal personal relations of loyalty between members of the personal and bureaucratic administration shaped all spheres of the Soviet party and state structures (Geiss 2006, p. 28; Heinemann-Grüder & Haberstock 2007, p. 124; Halbach 2007, p. 82). Such neopatrimonial elements in Azerbaijan and Kazakhstan can best be explained as the legacy of Soviet habits and post-Soviet political culture.

Research on neopatrimonialism to date has focused on the mixture of informal and formal institutions drawing on Max Weber’s ideas about different ruling structures, and his characterisation of traditional patrimonial power in Sultanism (Erdmann & Engel 2006). Peter Pawelka defines the neopatrimonial state as a regime where the ruler directs ‘all political decisions through a network of personal relationships’ and in which ‘neither state officials nor institutions . . . can maintain independence’ (Pawelka 1985, p. 25). The administration works through the personal networks of political leaders (Geiss 2006). The prefix ‘neo’ hints at the fact that networks today are no

longer necessarily formed along family, kinship or traditional lines. They may also be formed on a rational basis. This combination between old and new network relations, it will be argued, is exactly what we find in Azerbaijan and Kazakhstan, in the networks of clans and families, on the one hand, and of oligarchs and business networks, on the other (Halbach 2007).

In rentier states, the phenomenon of neopatrimonialism refers particularly to the allocation of rents through non-transparent networks. In most cases, the services or resources that are offered by a 'patron' to a 'client' are public resources or services (Erdmann 2001; Erdmann & Engel 2006; Starr 2006). The ruler's demands for loyalty are less oriented towards a common good than to the maintenance of personal power. In relation to the post-Soviet area, Oleh Fisun (2003) has differentiated between different forms of neopatrimonialism: bureaucratic (Belarus), oligarchic (Ukraine and Georgia) and sultanistic (Turkmenistan and Uzbekistan). According to Fisun, oligarchic neopatrimonialism entails 'the formation of wide strata of oligarchic or regional rent-seeking actors, acting together with or in place of governmental institutions primarily via client-based networks of patronage and pork barrel rewards' (cited in Guliyev 2005). As we will go on to demonstrate, oligarchic neopatrimonialism best describes the situation in Azerbaijan and Kazakhstan. More than a decade after their post-communist transformations, both Azerbaijan and Kazakhstan show strong authoritarian features, giving the impression that the creation of Western-style democracy and the rule of law have failed (Fenz 2004; Gumpfenberg 2002; Freedom House 2007).

Autocratic regimes as an outcome of Soviet legacies?

Kazakhstan: President Nazarbayev as the only guarantor of political stability?

In Kazakhstan we can observe a link between an autocratic regime, rentierism, and pre- and post-Soviet habits and legacies. Post-communist control mechanisms over society, the limitation of basic political rights, as well as general power-seeking mechanisms are still dominant, because of the financial 'benefits' of resource rents.

Compared to most post-communist states, Kazakhstan gained its independence rather passively during the collapse of the Soviet Union, and has, as a result, been described as an 'accidental country' (Olcott 1997). The formation of the independent Kazakh Republic took place without any visible rupture with the Soviet regime and without any powerful national movement. The first secretary of the Kazakh Communist Party (KCP, *Qazaqstan Kommunistik Partiyasi*), Nursultan Nazarbayev, was elected, almost automatically, as the first President of the Republic of Kazakhstan in December 1991 and is still in office today.⁶ Many members of the staff of the Central Committee of the KCP in 1991 have also remained in positions of power. They took over core functions in the presidential administration, without visible

⁶According 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.

changes in personnel or programme (Masanov 2002; Satpayev 2006a). This continuation was also the precondition for the continuation of neopatrimonial structures in the years that followed; national independence did not change old Soviet power relations (Geiss 2006, p. 28; Heinemann-Grüder & Haberstock 2007, p. 121).

According to its first independent constitution, Kazakhstan could be seen as a parliamentary democracy, but the annulment of democratic, parliamentary reforms in the mid-1990s led to a return to authoritarianism. For the most part, this failed transition has been internationally tolerated for economic reasons (Müller 2004). The autocratic structure guaranteed stability, which was needed for foreign contracts and investments. Thus, the powerful Kazakh elite realised that ‘the superficial talk by Western governments about human rights and democracy did not necessarily result in any sanctions or pressure on the government’ (Zhovtis 1999, p. 59).

Since the change of the constitution in 1995 Kazakhstan has become a presidential autocracy. The main authority of the state resides in the president, who is directly elected and, in practice, not accountable to any state authority. (Impeachment proceedings through parliament are possible, but, in reality, not probable.) As in Russia, the term of the government ends with that of the president and he may dismiss or appoint the government at any time, demonstrating the weak position of the government relative to the president (Bertelsmann-Transformation-Index (BTI) 2006; Steinsdorf 2004; Knobloch 2006; Mommsen 2003). The two-chamber parliament, as a directly elected body, has little authority to prevent the presidential accumulation of power—despite some recent changes that have strengthened the formal powers of the parliament.⁷ Following the parliamentary elections of August 2007, in which they won 88% of the votes, Nazarbayev and his party, *Nur Otan*, have been able to govern without any democratic checks. Since those elections, not a single opposition party member sits in parliament. The legislative and representative branches—the parliament and the local legislatures, or *maslikhats*—are deprived of any ability to exert control (Zhovtis 1999, p. 57). Since the 1990s, the mechanisms of power have been secured by the loyalty of the *hakims* (mayors), governors and governmental elites to the president. In effect, following the dissolution of the Soviet ‘mechanisms of control’, the president has ‘usurped the power to appoint all officials and ... [is] no longer controlled by any superior’ (Geiss 2006, p. 28).

Around the person of Nazarbayev, we observe a concentration of power involving his family and a small group of political friends (Satpayev 2006b; Davé 2007). For example, although Nazarbayev’s elder daughter, Dariga, lost much of her power in 2006 and 2007, she still controls the Kazakh media. The president’s younger daughter, Aliya, wields control over important parts of the construction industry, as well as large parts of the water and gas industry⁸ and is married to the son of the former Kyrgyz president, Aydar Akaev. Furthermore the president’s former son-in-law, Rahat Aliyev wields control over important parts of the food industry (sugar and alcohol), key sectors of security (as head of Almaty’s National Security Service) and taxation (as head of Almaty’s Taxation department) and also held many official positions (such as deputy foreign minister, Kazakh ambassador to Austria and to the OSCE) until he fell

⁷*Eurasia Daily Monitor*, 2 July 2007.

⁸Authors’ interview with staff of the Friedrich-Ebert Foundation/Almaty, 21 November 2005.

from Nazarbayev's grace in spring 2007 (Dosybiev 2007; Pannier 2007; Davé 2007, p. 148). Timur Kulibayev, the second son-in-law (and husband of the president's daughter Dinara) controlled the oil monopoly Kazmunaigaz until 2005; he has since been appointed head of a newly formed entity KazEnergy and is head of the so called 'oil group', the most influential group inside the inner circle of Nazarbayev (Davé 2007, p. 148). Because Nazarbayev has no sons, the patrimonial family structures surrounding him are shaped through the important roles of his daughters and sons-in-law. According to the Kazakh magazine *Exclusive*, Dariga, Aliya and their mother Sara Nazarbayeva are the most influential and wealthiest women in Kazakhstan (Pakhirdinova 2007).

