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Role of the Old and New Institutional Framework in Combating the Resource Curse in Kazakhstan

ACADEMIC DISSERTATION
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List of abbreviations

ADB - Asian Development Bank
AgipKCO - Agip Kazakhstan North Caspian Operating Company
BTC – Baku Tbilisi Ceyhan
BTI - Bertelsmann Transformation Index
BTS – Baltic Pipeline System (Balτiškay Truboprovodnaya Sistema)
DVK – Democratic Choice of Kazakhstan (Demokratischeski Vybor Kazakhstans)
CPC – Caspian Pipeline Consortium
CPI - Corruption Perception Index
EIA – Energy Information Administration
EITI –Extractive Industries Transparency Initiative
EIU - Economist Intelligence Unit
EU – European Union
FCPA - Foreign Corrupt Practices Act
FOB – Free On Board
GDP – Gross Domestic Product
HDI – Human Development Index
IMF – International Monetary Fund
IWPR - Institute for War and Peace Reporting
KMG – KazMunaiGas (Kazakh Oil and Gas Company)
KNB – Committee for National Security (Komitet Natsionalnoi Bezopasnosti)
NGO – Non-Governmental Organization
OKIOC - Offshore Kazakhstan International Operating Company
OPEC – Organization of Petroleum Exporting Countries
OSCE – Organization for Security and Cooperation in Europe
OSDP – United Social Democratic Party (Ob’edinennaya Sotsial Demokratischeskay Partia)
NCPSA - North Caspian Production Sharing Agreement
PPP – Purchasing Power Parity
PSA – Production Sharing Agreement
RFERL – Radio Free Europe Radio Liberty
TNC – Trans National Corporation
UN - United Nations
UNDP – United Nations Development Program
USA – United States of America
USD – United States Dollar
USSR – Union of Soviet Socialist Republics
WGI - The Worldwide Governance Indicators
YKOS – Yganskneftegas i KuibeshevOrgSintez (Russian Oil Company)
Abstract

Social, political, and economic risks caused by a natural resource abundance has been dubbed as the resource curse. Many developing countries have experienced it in the oil boom of 1970s and following the oil-glut in the 1980s when financial inflows from oil were so large and so fast that institutional development was not catching up with it.

Methodologically, this research is based upon statistical and content analysis of various materials. Qualitative analysis is provided by structured interviews with the representatives of the parties concerned, including business leaders, government officials and politicians, local academic researchers, and NGO leaders.

This research will analyze the risk of the resource curse for Kazakhstan in its existing institutional framework. Out of all post-Soviet Central Asian countries, Kazakhstan has been the most promising country in terms of overall institutional development. Current oil prices have made real financial windfalls to the economy of the country. It can facilitate structural changes in the economy but also can bring macroeconomic shocks and different negative political consequences that are stipulated by weak and nascent institutions.

Kazakhstan is still a blank spot in political and economic research, especially under the prospective of the resource curse concept. Researchers argue at various levels of optimism or pessimism on Kazakhstan’s future in the context of natural resource endowments. I will update the contemporary situation with resource curse signs in Kazakhstan and institutions promoting or curbing it in political, economic, and social realms.

Key words: resource curse • institutions • Kazakhstan • institutional change• policies• state society relations
To my family, for their support and inspiration.

1. Introduction

1.1 Research agenda

The theoretical framework of the resource curse is well known both in the fields of political science and economics, with an emphasis in developmental studies. It refers to political, economic, and social difficulties in countries whose main exports are constituted from raw materials. The theme of the difficulties in economic and political processes of the states connected with natural resources has appeared from the 1970s. Several authors are well known in this field of studies. We can mention such influential authors like Hussein Mahdavy (1970), Michael Ross (1999, 2001, 2006), Alan Gelb, et al. (1988), Karl (1997) and many others.

The historical development of countries where natural resources are the main source of state income is very mixed, and even confusing. Some have fallen into an abyss of instability and economic turmoil illustrating the well-known “oil spoils” thesis. Others, like Norway and Canada, have made their income from natural resources work for the benefit of their respective societies. The level of development and cultural context of these countries is important because Norway is not similar to Ecuador and the Netherlands is nothing like Venezuela or Saudi Arabia. However, there is one common factor between countries abundantly endowed with natural resources and the consequential financial windfalls that they experience. Some authors suggest that only developing countries are susceptible to the resource curse concept, implying that developed countries, like Norway, are not vulnerable to it (Friedman 2006, 4). However, others do think that developed countries also have difficulties in managing unexpected income from the discovery of natural resources (Lam and Wantchekon 2002, 8). The clearest example of this would be the “Dutch disease” concept, which occurred when the Netherlands gave a name to the economic stagnation that followed a sudden increase of income from the discovery of their giant gas field. Some developing countries were more successful in managing oil income and could avoid resource
curse in comparison with others which were less successful and some countries were disastrous in managing the income from oil or other natural resources.\(^2\)

The ability to manage this windfall and the resources wisely is why some countries succeed and others do not, which provides positive lessons for countries like Kazakhstan. This ability to succeed is a consequence of many different factors and institutional development and learning to manage resource booms can take a long time; even as long as the life spans of several generations.

The essence of the resource curse theoretical framework is that the abundance of natural resources has detrimental influence on economic development, political liberalization, and overall social development. Countries with dominant raw material exports have stagnated economically for years and in the case of developing countries, they have a tendency toward developing authoritarianism and repressive state governance. From a social behavior perspective, resource abundance could provoke loss of creativity, erosion of work ethics and rentier, or rent seeking, types of behavior (Ross 1999, 298). On the other hand, or from a different theoretical perspective, natural resources can help solve the problem of so-called “developmental gaps” in a developing country, like the lack of capital, technology, and savings. This means that revenues from natural resources are reinvested for structural changes and social development. In the first pessimistic view, natural resource endowment is a “curse”, yet in the second view, it is a “blessing”. The general position of the resource curse being a “mixed blessing” with difficult choices is sort of common knowledge in this research field. Many of the post-Soviet countries of Central Asia (and Russia to some degree\(^3\)) have faced this mixed blessing and it requires balanced and reasonable choices in public policies, in politics, and in economic development to handle it (Esanov et al., 2001, 2-6).

The availability of resource rents to the government has definitely had some impact in all aspects of social, economic, and political areas in these countries. Russia, Turkmenistan, Azerbaijan, Kazakhstan, and Uzbekistan; all of these countries have huge amounts of natural resources and similar problems in almost every area of their social systems. However, all of them also perform differently when dealing with the resource curse (Esanov et al., 2001, 2-6).

The Central Asian countries, including Kazakhstan, are not a well-covered area of research within the field of political science; their geographical periphery puts them on the research periphery of international political science. Domestic institutions and policies in this region were not studied as much because the focus for understanding international politics involves the interests of super powers and their competition for influence in the region. Factors such as Islamic

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\(^2\) There are different case studies for this argument and general overview has been made by Ross (Ross, 1999, 292-322)

\(^3\) Even Alan Greenspan was warning Russia about risks of oil led development (Greenspan 2006)
extremism, clan politics, and corruption are considered minor aspects affecting international relations.

Out of all Central Asian post-Soviet countries, Kazakhstan has the most impressive reserves of oil and natural gas and strategic location between Europe and Asia, and, most strikingly, has made noticeable progress in economic development, enabling it to be a center for regional growth. However, this is not possible without having policies consciously aimed at beating the resource curse; political will and decisions are as equally important as economic ones. The development of Kazakhstan as a case study, with regards to the resource curse, has already been called by Olcott (2002) an “unfulfilled promise”, meaning that hopes for democratization and a liberal economy have yet to be firmly established; transition is still going on in Kazakhstan.

Kazakhstan has been in a stage of transition from a Soviet style system into “something else”; this “something else” cannot be defined easily because the transition toward a new societal structure with elements of market economy and capitalist society has never happened before in world history (Rumer 1996, 15). It cannot be said that this transition has been toward a Western type of liberal democracy either. Even though at the current stage liberal democracy and a Western style market economy are considered objectives, Kazakhstan has not achieved it yet despite the declarations of government officials. These declarations clearly indicate the current direction and strategic goals of policy makers. The choice for westernization has been made, or as one of the Kazakh officials put it, “Kazakhstan has passed a crossroad long ago” (Tokayev 2005). On the rhetorical side, politicians in Kazakhstan talk about democracy, parliamentary power, and responsiveness of the state, but in reality, these types of institutions and organizations are not developed for full scale. Contrastingly, some researchers and local opposition proclaim that Kazakhstan’s government is becoming more and more authoritative and suffering from the resource curse (Luong and Weinthal 1999, 2).

There has definitely been some very good research done over the last fifteen years as the subject of post-communism has become more relevant at both the national and international levels. However, a detailed analysis of the “real” overall picture of the situation in Kazakhstan in terms of the resource curse signs is still lacking. This is especially true for Kazakhstan, where the situation of regional academic research can even be called paradoxical. Currently, regional studies are focused on countries in the region where the situation is far from stable, both economically and politically. This is probably due to the problems of extremism, radicalism, and poverty, along with their accompanying political instability. The probability of some kind of a conflict in these countries has made them a more challenging and interesting research topic. Because of its economic growth and political stability, Kazakhstan does not attract much attention from the researchers.
The topics of discussion in major international conferences over the last five years cover problems of internal instability in Kazakhstan’s neighboring countries, with special attention paid to Islamic radicalism, but Kazakhstan itself is missing from these discussions. The economic success and political stability in Kazakhstan cannot be explained simply by the inflow of oil money; the reality of the country’s situation is much more complicated. The country’s oil resources and the high price of oil are both definitely important factors for Kazakhstan, but not enough of an explanation for its political and economic processes. Local processes, actions, and decisions, not the interests of superpowers, are emerging as equally important factors in Kazakhstan today. Kazakhstan is not only acted upon, but is becoming an actor in the region. In this case, internal factors like public policies are becoming very important and interesting. Decision makers and researchers now see the resource curse, in different forms, as one of the factors threatening, or at least undermining, further development in Kazakhstan (Berentayev 2008, 8; Kelimbetov 2005).

One of the most widely debated topics on the national agenda nowadays is the diversification of the economy and overcoming oil dependency. Diversification is one of the policies to be undertaken to combat the potential resource curse, but there are a number of other policies in education, social insurance, and other areas that are important as well. Diversification of the economy has been declared a national priority for Kazakhstan by its government. Diversification for the sake of diversification does not make too much sense as in the context of corruption; it can mean only embezzlement of oil receipts.

Despite these diversification declarations, dependency upon inflows from the oil sector to the economy and budget is growing consistently from year to year. While the trap of financial dependency from these windfalls is understood and different policies are undertaken, Kazakhstan faces many challenges in its social system as well. Oil may help to respond to these challenges adequately, but it can also postpone painful reforms in the needed areas. Effective policies to overcome natural resource dependency are amongst the most important issues in many developing and post-Soviet countries where the natural resource exports make up the lion’s share of export and budget revenues. Those policies are also discussed in Kazakhstan because that republic is blessed with an abundance of oil, natural gas, ores, and vast agricultural resources.

Researchers, government officials in Kazakhstan, and international organization representatives have addressed this issue of the resource curse in Kazakhstan while public debates within the expert community have been going on actively. These debates have intensified especially since the year 2000, which was the beginning of an era of high and continuously growing oil prices. This brought Kazakhstan to join the EITI (Extractive Industries Transparency Initiative) process from the government side. Today, academia, Kazakhstan’s government,
opposition, and NGOs, all discuss what policies need to be promoted and implemented to avoid the resource curse. This discussion does not have dialogical character because NGOs, opposition, and academia are alienated from the real decision-making process. This alienation might be also a consequence of the resource curse itself.

It is also clear, after more than fifteen years of independence that some archaic parochial institutions from the very ancient past have been revived, intertwined, and compete with the new western type of institutions. These traditional institutions have been merging well with new appearing practices, forming and distorting these practices; examples include patron client networks and nepotism at different levels.

The role of Russia in the history of Kazakhstan is still under scrutiny in society. It is not even clear how to interpret the Soviet past. Was Kazakhstan a Russian colony and independence was unexpected and caused by the imperial default by Russia? Or Had Kazakhstan received huge investments under the Soviet rule and became the industrialized republic with good education, some social guarantees, but ineffective economic system? Reality is mixed and even ambivalent because some colonial, center periphery relations were in place.

Kazakhstan is an independent state, but is this country still acted upon by interested and concerned superpowers or is it an actor with an understanding of its national priorities and interests? The aim of my research is to analyze the resource curse challenge that faces Kazakhstan today and how it can be overcome through building viable institutions or, putting it differently, determining what activities need to be fulfilled by Kazakhstan’s authorities and society. This will be in terms of an actor attitude because the resource curse pattern inevitably implies to be acted upon by external forces.

So far, the resource curse literature has developed in different directions. Particularly, it is moving in the directions of case studies and general theoretical conceptualization. This can happen because every case has a historical context, but generalization and finding repetitive patterns requires some reductionism and superficiality, or special limitation, set by the researcher on the given number of tested cases. To develop a set of dependent variables with one independent, like natural resource abundance, is difficult because there are plenty of intervening variables in every given case (Ross 1999, 297, 315).

The discussion on institutions and their role of combating the resource curse is profound but there is room for further improvement. There is a general agreement that institutions play very important roles in the proper management of natural resources and their use for the benefit of everyone in the society. The main authors in the field, both economists and political scientists, have paid attention to this institutional dimension in the successful overcoming of the resource curse. Terry Karl, Michael Ross, Pauline Luong Jones, and Ragnar Torvik are well known authors
in the resource curse field and all pay attention to the strong role of pro-developmental institutions. Martha Olcott, who is one of the most quoted authors on contemporary Kazakhstan political processes, pays special attention to the weakness of property rights, which is an essential economic institution (Olcott 2005, 12). The World Bank has conducted a study on improving the competitiveness of Kazakhstan’s economy which includes a special section on the institutional aspect of overall economic strategy (World Bank 2005).

General recommendations for better economic performance are similar for any developing country with or without natural resource wealth. The state is accountable to society, with regards to the virtues of private property, transparency, anticorruption institutions, balance of power, strong power of parliament, independence of the judiciary, and freedom of speech. However, the role of informal institutions is very important as well and there are only fragmented studies on it. So far the studies on formal institutions in Kazakhstan are made but still not systematic and the vast field for research stipulates it and on informal institutions even less number of studies has been made. We can refer mainly to the World Bank papers and ratings. Other international organizations also rated institutional strength of Kazakhstan as well.

It is clear that formal institutions often are the reflection of the existing informal ones but the opposite is also true when the introduction of formal institutions change the informal ones. All of these institutions are very important in combating the resource curse but they are of different character and source. It means that some of them are social, historical, economic, or political. Is it more important that these institutions are difficult to measure or to evaluate the influence over the formal ones.

To expect that private property rights or freedom of speech or political checks and balances will be established quickly within fifteen years of independence after more than seventy years of communist rule is too optimistic. Old habits in behavior of the populous and political decision making are not changing very fast, or as Douglass North puts it, “…the informal constraints that are culturally derived will not change immediately in reaction to changes in the formal rules” (North 1993, 45). However, they do change and these differences are observable over time.

1.2 Importance of the project, initial research question, structure of the research, and methodological issues

This study is important in the academic area because it fills the gap in existing knowledge on natural resource influences within a transitioning country in a newly opened region. It adds a new specific case to the existing volumes on resource curse studies, and also examines, in detail, institutional dimensions combating the resource curse.
This study also has value for practical policy makers in today’s Kazakhstan. It adds new understanding to development and transition fields of studies in political science. It is necessary to understand which of the suggested policies in Kazakhstan have multiple positive or negative effects and how they are influenced by old or new institutions. Oil income for the country should not be considered as a constant instrument for problem solving, but only as a starting point for self-sustainable policies and growth. The variety and complexity of the challenges proposed require abnormal approaches with the aim to create virtuous circles in the policies. Local practices in Kazakhstan like corruption, clan affiliations, and regional rivalry may undermine policies because they have a systemic effect on where policy is chosen and implemented.

Kazakhstan has a chance to not fall into the resource curse, but to use natural resource endowments as a first step to overall development. Here, rational and well-designed policies in support of pro-developmental institutions are the real tools for maximizing benefits from this chance of oil wealth. Western researchers have already compared Kazakhstan with Nigeria (Olcott 2002, 8). Local politicians have been overconfident and prefer to repeat the idea that many oil related entities like the National Oil Company and National Oil Fund are duplicated from Norwegian equivalences. They are forgetting that in the Norwegian context there are other conditions present such as a strong Parliament, public debate, transparency, democracy, and an overall high development. Kazakhstan might learn something, might repeat the mistakes of others, or possibly make its own mistakes and achievements. This does not mean that some of the previous mistakes made by other countries cannot provide a lesson to learn from. This is especially true regarding public policies in similar contexts.

Taking into consideration all of the aforementioned factors and discoveries within this research field, we can establish the initial research question for this analysis to be:

Does Kazakhstan suffer from certain aspects of the resource curse?

As this question is quite broad, we can divide it into the following sub-questions:

1. What are the effects of oil and oil income on the economy of Kazakhstan?
2. What are the effects of oil on labor market trends in Kazakhstan?
3. What are the effects of oil on power in political system?
4. Do changes in oil prices have effects on the economy or on the political power structures?

All of these questions will be reformulated later in the following chapters in accordance with the research hypotheses and after a careful study of literature regarding the resource curse.

Those policies suggested by the government of Kazakhstan so far have a mixed effect but they are very quick to predict the results. However, on the model level, it is possible to draw some conclusions about opportunities and threats.
The first policy suggested by the government of Kazakhstan is the cluster development in sectors of economy which enables competition in world markets. Kazakhstan, here, follows the patterns of South East Asian countries, with an emphasis on the textile and apparel industries, and also examples of backward and forward linkages of Norway and Middle Eastern countries. Cluster effectiveness is low so far but this can be explained by the very short time this policy has existed. However, Kazakhstan has an authoritarian political regime which can be effective in concentration of the resources for the policy and fast in the decision making process, but weak in the evaluation of the policy and follow up actions. Moves for greater liberalization of the regime and more delegation of power are discussed in all levels of the society. It has more to do with politics than policy making.