This dense network, which extends on horizontal as well as vertical levels of the political system, creates a neopatrimonial system based on trust and kinship (Satpayev 2006a, p. 95).

Authorization to engage in politics involves a series of informal and personal pacts between 'the Family' (*sem'ya*), or the inner circle of the regime and the various contenders, according to which the latter are expected to abide by the implicit but well-understood norms of business competition and political participation. (Davé 2007, p. 148)

This control is a means of securing loyalty and trust, and feeds patronage and clientelism (Geiss 2006, p. 28). Kazakhstan has a hierarchically structured pyramid of elites, which is, furthermore, stamped with a strong Kazakh ethnocentric recruitment policy (Masanov 2000; Davé 2007). On the top tier resides the president, his family and his immediate 'clients', followed by the administrative tier, which is staffed mainly by Kazakhs rather than by Russians. However, despite this ethnocentric favouritism, the powerful elites of Kazakhstan are not homogeneous and often oppose each other. This is due to the dominance of personal interests, which also means that programmatic ideas are a rarity (Satpayev 2006b, p. 98).

The party system in Kazakhstan is weak and unconsolidated; it is extremely personalised and is without a substantial programmatic or societal foundation (Davé 2007, p. 150). There is no party system with oppositional structures, similar to those found in other post-communist states. The quasi-opposition parties (*Ak Zhol*, *Nagyż Ak Zhol*) of Kazakhstan face permanent repression, which renders effective programme-based political activities impossible. Despite some attempts to create oppositional elites during the parliamentary elections of 2004 and 2007, as well as the presidential election of 2005, (elections that were not free and fair⁹) there is no programmatic or personal alternative to 'system Nazarbayev' which would receive similar support from the Kazakh population.¹⁰

The current elite structure of Kazakhstan can be classified in terms of two subcultures. On the one hand, there is the traditional order of the horde, which depends on genealogical seniority and size; and on the other hand we observe, as in

⁹See OSCE press releases on Kazakh elections, available at: <http://www.osce.org/odihr-elections/14471.html>, accessed 8 June 2008.

¹⁰Authors' interviews with Nurbulat Masanov, November 2005 and with Sergej Duvanov, March 2007, Almaty.

many other post-communist states, a strongly developed group system based on former leaders of the Communist Party, former Soviet economic structures and new business groups (Davé 2007).¹¹ These so-called business clans have become institutionalised as personalised parties and oligarchic groups.¹² These groups focus on maintaining their own power and, unlike members of hordes, they are mostly independent of traditional group structures (Masanov 2000; Davé 2007, p. 148).¹³ Dossyp Satpayev has deduced three general lobbying blocs in the elite structure of Kazakhstan, consisting of the president's 'inner circle' (family), his 'outer circle' (companions and protégés) and the 'distant circle' (national business elites and regional elites). Although to a lesser degree, the hierarchy of these groups is similar to that of the traditional horde in that professionalism is often ignored in favour of personal loyalty and family ties (Satpayev 2007, p. 289). These business groups do not exist independently and in isolation from each other, but maintain constant interaction. Some groups are structured around financial-industrial circles, others around more or less prominent relatives of the president and still others around individual politicians. Reports on the structure of Kazakhstan's elite suggest that the country faces the possibility of emerging conflict between various elite groups. One source of conflict is the desire of the regional elite of the resource-rich western region (younger *Zhus*) to gain greater political influence (Satpayev 2007; Davé 2007).¹⁴

Groups in Kazakh civil society are atomised in a similar way. They lack any strong institutional, financial and intellectual support, either from within society or from abroad (Lauth 2000; Satpayev 2006a; Starr 1999). Despite this however, NGOs manage to play a more influential role in the political system and in society than opposition parties (Starr 2006, p. 21). A number of different groups in Kazakh civil society attempt to establish an ongoing dialogue with state structures.¹⁵ They do so in two main areas of activity: concerning local urban problems, where NGOs demand a dialogue with state authorities, and in initiatives for greater transparency in resource politics. The latter is particularly relevant to our topic, as it can be assumed that, apart from regime liberalisation (Berg 2006), resource policy is the starting point for NGO activities in resource-rich, post-Soviet countries. Examples of their projects include the

¹¹Authors' interviews with Dossyp Satpayev, November 2005 and March 2007, Almaty.

¹²Examples of such parties include OTAN or Party of Citizens (*Zhus 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.

¹³Authors' interview with Sergej Duvanov, November 2005, Almaty.

¹⁴This 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).

¹⁵For 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.

Public Policy Research Centre (PPRC) or the NGO coalition 'Oil Revenue—Under Public Oversight'. There are two reasons for this active role: first, there is a typically post-communist scepticism in the population *vis-à-vis* party organisations, which is evident in the negative attitude towards the very term party; and second, NGOs are more easily, more comprehensively and less bureaucratically supported by international donors than political parties (Freise 2004).¹⁶

Dynastic structures: Azerbaijan's version of authoritarianism

Unlike Kazakhstan, the ruling regime in Azerbaijan has its roots in a national movement of independence (even though this was less successful than in neighbouring countries such as Georgia and Armenia). Azerbaijan gained its independence in August 1991 under the rule of the pro-Russian representative of the former Soviet leadership, Ayaz Mutallibov. However, the initial weakness of the leadership of the new state—caused, amongst other things, by the conflict in Nagorno-Karabakh—was successfully used by the opposition in 1992 to bring about the resignation of the pro-Russian regime (Fenz 2004). Consequently, the chairman of the oppositional 'People's Front' (*Azerbaidzhan Khalg Dzhebkhesi* or AKhDzh), Abulfaz Elchibey, was elected the new President of the Republic of Azerbaijan in June 1992. However, continuing failures in the Karabakh conflict in the winter of 1992–1993, the economic situation, domestic turmoil (such as internal party quarrels) and a lack of political ideas, as well as growing interethnic tensions in the south and north of the country, led to a military *coup d'état* one year later (Fenz 2004). Facing the danger of a bloody civil war, Abulfaz Elchibey resigned.

Even though Azerbaijan, in contrast to Kazakhstan, was for a short time, led by a former opposition member, this opposition had no chance to consolidate the process of democratisation it had started (Altstadt 1997; Nuriyev 2005). The coup and subsequent presidential elections brought the former head of the Communist Party of Azerbaijan, Heydar Aliyev to power in 1993. Under him an authoritarian system was established, with strong dynastic elements, based on regional groups which serve as paternalistic mechanisms of control. This regionalised grouping of elites can be explained—like the Kazakh *Zhus*-system—as a legacy of pre-Soviet times. It had been established initially by Aliyev during the course of his Soviet reign, from the 1960s through to the 1980s, and was reactivated after his election in independent Azerbaijan.¹⁷

¹⁶A 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 Byudzhetniy Gid. 'Prostoe rukovodstvo dlya grazhdan, kotorye khotyat' nauchit'sya chitat' slozhnye byudzhety, 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/budjetnij_gid.pdf, accessed 16 July 2008.