This research is structured in the following way. First, I will describe the literature debate in this research field. In this part, I examine how natural resources impact economic and political processes. The assessment of their influence was very optimistic during the 1950s and 60s, but turned to pessimistic views in the 80s and even more disaggregated views in the beginning of the current decade. The next part is devoted to the description of the data and methods used in the research. I utilize both quantitative and qualitative methods, as well as different publicly available data sources both in statistics and in discourse analysis. The chapter after that describes in brief the political system of Kazakhstan in historical and contemporary contexts. The fifth chapter examines the role of oil resources in Kazakhstan’s energy policy making; I look at the actors in energy policy, their goals, interests, and the policy making process itself. Analyzing the economic and political institutions in energy policy making allows me to move closer to defining the resource curse issue’s applicability to Kazakhstan. This chapter is the main empirical portion of the research where I present findings based upon qualitative methods, interviews, and interpretive repertoire analysis. The next chapter is the presentation of the findings received by qualitative methods; this chapter is a cross-national analysis of different oil-rich countries. I will compare how they differ in performance in terms of corruption, governance, and their situations regarding freedom and civic liberties. Here, I look at the resource curse phenomenon in a comparative context. The last part of the research is the conclusion where I make a short summary of the results and discuss the findings in light of the resource curse theory. In this conclusion, I delineate further directions and trends for research in the field. My structure attempts to make a logical picture of the interrelationship between oil resources in Kazakhstan and the political and economic processes of the country.

The case of Kazakhstan has been analyzed in terms of the natural resource influence over political choices and institutional development by different authors (Jones and Weinthal 2006; World Bank 2005; Tsalik 2003). However, maybe because of this research and the general debate
in the society, some current policies were enacted to overcome this dependency upon resources of the natural kind. I will analyze and confirm how the different actors estimate these efforts and compare it to the situation before the oil boom.

My theoretical framework includes a conceptual understanding of the resource curse and other related concepts, and following this theory, I define my specific methods as interviews and linear regression comparisons. For the qualitative part, I use interviews and interpretive repertoire analysis of my respondents. For the quantitative part, I utilize a cross-national analysis of the selected oil-rich countries; I compare how they reacted to their oil booms and why some reactions were similar and some were different, depending upon intervening factors.
2. Theoretical background

2.1 Resource curse definitions and understanding of the institution’s role in the resource curse avoidance strategies

This chapter is a literature review of the theoretical framework on the concept of the resource curse, with particular emphasis on its institutional dimension. The resource curse is generally referred to as, “Negative development outcomes associated with petroleum and other minerals” (Karl and Gary 2004, 2). There are different definitions of the concept and entire theoretical constructions about the “resource curse” (Auty 1993, 1; Ross 1999, 317) but we understand it as an umbrella concept which refers to the risk of rapid income from natural resources when financial inflows to the government budget lead to slow economic growth and negative political and social outcomes where specific sets of institutions develop. Auty, who first introduced the concept, wrote initially about, “…a favorable natural resource endowment may be less beneficial to countries at low- and mid-income levels of development than the conventional wisdom might suppose” (Auty 1993, 1). The concept of the resource curse, as well as the academic debate over the processes within a developing nation with large natural resource endowment, has changed since the introduction of this concept (Alekseev and Conrad 2005). Alekseev and Conrad say downright that resource curse relates only to the countries in transition (Alekseev and Conrad 2009, 3).

We can go back to classics like Montesquieu or Adam Smith in finding some ideas on the definition of resource curse. Researchers started to analyze the influence of resource abundance to the political process in developing countries in 1950s, it was going deeper in 1970s when the prices for oil were growing very fast.

The classical quote from Adam Smith on this case states, “The income of men who love to reap where they never sowed” (Smith, 1937, 399 cited in Karl 1997, 5)\(^6\). Adam Smith (2000, 510) also paid attention to the institutions, without mentioning the term itself, when he formulated the problem in *the Wealth of Nations* as following:

> "Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay."

\(^6\) This quote is coming from *The Wealth of Nations* by Adam Smith (2000, 510) and later Karl Marx made emphasize on it in his *Economic and Philosophical Manuscripts of 1844* and this quote is often prescribed to Marx. As for me Marx emphasized his idea of the vices of private property on land.
Institutions, despite their vagueness, have been considered since classical economic times as one of the main parts of the whole social system.

2.2 Economic institutions and the resource curse

2.2.1 Academic debates over the definition of the resource curse

We will look at the resource curse literature classifying it on the economic, political, and social aspects regarding institutional interplay. Even the titles of some researches tell for themselves this correlation; to name a few of the most quoted ones: “Oil Wealth: A Very Mixed Blessing” (Amuzegar 1982), “Oil Windfalls: Blessing or Curse?” (Gelb et al.1988), and “Does Oil Hinder Democracy?” (Ross 2001).

The specific type of resources matters and makes a difference as well; is it oil or coffee or timber? Oil is a key mineral in this regard; even though other resources can also make some negative impact, oil is a special one. In the research field, there is a widespread debate on the classification in terms of natural resource differences and their political influences. These arguments include ideas on how a specific resource can shape political and economic processes in a developing country (Ross 2002; Isham et al., 2003; Harford and Klein 2005). The illustration of the importance of such differences and comparisons is that, for example, oil does not require massive labor involvement like agriculture; so a small group of ruling elite can capture the rent and exclude the rest of the people from it. Diamonds or tantalite ore, in some cases, do not need the complicated transportation infrastructure, technology, or substantial initial capital investments that oil and deep shaft minerals do. International trade is also specifically different for oil, uranium, or bauxites. Each of them has different market trends and, as a consequence, different political importance. Drugs are considered as a type of natural resource in this research and they are very specific in terms of trade, transportation, criminality, and investments (Ross 2004, 338).

The main outcome of this interplay between resources and state policies is clearly stated in Karl’s (1997, 13) Paradox of Plenty:

“It matters whether a state relies on taxes from extractive industries, agricultural production, foreign aid, remittances, or international borrowing because these different sources of revenues, whatever their relative economic merits or social import, have powerful (and quite different) impact on the state’s institutional development and its abilities to employ personnel, subsidize social and economic programs, create new organizations, and direct the activities of private interests”.

There are specification needs if some special process in the given country takes place. It is necessary to mention that not only the state is influenced, but society as well. The emphasis on the state, in this case, is understandable because quite often in developing countries the state has
namely been considered as an engine for growth. Thus, institutions, and not only state ones, are influenced by the type of the resource and not only by the income derived from the resources. While mentioning the concept of institutions, we will introduce a definition for our analysis of the institutions made by North who defined them as “formal rules, informal norms, and enforcement characteristics” (North 2005, 48). These formal, or informal, rules make actions for the participants predictable. Some of them produce economic growth and overall social improvement while others prevent growth and social development. The main classification of these institutions for our case will be what Bergloff (2005) called “good” and “bad” institutions. The idea is that “good” ones promote growth and overall social benefits and the “bad” ones create obstacles to growth and social benefit. The “good” ones can also erode if they are not well established.

My case study is predominantly dealing with the natural resources of oil and gas. Their production does not require a lot of labor but needs a lot of capital. In this regard, these natural resources do not lead to wealth redistribution within society or create wide employment. In addition, the need for large initial capital and high returns enriches only a very small group within society. These two circumstances make these resources very political ones, meaning that they generate power and attract power rivals. The competition for control over resources, both on the domestic and international level, created an entire stream of research on how resources influence the level of conflict (Collier and Hoeffler 1998, 564; Ross 2003, 337). The control of the natural resources is the prize that gives the power in a conflict. It is not only rivalry between super-powers but, what is interesting for our research, the rivalry inside a country. However, the conclusion that natural resources and oil provoke conflicts is not so inclusive. While Sudan, Nigeria, and Iraq have been areas of long-term conflicts, the United Arabic Emirates, Saudi Arabia, and Venezuela have not experienced large scale violence for decades. Here, the differences in the population, size of the resources, urbanization level, maturity of the bureaucracy, and institutional development can all be intervening factors as well. Ross (2003, 337-339) also classifies resources on how they influence the nature of conflict; whether resources make the conflict separatist or non-separatist ones.

So, natural resources are different and have different impacts on economic and political performance. From another side, here, we see that interactions among different actors in economy, politics, and society are regulated by institutions because, namely, institutions make some expectations of certainty for the actors possible. Depending upon the institutions, actors behave differently. However, before going into the analysis of institutions and their role, it would be good to specify the properties of oil, which have some political meaning both locally and internationally (Amuzegar 2002, 12):
1. Oil still is of huge importance for contemporary industry and styles of living where automobiles are a necessary part of everyday life. It means western powers will be interested in safe access to oil deposits, transportation routes, and processing;

2. There are not significant substitutes for oil yet. Hybrid engines, alternative power, bio-fuel, and plastics substitutes are all still expensive and not competitive enough with oil as a chemical basis. This means that the interests of powerful players, both in politics and in business, still focus oil;

3. Oil involves a high level of different geological, economic, and political risks. It requires a very large amount of initial investments;

4. The returns in oil business, despite the initial investments, are very high. While the market price can be as high as US $60 per barrel, there are oil fields with production costs of US $2 per barrel. In times of high prices, costs are usually rising too because companies are trying to get to difficult and problematical oil fields which are not profitable when oil prices are low. This feature of small costs followed by large returns after investment explains the profitability of oil corporations and the rent behavior of oil states;

5. Oil can be delivered on short notice, within two or three weeks after the signing of a contract;

6. Oil production involves very limited labor. This makes it less vulnerable to labor disputes and limits the influence of trade unions. This definitely has an impact on institutions and wealth distribution within society.

For this research, there are four main points regarding the importance of politically related oil properties. First feature of oil is the vital interest of the great powers, because oil is a key resource for the industry. Second feature is huge capital costs of oil business meaning involvement of big companies. Third one is a power of the oil lobby in the producing country because it is usually a source for the state revenues. Fourth feature is a weakness of the trade unions in producing country because oil does not bring redistribution of the wealth as oil production does not employ too many people. These properties of oil, in the context of institutional reform, are even more important because the apparent weakness of institutions makes the risks involved with these properties very obvious.

One of the first recognized formulations of the resource curse as a concept was introduced by Richard Auty. He wrote a prominent work in 1994 introducing the thesis itself. His main claim is that, “The mineral economies have under performed compared with countries of a similar size and level of economic development which lack the mineral bonus”. This work, as Auty puts it,
shares, “…the skepticism … concerning the advantages of a bountiful natural resource endowment and it also reinforces the resource curse thesis” (Auty 1994, 12). One of the problems with Auty’s claims on the underperformance of the resource rich countries is that it is not a universal claim. First, there are some developed countries, like Norway or Canada, where natural resources became a basis for economic growth and social well-being. They might have been on a different “level of economic development” compared to other countries. However, some developing countries can also grow significantly due to their natural resources. Some developing countries can diversify their economy as well, e.g. Malaysia. So, the rule was not universal and, as later critics argued (for example Jones or Alekseev and Conrad), the main issue was a choice of the strategies and not the endowment in itself. Some authors talk about the positive role of natural resources toward economic and political performance, or at least regime survival within a natural resource rich country (Smith 2004, 233).

Prior to Auty, many important works in the same field were done by Mahdavy (1970), Beblawi and Luciani (1987), Karl (1997), Gelb et alia (1988), and many others who contributed much to the conceptualizations of this phenomena in resource rich developing countries. The concept of the resource curse is somewhat of a generalized one and refers to the range of empirical evidence of unstable and unsustained economic, political, social, and behavioral situations in countries rich in natural resources. This study by Auty was important conceptually because this concept has become an umbrella for the different approaches and explanations.

Today, literature on the resource curse can be classified into three main groups on the explanation of the reasons of this curse. Actually, even a classification of the literature is an issue because some authors define four main approaches (Robinson et alia 2002, 2). According to Ross (1999), it is classified into economic and political groups and each group is divided into three sections. We will focus our attention on economic, political, and social aspects of the resource curse, and their institutional dimensions.

Economic explanations have been introduced within concepts on the resource curse and, consequently, can be divided amongst the areas of unfavorable terms of trade, fluctuation of world commodity prices, Dutch disease and linkage theories, and the neo-classical or gaps approach. Political explanations are divided into cognitive, societal, and state centered explanations; the last one being the most developed and quoted. It is worthwhile to mention that, quite often, studies consider several reasons and explain the resource curse simultaneously from different reasons. Many of these explanations refer to institutions in one way or another and the

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[7] More or less complete discussion on the resource curse literature is provided by Michael Ross who is without any reservation is one of the leading experts in this particular field.

key role of institutions in many of them, both political and economic ones, is supported by different researchers (Robinson et al. 2002, 1).

According to Ross (1999), economic explanations began back in the 1950s, if we do not take into account the mentioned quote by Adam Smith. Up to now, four main theories were developed in economics to analyze the effect of natural resources in the development of economy. These four theories include the linkage theory, neo-classical or gaps model, export fluctuation, and the “booming sector” theory (Gelb et al. 1988, 120). Separately, and later on, models of the Dutch disease and institutional approaches were developed. The linkages theory comes from the staples theory which was developed in the 1950s by Harold Innis and Douglass North. The idea is that by benefiting from staple trades like cod, grain, cotton, or minerals, a country would re-invest the capital in industrial development and some regional associates would emerge. It was an explanation of the industrial growth in the USA and Canada. It is very common for the development theories of the 1950s and 60s to share this view and to be optimistic about the future growth of developing countries.

The linkage theory emphasizes the necessity of a booming sector, in this case oil, to get services and products or links to function. These links can be down and up in the production chain. Before the 1970s and later of twentieth century has been a case of more applied approach and policy oriented recommendations (Hirschman 1958, 15). It has prescribed that the booming sector, which is a mineral or oil production one in the case of resource curse, would be playing a role of an engine for the growth of domestic economy. This dissemination of the growth would be done by fostering the linkages in the two directions of the production chain – backward and forward. In case of oil, as a main product in the economy, forward linkage will create a production of petrochemicals or any product where oil is a basic initial ingredient. Backward linkage is a development of the sectors which precede oil in the production chain. It can be geological exploration, acquisition of equipment and intermediary materials, and supplies needed for oil production. Building both forward and backward linkages is used to overcome the so-called “enclave character” of the economy.

However, linkages were not built in many developing countries due to policy failures and mismanagement, which requires researchers to pay attention to the actors and their motivations. As the World Bank states in a paper on Kazakhstan, “…windfalls also lessen the imperative to address corruption and other general business environment problems, which serves to further weaken investment and performance in the non-oil economy” (World Bank 2005, iv).

Neo-classical theory considers income from natural resources in developing countries as a means to solve the problem of absent characteristics typical for developing country, like the lack of technology, savings, education, healthcare, and infrastructure. The theory begins with the
idea of filling two main gaps, like the lack of savings and lack of foreign reserves (Chenery and Bruno 1962). Conclusion from this theory is that oil income helps to create various non oil sectors of the economy.

Export fluctuation theory places attention to the fact that it is not possible for exporters of primary resources to predict the prices for commodities and then adequately develop relevant policies. If prices or terms of trade change, then the budget earnings change and this can cause macro-economic shocks and unfinished projects. Policy blunders are made due to the expectation that the inflow of income would be continuous.

Unequal terms of trade between developing and developed countries can be an important factor in slowing the growth of a natural resource exporter. The principal idea is that the exporters of natural resources, almost always in the case of developing countries, are importers of processed goods. Price structures on the world markets are made as exporters of natural resources will lose income to the producers of the processed goods (Prebisch 1950, 7). This relates more to dependency theory ideas about the world dominance of developed countries who shape it for themselves and exploit the developing ones.

The booming sector theory looks at the influence of a booming sector in shaping the overall economic structure of a country. The booming sector can become an economic enclave. The concept of enclave economy refers to the situation when one sector exists almost autonomously from the rest of the economy. This sector is financed from abroad and sells its product abroad. Quite often, outside companies also provide employment, technology, and management. Connections with the mainland economy of this enclave are only in the form of taxes. The developing country and its main economy and population can become a load or addition to the enclave economy which is dominated by transnational corporations. To change this situation, linkages should be created. The booming sector influence internal shift of the capital and resources would be transformed later into the Dutch disease model, which will be analyzed in detail below.

Jeffrey Sachs and Andrew Warner (1997) wrote a frequently quoted article on this topic of the resource curse demonstrating the clear evidence of slow economic growth and natural resource abundance. This study has been one of the main starting points for the debate over the issue of natural resource availability and its negative influence on economic growth. The conclusion of Sachs and Warner was that oil rich countries were not growing fast in the seventies when oil boom was taking place. These oil countries were lagging behind even in comparison with the rest of developing countries. One of the points of critique for this study is that it is only a correlation between sets of data without clear explanation of the causes of this correlation. The main indicator for them was a share of the raw materials in the total export. This implication was
a volatility of world prices and growing share of manufactured goods and services in the world economy. Later, studies were focused not only to finding the correlation but also some explanatory causes of it.

Despite studies utilizing statistical evidence of the resource curse, it is still difficult to state clearly the direct correlation. Still, it is even difficult to define how to measure the dependency of the economy on the production of natural resources. It is a more or less accepted idea that more than 30 percent of exports are to be constituted from the natural resources; if this threshold is passed then the dependency is clear.

However, recently, new developments have been going on. Ross and Moore made it clear that the percentage in export or in GDP do not matter but the received rent itself makes the most difference and should be studied and compared country by country (Ross 2006, 266; Moore 2007, 21). Economic studies on the detrimental effects of natural resource abundance to economic performance have begun long before the introduction of resource curse concept introduction itself.