¹⁷For an analysis of the traditional Azerbaijani elite system see Sidikov (2004).

After the death of Heydar Aliyev in 2003, his son, Ilham Aliyev, became president, thus making crucial step towards the creation of a dynastic structure in Azerbaijan. The succession of Ilham Aliyev has been described by some commentators as a 'dynastic succession' (Lipman 2003) and the regime as a 'political dynasty' (Mydans 2003), or even as a form of sultanistic semi-authoritarianism (Guliyev 2005, p. 414). Guliyev argues that this kind of dynasticism is the first indicator that power is conceived of as something personal (or familial) and not related to political institutions (Guliyev 2005, p. 416). It demonstrates that a ruler wants to keep power in the family, which leads to an understanding of state power as a family business. Autocratic structures are consolidated, especially through institutionalised corruption and nepotism. In Azerbaijan, family, associates, clans and patronage are more influential social constructions than formal legal institutions. Furthermore, even after the death of Aliyev senior, the symbolic dimension of his patriarchalism (being 'the Father of Nation') is still alive to the public. Even though his son has been president since 2003, in everyday life as well as in the political sphere, Aliyev senior fulfils the role of an important political symbol (Guliyev 2005). Right from the very beginning of his presidency, Aliyev junior has been perceived as a weak president who is controlled and influenced by old elite circles from his father's time (even though he has made some replacements in leadership positions). The Presidential elections in October 2008, which Aliyev junior won, showed that he managed to establish his own power.

Unlike Kazakhstan, Azerbaijan has a basically democratic constitution, which was adopted in 1995. It guarantees the extensive rights that all modern democratic constitutions usually encompass. In practice, however, it is far from a democracy. Executive power dominates the judiciary and parliament, which are unable to counterbalance the hyper-powerful president. 'The judiciary is a sub-branch of the executive-presidential power . . . and the national assembly is an appendage to the executive' (Guliyev 2005, p. 418). There is also evidence that various elections—parliamentary, presidential, and municipal—have been rigged.¹⁸ Similar to Kazakhstan, the party spectrum of Azerbaijan reflects the clientelist structure of individuals and groups and there is no oppositional structure as in Western party systems.

Neither in government nor in opposition are there programmatically sustained political parties, which could lead to political mobilisation. For example, the dominating New Azerbaijan Party (*Jeni Azerbaijzhan Partiiasy*, IAP), headed by the president, unites government officials and political patrons, without having a clear political programme (BTI 2006). This is also the case for the leading oppositional forces, such as the Musavat-party and the party of the People's Front of Azerbaijan (*Azerbaijzhan Khalg Dzhebkhesi Partiiasy*, AKhDzhP), although the AKhDzhP is characterised by a high degree of nationalism and propagandises the ideology of Panturkism. The parliamentary elections of November 2005 revealed these programmatic deficits (Nuriyev 2005; Socor 2005; Babayev 2006). Furthermore, the opposition

¹⁸See 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.

parties disagreed about whether to accept or reject the election results, which led to further divisions and factions.

Similar to Kazakhstan, there is no sustainable and democratic alternative to the ruling elites, and we see the same weaknesses in civil society as in Kazakhstan (Berg 2006; Babayev 2006). Nevertheless, civil society groups are important initiators of debates and dialogues with the state authorities on issues such as financial transparency and rentierism; examples include NGOs which are members of the NGO-coalition for 'Improving Transparency in Extractive Industries', such as the Public Finance Monitoring Centre and the Centre for Economic and Political Research (Auty & de Soysa 2006a, p. 142).¹⁹ Unlike the situation in Kazakhstan however, these civil society organisations seem to be primarily supported by domestic and local initiatives, rather than by foreign investments (Berg 2006).²⁰

Resource abundance and post-Soviet socio-economic transformation

In our view there is a specific type of rentierism, which we call post-Soviet rentierism, in Azerbaijan and Kazakhstan, and which expands upon Kim's classification of the former Soviet Union as a Soviet rentier state (Kim 2003, p. 21). Nevertheless, the nexus between natural resources and the type of regime in the former Soviet space has not been thoroughly explored (Tsui 2005; Ellmann 2006; Auty & de Soysa 2006b, p. 5). The natural resource rents of the main four resource-rich CCA states (Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan) range between 40 and 60% of GDP (Esanov *et al.* 2001, p. 43). Therefore, the 'rents' factor exerts an enormous influence on the socio-economic transformation of the post-Soviet area. Within the conceptual framework of our research, we consider oil and gas revenues (for our case studies primarily oil revenues), as a major source of external rents.

The post-Soviet states in the Caspian Region are not only the future resource markets; they also show the highest level of external rent income amongst former Soviet republics (Auty 2006b). Measuring the share of oil and gas revenues in the total exports and national budgets, we can diagnose different levels of rentier state development in these countries. The current economic development of Azerbaijan and Turkmenistan is mostly dependent on the export of crude oil and gas, and the processing of its various by-products (90% and 78.5% of the national exports respectively).²¹ In Russia and Kazakhstan, the contribution of oil and gas to national exports amounts to two-thirds and 60% respectively. The share of these commodities in the GDP of these countries is 60% and 30% respectively (Esanov *et al.* 2001; Walker 2007).

¹⁹A complete list of all members is available at: http://www.citi-az.org/ts_gen/eng/koalisiya/k1.htm, accessed 8 June 2008.

²⁰For 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.

²¹See 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.

Apart from the resource wealth factor and the enormous potential of economic rents, all these states face the problem of socio-economic development based on the transformation from a state-directed to market-oriented economy. Azerbaijan and Kazakhstan are characterised, like many post-Soviet states, not only by industries that are in need of overhaul, but also by structures in the industrial sector which were tailored to Soviet needs. The plenitude of oil and gas has made these states attractive to Western investors, but has also had an impact on the overall economic development of these countries. At the very least, this process has fundamentally influenced the design of the political systems currently in place today. Rents were mostly used to consolidate autocratic regimes and to hinder reforms. After a promising start in Azerbaijan and Kazakhstan, both of which reformed their political structures in order to attract large inflows of foreign investment with which to revive their oil sectors (Auty 2006a), these countries ended up only reforming (in other words, privatising) to the extent necessary to gain international investment. Besides the economic focus on the lucrative oil sector, this rent-seeking orientated policy provided the national elite with new opportunities for patronage, since they were able to reward supporters with privileged access to lucrative business transactions (Akiner 2005, p. 119). In general, the link between politics and economics is very high in transformation countries (Stykov 2006; Satpayev 2006a; Höhmann & Pleines 2004), but in the post-Soviet context it is the main factor for consolidating power and becomes a covert element in the political process.

Azerbaijan

The current structure of the industrial sectors in the Azerbaijani economy has been considerably influenced by massive, direct foreign investment, since the end of the 1990s. Until September 2004, approximately \$10.7 billion had been invested in Azerbaijan, which explains the rapid growth of GDP since 1998. The lion's share of

TABLE 1
SHARE OF OIL SECTOR IN AZERBAIJANI EXPORTS (2002–2007) IN \$ MILLION

	2002	2003	2004	2005	2006	2007
Oil sector	2,046.0	1,336.8	1,779.2	6,883.2	12,075.3	20,190.0
Total exports	2,304.9	2,624.6	3,743.0	7,649.0	13,014.6	21,269.3

Source: Economist Intelligence Unit (2008).

TABLE 2
SHARE OF OIL SECTOR IN KAZAKH EXPORTS (2000–2004) IN \$ MILLION

	2000	2001	2002	2003	2004
Oil sector	4,529	4,593	5,156	7,271	11,837.8
Total exports	9,288	8,928	10,027	13,233	20,603

Source: Republic of Kazakhstan: Statistical Appendix. IMF Country Report No. 05/239, July 2005.

TABLE 3
ANNUAL GDP GROWTH IN AZERBAIJAN (2003–2007)

	<i>Nominal GDP (US\$ m)</i>				
	2003	2004	2005	2006	2007
Azerbaijan	7,277	8,653	13,245	19,851	30,157
Real GDP growth in %	11.2	10.2	26.2	34.5	25.0

Source: Economist Intelligence Unit, Azerbaijan—Country Profile /Main Report, May 2008.

TABLE 4
ANNUAL GDP GROWTH IN KAZAKHSTAN (2003–2007)

	<i>Nominal GDP (US\$ bn)</i>				
	2003	2004	2005	2006	2007
Kazakhstan	30.8	43.2	57.1	80.4	103.8
Real GDP growth in %	9.3	9.6	9.7	10.6	8.5

Source: Economist Intelligence Unit, Kazakhstan—Country Profile /Main Report, May 2008.

this growth can be attributed to the oil and gas industry, which has received 97% of all foreign direct investment.²² Oil and gas production, which accounted for only 20% of Azerbaijan's industrial production in 1991, made up more than 70% of total industrial production in 2006 (Auty 2006b, p. 59). This has triggered a certain asymmetrical development in the country: there are high growth rates in the oil and gas industries, while non-oil sectors have attracted little attention, and the government has neglected to introduce policies of diversification and the restructuring of resource-independent industrial sectors. Particularly in Azerbaijan, this narrowly focused economic policy could become problematic once oil resources run out.

Other obstacles to restructuring the Azerbaijani economy are widespread corruption, the unfinished consolidation in the banking sector, delays in reforms and in the implementation of economic legislation, and regional imbalances in economic development (for example, a high concentration of economic activity around the capital Baku and on the Abscheron peninsula, but weak rural development). Systemic corruption is one of the biggest challenges: Transparency International (TI) ranks Azerbaijan as one of the most corrupt countries in the world (130 out of 163 in 2006).²³ It is difficult to tell whether the anti-corruption legislation of the past few years and the state programme against corruption have had any mitigating effects, or whether they were simply an elaborate pretence. The corruption issue, which is mainly related to post-Soviet habits such as neopatrimonial, informal structures, remains too complex and the anti-corruption mechanisms—despite political rhetoric—too fragmented for any real change to occur (Weissenberg

²²See Economist Intelligence Unit, Azerbaijan—Country Profile/Main Report 2005.

²³Transparency International, Corruption Index 2006, available at: http://www.transparency.de/uploads/media/05-10-05_CPI_2005_PressKITFinal.pdf, accessed 12 August 2007.

2003).²⁴ Moreover, nearly all political levels have been shaped by corruption and informal structures (Satpayev 2006; Jandosova *et al.* 2003). It must be stressed that the corruption in Azerbaijan is not merely a result of the socio-political and economic developments that occurred after the country gained independence. Even in the Soviet period Azerbaijan had the highest corruption rate among the republics of the former Soviet Union (Clark 1993).²⁵ In this context, the corruption can be considered as a part of the negative legacy of the Soviet era (Weissenberg 2003).²⁶

Kazakhstan

The sudden discontinuation of the system of central planning after the collapse of the Soviet Union had a negative impact on the production capacities of the Kazakh economy, which, at the time, was based primarily on metallurgy, mining and the cultivation of wheat. The share of these industries in the Kazakh GDP diminished from 31% in 1992 to 21% in 1996, but rose again to 33% of GDP in 2000.²⁷ After 2000 there was an enormous increase in the oil producing industry, which can be explained, as in Azerbaijan, by extensive, direct foreign investment. Due to the rise in the price of crude oil over the last few years, the Kazakh economy is now in an economic upturn and the continuous increase in the production and export of oil, as well as foreign investments, has been a significant (if rather unstable) guarantor of current levels of economic growth. However, in contrast to Azerbaijan, Kazakhstan faces a smaller, but more durable oil rent stream. In the absence of further discoveries or improved extractive efficiency in production, the Azerbaijani windfall will rise swiftly to its peak in the period 2009–2013, before falling to modest levels by 2020; on

²⁴For more information about 'political and economic corruption' see Alemann (2005), OECD (2007) and Lambsdorff (2007).

²⁵These 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).

²⁶The 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.

²⁷See Economist Intelligence Unit, Kazakhstan—Country Profile/Main Report 2005.

the other hand, Kazakhstan's oil production peak is currently projected to occur a decade later, in 2016, and is predicted to sustain a longer plateau (Auty 2006c).

Apart from the oil industry, metallurgy and steel production constitute the two other important pillars of the Kazakh economy. We can also observe a dynamically developing service sector as well as a labour-intensive agricultural sector (although these are somewhat irrelevant in relation to exports). More generally, as far as the transformation towards a market economy is concerned, Kazakhstan has been rather successful, compared to Azerbaijan and other states of the Caspian region. The privatisation of large, state-owned enterprises had already begun in the middle of the 1990s (Cummins & Nørgaard 2004). However, Kazakhstan has not been spared the problems of corruption since its independence; corruption is an escalating accompaniment to its economic and political development. Kazakhstan's corruption problems are evaluated by Transparency International with position 113 out of 163 in 2006.²⁸ Half-hearted attempts from the official side to curb corruption have been unsuccessful so far because the roots of corruption are immanent in the system (Jandosova *et al.* 2003).²⁹

Comparisons

Comparing the energy policies of the two countries, we need bear in mind that the energy resources of Azerbaijan and Kazakhstan are at very different levels. Exact figures are difficult to obtain, as national and international estimations are contradictory. The fact that Kazakhstan's natural resources are considerably higher than those of Azerbaijan suggests that the rentier state problem is likely to be present for a much longer period of time in this central-Asian state than in our Caucasian example. Nevertheless, Azerbaijan, too, will still be affected to a considerable extent by its natural resources in the coming decade. The fact that these resources have practically become a kind of myth in the newly created Azerbaijani state makes objective data collection all the more difficult (Rasizade 2001).