So, neo-classical, linkage theory, structural, and Dutch disease models do not explain the motivation of the individual actors in cases of the resource boom and this gap of the models is researched by the scholars who evaluate cognitive biases and institutional development. Cognitive bias refers to the decision makers’ failures due to overconfidence in continual oil income and so the quality of the decision making is worsened while income from natural resources is misused. Also, some political science explanations have come forward, in this case, when the state monopoly over resources, which is a normal case for a developing country, creates authoritarian tendencies within the government and managerial errors in an economic sense increase because of political considerations (Lam and Wantchekon 2002, 15). This is one of the classical themes in resource curse literature on why the government tends to be authoritarian if it has a lot of income from natural resources. It is called differently by different authors and one of the widespread and heuristic concepts is the “rentier state” concept by Mahdavy (1970), and later by Beblavi and Luciani (1990).

Michael Ross formulates several effects which take place in the state that are dependent upon the production of natural resources. If oil or another resource is the only substantial source of income in the given economy and the government controls it by having a monopoly over it, none of the other actors can challenge the ruling group in the government. So, the monopoly of economy creates a monopoly in politics. The government is not interested in the taxation of the citizens as well because income is derived from natural resources; Ross calls this the taxation effect (Ross 2001, 325). Citizens also cannot challenge the government in other bodies like parliament or collective bargaining unions because the government is not dependent upon their taxes. The classical formula applicable in this regard is “No taxation, no representation”. The
government undermines civil society because the government considers it as a competitor for the minds of the people. Ross calls this group formation effect. Civil society is also inherently weak because citizens depend upon government subsidies and their loyalty to the government is bought. If someone calls for change, the current order or ruling group tries to co-opts him or her (Co-optation effect) or repress the action if the cooptation would not be successful (repression effect).

One of the first and interesting models related to economic issues of resource rich developing countries has been introduced by Auty. It is the so-called “staple trap model”. The reference is to the earlier mentioned idea that countries which have primary commodities or staple goods can invest into different sectors like the USA or Canada did in in the 19th century. Today, countries with staples are unwilling to diversify and so the dependency upon one export commodity is created and diversification does not happen; this is even more obvious when a developing country exports oil. Despite sharp fluctuations, it generates profits which cover all the losses and costs of production.

*Paradox of plenty*, which is a seminal work by Terry Karl (1997), has introduced the idea of a petro state where the economic system is dependent upon oil production creates almost, necessarily and naturally, a state with a special system of relations and structures. The state cannot survive without the oil because the whole system of governance and power is configured from oil income. In this model, some actions from the decision makers are required to change the petro state character. Authoritarianism in resource rich countries brings policy failures where societal control over decision making is weak and there is an erosion of labor ethics because it is a system where loyalty is bought. I will elaborate more on the definition of a petro state when discussing the state as an actor in an oil exporting country.

Overall, despite of the resources available or not, a difference is made by the quality of the decisions made, policies selected, and diversification successfully realized. This idea by Erika Weinthal and Pauline Jones (2006, 36) has more of a normative or prescriptive meaning but it explains the difference in the performance of different developing countries in their ability to manage their natural resources. Technology, human capital, labor productivity, and an increase of the absorptive capacity of the economy have left behind conscious efforts, political will, and certain policy choices. So, resources are neither bad nor good in their nature, it is the people or government who use them for the benefit of the whole society or not; or as another author who writes about the resource curse has put it, “It is something that can be and has been avoided with careful mineral windfall management” (Davis 1995, 1767).

### 2.2.2 The Dutch disease model
The Dutch disease model has been one of the most widespread themes in the resource curse analysis of economic issues. It happened in the late 1970s in the Netherlands and The Economist created the concept of Dutch disease, itself, in 1977. It was introduced to explain the economic stagnation in the Netherlands due to the easily available financial revenues from a large gas field called Groningen and the debates over it began when the term was introduced. These debates referred to the strange situation of when wealth brought problems. The Economist formulated this contradiction as, “to refer to a vast, valuable energy resource as the source of a disease is surely rather ungrateful” (quoted from Neary and van Wijnbergen 1986, 41).

Some researchers mix the resource curse concept and the Dutch disease, considering the first one as a journalist term and the other one as a more academic one. However, more focused and academic research shows a distinction between them considering the resource curse as a broader concept and the Dutch disease as a specific case of the resource curse.

The model behind the Dutch disease (Bruno and Sachs 1982, Neary and van Wijnbergen 1986, 42, 44) has three basic preconditions:

1. the economy should be open to international trade;
2. it is relatively small and does not have too many investment opportunities;
3. and unemployment should be low.

This was the case in the Netherlands in the 1970s. Three main sectors are considered for the analysis. There is a boom export sector; in this case it is oil, which has very good prices on the world markets. Secondly, there is a sector of tradable goods; this means that these goods are traded internationally and prices for them are determined internationally. It is usually known as the manufacturing export sector but not always, and it is easy to export and import tradable goods. Thirdly, there is a non-tradable sector, in which it is difficult to export or import. These are usually services, including government ones as well.

The booming sector produces enormous amounts of income for the economy in hard currency, which has several effects. First, the local currency starts to appreciate in relation to the international one. It undermines other manufactured or tradable exports making them expensive and encourages tradable imports. Capital is invested into the booming sector and other sectors are undercapitalized. It is first a capital movement effect in the model and if the tradable sector prices are determined internationally because the economy is open to the world, trade capital starts to shift in to the non-tradable. This is obvious because the booming sector cannot absorb all of the capital due to physical limitations. So, a second resource movement effect happens when non-tradable sectors, the goods which cannot be easily imported like construction, real

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9 Thomas L. Friedman (2006) mixes these two concepts.
10 Ross (2004) and Amuzegar (2005) clearly make the difference between two concepts.
estate, or any domestic services, begin to attract capital and labor from the shrinking manufacturing sector. Prices in the service or non-tradable sector grow very fast because there is a lot of capital and not so much of investment opportunities. Prices can grow so fast that it would look like an “overheating” of the economy and expectations of growth finally create a “bubble”.

Therefore, non-tradable sectors and imports grow while the tradable sector shrinks. When world prices are unfavorable or a gas field is exhausted, doom’s day comes; the country has a huge and overheated non-tradable sector, imports dominate local consumption, and there is no source of hard currency except for the state possibly borrowing from abroad.

The Dutch disease model explains why de-industrialization happens in a resource rich country which suddenly faces a boom in the natural resource sector or any other single dominant sector (Corden 1984, 360). Signs of the Dutch disease are domestic currency revaluation, fast growth of non-tradable goods or services, rapid decrease of unemployment, growth in government spending, growth of imports, and shrinkage in the manufacturing sector.

In addition, it is important to notice that the Dutch disease can happen not only with oil; it can happen within any booming sector with the conditions of openness and lack for investment opportunities. The Dutch disease describes how positive externality, like favorable prices for one export commodity of the given country, can destabilize economic processes. Therefore, positive externality has not played a positive role within the whole system because the actors were not able to use it productively.

Dutch disease creates a risky situation for a country because if world prices for the booming sector fall, or the resource would be physically exhausted or any other factor would end the positive externality, then the country would remain with an oversized service sector and a destroyed industrial sector. Huge government and private debt would accompany this because both state and private actors tend to borrow a lot in times of economic growth, and the quality of investment decisions is poor. Therefore, a one-sided economy with overdependence on one resource that used to be a booming sector combined with an anemic or non-existing manufacturing sector, distorts price structures and the labor market; this is the final result of the Dutch disease.

The main recommendations for the preventing the Dutch disease are strict fiscal discipline, an active role by the National Bank in the exchange rate and inflation control, sterilization of the excessive mass of money by saving it in some special fund, and other monetarist recommendations. The debate on each of these policies is extensive with special attention on National fund issues that were efficient for Norway and the state of Alaska (Hjort, 2002, 183). There is debate over the contradiction to the earlier mentioned “gap” theory, when oil income helps to fill the gaps in savings for a developing country. Conscious efforts to create
infrastructure, invest in education and social services, and stimulate manufacturing exports with high value added goods are recommended too, but it is more about structural changes in the economy. The creation of the special fund is recommended by almost every expert and international financial agency, like the World Bank, and this creates some misunderstanding and resentment in developing countries. Transitional or developing countries usually have so many problems that can be solved with the additional capital so creation of the fund is viewed as strange. Debates in Kazakhstan over the stabilization of funds have been going on fiercely even from the very inception of the funds (Tsalik 2004, 33).

The main recipe for the Dutch disease is not the fund or other ways to sterilize the money but institutional capacity of the country. It means authority of the legislative body, law enforcement, transparency, freedom of speech and independent civil society. All these institutions create environment where oil income spending is accountable. The Netherlands was able to overcome the Dutch disease due to the social consensus and so-called Wassenaar accords when business, state, and trade unions agreed to conduct some coordinated policies; it involved institutionalized social dialogue between the parties concerned.

Still, it remains an issue within the Dutch disease model to explain the experiences of some countries with an initially underdeveloped industrial sector, like the Gulf countries or Nigeria, before the oil boom happened. They did not have virtually any industries and their population is uneducated and very traditional. Subsequently, they had a need for employment opportunities for the people and the need for some social development with the growth of government spending. There is also a question of applicability of this concept to the oil-rich countries in transition like Russia or Kazakhstan. They have industrial and agricultural sectors but their economic downfall can be explained by structural and institutional changes. Because of this downfall, unemployment was very high and so the condition of low unemployment would not be applicable. When economic growth occurred both in Russia and Kazakhstan due to high international oil prices, the manufacturing and agriculture sectors were growing too despite the de-industrialization aspect in the Dutch disease model. Perhaps the Dutch disease model can partially explain some processes in developing and transition countries, or their governments take conscious policies to avoid the Dutch disease like the creation of national oil funds.

2.2.3 Property rights, taxation, and other economic institutions

Property rights, protection, and strength of other institutions, both formal and informal, are very important issues for oil-rich countries. Historical contexts and conditions are important in these cases because institutional paths are directed, first, by historical phenomenon. Despite this path dependence theory, some causal links between oil wealth and institutional settings can be
traced, or at least some efforts to trace it were presented, by different research teams (Robinson and associates 2006, Karl 1997).

Terry Karl views the availability of natural resources and the dependency of the state budget upon the revenue from their extraction is inevitable which leads to the special setting within the institutions when actors relate their acts, intentions, and expectations with oil money flow (Karl 1997, 11). This idea of the special type of the state as an organization which is shaped by the special set of institutions where oil money is a constant factor makes the petro state concept a very interesting one. Despite the fact that Karl presented one of the first and thorough analyses of this phenomenon in oil exporting countries, Ross has noticed that many of these concepts have been introduced but are not properly defined and so lose their validity. The concept of the petro state is too vague to be applied to many cases of oil exporting countries. Venezuela is the only one that fits to this concept altogether (Ross 1999, 318). Other cases, like Algeria, Iran, Indonesia and Nigeria, as written in *Paradox of Plenty*, suffered from the ambiguity of the definition of dependent variables, which is oil windfall and the introduction of the intervening variables for each case. Venezuela, for Ross, would not be a good example too because it could outperform other Latin American states in economic growth, meaning that oil resources, at least statistically, made a positive impact on the growth.

Talking about institutions as some rules of the game in the society researchers mean in case of developing countries property rights protection as a key factor (North 1993, 15). Property rights protection laws and law enforcement are the main rules of the game for economic actors. Therefore, the protection of private property rights has been a big issue because oil wealth is considered as a national asset, which belongs to all the members of the society. That is why precedents of nationalization were so usual for oil-rich countries in the 20th century. Mexico nationalized its oil sector in the middle of century; Iran in the 1950s, which forced the British to leave; Bolivia and Venezuela made an issue of nationalization of oil fields in the first decade of the 21st century as well. In addition, a creation of a national oil company was a way to have some kind of means to provide and secure access to oil income by the public. However, despite impressive reserves and revenues, national oil companies in general tend to be less efficient than the private ones. This can be explained by political fights around the activities of a national oil company and its role in the fulfilling of economic, social, and political roles in oil-rich countries. Ross (1999, 320) has considered the economic dominance of non-efficient and highly politicized parastatals in the oil sector as one of the causes of the resource curse. The essence of the argument is that parastatals are not focused on efficiency and productivity because they perform more political tasks in filling gaps in the state budget. A similar scenario occurs when oil rent is invested in so-called *white elephants* – large public projects without social impact and no
economic growth pay offs, but are politically motivated and speculated (Robinson and Torvik 2005, 198)

Inadequate enforcement of property rights in some developing countries can be explained by a general weakness of state capacities and the subsequent absence of rule of law. In this case the protection of private property is enforced by some criminal group, which undermines the state capacity even more (Ross 2003, 48). The weakness of a state can explain the fast development of organized criminal groups in Russia and other post-Soviet countries in the 1990s, even in such areas as capital-intensive multimillion natural resource businesses. It occurred because, “…official authorities could not solve problems of the security, could not guarantee business transaction fulfillment and enforcement and could not arbiter economic disagreements” (Sokolov-Mitrich 2007, 12).

The pre-existence of strong institutions, which proved to be the developmental and growth supporting ones that would secure the state and society, form the development of the resource curse in its worst versions. Even some economic distortions due to the inflow of financial income can be fixed if the necessary and mature institutions are in place. However, if these institutions were not developed prior to the oil boom, the probability of the development of the “grabbing” institutions is high. So some developing countries avoid this scenario of “grabbing” institutions and other ones cannot.

In the case of post-Soviet countries, private property itself was prohibited or at least discouraged in times of the USSR. Therefore, when it was introduced after the collapse of USSR, actors at all levels would accept it as fully protected and guaranteed. The weakness of the judiciary and courts, which is also a legacy of the Soviet system, increases uncertainty of private property as an institution in post-Soviet countries. In the first period of post-Soviet transition, even the weak judicial system was almost destroyed so that the protection of property rights could be questioned even more. This is the explanation of why capital flight was so common in Russia or Kazakhstan in the 1990s. If individual actors are not sure in the stability of the legal system and protection of property rights, state behavior demonstrates that state officials do not consider private property as an irrevocable asset of an individual.

The role of transnational corporations or corporate actors in oil-rich countries has been analyzed from different angles. When discussing contract stability and property rights issues, corporations are a main object of interest. When a big transnational corporation and a developing country negotiate a contract, the process can be divided into several parts in the context of shifting negotiation power. According to Evans (1995, 325), the first part is when entrance conditions are discussed and a corporation has much more power and utilizes its advantageous position. The state is trying to attract the investor, which is the corporation, and
gives some privileges and discounts to the corporation. However, once some agreement is achieved and the company invests some money, then the situation changes and state can get more leverage in the negotiations process because the company has become too deep into the project and to interrupt it is costly for the company (Evans 1995, 326). The state of developing country will then come forward to re-negotiate the contract.

There are many incentives from the state to attract the company at first because the company has the necessary technical and market expertise, provides employment, and pays taxes, therefore the necessary conditions for the company can be made. Relations between the state and corporation can vary depending upon the character of the state and this is well discussed in the literature of developmental studies (Dietz and Cypher 1997, 342). The state, if not a predatory one, might have interests in technology transfers, the creation of linkages, local content, and creating stimulating conditions, or make special clauses, in the contracts (Evans 1995, 342). This makes even more sense if the multinational corporation faces a government in a big country with substantial market and state capacities that are efficient and the state itself is legitimate. If it were a predatory state, there would be an instrument for creating private gains for the top officials of this state within the contracts.

From the other side, the institution of property rights and stability of the contracts is the main institutional dimension in the success or failure of the resource rich country in exploitation its natural resources (Robinson et alia 2006, 449). In the specific political context of a country, natural resources have an aspect of public good and the rent extracted should be beneficial for all the people and even future generations. Contract enforcement in countries of transition or young democracies is inherently weak because policy makers have short-term horizon goals and do not care too much about the future (Clague 1996, 243). Clague makes this point when an autocrat is interested in stability of the contract because his term at the office is long and he needs stable tax receipts from the company. In a young democracy, there is not long-term vision because the elected decision makers are interested in reaping the rent within the term of their power in office. If an autocrat feels a lot of pressure from society or elites, he/she will be interested in changing the contracts, as it would raise their popularity among the public. Therefore, the protection of property rights makes a difference because if the contract is strong and fair, it provides transparency and the possibility to make long-term decisions for the economic actors. This will eventually contribute to efficiency and economic growth.

2.3 Political institutions

2.3.1 Concept of rentier state and its institutions
When researchers analyze the political development in oil or other mineral-rich countries, their interests span from political instability, competition between the different clans, and secessionist movements in regions rich in specific resources to authoritarian practices of oppression of rentier state, problems of inequality, and co-optation (Humphreys, Sachs and Stiglitz 2007, 322). We will closely look to the institutions that create such political tensions in such cases.

When the resource curse is analyzed from the prospective of the political institutions, researchers have focused on many aspects but the main one is the rentier state. A rentier state is a case in which a state is reliant not on taxes from citizens or local businesses, but on the rent extracted from a resource or foreign aid. The concentration of the power is in the hands of the executive heads of state and, in this case, very often leads to policy failures that result in slow economic growth (Lam and Wantchekon 2002, Ross 2001, 326; Robinson et alia 2003, 449). Here, the main idea is that natural resources are an independent variable and institutions are a dependent variable when the state and its institutions are under the pressure of natural resource income or rents. Other important trends in politics of the resource curse are low level of political contestation and absence of the rotation of the political actors. Exclusion of the people from the participation in the political processes takes place as well (Ross 2001, 326). All these processes are interconnected and to understand the logic of the events, we need to differentiate causes and effects or hierarchy of the events.

The concentration of the power occurs due to the access of the executive to the capturing of rent from the natural resources. If a state budget is formed, mainly from the extraction of the rent, then the state becomes independent from tax collection. That is a classical claim within resource curse research, when no taxation means no representation. Dependence upon the rent and independence from taxes makes the government interested in only capturing and maximizing the rent and disinterested in taxation of its citizens. As people do not pay taxes, their leverage upon the state’s actions decreases so the state becomes less accountable to its citizens.