We have pointed out that these two countries demonstrate some of the typical dangers of resource wealth. The most important ones can be summed up as follows: first, resource wealth can lead to a failure to diversify, which we regard as a problem in both countries but is particularly the case in Azerbaijan; second, there is a link between the high level of corruption and the enormous oil and gas reserves, and it is commonly known that the extraction of resources boosts illegal rent-seeking behaviour (Leite & Weidmann 1999); and third, it is a major problem that resource rich countries try to and are able to feed the illusion of sustainable economic development. This third factor makes broader public demands for reforms rather unlikely, as our two case studies have demonstrated. At the same time, ruling elites maintain the additional financial means necessary to satisfy the specific interests of relevant public groups, which also mitigates the demand for economic and political

²⁸Transparency International, Corruption Index 2006, available at: http://www.transparency.de/uploads/media/05-10-05_CPI_2005_PressKITFinal.pdf, accessed 12 August 2007.

²⁹See BTI-Kazakhstan, Country Report 2006, available at: www.bertelsmann-transformation-index.de, accessed 17 July 2008.

reforms (Weissenberg 2003). In both cases, we can state that great damage is done to sustainable socio-economic and democratically oriented political transformation.

Features of the post-Soviet rentier state in Azerbaijan and Kazakhstan

Since the 1970s, the concept of the rentier state has served as an explanatory tool for economic, political and social developments triggered by oil booms and the presence of other natural resources. Following the theoretical approaches of rentier state analysis as a regime classification, it seems appropriate to classify our two case studies as post-Soviet rentier states, the specific features of which we will outline in detail in this section. This kind of regime classification combines elements of rentier state analysis with specific features unique to post-Soviet states.

Elite power in oil and gas contracts

At various points, we have referred to the large degree of decision-making power that the elites of Azerbaijan and Kazakhstan have in relation to the exploitation of oil and gas. Such a scope of decision-making power is a basic characteristic of rentier states (Hinnebusch 2006; Strakes 2006; Mbeki 2005; Lam & Wantchekon 2002). Although parliament has to formally confirm such decisions in Azerbaijan, in practice the parliament in Azerbaijan is weak and has little controlling power. Effectively, international business contracts on oil and gas exploitation are decided by the presidents in both countries. In Kazakhstan, even the façade of democratic checks and balances has been abandoned and the president's agreements are simply binding. The negotiation of contracts is restricted to the president and government administration without adequate public debate (Guseinov 1994; Babayev 2006; Nuriyev 2005; Auty & de Soysa 2006a). In Azerbaijan in the beginning of the 1990s, for example, accusations were made that the president gained personal advantage from negotiations with foreign oil firms. Specifically, he was accused of gaining large sums for a contract made with a consortium of Western oil companies, which included BP, Unocal, Statoil and Amoco (Kuliyev 1999; Müller 2007, p. 155).³⁰ These international companies, amongst others, participated in PSAs (Production Sharing Agreements) with the Kazakh government. The first joint Kazakh venture on a PSA basis, 'Tengizchevro-noil' (whose participants included the Kazakh state oil company, 'Kazmunaigaz', ExxonMobil, Chevron and LukArco) was established in 1993. It was later followed by new PSAs, such as 'Karachaganak' (established in 1997) and the 'Kashagan' projects (established in 2001).

The distribution of profits and other regulations which these contracts set out have had an enormous influence on the national economy (Bayulgen 2003). The economic outcomes then influenced in turn the institutional (in)stability and the development of social security structures in the first years after independence in both countries (Cummings & Nørgaard 2004). This vast scope of decision-making influence, outside efficient parliamentary controls, can be explained by the specific link between rentierism, post-Soviet presidential autocracy and pre-Soviet clan structures (Davé 2007).

³⁰Authors' interview with Zardusht Alizade, February 2006, Baku.

Permanent, corrupt and rent seeking elites

If resource rents constitute an important element of state revenue, taxes play only a marginal role in the state budget. As a consequence, in rentier states, formal elites and the state bureaucracy feel removed from society and there is the temptation for political leaders to act in an individualistic, rent-seeking manner, ignoring welfare demands (Moore 2004). There are three main consequences of this phenomenon. First, we find the development of a so-called 'rentier mentality', already noted by Beblawi and Luciani (1987). This means that there is a strong incentive for elites to stay in power for as long as possible. This phenomenon is also typical of post-Soviet autocratic regimes. Our case studies are defined by rather strict elite continuity through the presidential families, since independence in 1991, with the exception of a short post-opposition interim through President Elchibey in Azerbaijan, as discussed above.

Secondly, this conservation of power is accompanied by the embedding of the elites in family, clan and cliental structures. Such connections are the basis and breeding ground for anti-welfare rentierism and egoistic, rent-seeking behaviour (Kronenberg 2002; Zimmer 2006). One example of this 'rapacious rent-seeking' (Auty & de Soysa 2006a, p. 142) in Azerbaijan is the example of the Minister of Health, Ali Insanov, who was appointed to his position in return for helping President Aliyev senior into office in 1993 (Müller 2007, p. 158; Mamedov 2007). In fact, individuals who are part of these power networks cannot easily break free, even if they desire to do so. In Azerbaijan, this was what former Minister of the Economy, Farhad Aliyev, attempted to do. He began to cooperate with the opposition and was discharged by President Aliyev before being arrested in October 2005.³¹ Since then, there have been no further attempts at reform by members of the elite circles of Azerbaijan.

In relation to Kazakhstan, we only need to cite the case of Rakhat Aliyev (or Rakhatgate as it is otherwise known), the former son-in-law of Kazakh President Nazarbayev (Lillis 2007). In May 2007, Aliyev declared his ambitions to be a candidate in the presidential election to be held in 2012. However, he was then charged in connection with the abduction and assault of two Nurbank officials, in which he was a key shareholder; he was discharged from his position as ambassador to Austria; and, finally, he was forced to divorce Nazarbayev's daughter, Dariga (Pannier 2007; Lillis 2007). The father of Aliyev, Mukhtar Aliyev, was removed from the party's (*Nur Otan*) political council. Dariga Nazarbayeva has been 'punished' by the dissolution of the party she founded, *Asar*. In addition to this, she has been removed from the list of party candidates for the parliamentary election in August 2007.³² These examples reveal that both presidents fear and refuse to tolerate autonomous, and in particular concurrently autonomous, actions, even in their inner and familial circles.

Elite continuity is combined with neopatrimonial structures. This becomes evident if we look at the different groups surrounding the president, which demonstrate both vertical and horizontal personal loyalties. The combination of old and new networks is best exemplified by a Kazakh group, led by the mayor of Almaty, Imangali

³¹ *RFE/RL*, 20 October 2005.

³² *Eurasia Daily Monitor*, 17 July 2007.

Tasmagambetov. This group exists because of personal ties, which go back to the Soviet Komsomol *nomenklatura* and to officials who worked with Tasmagambetov in Soviet times. This group has an influence on operational management in areas affecting all parts of societal life in Almaty, including the management of state property (Satpayev 2007, p. 294). Another example is the group surrounding the president's nephew, Kairat Satybaldy, which influences the state-owned KazMunay-Gaz Company, and demonstrates the by now familiar link between politics and the economy. Finally, another example is Timur Kulibayev, a son-in-law of Nazarbayev, whose circle controls parts of the oil and banking sectors (Davé 2007, p. 148). Such connections result in the ability to influence the different types of rents, which are leaked on to domestic markets as subsidies for households and firms. The billions of dollars exported from Kazakhstan and Azerbaijan during the last few years may have contributed several millions to presidential and inner group assets (Auty & de Soysa 2006b, p. 142), which they use for the benefit of their close, personal entourage (Davé 2007; Esanov *et al.* 2006, p. 45). Without an impartial judiciary, ministries form lines of patronage, and the ability to deliver rewards (such as tax relief, preferential contracts and access to state-owned enterprises) depends upon proximity to the president and associates from his home region (Auty 2006b, p. 71). In this context, we can state that decisions about resource exploitation rights and contracts follow these neopatrimonial rules of loyalty.

Thirdly, a high level of corruption is part of rent-seeking behaviour or, conversely, corruption encourages the abuse of revenues from resources for the personal gain of elites. This is not only the result of the fact that a country owns an abundance of natural resources; it is amplified by a communist political and cultural heritage (Kronenberg 2002; Weißenberg 2003; Davé 2007, pp. 85–95). Besides this, corruption and rent-seeking behaviour underlines the strong linkage between state and business or political patronage and successful entrepreneurial activism respectively. In this regard, according to Yermukhamet Yertysbayev, a long-term presidential spokesman and Minister of Information and Culture (in an interview with Davé), 'business and power constitute a single monolith in Kazakhstan, whose unconditional leader is Nursultan Nazarbaev' (Davé 2007, p. 148).

In Azerbaijan as well as in Kazakhstan, there have been financial scandals (the so-called 'Kazakhgate' and 'Azergate' affairs) when, just a decade after the conclusion of the oil contracts, the public accusation emerged that both presidents had massively enriched themselves and their clans through oil money, and created large foreign bank accounts in Switzerland (Dubnov 2003; Guseinov 2003; Sulejmanov 2004; Schmitz 2003; Duvanov 2002). Apart from some articles in oppositional journals, in both countries, there have been no national consequences arising from these accusations, so these scandals remain in the category of 'public secrets'. In contrast, according to press reports, James Giffen, the American businessman who was involved in 'Kazakhgate', faces trial in America for paying \$84 million in bribes to top officials in Kazakhstan since 2003.³³

Another recent example in Kazakhstan has been the number of executives of national companies, such as KazakhOil, KazMunayGas, KazakhGold, and corrupt

³³*The New York Times*, 6 November 2006; *Neweurasia Kazakhstan*, 5 February 2007.

state officials who have been accused of making millions of dollars in illegal income during the last decade. None of them were punished in Kazakhstan; only the foreign companies that paid the bribes faced trials and huge penalties in the US.³⁴ The fact that national officials and companies do not have to fear any penalties for corruption and predatory behaviour underlines the argument that in resource-rich countries, like Kazakhstan and Azerbaijan, state bureaucracy and political elites feel removed from both society and from judgement. The neopatrimonial structure that traverses all ministries and all parts of the national economy (Davé 2007) is characterised by the selfish and corrupt behaviour of presidential relatives and cronies, as well as by the consolidation of permanent elites.

Support purchased through rent allocation

Despite the fact that governments in resource rich countries are relatively free from the need for taxation and, therefore, fairly independent from society, it is still necessary for them to legitimise their power. With this in mind, the political elite uses oil income to support society and relevant political groups through the calculated allocation of rents. This targeted instrumentalisation of oil rents can be realised either through structural benefits, as part of a rent-based social policy (such as a free health and education system or specific types of addressed support for pensioners) or through selective benefits, such as *ad hoc* benefit payments (Ross 2001). Martin Beck and Oliver Schlumberger describe this strategy in rentier states as 'cooptation instead of participation and alimentation instead of taxation' (Beck & Schlumberger 1999, p. 61). In terms of path dependency, in both cases we can see hangovers from socialist social welfare benefits, such as the free use of public transport or the subsidisation of staple foods, which are afforded due to the revenue rents in the state budget. In Azerbaijan, for example, the government tried to contain the soaring food prices as a result of inflation, and introduced subsidised food markets.³⁵ Furthermore, the government tried to offer free health care and free education in the capital, Baku, and in peripheral areas.³⁶ In addition to this, the Kazakh government (January 2007) increased pensions to compensate for inflation and to gain public support.³⁷

Besides this purchasing of support through welfare provision, another way in which the instrumentalisation of rents legitimates power is through support for politically relevant groups, such as the security apparatus and the bureaucratic sector. This is

³⁴Apart 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.transparencycasakhstan.org/eng/content/124.html>, accessed 8 June 2008.

³⁵V Baku provodyatsya sel'skokhozyaistvennye yarmarki'. *Day.Az.*, 22 July 2006, available at: <http://www.day.az/print/news/economy/54644.html>, accessed 14 October 2006.

³⁶Minzdrav Azerbaidzhana planiruet perevesti na besplatnoe meditsinskoe obsluzhivanie vsled za bakinskimi i poliklinikami v regionakh strany'. *Media Press*, 12 January 2004, available at: <http://mediapress.media-az.com/2004/january/mp120104.html>, accessed 13 October 2006.

³⁷Press release of Social Ministry, 1 January 2007, available at: www.enbek.kz, accessed 17 July 2008 (see interview with Satpayev, *Almaty*, March 2007).

especially the case in Azerbaijan, where the government invests in additional salary for members of the police and other internal security forces.³⁸ Therefore, we argue that instrumentalised benefits are a typical tool for ‘buying’ the loyalty of society and the political elite in post-Soviet rentier states (Pascal & Manning 2000; Deacon & Hulse 1997). This phenomenon of purchasing support through specific and strategic allocation of rents is relevant to both states. As with other typical features, it is mainly executed through the powerful presidents and the mechanisms of neopatrimonialism. It is made possible through weak parliaments, as well as the post-Soviet political culture of welfare state benefits.

Deficits in the regulation of economic structures

A typical deficit in rentier states is the lack of economic regulation strategies as rentier mentality leads to short-term profit orientation (Yates 1996, pp. 15–22). Post-Soviet rentier states had to build up their resource policies from scratch after gaining independence in 1991. There is, therefore, a limited awareness of ‘modern’ industrial policy and an ongoing dominance of Soviet branch structures. This leads us to identify two different sub-features of post-Soviet rentierism, one international and the other domestic in character.