To introduce the working definition of rentier state, I use first the concept of economic rent by Eifert and associates as “…the extra amount paid (over what would be paid for the best alternative use) for something whose supply is limited either in nature or because of human ingenuity” (Eifert et alia 2003). Therefore, if the state financially exists primarily on this source of income, it can be considered as a rentier state.

The concept of the rentier state has been a central one within resource curse analysis. It was one of the first introduced to the field in the explanation of the Iranian mishaps in policies (Mahdavy, 1970). The idea is namely that state officials create policy failures and cause slower economic growth. The actions of the state are considered as an explanation of the causal link.
between resource availability and poor economic performance. Several reasons explain why these policy failures may happen and here I follow the so-called “state centered” classification to explain the resource curse by Ross (1999, 312).

First, Mahdavy (1970, 430) explains policy failure by the over optimistic and myopic decisions made by state officials. The flow of money from natural resources creates an illusion that this flow will continue for a very long time. Officials tend to take more risks in their projects and are irrationally optimistic on the situation with money generated from natural resources. Government officials also tend to continue the current situation without too much efforts to develop an economic or taxation base for their country. Mahdavy wrote about this situation in the end of the 1960s and before the oil boom of the 70s. In that time, when oil prices were not producing so much money, some oil exporters were focused on their existing resources and not on developing different sources of income.

Later, political science studies proposed an explanation of why there is little pressure from the opposition and society in general, to the government about more transparent and accountable mechanisms of income from natural resources. The absence of these pressures is because the state does not depend upon taxes and as soon as social welfare problems are solved via generous subsidies, then the pressure from opposition is very small (Lam and Wantchekon 2002, 4; Shambayati 1994, 309).

The rentier state as a system also functionally focuses rather on distributional activities and not on productive ones. Based on this thesis by Beblawi and Luciani (1987), Wantchekon and Lam (2002, 4) later make another thesis that actors or young ambitious people try to get to the positions of the “distributors” which is a classical rationale for the rent seeking type of behavior. Therefore, the actors have more interest in the access to the distributional position and move away from productive activities.

Ross (2001, 360) gives the most detailed picture of the rentier state. He formulates several effects that take place in a state dependent upon the production of natural resources. If oil or another resource is the only substantial source of income in the given economy and the government has a monopoly over it, then none of the other actors can challenge the ruling group in the government. This monopoly in economy creates a monopoly in politics. The government is not interested in the taxation of citizens as well because income is derived from natural resources. Ross called it the taxation effect (Ross 2001, 360). Citizens also cannot challenge the government in other bodies like parliament or collective bargaining unions because the government is not dependent upon their taxes. The government undermines civil society because the government can consider it as a competitor for the minds of the people. Ross calls this the group formation effect, when the state has suspicions about civil society groups. Civil society is inherently weak because
citizens depend upon government subsidies and their loyalty to the government is bought. If some person calls for a change in the current government, the ruling group tries to co-opt him or her (Co-optation effect) or repress the action if the cooptation would not be successful (repression effect). One of the most interesting effects is the modernization effect, when the state and society in oil-rich countries do not modernize politically despite of growing incomes and the availability of modern services in health care or transportation. It is a refutation of an old statement by Seymour Lipset (1959, 69) that wealth or economic development would be bring democracy. This could be true in the long-term, but in the short-term, economic development and authoritarianism can go together hand in hand.

Ross, in a sense, gives an integrative picture of rentier state functioning and its relations with citizens, opposition, and civil society. The problem is that this rentier state can effectively resist efforts to change it or make it more open until the source of external income is monopolized by the state.

The mentioned earlier petro state concept requires a detailed explanation too. The petro state concept was one that differentiated a special case of rentier state dependency upon the rent from oil and natural gas where the amount of rent is incomparable with rents from any other natural resources. The impressiveness of oil rent comes simply from the fact that some oil fields with good pressure, and so-called “natural lift”, have production costs per barrel of nearly US $2 and the selling price can be over ten times greater. For example, in the year 2007 it was US $80 and in 2008 it reached US $140 per barrel. Earlier in 2009, it was less than US $50 per barrel, confirming the statement regarding the huge fluctuation of oil prices and subsequent fluctuation in earnings for the oil-rich countries. The rentier state in the form of a petro state is a very special example with its own features. The general concept was introduced first by Mahdavy (1971) and then deepened by Luciani and Beblawi (1982, 1987), then specified further to a more narrow sense by Karl (1997).

Terry Karl analyzed in detail the concept of the petro state based on the example of Venezuela, which actually became a grounds for deep criticism from different authors like Ross (2001, 364). One of the claims she made is that the domination of hydrocarbon exports for long periods leads to authoritarianism. However, even Venezuela as an example does not fit perfectly to this claim because, according to Ross, this state is one of the most stable and oldest democracies in South America. It looks especially democratic in juxtaposition with military juntas in other South American countries in the 1960s. Therefore, oil rent would have a more complicated effect rather than leading inevitably to the authoritarianism of the state.
Despite criticism, it is worthwhile to look at the concept of the petro state because it reflects important features of developing countries where oil or natural gas is the main export product. The main claim about the petro state by Terry Karl (1997, 44) is:

“...mining revenues alter the framework for decision making. They affect not only the actual policy environment of officials but also other basic aspects of the state such as the autonomy of goal formation, the types of public institutions adopted, the prospects for building other extractive capabilities, and the locus of state authority”.

Elaborating on this claim, Terry Karl (1997, 46-47) defines several main features of the petro state, which in some ways is repercussive to the aforementioned Amuzegar’s (2001) description of oil as the special resource mentioned earlier in this chapter. These main features are:

1. Dependency of the state upon the oil export value is much higher for the oil exporters in comparison with other exporters of primary commodities. If a country exports oil, it will often exceed 80 percent of the total exports, while other mineral or primary product exporters would depend upon a single commodity only up to 50 percent. This means oil exporters are much more vulnerable to international price fluctuations on their commodity.

2. The oil sector is very capital intensive and forms an enclave to the rest of economy. This circumstance has two effects: First, traditionally, oil exporting developing countries have depended on the presence of oil transnational corporations because the states initially do not have enough experience and capital for oil production; Secondly, the oil sector does not involve wide labor participation. The presence of large oil corporations has been changed partially by the growth of national oil companies or parastatals. The situation regarding the labor force cannot change because of technology and usually only one or two percent of the entire labor force of a country would be employed in the oil sector. This also leads to a disguised wage structure in which there is a very small labor aristocracy and a widely underpaid and unskilled rest of labor force, creating subsequent disparity among the workers.

3. Oil resources are depletable and the state faces the dilemma to either leave them in the ground or sell them now and receive the immediate rent; that is a difference from crop or plantation economies where the product can be reproduced each year. This tradeoff between leaving the oil in the ground and waiting until it will be become more expensive or drilling it is important, but historically, oil tend to produce oil and get the rent because oil can lose its importance in the future.
4. Oil creates extraordinary rents meaning that the current costs and selling prices differ tremendously. Oil is concentrated in few regions where it is more profitable to produce and, consequently, the monopolization of the international oil market takes place and makes the rent even higher.

5. The governments in oil exporting developing countries or state affiliated companies are the most active participants within the oil business and this is a difference compared to oil-rich Western countries like Canada or the UK. Economic power in oil exporting developing countries is connected with the states political authority. Oil is considered not only a commodity but also as some kind of national treasure. Therefore, the role of the state is connected with the single source of economic power is exclusive in comparison with other cases.

Terry Karl makes a conclusion from the aforementioned list of special features of the petro state that all these states, despite different historical, cultural, and social contexts, share in common with each other. Their similarity is very strong and they differ very much from other developing countries, and developed ones as well. She concludes on this issue of similarity in the following way, “These commonalities eventually translate into similar packages of problems, similar ways of coping with these problems, and similar behaviors by officials in these countries” (Karl 1997, 49).

This disregard by Karl to the historical contexts, some overgeneralizations, and neglect of factual data in favor of theoretical constructions has become an object for criticism by Ross (1999) and other authors. However, I would say that Terry Karl epitomized this skepticism to oil lead development. If some conditions of a country like huge oil resources from one side and small population form other side would coincide then some general level of welfare can be achieved without too much of political democratization or public representation. That is a case of oil monarchies in the Persian Gulf. This is demonstrated by small oil monarchies from the Persian Gulf. It does not solve the issue if one of the intervening conditions is not in place and states still, in this case, are neither accountable nor transparent to the public; the loyalty of the citizens is simply bought. After Terry Karl, researchers began to focus more on policies that are productive and efficient for oil-rich countries and general risks for them as well. But still, the state as a main agent in an oil-rich country is an important focus for research.

2.3.2 Political regime and natural resource factor
The rentier state, where political authoritarianism had been explained as a consequence of natural resource wealth, was considered as something related only to the Middle East or other developing nations with a main export of natural resources. However, Norway, the UK, Malaysia, Australia, and some other developed and developing nations were successful in using and managing their natural resources. So, today, the trend of resource cursed literature is moving toward an explanation of economic outcomes by political regime and its capacities.

Eifert et alia (2003) have created a classification of the regimes in the context of the oil bonanza and their reaction to it. Following the general classification by Eifert and associates I have added some ideas from other researchers. The problem of this classification is what comes first: natural resources and rent or political structures. For Eifert it is political regime and overall institutional frame are more important than the fact of availability of the rent.

Five types of political regime are discussed in their ability to adapt to an oil boom. These political regimes are mature democracies, factional democracies, paternalistic autocracies, development autocracies, and predatory autocracies. A comparison between them is made according to institutional capacity, political features, and economic outcomes. Each type adapts to the oil boom with a different degree of efficiency determined by political institutions and both electorate and politicians’ peculiarities (Eifert et alia, 2003). For us, the main point is a causal mechanism in the different reaction to oil boom by the different political regimes, why they do react differently or what makes this difference to happen. I will summarize below the main classification peculiarities made by Eifert et alia.

Mature democracies have long-term horizon goals in view with regards to oil rent and even if some economic consequences are possible, they are generally almost immune to the resource curse. This is due to several factors; political processes are transparent, decision makers are accountable, and the electorate is educated. Politicians tend to think in a longer term prospective because economic performance and party reputation are the main criteria for the next electoral campaign. Property rights are clear and protected yet a change in government can lead to a change in the policies, but rarely. Government bureaucracy is competent and more or less insulated from direct political interference as social consensus is a basis for policies. The best examples of mature democracies are Norway, the state of Alaska, the province of Alberta, and the Netherlands, despite the fact that the Dutch disease for the last one. Many researchers like Robinson and Torvick (2005, 159), Gylfason (2001, 847), and Karl (1997, 214-216) have analyzed or made reference to namely Norway as an example because its state and society benefits a lot from its oil wealth. The maturity of long established institutions is the key point in the explanation of the Norwegian best practice model.
Factional or young democracies are those where political parties are different from mature democracies in several aspects and react differently to an oil boom. Factional democracies are much more prone to resource curse since social disparity is high and, consequently, attempts to reach a consensus are difficult. The government is subject to pressure from powerful interest groups so patron client networks tend to flourish. From the other side, the government tries to follow populist policies of spending to satisfy the electorate and so oil income is consumed quickly and without much thought of long-term public benefits. As rule of law is not enforced at all levels and client connections are considered important, room for corruption is substantial. Wantchekon (1999) has developed a model where the behavior of the government in an electoral period follows a pattern. While being a populist one, the government does not increase economic efficiency of investments from rent; they wait to come finally to the point where the loyalty of the voters can be bought through generous public spending campaigns. It is probable for this democracy type to fall into autocracy without a rotation of the government or ruling party. The best example of this is Venezuela under the rule of Hugo Chaves.

A paternalistic autocracy is best exemplified by the majority of oil monarchies in the Persian Gulf and the Brunei sultanate. This is the case which is described also by Smith (2004). Smith claims that oil can contribute to the stability and longevity of a political regime because it allows the state to satisfy the basic social needs of the citizens. The orientation of the government envisions a very long horizon because opposition pressures are obviously absent and legitimacy of rule is based more upon tradition. The state takes the role of a benevolent caretaker with wide public employment, subsidies, and protected state owned companies. However, there can be fiscal and even political crisis if oil income would subside for some reason. Some developmental goals by the state are achieved due to the generous oil income but overspending and dependence upon oil income have created unstable social and economic structures.

Predatory autocracies are when the state takes a hostile and repressive role towards society and becomes an instrument for the personal enrichment of the ruling clique. This can happen in the case of an oil or natural resource rich country. Nigeria under the military rule of Abachi, Chad, Sudan, and the Republic of Congo are good examples of this type of political regime. Mainly corrupted rulers capture the income from natural resources and society does not benefit too much from these revenues. Vice versa, the population can become even poorer because of predatory practices from the state. Despite the harsh military rule and repression, this regime or personalities heading it are inherently unstable and subject to coup-de-etats or rebellions. Quite often, the predation by the state is accompanied by comprador cooperation of the state and transnational corporations. Policy horizons are very short and their main goal is to maximize the individual gains of power holders before they would be toppled from power. A predatory
autocracy can later become a failed state with an inability to fulfill any obligations of the state as an organization. Here, all the mentioned political instability risks come forward when the marginalized elite clans challenge the ruling one.

Examples of reformist autocracies are Malaysia or Indonesia. Indonesia, despite its crisis’s in 1997 and 1998, has been a favorite example of managing oil wealth well in the debates involving developing countries (Gelb 1988, Karl 1997). The country diversified its exports, avoided appreciation of its currency, and successfully implemented poverty reduction programs. Here, policy orientation has long-term horizons and is directed toward overall public benefit, even though there is a lack of democratic practices. Corruption, cronyism, and rent seeking, which occurred in Suharto’s rule, are present but the improvement of living standards for people is taking place as well. Corrupted and authoritarian leaders became justified and even legitimized by the economic growth. They can be vulnerable though if this growth is stopped and political survival can depend upon repressiveness.

2.3.3 Power concentration and weakness of rule of law

The probability of power concentration is very high in oil-rich countries, especially under the condition if institutions of representative democracy have not been developed before an oil boom. Empirically, this is evident in varying countries like Russia and Saudi Arabia, or as a Freedom House representative called some of them, “…energy rich, democracy poor” countries (Walker 2007). According to Freedom House, scores of oil countries are predominantly not free or are only partially free. Power is concentrated in the executive branch because it has access to the income from natural resources, so the legislative and judicial branches are getting weaker. Actually, some authors (Wantchekon 1999) claim that even democratic governments also tend not to rotate if the oil rent is easily available for their discretion.

As we discussed before, property rights are poorly protected in oil-rich countries because oil, or whatever natural resource is considered as “a national wealth”, is a tool for the power groups to stay at the office and manage the natural rent in the name of the people, which they keep for themselves. This weakness of the property rights in oil-rich countries is a particular case of the general weakness of the rule of law. The same relates to the weakness of the judicial branch and dependency of the courts upon the executive branch. One of the contemporary Russian political scientists, Konstantin Sonin, stated that Russian oligarchs are more interested in the weak protection of the property rights because then they can get the lucrative pieces of property by bribing state officials and by intimidating the weak ones (Sonin 2003, 32). His claim is that, “…if the rich have enough political power to choose the level of public property rights protection, the economy may be locked in a stable long-run equilibrium with weak public protection of property.
rights” (Ibid). Economic actors rely more on political protection than on economic or judicial ones when securing property rights; power is connected with wealth directly. The rich can use the vagueness of the institution for their own benefit and repress publicly protected property rights. In this situation, the redistribution and constant search for weakly protected property becomes a main interest of the powerful economic actor. This undermines economic growth and actors have the ability to plan for the long-term and secure the necessary large investments needed for security and intelligence to protect their business from hostile buyouts.

Catherine Norman (2009) gives interesting comparative insight to the problem of natural resources and rule of law by juxtaposing the “intensity” and “abundance” of a natural resource. Norman’s main finding is that “…economically large initial natural resource stocks are associated with subsequent lower levels of rule of law and do not directly affect growth, while raw resource exports do not have a significant effect on rule of law when stocks are included in the analysis but do affect average growth rates” (Norman 2009, 183). The idea is that if a country has statistics regarding its natural resources, it is possible to find out if it would probably have weak rule of law and would not influence economic growth, but if this country actively trades it has to impose rule of law and it will affect the growth of the economy as well. For Norman, natural resources are not the cause of the resource curse because if they are traded they contribute “strongly enough” to the economic growth, but their availability without trading can create a weakness for pro-growth institutions. I think there is an effort to solve the paradox of fast economic growth of certain oil-rich countries in the last decade and their slow growth in the long-term is explained by Sachs and Warner, as we discussed before. There are selected cases where resource bounty contributes to growth but also where it did not, or where economic growth stagnated but social indicators improved significantly. To explain all the cases by one concept of the “resource curse” is not possible. Either the concept is too broad or other concepts relevant to the set of cases must be introduced.

The main outcome of the weakness of rule of law is the conversion of financial or economic power into the political one. These two powers support each other and rule of law, which requires equality, undermines the configuration; that is why it is neglected or even consciously weakened by power holders. Rules are vague and inconsistent when someone with better ties has better treatment. Accountability will go down in this case because the state controls the main financial flows and does not depend upon taxes. Here is where the weakness of rule of law is becomes obvious; it occurs due to the intentions of powerful actors to keep privileged access to the rent extracted from the resources. Rule of law creates an equal field for “the game” to be played on but it is not in the interest of the privileged who want only to preserve their position of power and access to the natural rent and its distribution.
2.4 Social institutions

2.4.1 Education and human capital issues

When we talk about social institutions in the context of resource rich countries, three areas are the most striking. The first one is a problem with the education of the people. The second involves social capital problems like the erosion of labor ethics for grass roots organizations and corruption amongst decision makers, which is an example of the erosion of labor ethics for a public official. The third area deals with problems of civil society development. This third problem is addressed by many researchers who view the state in mineral-rich developing countries as hostile to civil society and the motivation for their behavior is a view of state officials and civil society as competitors for the peoples’ attention, policies, and political choices (Ross 2001, 360).