First, in terms of the international dimension, for example, in the early 1990s Kazakhstan had ineptly committed itself to acquiring machines and spare parts for the oil industry from foreign contractors (mainly from Italy, the USA, Great Britain, France and Japan), therefore hindering any modernisation of the domestic branch of this machine industry. Only recently, first attempts have been started to counter this development by the introduction of an Industrial and Innovation Development Strategy for Kazakhstan for 2003–2015.³⁹ In Azerbaijan, international firms were allowed to employ primarily foreign skilled workers in the oil industry, which in turn impeded the creation of a broad domestic class of skilled workers.⁴⁰ This problem is still in place today and no counteracting policies have been considered.

In terms of the domestic dimension, one further problem for the economies of rentier states is the lack of forceful counter measures against the uneven development of different sectors caused by high revenues from rents (Müller 2004). As investments are concentrated on oil and gas related industries in times of oil or gas booms non-resource related industrial sectors are greatly neglected. This is a core characteristic of rentier states. It can lead to de-industrialisation after an export boom (Mahmudov 2002). The over-rapid domestic absorption of the rents influences the exchange rate by weakening competitiveness in the non-resource related trade sectors, such as agriculture and manufacturing (Auty 2006a). For example, in Azerbaijan, the national currency, the ‘Manat’, appreciated by 6.3% in comparison with the US dollar in 2005.

³⁸‘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.

³⁹Available at: <http://www.akorda.kz>, for more details see also <http://www.cmar.kz>, all sites accessed 17 July 2008.

⁴⁰Authors’ interview with Jahangir Aliyev, February 2006, Baku.

In addition to this, the share of non-oil production in the national export of Azerbaijan decreased by 15% in the same year (Akhmedov 2006b). Kazakhstan has recently tried to counter this problem through trade protectionism, but this tends to lead to lower competitiveness and prepares the ground far more for rent distribution (Auty 2006a, p. 28). The problems are accentuated in post-Soviet rentier states due to Soviet legacies of unbalanced and low competitive branches.⁴¹ In the official political rhetoric, economic policy in Kazakhstan plans to counter such effects and there are plans for the diversification of different sectors. Programmes on the diversification of the economy by Kazakh think-tanks, such as the Corporation for Marketing and Analytical Research (KMAR, *Korporatsiya po razvitiyu i prodvizheniyu eksporta*), focus, for example, on the expansion of the industrial sectors of agriculture and food, transport, metallurgy and tourism, as well as—of course—the oil and gas industries.⁴² The implementation of this programme, however, remains to be seen.

A lack of concern with distribution for welfare

In theory the possibility of redistribution of income to support social welfare is provided by resource-based revenues in the national oil funds of Azerbaijan (State Oil Fund of the Republic of Azerbaijan or SOFAZ) and Kazakhstan (The National Fund for the Republic of Kazakhstan or NFRK). However, the primary purpose of such funds in rentier states is to create a stable structure of state revenue in order to counter the danger of inflation through oil and gas exports. The use of oil funds to guarantee the promotion of long-term plans in state budgets and in social expenditures is only their secondary task (Kronenberg 2002; Fasano 2005; Palley 2003; Kalyuzhnova 2006).

Azerbaijan installed its national fund in 1999, Kazakhstan in 2000. The funds covered the sum of \$10.07 billion in the case of NFRK in July 2006, and \$1.9 billion in the case of SOFAZ in July 2007. Given the enormous monetary reserves of the oil funds, it is astonishing that levels of poverty in Azerbaijan (49.6%) and Kazakhstan (34%) are similar to those of resource poor and developing countries like Kyrgyzstan (41%) and Uzbekistan (27.5%).⁴³ Following the official Azerbaijani line, SOFAZ should help to finance social security measures, such as settlements for refugees from Nagorno-Karabakh (Akhmedov 2006a), long-term investment and the fight against unemployment.⁴⁴ Although the official unemployment rate in Azerbaijan was only 1.3% in 2006, international organisations, such as the International Labour

⁴¹See '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.

⁴²More details available at: www.cluster.kz, accessed 17 July 2008.

⁴³Population 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.

⁴⁴Decree 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.

Organization, calculated it to be around 11%; in Kazakhstan the rate was 7.6% in 2006.⁴⁵ In response, in Azerbaijan, a number of state programmes, such as financing the share of SOCAR in the BTC pipeline project, have been started with money from the oil fund. In addition to this, SOFAZ resources were used—according to presidential decree—for increasing the state budget (Bagirov 2006, p. 8). In contrast to SOFAZ, the national fund of Kazakhstan is designed to save resources for future generations and to avoid pressure on the domestic economy (Kalyuzhnova 2006). All in all, the use of the fund resources in both countries is mostly dependent on presidential decisions. There are no effective controls by parliaments and there is a lack of legislation on how to use resource money in a transparent way (Makhmutova 2005).

So, we find—in contrast to official rhetoric—a pronounced gap and imbalance between monetary distributions in oil production compared to all the other regions. In Kazakhstan, between 1997 and 2002, budget revenues in the five oil-producing regions (mainly in western Kazakhstan) increased by 280%, whereas the budget revenues of the other regions increased by 180% (Najman et al. 2005). In addition to this enormous support, 22% of 2006 GDP was spent on the construction of the new Kazakh capital Astana (Trofimenko 2007), as President Nazarbayev moved the capital from Almaty to Astana, where his home was located, in 1996. These phenomena—populist activities that are highly powerful symbolically but economically senseless—are referred to as ‘white elephants’ in rentier state research and are a well-known feature of rentier states and autocratic regimes.⁴⁶

In Azerbaijan, we do not find extensive and widespread ‘white elephant’ policies, as this country is rather absorbed with its large numbers of refugees. Furthermore, the monetary distribution is not as unbalanced as it is in Kazakhstan. In 1995, most of the revenue stayed within the production regions and urban areas (mainly the capital city, Baku) but, in 2002, the level of state support was at its lowest for the residents of Baku. So we can see that the focus of monetary benefits has changed somewhat. On the one hand, we observe a strong pro-rural bias, even in resource-rich areas outside Baku, while, on the other hand, resource-poor regions gain financial support in order to balance the social structure. Overall, the dependency on government, measured as the share of state benefits in total income, has decreased over the period from 28% to 10% (Luecke & Trofimenko 2007).

This general process underscores the argument that reforms in rentier states take place mainly in order to consolidate power structures by balancing social and economic disequilibrium, rather than for political liberalisation (Schlumberger 2006; Loewe 2004). To sum up, the distribution mechanisms and criteria set out and applied by the state turn out to be non-transparent. They lack general welfare orientation and are intended to purchase support, where needed (Najman 2005; Zlotnikov *et al.* 2004; Kalyuzhnova 2006).

⁴⁵Bfai (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.

⁴⁶See World Bank database, available at: <http://extsearch.worldbank.org/servlet/SiteSearchServlet?qUrl=&qSubc=wb&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.