Gylfason makes a strong statement that oil “natural resources crowd out human, financial, social capital”. Oil production does not need too much labor and does not lead to the dissemination of knowledge and distribution of income. Using quantitative research methods and constructing a linear regression, he infers that the increase of export in natural resources negatively reflects on education indicators. His sampling of eighty-six countries is large enough to make solid conclusions (Gylfason 2001, 847-848).

Human capital issues deal mainly with the education of people and health care services available to them. Health indicators here include life expectancy, infant mortality, etc. Oil exporters in developing countries have not performed very well in overall human development and, in particular, education policies when compared with resource poor countries. One of the examples of problems with education in oil exporting countries is demonstrated by UNDP research on Arabic countries in 2002. It was astonishing how bad the education and knowledge is there. Development issues in oil exporting countries of the Persian Gulf were not solved completely despite oil wealth. Some basic education and literacy issues were successfully solved but human development indexes are still low for oil exporters (Arab Human Development 2002). Oil income helped to solve almost all illiteracy in the 1960s, however, later improvements of education have stalled.

The problems with education include the following: First labor market demands and education are not matching well; it can be a problem in all countries because markets are developing fast, but the conservativeness of the universities is very high in the Arab world including oil exporters. The second problem is the lack of investment in communication and information technologies and an overall low penetration of the Internet. This problem is also accompanied by very little translation of foreign books into the Arabic language. The third
problem is a lack of creativity and innovation which is delicately explained by the prevalence of Islamic values which do not encourage schism and breaking the tradition. The quote by a Syrian scholar from this report on Arab Human Development, "The role of thought …is to explain and transmit…and not to search and question” gives the picture of attitude to knowledge (Arab Human Development Report 2002). The problem is not only low enrolment of students even in primary school and subsequent high illiteracy rates, but also an absence of equal access to education. Females and some religious groups still face difficulties in getting education in the Arab world and in oil monarchies like Saudi Arabia.

For Alan Gelb et alia (1988, 215), who have produced an early piece on resource rich countries analysis, it was also evident that, “…mineral economies have not enjoyed particularly high levels of education and health care…” The cause of this situation is again policy blunders from decision makers who are relaxed due to easily available financial resources from the oil rent extraction. Decision makers are not interested in increasing taxation base, productivity of the labor force, or education in their countries. The choice for policies or choice not to render some policies brings different results; Ross (1999, 309) has characterized this as a cognitive bias. The lack of attention to education does not mean that education has not progressed. It has seen great improvements since the 1960s, but education in mineral-rich economies is lagging behind in comparison to other countries.

### 2.4.2 Social capital issues

Under social capital, we understand “the existence of a certain set of informal values or norms shared among members of a group that permit cooperation among them” (Fukuyama 1997, 4). The problems with an erosion of social capital are corruption, lack of labor ethics, rent seeking behavior, and an absence of merit based promotion or client patron networks. These are the problems for mineral-rich developing countries. Oil windfalls decrease incentives to reform and instead fight with the corrupted practices of the state. All these factors deteriorate the investment climate and simultaneously increase the burden on business while killing the creativity of the people. Corruption is one of the most frequently mentioned issues for oil-rich countries. Transparency International ratings for oil-rich developing countries are well below the average. In 2004, a chair of Transparency International, Peter Eigen, specifically emphasized this fact at the press conference launching the annual Transparency International Report at 2004. "As the Corruption Perceptions Index 2004 shows, oil-rich Angola, Azerbaijan, Chad, Ecuador, Indonesia, Iran, Iraq, Kazakhstan, Libya, Nigeria, Russia, Sudan, Venezuela and Yemen all have extremely low scores" (Eigen 2004, cited in Corruption is rampant in 60 countries, and the public sector is plagued by bribery, says TI).
The earlier discussed thesis on “no taxation means no representation” which is when the state budget depends upon the rent extraction rather than the taxation of the citizens, means that citizens have less or sometimes no control over the actions of government officials. If a public official is not accountable then the risk of being corrupted grows and abuse of special authorities and powers is possible. However, corruption is so pervasive not only because of the weakness of public institutions of government accountability or control of the government over the substantial inflow of income to the economy, but also because there is a temptation for an official to abuse a position for gaining personal wealth through distribution or regulatory activities. It is a clear example of rent seeking when an interest of an actor is not to be involved in productive activities but used by his/her exceptional position as a regulator of certain activity. Rent seeking is difficult to avoid in the rentier state.

One of the problems is a career choice of the gifted and ambitious young generations in oil rich countries. Lam and Wantchekon (2002) have made a strong point that the positions where rent seeking is possible become an occupational choice for motivated and ambitious people in developing countries. Thus, business and science are understaffed by young and ambitious people.

When analyzing corruption in oil-rich developing countries, the focus can be not only on motivation of the actors, which choose the rent seeking behavior patterns, but also on the system of relationships, where, for example, a transnational corporation would bribe an official to create a comprador system where public interest is suffering. Public interest would suffer even more if factional politics are involved and corrupted officials are competing with each other for the access to catch the rent and its distribution. Otherwise they are competing to get a position where corrupted practices are possible. The situation goes into the vicious circle when the “most corrupt people act like that only because they know everyone else is” (Shaxson 2007, 12).

The nature of labor and its relation to the state in mineral-rich countries has become a special field of comparative research with focus on Middle Eastern rentier states and labor practices there (Shambayati 1994, Chaudhry 1994). One of the problems for oil-rich Gulf States is low productivity. One of the facts is that migrants and non-citizens constitute from sixty to eighty percent of the total labor force in those countries (The Economist 2002, 26). Citizens prefer to work in heavily subsidized government positions which are overstaffed and non-efficient. Labor unions are virtually nonexistent in this situation because foreign workers are discriminated from entering the country and local workers are paid well in government positions and become dependent upon the government. Also, as mentioned before in the case of oil, there is not much need for labor but instead for capital. It is not labor intensive, it is a capital intensive industry which means that understanding transnational corporations can be much more important than understanding the local labor force. It leads also to inequality between different groups.
within society. There is no redistribution of wealth when one group is close to the rent and its redistribution and the rest are dependent upon it. Again, the economic disposition leads to social disparity and social tensions.

Two main strategies of the state toward the population are described in rentier state theories and applications in different cases. First, one is repression when the state does not have any responsibility and follows harsh and severe patterns of oppression. This can be accompanied by ethnic or religious divisions and scarcity of a main natural resource, which is reserved for the ruling class, clique, or tribe. The second strategy can be cooptation, which is when generous subsidies from the state make the citizens dependent upon the state and politically non-active. Both cases of a harsh and benevolent state are based upon the system of patron client networks where traditional connections based upon the kinship are much more important than the merit based selection. Actually, the different patron client groups would go for a competition over the access to the rent if the consensus or some kind of a pact would not be achieved among them. It can bring political instability. So, social issues would become political and interconnected with economic structures.

2.4.3 Obstacles for the development of civil society

One of the main issues in the development of society and state relations in the case of mineral-rich countries is the anemic condition of the civil society development. Ross (2001) points out that the state can deliberately undermine the development of civil society because civil society is challenging the state in its role as a caretaker for the citizens. It is again attributed to the overwhelming financial power of the state in comparison to society, “…when oil revenues provide a government with enough money, the government will use its largesse to prevent the formation of social groups that are independent from the state and hence that may be inclined to demand political rights” (Ross 2001, 340).

Strong civil society organizations which are not dependent upon the state or involved in business, are going from a social issue to political one by making transitions to democracy possible. Some scholars like Huntington (1991, 39) in his assumption of the democratization wave, suggest that this wave would bypass the Middle East because of state controlled oil and its control on society. Chaudhry (1994, 9) is convinced that the rentier states in the Middle East make conscious efforts to keep the people out of political demands. The governments in the rentier states according to him, “…deliberately destroyed independent civil institutions while generating others designed to facilitate the political aims of the state”. The Economist, in the survey called Self Doomed to Failure, analyses the Arab states’ performances. This idea is developed to point out that the oil-rich states in the Middle East are looking at civil society organizations with
suspicion and are viewing them as agents under the influence of Western, alien culture (The Economist 2002, 28). Both of these claims strikingly coincide with the development in Russia under Putin when the civil society has become “domesticated” by the state when oil revenues have increased or society simply “sleeps” (Hoffman 2007).

2.4.4 Summing up the resource curse analysis

To sum up a debate over the resource curse we can differentiate between several groups of studies which emphasize one factor or another.

First group of studies say that economic factors matter, such as the real appreciation of the currency. Second group of studies underlines the weakening of the institutional capacity, like protection of property rights and contract enforcement with high pervasive corruption. The third writes about the authoritarian tendency of the executive power which tries to secure its access to the rent and rent distribution. The fourth group of studies describes the oil led development as the reason of the absence of multiple effects to other businesses, and income distribution to other citizens due to the high capital concentration and low labor involvement in production of crude minerals. The combination of these factors obviously can deepen the resource curse’s probability and worsen policy choices.

In analyzing the resource curse as a specific process, I consciously do not take into consideration external factors like the influence of great states or world price fluctuations and terms of trade. These factors are very important but as Neary and Wijnbergen wrote “country’s economic performance following the resource boom depends to a considerable extent on the policies followed by its government” and then “Even the small economies have considerable influence over their own economic performance” (Neary and Wijnbergen 1986, 10-11). Today, this claim from the 1980s can be redefined taking into consideration the globalization process because the role of the state is changing and power of external actors and exogenous factors have gone up significantly. However, the quality of decisions within the country by the state and private actors matter a lot. Actually, globalization requires even better decisions from their side and risks for the resource rich countries are even higher.

The only thing to be added is that political performance has been also dependent upon the internal actors much more than upon the external ones. This situation has been changing since the 1980s because of globalization processes in the world. Today, transnational oil corporations and other states and state blocks influence many more policies of the state. In these circumstances, the risks for the developing countries and their citizenry will only increase because of pressure from powerful global players on the governments of developing countries. Therefore, governments in developing countries cannot protect the interests of their citizens.
because of a lack of expertise or other resources. The natural resources would be distributed to the transnational corporations or other global players at the expense of the citizenry in a developing country. As Joseph Stiglitz elaborates, the issue of the accountability of the government in a developing country which is distributing and licensing access to their natural resources is becoming even more important (Stiglitz 2007, 23). Based upon this latest globalization trend, we can identify at least five parties concerned with the resource curse with elements such as corruption, political instability, and poverty. These parties are the state in developing countries, society or citizenry in developing countries, transnational corporations, the state in consumer nations or developed countries, and society in developed countries. Today, analysis is going deeper into the actions, motivations and causes of these five concerned parties in the resource curse and its avoidance (Humphreys et alia 2007).

We understand that the natural resources can exert both positive and negative effects on economic, political, and social outcomes. The pre-existing structure of the institution’s history, demography, and external environment are important in avoiding the resource curse. So, a combination of different factors and one main factor, the natural resources, influence the choices of the decision makers in efficient or non-efficient ways.
3. Methodology and data collection

3.1 Research questions and hypotheses

After the review of the situation in theoretical construction and major concepts of our research field, I can formulate research questions, major hypotheses, and a thesis. We now know some things about the resource curse: what is it, what are the features, and debates around the concept and particular cases. To put it simply or to use it as a working definition, the resource curse is low economic growth in a natural resource rich country caused by different reasons which in turn, cause political and social difficulties. So, the main research question is the following: Does Kazakhstan have signs of the resource curse? We can divide our main research question into five sub questions.

1. What are the effects of oil and oil income to the national economy in Kazakhstan?
2. What are the effects of oil on the structure of labor markets in Kazakhstan?
3. What are the effects of oil on the division of power in the political system? Does the affluence of oil resources contribute to the consolidation of the authoritarian power structures in the political system?
4. Do changes in oil prices have effects on the economy or on the political power structures?

We developed these questions in the initial stage of the research but now they have been modified to be more focused and clear. These five research questions encompass the main one from different angles and by exploring them one by one we can address the main question as well. The economic structure of a country is the very first one which can be influenced by the resource boom. Tendencies and even distortions in the labor market can show signs of the Dutch disease. International market situations and the vulnerability of the domestic market to external shocks like fluctuations on oil prices, demonstrate this natural resource dependency from the trade side. Political aspects of the resource curse as a consequence of long one-sided economic development can be expected too.

It is even more interesting to look at the case of Kazakhstan because it gained independence in 1991 when oil prices were low. Prices continued to fall until 1999, when they then skyrocketed in 2000 and remained high until 2008, before plummeting again. Kazakhstan started out in a financially difficult situation and then faced this oil money windfall, and experienced what we call a “boom cycle” because of the positive external factor. Today, the republic is undergoing a period of the low prices for its export commodities. As oil prices are
changing, we can observe and analyze the behavior of other dependent factors or variables which are typical for the countries facing the recourse curse.

Usually, all the resource curse studies are comparative ones where both successful and non-successful stories, the resource rich and resource poor, developing and developed countries are compared. However, here, we want to compare Kazakhstan versus the concept of the resource curse itself, what has been called in Weberian terms an “ideal type” in our qualitative part of the research. We also conduct the quantitative part of the research where we will compare how oil prices influenced performance in two other post-Soviet oil exporters, Russia and Azerbaijan. All three are post-Soviet republics or transition countries and all have been relying upon the export of natural resources. Additionally, all of them have established for “rainy days”, stabilization funds from the earnings of oil exports. There are formidable differences as well like size of the economy, markets and population, international political ambitions, and the syndrome of a small country. However, oil was common and uniting all of these three cases.

It would be interesting to compare Turkmenistan and Uzbekistan too because they export hydrocarbons and natural gas, but these two countries have unreliable statistics. Turkmenistan, until recently, was a very closed off and almost self-isolated country, where national statistics were top secret and international observers were not collecting much information. Russia, Kazakhstan, and Azerbaijan are much more open to international agencies and try to compile statistics according to international standards.

My main hypothesis comes from the research question about the resource curse present in Kazakhstan.

Hypothesis 1

The resource curse has appeared through certain signs in contemporary Kazakhstan because the Soviet Union was a distributive state and Kazakhstan has become a rentier state as a successor of the Kazakh Soviet Socialist Republic, and thus a post-Soviet republic with a Soviet legacy.

One condition to enforce this hypothesis is that the leader of Kazakhstan has been in office since Soviet times. There were not any rotations of the first figure that has Soviet managerial experience. A distributive state means the high role of the state official who is in charge of distributing the limited resource like a rent in case of oil-rich state or centrally allocated funds in case of centrally planned economy. Rent seeking behavior in this case can be expected too because of the distribution of rent being such an attractive process for the maximization of the personal gain if social control is weak. This hypothesis will be tested by the whole research and in the conclusion I will summarize this test of the major hypothesis.
To support or to detail the first hypothesis, I will also formulate two smaller consecutive hypotheses about Kazakhstan and the resource curse.

**Hypothesis 2**

*Oil as a phenomenon has not been identified or interpreted by the decision makers and the expert community of Kazakhstan as something causing a resource curse and a source of growing state authoritative and unaccountable practices.*

I make this hypothesis on the basis that the civil society has not been developed yet or it is relatively weak in comparison with the state. People in Kazakhstan have undergone fundamental value changes with the collapse of the Soviet Union. It has brought different institutions and modes of behavior, but still the state is a patron, the state is an engine, and a leader in contrast to the society. I test this hypothesis by a series of different interviews by the representatives from political parties, NGOs, state officials, journalists, and academics in Kazakhstan.

The second hypothesis of my research goes in line with the methodology I will apply. It is interpretive repertoires and discourse analysis. The third hypothesis will be tested using quantitative methods. I will do a cross-national comparison of three oil-rich post-Soviet countries.

My third hypothesis goes along with the so-called law of petro politics by Friedman (2006). As it was mentioned in the earlier parts in the literature review, this law is very simple and it states:

*The price of oil and the pace of freedom always move in opposite directions in oil-rich petro states. According to the First Law of Petropolitics, the higher the average global crude oil price rises, the more free speech, free press, free and fair elections, an independent judiciary, the rule of law and independent political parties are eroded. And these negative trends are reinforced by the fact that the higher the price goes, the less petro leaders are sensitive to what the world thinks or says about them* (Friedman 2006, 28).

The assumption is if more oil rent is captured by an unaccountable state, the state will become more repressive. In applying this law to our cases, we can formulate the third hypothesis.

**Hypothesis 3**

*If oil prices grow, post-Soviet oil exporting countries, with Kazakhstan among them, can demonstrate the repressiveness and closure of the political opportunities because power would be concentrated in the state and civil society has not yet been developed yet.*
Here, I will test claims by Michael Ross and other authors when they talk about the state unfriendliness in the case of oil exporting developing countries towards the civil society. As for this, the opposite should be true also meaning that if oil prices fall then greater liberalization can be expected and observed. For testing this hypothesis, I will explore different data sets of three post-Soviet countries - Russia, Azerbaijan, and Kazakhstan - against the oil price changes, and then compare them with each other and interpret the results. This will be a cross-national study.

3.2 Qualitative methods in the research
3.2.1 Interviews and interpretive repertoires

As qualitative methods allow for looking to the details of the research problems, I used interviews with different actors on oil and the resource curse issues in Kazakhstan. These were held in June, July, and December of 2007 and in the summer of 2008. It was not a case of strictly structured interviews with the same questions, it was more a semi-structured interview with a designated topic and some repeated questions from one respondent to another. I selected these 24 respondents assuming they had been aware of the availability of oil rent and its influence on political, economic, and social institutions in Kazakhstan. I was looking for people who are able to judge on these issues. Some of the interviews were recorded and some were not recorded because the respondents felt tense about being recorded. Some of the interviews were written, so it was a case of structured interviews. Application of the analysis of the interpretive repertoires is one of the main novelties of the research when qualitative methods are used for the understanding of oil issues in Kazakhstan.

To interpret interviews in the research process, I used interpretive repertoire analysis. We refer here to the methodology, which is widely used in social sciences (McKenzie 2005). The main point is that the interpretation creates the attitude of the actors. This methodology is a part of a constructivist framework. The main idea is that when people talk they can identify themselves or identify some things differently from one case to another and even in contradictory terms. So, the word is one and meanings can be different. It can happen in everyday conversation and a speaker can use it in one sentence after another. First, Gilbert and Mulkay (1982) introduced this concept when they discovered that scientists define in a conversation their scientific activities in two aspects that are inconsistent with each other but familiar to everyone. One aspect was a rational or “empiricist” and another one “contingent”. First is an impersonal knowledge or facts and contingent is an activity depending upon the groups, networks and even the ambitions of the researcher (Gilbert and Mulkay 1982, 383-384).
Interpretive repertoires were compared and contrasted with discourse analysis. Actually, Gilbert and Mulkay used both terms similarly and almost interchangeably (Ibid, 382). Discourse analysis is a more familiar term and people understand it in a more general way. It was a subject for debate in the research community on how better to understand these methods (see e.g. Wetherell and Potter 1988). Today, the interpretive repertoires are considered more fragmented and focused on the plurality of interpretations in contrast with discourse. Discourse can be both dominant and non-dominant meaning that the power issue is on the agenda in discourse context. Interpretive repertoire as a concept has been used in the study of science as more of a sociological term. Since then, different social science disciplines like psychology, philosophy, anthropology, and political science have used this term for applied research. One of the limitations of the method of interpretive repertoires is the possibility to work only in the relatively closed group where the repertoires take place (Potter, 1996, 131).

We follow the constructivist idea of discourse where, “…the self and the world are articulated, and on the way different discourses enable different versions of selves and reality to be built” (Tuominen et al. 2002, 273). These “different versions” of the articulated interpretations can shed some light on the understanding of the realities of oil in Kazakhstan by the respondents. Furthermore, Tuominen and Turja put it in even more precise terms by defining the constructivist approach as, “…interested in various implicit and explicit interpretive disputes and conflicts (e.g., in situation where the meanings attached to the states of things are not predetermined but – at least in principle- an object for constant negotiation)” (Tuominen and Turja 2007, 134).

We have been exploring the concept of “oil” with the partner respondents in the series of interviews in the field trips to Kazakhstan. I conducted the interviews in 2007 and 2008. I also asked in Internet interview a well known Russian economist Andrei Illarionov, who used to be an advisor to the Russian President, but later resigned and he responded.

When analyzing or differentiating between interpretations of oil by partner respondents, I faced the issue of analysis going deeper and it being connected the free flow of an interview because once an interview was going on, one theme topics were following one after another and flowing very smoothly.

3.2.2 Difficulties with interviews

I faced various problems with interviews. Some respondents were reluctant to be recorded and asked later access for the editing of the written text. Some asked to remain anonymous and talked only on an off-record basis. Quite a few times people were asking me if I am a real researcher or a secret officer of the Kazakh official security bodies who is pretending to be a researcher. It looked ridiculous to me at first, but later after several such reactions I
understood how this topic is sensitive and people were feeling insecure. It was especially common among respondents from the business group. Almost all asked it as a joke but waited for a reaction from me. One respondent said openly and frankly, “I will tell you something, you record it and then ‘people’ will come to me, what I shall do then?”

I did not mind anonymity and reluctance to be recorded and tried to guarantee the privacy and security of the respondents and their answers, usually by referring to the rules of privacy of the respondents. I wrote some of the interviews and did not record them. Also, I seldom used the argument that interviews have more value if several people respond and I can trace some logic in different interviews. Quite often people were tense at the beginning of the interviews and then relaxed as it progressed. I consider this a normal reaction. I would say that NGO leaders were the most frank and open in the interviews. It does not mean that they were the most critical but that they had the most formulated positions on the issue.

A usual problem was re-scheduling the time of interviews but it was normal because many of the respondents were busy. One of the most important intervening factors for the interviews was the period of the research. It was before the crisis in Kazakhstan during August 2007 and the world crisis of 2008 when oil prices started to fluctuate dramatically. It was noticed by two partner respondents on the interview that the picture in Kazakhstan and its economy and oil sector would change with the crisis.

I will briefly describe some observations about interviews and my partner respondents according to their professional affiliation, gender or age, or educational differences in their interpretation of the oil issues and adaptation to new institutional framework. Most of the time I talked to the people in their own offices and I think they were very comfortable with the environment and absence of external stress or pressure. Generational, ethnic, occupational, educational, or gender differences were not traceable in the responses. I was surprised by the absence of such differences because I was assuming, to some extent, that there would be some differences or even expected ones so it would be possible to make conclusions or gender analysis. People were different only in their answers because of their professional affiliations. They were clearly experts without obvious stereotypes. Even the differentiation of the interpretive repertoires was done partially with attention to professional affiliations.

3.2.3 Data collection through publicly available sources

In my study, I analyzed the materials of the political programs of different political parties of Kazakhstan. This is more a discourse analysis of the written sources. I looked how “oil” is identified by the different political actors according to their political position; either they are in opposition or in government, or they are in the NGO sector or are an academic researcher. I
analyzed how oil as a concept is identified, viewed, and interpreted by different political parties during Parliament in 2004 and 2007, and in the Presidential elections of 2005 in Kazakhstan. One of the problems is that some parties have disappeared or appeared and others merged or changed names in this period since 2004. It shows not the dynamic character of the political life; it shows short-term interests and the non-stable life of political parties in Kazakhstan. The selection of representative sampling can be a challenge. My analysis was based on the materials on the websites of these parties relevant to the oil issue including hard copies of political programs, publications, interviews of the political leaders, and news selections related to oil on their websites. This part of research is more an addition to the interpretive repertoire analysis because here it is more “depersonalized” and refined information prepared for the public use and not articulated in interviews.

Even if the political parties are not well developed, they participated in several general elections. Websites of some parties revive at electoral periods and some parties keep the website updated all the time. Regarding oil, I analyzed 5 websites and in total more than 200 pieces of material. It was not only the political party’s electoral programs and interviews of the leaders in the electoral period but also collections of the materials on their websites about the oil role in Kazakhstan when a party, through the collection of the materials, articulates their position.

3.3 Quantitative methods in the research

As for quantitative methods, I would run cross-national comparisons of three oil-rich post-Soviet countries. My cases are Azerbaijan, Russia, and Kazakhstan. I want to compare certain sets of indicators of these countries against one variable or oil price change from 1999 to 2008. I want to find out how these countries performed in various areas of social life in times of booms and busts of world oil prices.

Two main references come to mind in this regard. First, one is the aforementioned Thomas Friedman who directly connects statistics in Freedom scores of oil-rich countries and oil price fluctuation on the world markets as discussed in previous chapters. Later he defined “petrolist states” as states which were, “…dependent on oil production for the bulk of their exports or gross domestic product and have weak state institutions or outright authoritarian governments” which includes, “Azerbaijan, Angola, Chad, Egypt, Equatorial Guinea, Iran, Kazakhstan, Nigeria, Russia, Saudi Arabia, Sudan, Uzbekistan and Venezuela…” (Ibid, 29).

So, my cases are already included but I wanted to check wider data sets from the United Nations, World Bank indicators, competitiveness reports, and countries’ national statistics as well. Also, Freidman published his article as a journalist and it is valuable without any reservations and attracted so much attention to the issue but more academic approach would be worthwhile too. A
petrolier state, by the way, resembles, to me, the concept of a petro state by Terry Karl as we saw in previous pages.

Another reference which comes to mind is Michael Ross, who is quoted so often in papers on natural resources and politics related issues. Freidman frequently references Ross and attributes his findings and concepts within his own articles. My reference is following. Ross specifically discusses how to define the “oil dependent” or “petrolier” (in Friedman’s terms) state in a more academic way. We remember Ross was unhappy with the “petro state” concept and preferred to use rentier state models and referred more to mineral-rich states reliant upon mineral exports. Now, the puzzle is how to calculate this reliance. What are the figures to make a threshold? Should it be in share of Gross Domestic Product or in export sales volume? Oil from different countries has different prices and costs and many other factors. So Ross, and a number of other researchers, call for attention to be paid to the rent captured by the oil-rich state (Ross 2006, 266; Wantchekon 1999 20; Moore 2007, 21). This figure would reflect better the dependency upon oil rent because it will take into consideration taxes, export duties, costs on the field, extraction capacity, sales prices, and even transportation costs for the sea. It is clear that the quality of oil is different and extraction costs can vary tremendously. Therefore this figure of rent is much more difficult to calculate. It can be calculated via the Extractive Industry Transparency Initiative (EITI) when both oil companies and the states are to be publishing how much money they transfer to each other. Again, not all countries and not all companies joined this initiative and even if they joined, figures are questioned by NGOs like in case of Kazakhstan, or NGOs are not satisfied by the quality of the reports (Interview with Anton Artemyev 2008).

I decided to look to oil price fluctuations as an independent variable and make a thorough cross-national study of three post-Soviet oil-rich states. Oil prices can be traced on an hourly basis so it is an open and accessible figure. If possible, I will look to the rent captured by the state authorities in my cases as well. Statistical tools in my study will be clear and easy to reconfirm. I will interpret the results explaining why these countries were performing differently and how oil possibly contributed to the differences.
4. The political system of Kazakhstan in history and today

4.1 Kazakhstan and its historical, political, and economic context

Kazakhstan became an independent state at the end of 1991, when the USSR was officially dissolved and other former Soviet republics declared, one by one, independence. Almost all the researchers consider the independence of these republics as independence by political default of Russia. “The republic’s independence from the Soviet Union in 1991 was neither the results of secessionist demands by its leadership, nor a national liberation movement; it resulted from the decision by Moscow to withdraw its maintenance of the Soviet edifice” (Cummings 2002, 1). So, Kazakhstan was “catapulted into independence” (Olcott 1992). We can say that some nationalist liberation movements were going on but the scale of these movements and influence on the future independence was insignificant in comparison to the inability of Russia to be a strong center of geopolitical and strategic gravitation for these republics. Russia as a state could not fulfill any more functions as the imperial center for the rest of the peripheral republics since the beginning of 1990s and the twenty-first century.

One of the peculiarities of the political system in traditional and contemporary Kazakhstan was a dominance of the clans. Historical clans were based upon the family or quasi-family ties. They are not around today in their historical form in Kazakhstan anymore. They were the pillars of the economy and governance in nomadic society before. Economic activity in the steppe required collective action especially in moving the kettle over thousands of kilometers in Spring and Autumn periods of traveling. Power in the clan belongs to the elder, rich and in-clan aristocracy. The nomadic society of Kazakhs was a traditional and patriarchal one. An individual was under the clan protection economically and legally.

Also inter- and intra-clan competition for the limited resources, such as pastures, was common. A superior ruler or khan was more a moderator or arbiter in the conflicts between powerful and less powerful clans and a chief commander in case of military actions or expeditions. The khan and his advisors from the clan’s nobility also represented clans in diplomatic relations or trade issues with foreign states. The title of khan was not a heredity one. Usually khans were invited or elected by the clan leaders. The most popular khan in the steppe was called the senior khan and his voice usually had more power in the disputes or military actions (Erofeeva 2007, 208).

The political activity of the clans was a protection of the pastures for its individuals and families, and participation in military raids and conflicts. Rich and influential heads and leaders of the clans invited or elected khans from the nobility. Nobility did not have any exclusive rights on property or wealth but it had some privileges in division of the war or game trophies. The power
and influence of khan was dependent upon the support of the clan head and their own popularity among the tribal grass and roots.

Nobility in Kazakhstan was historically divided into three groups (Erofeeva 1998). Their privileges were limited to a larger share in hunting or military prizes, better places at the feast, rituals in the greetings, and some other everyday interactions. The first group was a clan of the descendants of Chengis Khan, called tore, and people from this clan have the exclusive right to become khan (Ibid.). Quite many from tore were poor and did not have any influence on politics. Interestingly enough, Chengis khan’s descendants lost their influence in Mongolia much earlier than in Central Asia (Ydin 1992, 15-17).

The second group in nobility was called khozha or seids in other regions of Kazakhstan. They represented Islam clergy or groups close to the clergy (Erofeeva 1998). They were people or descendants of the people who made hajj, or pilgrimage, to Mecca or the descendants of the first Muslim missionaries or the Prophet. The influence of khozha was also limited because the Kazakhs have had a specific version of Islam which in some ways contradicts the version in Arab world. The difference is not only in legal interpretation, or Madhab, but also beliefs and customs in the everyday practices. Kazakhs had the cult of the predecessors, which is not allowed in canonic Islam. Females had more rights than in other Muslim societies and their attire was not so conservative. Also, shamans had influence among the Kazakhs. Similar to tore, khozha had privileges in feast gatherings and in greeting procedures. Kozha were leaders of the Muslim brotherhoods or orders based upon Sufi version of Islam which were appearing in Central Asian cities in medieval times. As Kazakhs were nomads, only a few were joining these brotherhoods because they were developing in the cities. Both of tore and khozha were representing so-called white bone or nobility by blood were all the privileges were coming to their descendants on male side. Moreover, female descendants of khozha also had privileges of the predecessor.

People from these two groups of nobility, tore and khozha, became the leaders in educational and political processes in Kazakhstan under Tsarist rule and later political leaders in the fight for independence during the Civil war in Russia between the Whites and the Reds.

The third group of nobility was coming from the ordinary or black bone people. They represented patriarchal clan aristocracy, rich people, judicial mediators in disputes, and military heroes (Ibid.). Theoretically, every Kazakh could enter this group on his own endeavors or abilities. It was one of the main social lifts in the traditional Kazakh society when a person could change his social position by making an extraordinary heroic deed, being fortunate in war or a military raid, or becoming active and fair in some kind of the dispute. One of the conditions of being in this group of nobility was popularity among the Kazakhs due to some personal features of the character and leadership abilities. Tore had to find support from the clan aristocracy and
this support was key for the legitimacy of the power of elected or invited khan. The basis for the power of khan was a consensus among the clan leaders in their support for him. This support was not permanent because the khan could lose his abilities or charisma. Quite often elderly khan were replaced by the new ones and lived the rest of their lives without any active political role (Erofeeva 2007, 206). In the case of losing this support from the clan’s nobility the khan would stay only with his personal family members. As a rule, the power of khan was more visible and strong in military campaigns when a concentration of the power was necessary.

When Russian influence became a threat to the power configuration in Kazakhstan and it literally became a colony of Russia then the Kazakh nobility divided about the Russian question. Some decided to resist and others decided to go along with Russian administration and cooperate. Russian administration started to co-opt the Kazakh nobility. Military resistance was not successful and it was over at the end of 19th century.

Tsarist authorities abolished the position of khan but worked closely with nobility to get support in the steppe. Many of the descendants of Kazakh nobility from every aforementioned group were educated in Russian universities, or had made military or political careers in Russia. During the Civil war, Kazakhs were divided too, and some fought for the Reds and some for the Whites. Efforts to create an independent state by the Kazakh nobility could not find support from the Russian Whites. The Reds were winning the war and also were promising national autonomy, and the Kazakhs supported them. People from nobility, who survived the Civil war, participated in educational activities in Kazakhstan. Political power in Kazakhstan after the Civil war was distributed among those who had participated on the Red side and many decisions were first made in Moscow and then came to Kazakhstan. Almost all of the old nobility was repressed and disappeared during Stalin’s cleansing in the 1930s as representatives of the exploited class. People in Kazakhstan today say that among the beheaded Kazakhs of the in 1930s, the most educated and independently thinking ones were killed. Today’s decision makers in Kazakhstan hardly have any connection to the old nobility; they come from Soviet nomenclature and nouvelle riche of the 1990s. Recruitment of the decision makers was made absolutely on different grounds at Soviet times and at independence. Civil war, the hunger of the 1930s, repressions in 1937, Word War II, and a massive inflow of Slavic and other ethnic groups to Kazakhstan meant complete change in the recruitment pattern and elite membership. The soviet system was based upon loyalty to the communist ideology and discouraged old aristocratic classes from the ruling positions. However, clan mentality persisted as well as patron client networking.

Khrushchev’s and Brezhnev’s times the system of clans was re established and revived. Today, Western observers consider the political system in Kazakhstan as totally clan based, evolving from the traditional pre-Russian system, which was used by the Tsarist administration.
and later survived under Soviet rule (Starr 2006, 2; Olcott 2002). Kazakh researchers write about more complicated institutional system than clan based one and about the coexistence of clan based identities, loyalties and pacts with other identities, and rules and norms (Masanov 2007).

If we talk about a clan as some unit of political life then it means in reality that a group of people around a powerful individual; individuals who have interests in large business and lobbies and their own interest via state decisions. They are called in Kazakhstan as “financial industrial groups” because it is a group with center in bank and different industrial assets in mining. Clans center not only on the family or tribal identity but also on the common history of the interaction. It is a contemporary clan situation in Kazakhstan, which is very far from traditional nomadic clans.

Soviet times have mixed repercussions amongst the people. From one side, the massive state violence and repressions of the 1930s when nomads in Kazakhstan disappeared as an economic, social and political group and millions of people died from hunger. Kazakhs as ethnic group with language survived but their traditional way of living was destroyed. There is not any unified public opinion about costs and benefits of the Soviet times.

*Kollektivizatsia* brought unbelievable hardships and hunger to the Russian, Ukrainian, Kazakh, and other peoples in the former Soviet Union. Around one-third, or 2 million of Kazakhstan’s population, had disappeared or simply died due to the hunger and forced de-nomadization (Tatimov 1989). One million Kazakhs fled to China, Afghanistan, Turkey, and Iran from this political and economic “modernization” (Abylkhozhin et alia 1989, 63). This tragedy happened because Soviet leadership did not understand the peculiarities of the nomadic economy and life.