The lack of transparency

Further to the previous point, there is a general problem of lack of transparency in relation to revenue income in post-Soviet rentier states. This is particularly relevant because in both countries the oil peak will occur in the next decade. The state budget in Azerbaijan recorded a profit for 2006 of about 3% (Akhmedov 2006b), and the state budget in Kazakhstan is similar.⁴⁷ In both countries, it has remained unclear for many years how much money, annually, is going into the national oil funds. Only recently has the EITI (Extractive Industries Transparency Initiative) achieved some degree of greater transparency. In Azerbaijan, the main recipients of oil revenues are the State Oil Fund, the State Budget and the State Oil Company. Aside from this, some revenue goes to the State Social Protection Fund and a number of state enterprises, banks and other organisations. Due to the fact that mechanisms of good governance do not exist in both countries, it is unclear how much revenue goes to each of these state bodies (Bagirov 2006). For instance, in 2006 in Azerbaijan around \$120 million had been spent on different social and domestic problems in relation to refugees, while about \$641 million had been transferred to the state budget and \$130 million for pipeline projects (Bagirov 2006). But the annual plan for the Oil Fund's expenditure is based only on presidential decree. Although in both case countries some kind of control chambers were established, the overall functioning of these institutions is at the president's discretion (Bacon & Tordo 2006). Consequently, the mechanism of distribution is less transparent.

A discussion about the social utilisation of these funds regularly takes place in political parties and in society more widely, towards the end of an election term. At other times however, the issue is not mentioned in general debates and political programmes (Ibadildin 2005).⁴⁸ Other than international initiatives (for example, the Soros-Revenue Watch Programme), some NGOs have also established national programmes to control budget policy and to contain corruption dilemmas which are immanent to the system.⁴⁹ Nevertheless, civil society and party systems, as a vociferous control authority, or, in other words, as a watchdog function, are weakly

⁴⁷Statement of State Budget Execution as of 1 August 2007, Ministry of Finance, available at: <http://www.minfin.kz>, accessed 17 July 2008.

⁴⁸In 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.

⁴⁹In 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

developed in both countries. With only a few exceptions, for example, PFMC (Public Finance Monitoring Centre in Baku), civil organisations and parties have yet to become an effective instrument for monitoring government operations (Bagirov 2006). We find, on the one hand, a strong system of elites and, on the other hand, a functionally weak party and civil system, which has failed in providing an adequate balance and control system. Nevertheless, instead of international parties, national NGOs are the main players in debates on the control of budget policy and systemic corruption. The fact that NGOs have apparently more influence in this kind of interest aggregation seems to point towards the potential for liberalisation dynamics in the rentier and transformation context. By constantly calling attention to transparency issues, even though they are only small in number and mostly active only in the capitals of both countries, these NGO initiatives and dialogues could be a long-term option, and could open the door to greater political transparency in general.

Medium legitimacy in relation to resource policy

In the context of the legitimacy of the regimes we are interested in the level of acceptance of the implemented resource policy, budget policy and economic policy by the population in both countries. We see a rather desultory acceptance of the resource and budget policy, with the exception of the small number of NGOs debating these topics (Khalilov 2007; Abuov 2007). There is no atmosphere which leads us to expect demonstrations against the current resource policy or even broad political initiatives for the nationalisation of oil and gas production.

To a certain extent, this situation can be explained as post-Soviet habit. Firstly, there is a general fear in these societies about openly criticising authorities (although in Azerbaijan there were demonstrations, albeit fruitless ones, against election fraud in November 2006). Secondly, there are post-Soviet mentalities still in existence in the national administration. The obvious failure of transformation in the administrations in Azerbaijan and Kazakhstan led to the conservation of former Soviet practices; in short, the changes to the body of the administration apparatus in both countries after independence were merely cosmetic. The Soviet tradition of opaque decision-making in public affairs and a nomenklatura with an enormous 'inner' loyalty continues. It is, therefore, hardly astonishing that the citizens are not sufficiently informed about the extent of oil and gas revenues and do not trust official statistics, data or information (Davé 2007, p. 116; Zimmer 2006, pp. 123–25). This common distrust is made clear by the results of a public opinion poll carried out by the Azerbaijani sociological research service, Plus-R, in 2006. According to its findings, the majority of respondents either had some cursory information about the rent income of the country or did not have any idea about what the National Oil Fund was and how this institution should work.⁵⁰

see: <http://www.pprc.kz>, <http://www.soros.kz> and www.kazakhstanrevenuewatch.org, all sites accessed 17 July 2008.

⁵⁰Plus-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.

TABLE 5
FEATURES OF THE POST-SOVIET RENTIER STATE

Features of the post-Soviet rentier state

1. Elite power in oil and gas contract conclusions
 2. Permanent, corrupt and rent seeking elites
 3. Support purchased through rent allocation
 4. Deficits in the regulation of economic structures
 5. Missing concepts in relation to distribution
 6. Lack of transparency
 7. Medium legitimacy in relation to resource policy
-

Resource related support can be seen as one important section of the general picture of legitimacy in our post-Soviet rentier states. As far as we can ascertain from our empirical findings, we would describe the situation in these countries as one of a medium-output legitimacy.⁵¹ This categorisation draws upon the logic of system theory (Easton 1965). According to that approach, we are describing a general output-orientation. In short, people in both countries are interested in having their basic needs met and avoiding poverty. This general output-orientation is focused on drawing on state benefits. Simultaneously, there is the general feeling of having only limited rights for addressing demands to the state, and there is a low level of will concerning active support and different forms of participation in the political system. People see their benefits from resources revenues neither in a euphoric nor in an overly critical way, partly due to lack of knowledge about state revenues.

Final remarks on the post-Soviet rentier states of Azerbaijan and Kazakhstan

To conclude, the post-Soviet autocratic and neopatrimonial regimes in Azerbaijan and Kazakhstan strengthen the effects of rentierism in both states. And conversely, the high level of resource revenues makes it more likely for autocratic power mechanisms to remain stable. The current elite structure is the lynchpin of further development in both states. As long as the family, clan and dynasty oriented elite mechanisms remain fixed, as long as the elite pursues rent-seeking behaviour and seeks the accumulation and conservation of power by repressing oppositional groups, and as long as oil and gas revenues continue to flow, no regime change can be expected. The regime's mechanisms are based on bought support, especially in relation to resource management. These factors, in conjunction with weak party systems and a small number of civil society groups, mean that reform movements seem unlikely, in both countries.

Therefore, the two post-Soviet rentier states, which we have analysed, are stable at the moment, but this political stability is negative. Their stability stems partly from post-Soviet, neopatrimonial power relations and a passive citizenship, and partly from rents. However, both of these autocratic regimes will be endangered if oil and gas

⁵¹Authors' 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.

revenues decline dramatically, as this would result in a sharp increase in poverty and unemployment. It is only then that we could expect the breakdown of these regimes. Given our view that rents render the cementing of power to current elites an extremely attractive prospect, we cannot but answer the central question of rentier state analysis—‘does oil hinder democracy?’—affirmatively. Due to repressive tendencies and ‘bought’ support within the populations of these two countries, as well as the lack of alternative ‘leading personalities’, we cannot, at this time, expect a weakening of the current regimes.⁵²

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⁵²Important 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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