One of the well-known historians in Kazakhstan Nurbolat Masanov (2007, 54) epitomized this situation with the assessment of history in the following statement:

“No, millions of people died. Yes, it was cruel and inhumane. However progress was colossal. We had never had cities; all of them were built in Soviet times. Never had we had medicine as a science; it has appeared. Never had we had science; it has been created. Industry was absent; it has appeared. For 20 centuries we passed the road much longer than before. We made a qualitative leap from the primordial times to modernity, to civilization”.

Still, the history and costs of the transition from the primordial times of nomadism to modernity are under assessment and debate in Kazakhstan. Shocks and human casualties of modernization, state supported violence and repressions, and colonial and post-colonial experience are sensitive topics in today’s multiethnic Kazakhstan.
4.1 Contemporary political system and institutions in Kazakhstan

We now look to the political system and institutions of Kazakhstan, as defined in their Constitution, where the rights and liberties of Kazakh citizen are formulated and authorities of the President, Parliament, Courts, Government, political parties and local government are regulated. Additionally, we can look to the elite networks and contestation of the different, less formalized groups in policy making in Kazakhstan. Separately, we can analyze the role of the foreign actors in the energy policy in Kazakhstan.

For Kazakhstan society, the first years of independence were a short period for hopes of fast democratization, meaning overcoming the communist legacies. As Martha Olcott describes this time, “In its first years, the country’s ruling elite at least flirted with the idea of a transition to democracy and supported thorough ongoing macroeconomic reform” (Olcott 2002, 2).

Kazakhstan has had, historically, three different Constitutions before 1993 (Asheulov 2001, 22). The first one dates back to 1926 when Kazakhstan was an autonomous republic within the Russian Socialist Federative Republic. Later, in 1937, when Kazakhstan became a full-fledged republic of USSR, a new Constitution was adopted. This Constitution declared the voluntary and equal unification of Kazakhstan with other republics within the USSR, as well as declaring the sovereignty of Kazakhstan and its territorial integrity. Also, the rights for labor, rest, pension, education, freedom of speech and meetings, and many other basic human rights were guaranteed by this Constitution. Ironically enough, this Constitution was adopted during some of the harshest times of repression and purges by the Stalinist regime of the USSR (Ibid, 26).

Kazakhstan entered into independence with another Constitution in 1978 and this was known as the Constitution of the Kazakh Soviet Socialist Republic. This Constitution mainly repeated the provisions of the previous Constitution but also declared the supremacy of the Communist Party over the power and administrative structures in the Republic. A completely new set of laws was adopted in 1990, in the times of perestroika, which changed the character of this Constitution. These laws introduced the President’s post, changed the name of the republic by removing the words “Soviet” and “Socialist” from the name, and established other laws which prepared Kazakhstan for independence. The declaration of Independence was issued in October 25, 1990.

The new Constitution of the Republic of Kazakhstan came into force in 1993. The Supreme Council, which acted as the main legislative body, adopted this Constitution. This Constitution included provisions about the sovereignty of the people, independence of the state, private property, division of power to the administrative branches, authority of the courts, and legal enforcing agencies. Researchers agree that this Constitution established Kazakhstan as a more parliamentary type of republic (Ryskozha 2008). This Supreme Council was eventually
dissolved, voluntarily, because they considered themselves as “Soviet” deputies and had been elected in March of 1990 when the Soviet Union still existed (History of the parliamentarism development in Kazakhstan 2010).

The first Parliament of the independent Kazakhstan, still referred to as the Supreme Council, was elected in March of 1994, but was dissolved by the President in 1995 under the pretext of violations in the electoral period, which were raised in the application to the Constitutional Court by Tatyana Kvyatkovskaya. Some members of the Supreme Council attempted to protest, but these protests were peacefully suppressed in one way or another. When several Parliamentarians tried to protest further, they were simply ousted from the building; one by one, members of Parliament were forced out during this protest (Olcott 1995). These controversies between the President and Parliament were the first, and last, ones in the history of Kazakhstan so far. More than one year before, in October of 1993, the Russian President dissolved the Parliament by force, using tanks in an attempt to solve a constitutional crisis. When the Kazakh Parliament was dissolved in 1995, Kazakh poet Olzhas Suleimenov, who was a member of that Parliament, made a sarcastic pun that if in Moscow tanks were dissolving the Parliament, then for Kazakhstan’s Parliament it was enough to have “one Tan’yka” - a short version of the name Tatyana (Kanafina, Pryanikov 2009).

After the dissolution of the Parliament, the President started to rule by decree; he issued decrees which had the legal power of laws. These laws were not discussed or confirmed by the Parliament, but had full legal authority. To the public, this situation was explained by the economic and political crisis caused by the collapse of the USSR. Parliament could not react according to this explanation because of the fast changing reality in which a concentration of scarce resources and time was a necessity. The President, in the absence of the Parliament in 1995, called for two public referendums on very important topics regarding the future political development of Kazakhstan. The first one, on April 29th, was about the prolongation of his authorities until the year 2000, and the second one, on August 30th, was on the adoption of a new Constitution. Both referendums were successful for the President as the people of Kazakhstan voted for a prolongation of his authority until 2000 and adopted the Constitution. This Constitution adopted in 1995 is still in effect today.

According to this Constitution, the Constitutional Court was substituted by the Constitutional Council. These referendums were suggested to the President by the Assembly of People of Kazakhstan where he was (and still is) a chairman and he has created this organization by himself (Masanov 2002). Masanov evaluates these events as a full-scale coup-de-etat, where the President monopolized all power to himself by illegitimate means and the power of Parliament, as a tool for expression of the public interest, ceased to exist (Ibid.). All these efforts
from the Assembly of People of Kazakhstan were made for the sake of creating some plausibility or legitimacy in the referendums.

Active politicians, who were active in Parliament and in the public arena, agreed, to some extent, to give more power to the President because it was a time of permanent economic crisis after the Soviet Union collapsed and fast decisions were required. So, the concentration of power was justified for the politicians too. One of the fears was also the development of the political crisis as a consequence of the economic ones; examples of other post-Soviet republics which had experienced domestic military conflicts were impressive enough. People or laymen, were also not active in politics because of the shock after the Soviet Union collapse and the general Soviet political culture when people were alienated from political participation and elections were more a ritualistic way of participation.

To summarize the main content of the Constitution and the important changes of 1998 and 2007, we can quote its major articles in today’s version. So far, 45 out of 98 articles of the Constitution of 1995 were changed, and some of them were changed twice (Udartsev 2009, 39). All this information on the content of Constitutional articles is available from different sources; this research refers to changes listed on the Constitutional Council of Kazakhstan web site.

The first article declares, “The Republic of Kazakhstan proclaims itself a democratic, secular, legal and social state whose highest values are an individual, his life, rights and freedoms” (Constitution of the Republic of Kazakhstan 1995, Section I). Article 2 declares, “The Republic of Kazakhstan is a unitary state with a presidential form of government” (Ibid.). Article 3 proclaims, “The people shall be the only source of state power” (Ibid.). According to Article 4, “…the Constitution shall have the highest juridical force and direct effect on the entire territory of the Republic” (Ibid.). The next article declares the priority of international treaties over legal acts in Kazakhstan in case these treaties are ratified by Kazakhstan. Article 5 recognizes political diversity and Article 23 declares, “…the right to freedom of forming associations” (Ibid). Also, Article 5 prohibits, “…activities of political parties and trade unions of other states, religious parties as well as financing political parties and trade unions by foreign legal entities and citizens, foreign states and international organizations” (Ibid.). This is done to avoid all the “color revolution” scenarios similar to the Ukrainian or Georgian cases.

Section III of the Constitution regulates the authority of the President. We can say, straightforwardly, that all the political power is concentrated legally in the hands of the President. The President appoints all key figures of the state, can rule by decree, may dissolve the Parliament, appoints the heads of Courts and Constitutional Council, and appoints the Election Committee. Heads of regions are even appointed by him; they are not elected. He is a chair of the Assembly of the People of Kazakhstan, which elects 9 members of Majilis. The President
appoints 15 people to Senate and is a chair person of the ruling party, Nur Otan. The clause limiting two terms of the office is not applicable to the first president and he will be also be a senator for life after, or if, he would resign. This is almost a monarchy. I will show it now on the articles of the Constitution.

Article 40 in this sections states that, “...the President of the Republic of Kazakhstan shall be the head of state, its highest official determining the main directions of the domestic and foreign policy of the state and representing Kazakhstan within the country and in international relations” (Constitution 1995, Section III). The President of the Republic cannot serve more than two terms, but this does not apply to the first President. This correction was introduced in 2007 and now Article 42 says, “One and the same person may not be elected the President of the Republic more than two times in a row” (Ibid.). I am surprised as the Kazakh and Russian versions of the Constitution do include the part on exclusion of this rule for the first President of Kazakhstan, but the English version does not include these words. It is fair that there are three main sites of power where the text of the Constitution is displayed; one is a site of the Parliament, another is a site of Constitutional Council, and the third site is a site of the President.

Article 41 was changed in 2007 and now all Presidents can have five year terms. Also, these amendments changed the age limitation as before, a candidate over 65 years old could not compete for the post of the President. This limitation also was lifted in 2007. Exclusive rights of the President, according to Article 44 (succinct version), include the right to:

“2) appoint regular and extraordinary elections to the Parliament of the Republic;
3) appoint a Prime Minister of the Republic with the Parliament's consent;
4) appoint the Chairperson of the National Bank of the Republic of Kazakhstan with the Parliament's consent; release him from office;
5) appoint the Procurator General and Chairperson of the (committee of National Security of the Republic with the consent of the Senate of Parliament; release them from office;
7) appoint the Chairperson and two members of the Accounts Committee for control over Execution of the Republican Budget for a five year term;
8) approve state programs of the Republic;
10) adopt a resolution on conducting the all-nation referendum;
12) act as the Commander-in-Chief of the Armed Forces of the Republic, appoint and replace the highest command of the Armed Forces;
19) appoint to and release from office the State Secretary of the Republic of Kazakhstan, define his status and powers; form the administration of the President of the Republic;
20) form the Security Council, the Higher Judicial Council and other consultative and advisory bodies;” (Here again Kazakh and Russian versions are different from the English one)

Article 45 grants the President the right to issue decrees which will have, “…force of law in the Republic” (Ibid.). According to the next article, the President’s, “…honour and dignity shall be inviolable” (Ibid.).

Article 63 states the rights of the President regarding the dissolution of the Parliament (Constitution of the Republic of Kazakhstan 1995, Section VI):

“The President of the Republic of Kazakhstan may dissolve Parliament in cases: expressing by Parliament of a vote of no confidence in the Government, twice refusal of Parliament to give consent to the appointment of the Prime Minister, political crisis resulting from of insurmountable differences between the Chambers of Parliament or Parliament and other branches of state power.”

Activities of the Parliament in the Constitution are regulated by Section IV. The Parliament has two chambers; the lower chamber is the Majilis and the upper is the Senate. Article 49 postulates that, “Parliament of the Republic of Kazakhstan is the highest representative body of the Republic performing legislative functions” (Constitution of the Republic of Kazakhstan 1995, Section IV). Article 50 regulates the number of members of the Parliament and their terms in this office. The Senate has 47 people, where 7 members are appointed by the President and two members are elected from each region, or oblast, and two main cities of Kazakhstan. Senators serve 6 years and they are elected by the local governing bodies. The Majilis has 107 members, where 9 people are elected by the Assembly of the People of Kazakhstan. The members of the Majilis serve 5 years and are elected directly according to the list of political parties (Ibid.). Article 97-1 of the Elections Law defines a threshold for a political party on the elections to Majilis as 7 percent of the votes on the given constituency (Elections Law of the Republic of Kazakhstan, Chapter 12). Some countries have an even higher threshold, and some lower, but the last elections to the lower chamber of the Parliament of Kazakhstan created a situation when only one party was able to pass this threshold. The party is called Nur Otan and the current President is a chair of this party.

Senators are elected by the representatives of the local public administrations called “maslikhats”; so it is an indirect vote of the people. Members of maslikhats are elected directly by the people in each oblast (official regional unit). Legislation about the Senate is closely connected with legislation on local public administration. The Senate is important in legislative procedures because it can block law proposals brought by the lower chamber of the Parliament.
Maslikhat members are quite dependent upon the heads of regional executive offices. These heads of the big regions, called akims, are appointed by the President directly. Smaller akims are appointed by higher akims or sometimes elected. Article 87, part 4, describes the order like this (Constitution of the Republic of Kazakhstan 1995, Section VIII).

“Akims of the oblasts, major cities and the capital shall be appointed to office by the President of the Republic on the recommendation of the Prime Minister. Akims of other administrative-territorial units shall be appointed or elected to office in the order, determined by the President of the Republic of Kazakhstan. The President of the Republic shall have the right to release akims from office at his own discretion.”

The same article states that two thirds of maslikhat members could vote for a non-confidence to an akim and raise this issue to higher akim or President. However, this has not happened yet.

The government of Kazakhstan and its functions are described in Section V of the Constitution. The government in Kazakhstan, “...shall implement the executive power of the Republic of Kazakhstan, head the system of executive bodies and exercise supervision of their activity” (Constitution of the Republic of Kazakhstan 1995, Section V). It is formed and is responsible to the President, who appoints the Prime Minister that forms the government. However, in practice, quite often the President intervenes and appoints the ministers.

The government is also accountable to the Parliament (Ibid.). The authority of the Parliament over the Government is described in the Section devoted to the Parliament. The Parliament according to the Constitution (Constitution of the Republic of Kazakhstan 1995, Section IV):

“...shall hear the report of the Prime Minister on the Government's program and approve or reject the program. A second rejection of the program brought about by the majority of two-thirds of votes from the total number of deputies of each Chamber denotes a vote of no confidence in the Government. The absence of such a majority implies the approval of the Government's program”.

The President dissolved the government and changed the ministers several times in Kazakhstan because of some blunders or inability to fulfill certain tasks and achieve goals set by him.

Section VI of the Constitution defines the concept and activities of the Constitutional Council. It has seven members so far and all former Presidents will be members of the Constitutional Council for life. The President appoints thee chairpersons of the Council and two members of it; the other two members are appointed by the Senate and another two by the Majilis.

Article 72 describes the activities of the Constitutional Council as following:
“The Constitutional Council by appeal of the President of the Republic of Kazakhstan, the chairperson of the Senate, the Chairperson of Majilis, not less than one-fifth of the total number of deputies of Parliament, the Prime Minister shall:
1) decide on the correctness of conducting the elections of the President of the Republic, deputies of Parliament, and conducting an all-nation referendum in case of dispute;
2) consider the laws adopted by Parliament with respect to their compliance with the Constitution of the Republic before they are signed by the President;
3) consider the international treaties of the Republic with respect to their compliance with the constitution, before they are ratified;
4) officially interpret the standards of the Constitution;”

Article 73 regulates objections to the President to decisions of the Constitutional Council. The President can make objections to the decisions of the Constitutional Council which can be overcome by the two thirds of the members of this Council. If two thirds are not reached, then the objection is accepted. This can hardly happen because two members and a chair person are appointed by the President, and the remaining 4 only make up 57 percent of the total 7 members.

The courts and judicial system are regulated by Section VII of the Constitution. A judge in Kazakhstan, “...when executing justice shall be independent and subordinate only to the Constitution and the law” (Constitution of the Republic of Kazakhstan 1995, Section VII). Interference to the activity of the courts is prohibited. The main judicial body is the Supreme Court, which is responsible for all criminal and civil cases. It is the last body for legal appealing.

The Chair of the Supreme Court and judges of this Court, “...shall be elected by the Senate at the proposal of the President of the Republic based on a recommendation of the Highest Judicial Council of the Republic” (Ibid.) Article 82 regulates the appointment of the chairs and judges to the oblast (regional) Courts; they are appointed by the President upon the recommendation of the Highest Judicial Council of the Republic. Judges to lower Courts are appointed by the President upon the recommendation of The Qualification Collegium of Justice. Part 4 of Article 82 has different meanings in English, Kazakh, and Russian regarding the Highest Judicial Council of the Republic and The Qualification Collegium of Justice, which recommends the judges. In English, this article states (Constitution of the Republic of Kazakhstan 1995, Section VII):

“The Highest Judicial Council shall be headed by the Chairperson who is appointed by the President of the Republic and consist of the Chairperson of the Constitutional Council, the Chairperson of the Supreme Court, the Procurator General, the Minister of Justice, deputies of the Senate, judges and other persons appointed by the President of the Republic. The Qualification Collegium of Justice shall be an autonomous,
In Kazakh and Russian, the article states, “The Highest Judicial Council shall be headed by the Chairperson and other persons who are appointed by the President of the Republic” (in italic the different wording in Kazakh and Russian) (Ibid.). Article 84 is excluded in Kazakh and Russian versions yet still present in English version. I think these differences in Kazakh and English, regarding the first President and The Highest Judicial Council, can be explained by the fact that the changes of 2007 are simply not included to the texts of the Constitution by mistake of translators or webmasters. These observations about different translations of the Constitution are valid as of March 22, 2010. So, almost two year old texts are different and only texts in Kazakh and Russian languages of the Constitution are legally valid. Still, the English version seems to be more democratic. Power is concentrated in the hands of the President, but there is some room for other actors too according to the English version.

I paid some attention to Section VIII on the Local Public Administration and Self-Administration when discussing the role of maslikhats in the election of the senators. It states, “Maslikhats shall be elected by the population on the basis of universal, equal suffrage under secret ballot for a four year term” (Constitution of the Republic of Kazakhstan 1995, Section VIII). As we said, maslikhats are quite dependent upon the head of the regions called akims, which are appointed either by the President or by the senior akims. Questions regarding the local budgets depend more on the central government and akims than on the maslikhat. It is clearly stated that, “Drafts of decisions of maslikhats envisioning a reduction of local budgetary revenues or an increase of local budgetary expenditures may be submitted for consideration only with a positive resolution of the akim” (Ibid.).

Changes to prior Constitutions and in the current Constitution, over the years, clearly illustrate two main things. First, one is the gradual shift of power from the legislative and judicial branches to the executive one, embodied in the figure of the current President. Second, there is a shift from the formal and publicly available politics to the shadow clan based couloirs style politics with a lesser role of the Constitution as the main entity of the formal rules of society and politics. Any country has different sides of politics, but politics in Kazakhstan have clearly migrated from the formal and public arena to the informal and hidden stage.

The situation with the Constitution’s constant amendments reflects the situation with the real power in Kazakhstan. Real political power in Kazakhstan is concentrated today around the President. The principle of checks and balances between different branches of power is neglected formally in the Constitution and in real political practice. This situation did not emerge
immediately after independence; it had been evolving for several years. Now, it is probably a peak of the power concentration in the hands of the single figure or namely President. During the first three years of independence from 1991 until 1994, the partially free mass media, Parliament and judicial branch were all much less dependent upon the President or executive branch. Later, more and more powers were given to the President through the amendments to the Constitution by the decision of Parliament and by the popular referendums. The culmination of this process of power concentration was in 2007 when the current President was granted the right to be re-elected as many times as he wanted as first President, but that other Presidents after him could be reelected only twice.

The current President is popular among the people despite his curtailing of freedoms and liberties of the citizens, and corruption scandals and obvious authoritarian grip on power. This popularity is not enigmatic; it has been based upon the economic growth since 2000 up until 2008. Another factor is the political apathy of society and a fear of instability if rotation would happen. Kazakhs are divided and Russian people and other ethnic minorities support the President because he can maintain interethnic peace in the republic. Society in general sees the President as a central figure that can pacify and control the oligarchic groups as being one ”above the fight”.

Corruption scandals accompany the current President because privatization was going on in the 1990s. His signing of unfavorable contracts for Kazakhstan with transnational oil corporations and reports of bank accounts allegedly controlled by him and his relatives were discovered in Switzerland. His family members are very active in business and politics and are, subsequently, very rich by any standards. Still, he is popular or at least does not irritate the people in Kazakhstan. He is similar to Suharto, the former authoritarian President of Indonesia.

In October 1999, new elections to the Parliament were held. Now some members of the Parliament were elected according to the list of the political parties, and some according to the single seat voting. It had been one of the longest living Parliaments. It kept working until 2004. This Parliament was posing questions to the government about the secret accounts of the President, strange investment decisions of the Kazakh National Oil Company and the dividends from this company to the state budget, etc. This Parliament was active in the 2001 conflict between the President’s son-in-law and the rest of the politicians and businessmen.

The president was challenged in 1998 by the former Prime Minister, Akezhan Kazhegeldin. This politician openly declared his ambitions to become President and participate in the next elections and formed a political party. Almost immediately a criminal case was filed against him on corruption accusations that Mr. Kazhegeldin fled the country. He is still away and has permanent residence in UK. The current President won elections in 1999 when he slammed the other contestant by getting 79 % of the votes.
Next, in 2001, a group of high ranking state officials and prominent businessmen called a press conference and openly discussed disagreement with the policies of the President. Some of them were ministers, governors of the regions, former heads of the President’s administration, ex-members of the Parliament and other high-ranking officials. Even more than 8 years after this event occurred, participants and observers still argue about the causes of the evolution of the new political movement (Akkulyuly 2009).

This new opposition later formed several political parties. The main claim was actually not the disagreement with the President but with his powerful son-in-law, Rahat Aliev, who was a deputy chair of the Committee of the National Security (KNB), the former KGB. This son-in-law was a head of the Tax Authority before and created his business empire parallel to the service at the state agencies. His business was created by putting direct pressure on competitors and taking away property from them (Ibid). Some of the participants of this protest of 2001 were the businessmen who lost their businesses to him. This protest was institutionalized during the movement called the Democratic Choice of Kazakhstan (DVK). After several months, radicals and moderates divided into two political parties. Some of the observers in the interviews said this divide happened due to the efforts made in the Administration of the President (Journalist Interview 1). Radicals kept the name of DVK and moderates took the name of Ak Zhol (Fair Way from Kazakh). The leaders of the radicals, Mukhtar Ablyazov and Galymzh Zhaikyanov were sentenced to long terms in prison under the corruption accusations. Ablyazov was sentenced to six and Zhakiyanov to seven years of imprisonment (Akkulyuly 2009). It is reported that Ablyazov lost his business assets in Kazakhstan. They were pardoned later by the President, first Ablyazov in 2003 and then Zhakiyanov in 2004. Zhakiyanov was released from jail but limited in traveling (Ibid).

Ablyazov could resume his business career becoming a Chair of the Board of the Directors in one of the biggest banks in Kazakhstan and publicly refused to participate in politics. As a current advisor to the President, Mr. Ertysbayev said, “He (Ablyazov) was able to charm and convince the President again and get the bank” (Ibid.). He used to be a shareholder of this bank before 2001. After the banking crisis of 2008, Ablyazov fled the country to Russia and now he resides in London. The Russian version of Forbes claims that Ablyazov is a billionaire and has formidable business in Russia as well (Igumenov 2009, 112). He is accused today in Kazakhstan of withdrawing the capital of the bank out of Kazakhstan and giving loans to the companies associated personally with him and of acting against the shareholders of the bank by abusing his position as a chair of the board. The bank was partially nationalized and asked for restructuring the debt. He is accused of fraud in Kazakhstan, as well as in Russia in March of 2010 (Trifonov and Rubnikovich 2010).
Zhakiyanov, after his release from the jail in 2004, started working with NGOs and made some public speeches criticizing the political and economic decisions in Kazakhstan. He participated in the elections of 2004 as a public speaker, or supporter of certain political views. Also, the party which was associated with him was participating in the elections of 2001. After the elections of 2004 he left the country and now there is not so much information about him in the public domain since 2008. My interviewees said that there is probably a threat of another criminal investigation against him and that is why he left the country (Journalist Interviewee 1, 2010).

Ironically enough this son-in-law, Rahat Aliev was the one who started the conflict of 2001, and revolted against the President in 2007 too. He was accused in Kazakhstan of, “…kidnapping two leading bankers and running a crime network” (Smale 2007). Two bankers disappeared in Kazakhstan from his own bank. Presumably, these bankers embezzled money from the bank (Chernenko 2009). Criminal investigation started on the case but suddenly Aliev started to make political declarations. It happened when Parliament adopted the amendments to the Constitution in 2007 allowing the current President to be reelected as often as he liked. Rahat Aliev also declared his desire to run for the President’s office. He fled the country and asked for political asylum in Austria. It was granted later to him. Meanwhile, the case against him was speeding up in Kazakhstan where, “Almaty city prosecutors announced that Aliev will be tried in absentia on charges of involvement in abductions, financial wrongdoing, and abuse of official powers” (Saidazimova 2007). He was accused and sentenced by the closed military court in Kazakhstan. He was divorced in absence with the daughter of the President. Rahat Aliev published a book in Germany in Russian and in German languages about the corruption in high levels of Kazakhstan authorities (Ibid.). The dissemination of this book is prohibited in Kazakhstan under the pretext of protection of the privacy of the people mentioned in the book (Academician Interviewee 1). All this information is not secret but strongly discouraged in Kazakhstan by the authorities. Today there are talks about a possible alliance between these three emigrants: Kazhegeldin, Ablyazov and Aliev. As for our research, political events of 2001 started at rising oil prices when stakes became high and the events of 2007 and 2008 were going on when oil prices started to fall.

Moderates from the split of DVK in 2001 actively participated in politics and in the elections to the Parliament in 2004 and of the President at 2006. They formed finally several political parties. Legislation about the elections to the Parliament has changed too. Now Parliament is formed by political party lists and on proportional basis. A political party has to pass a threshold of 7 percent of the total vote in the elections and gets seats according to the performance on the elections.
The elections of 2004 to the lower chamber of the Parliament were the most intriguing in Kazakhstan so far (OSCE/ ODIHR 2004). Again, it was a mixed system of party lists and individual single seat contestants. Pro-Presidential parties started to compete with each other and the opposition was very active in the newspapers and in advertisement. The opposition had some access to TV as well in the debates prior to the elections. It was mentioned by European observers from OSCE that, “Seven TV debates, while restrictive in format, gave the parties an opportunity to inform the public of their views, and there were no cases of media outlets being shut down or journalists being prosecuted, as had occurred in previous elections” (Ibid.). Both opposition parties and pro-Presidential parties employed professional campaigners from Russia (Semykina 2004). In these elections, opposition parties demonstrated financial resources comparable to the pro-Presidential parties as well. The estimated costs of the political campaign in Almaty, where more than 750,000 voters were identified and 74 seats were contested, could reach a figure of more than USD 16 million (Ibid.). Advertisement and dishonest campaigning were aggressive at levels unseen before in Kazakhstan. For example, registration of the contestants with the same last names at the same constituencies happened several times. This duplication was done to distract the voters. Newspapers were giving the floor to the opposition a lot. After these elections, all pro-Presidential parties merged with each other to prevent future contestation.

Political parties since 2007 would form a Parliament and independent contestants cannot run for the national Parliament. They have to be affiliated with a political party. They could run for the local elections in the cities and villages. Powers of the local councils which are elected are not comparable to the power of the executive head of the regions appointed by the President. Local councils do not have much to say because taxes are collected at a national level and local taxes are much smaller in proportion to the national taxes. Even the law for local self-governance where the authorities of the councils and administration would be described has not been accepted for several years. The last elections in August 2007 left all the parties out of the Parliament except the ruling party, Nur Otan. As observers from OSCE wrote in the report, “Only the governing Nur Otan party surpassed the threshold, obtaining all 98 directly elected seats in the 107 member Majilis” (OSCE/ODIHR 2007). As we remember the rest 9 member of Majilis are appointed via Assembly of People of Kazakhstan. None of the others could pass a threshold of seven percent of the vote. The President became the chair of the ruling party as well.

The power of Parliament has decreased since 1993 till now. Despite of that sometimes Parliament creates inconveniences for the President and government. One of the examples would be inquiries in 2002 about the secret accounts abroad and revenues of the national companies (Akkulyuly 2009). Parliament has an authority in the budget process when the government proposes the budget and Parliament can either approve or reject this budget proposal. Adopting a
budget by the Parliament in Kazakhstan equals adopting the law. Every minister protects his version of the spending in the Parliament. If the state budget changes throughout the year then the Minister of Finance reports to the Parliament to justify these changes. The Chair of the Accounts Committee, which observes the budgetary spending, reports to the Parliament as well. Members of the Parliament can call any government official for the confession. There are some debates in Kazakhstan about the possibility of the Parliament to form the government in the future, according to the seats won by the political parties at the elections and also about decreasing the threshold for the parties during the elections to get a seat in the Parliament (Suleimenov 2007). Still, the main issue for criticism is the election process itself and fraud within the election process.

Kazakhstan has held several elections to the Parliament since 2000, and once election of the President. The current President has been in office since 1991 and during the last elections in 2005 he won again. It is a bit difficult to analyze the elections to the parliament in Kazakhstan because political parties are changing their names and uniting or dividing between the elections a lot. The Organization on Security and Cooperation in Europe (OSCE), which is monitoring the elections and human rights situation in European countries, has been criticizing but confirming the elections all the time (OSCE/ODIHR 2004, OSCE/ODIHR 2007).

The development of the political parties in Kazakhstan is connected with the legal framework a lot. Right after independence, the Communist party was dissolved and many new parties appeared. The legislation of the early 1990s on the party formation and registration was very liberal and it was easy to establish the party. Many of the new parties were very small in numbers and did not have much political influence, and this was especially obvious when the economic crisis of 1990s was on the agenda. Elections to the Parliament were held on a personal basis without necessity to have political party affiliation. The four main political groupings were formed in Kazakhstan in those days (Academician Interviewee 1, 2007). The first one was the Kazakh nationalists, second was the Russian nationalists, the third one was more or less the rightist liberal movement, and the fourth the leftists or post Communist political parties. The President was trying to create in the 1990s some kind of political party. Twice these efforts were unsuccessful and political parties created under his aegis could not function effectively. The last political project is the Otan party (translated as Motherland), later renamed to Nur Otan, which now controls the Parliament. The President is a chair of the party. Nationalists, both Kazakh and Russian ones, were gradually marginalized from the political process. The new Communist Party of Kazakhstan successfully participated in the elections of 1999. The Communist contender in the elections of the President was second with 17 percent of the votes.
Major developments in political party construction started in Kazakhstan after the events of 2001 when Ak Zhol and DVK started to work aiming for the election in 2004 to the Parliament. These two parties transformed a lot because of the disagreements of the leaders and internal split. New parties appeared as the successors and following some influential leaders of the party. A pull of pro governmental parties like Asar and Grazhdanskaya and Agrarian parties merged with Nur Otan all together. The opposition is represented by Azat, OSDP, Ak Zhol, and unregistered parties like Alga. There have been many efforts to unite the opposition but this unification is still to come. Historically, we can count more than 20 political parties registered and existing in Kazakhstan since 1991 until 2003 (Raeyv 2003). Some of them could go through the second registration process and some could not (Ibid.). At the time of writing this piece, Kazakhstan had 10 officially registered parties (The Central Election Commission Of The Republic Of Kazakhstan 2010).

Two of these parties deserve specific attention. One is the Communist party which was represented in the previous Parliaments. It has difficulties now in Kazakhstan in terms of organization and, to some extent, leadership. It had a split into Radical and Moderate sides and thus lost its electoral base as well. The Leader of the Radicals, called Serikbolsyn Abdildin, is becoming older and there are not any successors for him in the party, which is a major factor in personified configuration within Kazakhstan’s party politics. The last elections were boycotted by these radical communists because they expected massive fraud and violations. Some even more radical youth communist and socialist movements are appearing but they are small in numbers (Journalist Interview 1, 2007).

The second party is the Democratic Party of Kazakhstan called “Adilet” and was created by the President’s friend Narikbayev. Almost everyone agrees that this party was created to make some illusion of political contestation in the elections and does not actually threaten the ruling party at all (Ibid.).

Islamic movements in Kazakhstan do not officially participate in any elections and political parties following ethnic or religious ideals are not allowed. There are certain repressions by the government against Muslim believers because of a fear of radical or terrorist threats. Also, some research has been done about the possibility of an Islamic resistance. In general, the popularity of radical political Islam among some Muslims in Kazakhstan is doubtful, e.g. Martha Olcott (2002) does not consider political Islam as an influential force in Kazakhstan.

Political parties for the support of the President were constructed before Nur Otan but without success, and this is a last and still existing party. The popularity of the party’s leader or President extrapolates to the party. Quite many people think that Nur Otan will change a lot or even split after the current President steps down because there are too different of and too many
people gathered under one flag in this party. The opposition is much more multicolored but they recently called for some kind of unification to form a united force in the following elections against the governmental party or candidate for the Presidency.

Opposition in Kazakhstan is also personified and in a sense is a mirror for the ruling party as well. It can be divided into so-called “old” and “new” opposition. “Old” means that the old opponents to the President starting from the mid 1990s and “new” one started in 2001 when a group of high officials and businessmen declared their opposition views and disagreements with the government.

Political parties still are under some construction as an institution of the political life in Kazakhstan and remain some kind of a political club organized around financially powerful and politically ambitious personalities. They wake up in the electoral time, and still ambitions of the founders and leaders make the smooth development of the parties problematic. Voters behavior in Kazakhstan is a special topic too because they view elections as “a ritualistic action, not an expression of the civil position” (Ashimbayev 2006). At the following Presidential elections in 2005 the opposition united and promoted one candidate but the ruling President united all the pro-governmental parties and won election again.

Society as an entity of the voters is still relatively passive in elections. According to Stockholm-based intergovernmental organization, the Institute for Democracy and Electoral Assistance (2009), voting turnout at Parliamentary elections in Kazakhstan in 1999, 2004 and 2007 was 62.6 percent, 56.8 percent, and 68.4 percent respectively of total voters. As for the Presidential elections the figures for 1999 and 2005 were 85.8 percent and 76.8 percent for the respective year (Ibid).

Voters do not identify their interests with the political parties. A combination of the reasons brought about this “ritualistic” voting. One of the reasons was a constant fraud in the number of elections before. Another reason is lost orientation in the political ideologies. People are busy with everyday survival and overcoming economic hardships. Still the poverty, inequality, access to the basic social goods and general lack of the social security are the big issues for Kazakhstan. One reason can be a lack of active work of the political parties with the people. None of the opposition parties has access to television. Only limited access in time of the elections is given to all the political parties to the television broadcast. The repressive authoritarian character of the regime is the main explanation because in more liberal post-Soviet countries like Georgia, Ukraine and Kyrgyzstan, people and opposition politicians are more active in political participation which has resulted in these “color” revolutions, like the Orange revolution in Ukraine and Rose revolution in Georgia, when corrupted regimes were substituted under the massive public protests and pressure by more accountable political groups. As for voter turnout,
Kazakhstan and these three countries have similar voter turnout for both Parliamentary and Presidential elections, and in 1999 Kazakhstan even had its highest voter turnout for Presidential elections (International Institute for Democracy and Electoral Assistance 2009).

Some of the main issues about the unity and self-identification in Kazakhstan are not unsolved and it makes society fragmented and political interests difficult to formulate in such a situation. The question about the civic, ethnic, and religious or any other group identity domination, is open in Kazakhstan. In this context, national unity is an open question too because Kazakhs have strong regional identities. Russian and other minorities constitute more than thirty percent of the population and integration of the minorities is on the agenda. Society is not formed as some kind of a union with common interests in Kazakhstan, and this task is to be solved before assessing the political interests (Ismagambetov 2009).

The fragmentation of interests might be a sign of the complexity of the social system, but the issue still remains if some of the people do not identify themselves with contemporary Kazakhstan and view the country as a temporal shelter.

The National Fund is one of the most interesting institutions in contemporary Kazakhstan and is fiercely discussed during the elections. The President established it by his decree in at 2001 without the participation of the Parliament. The main idea behind the National Fund is to save money from all oil operations and other natural resources business where the government is involved. This money includes state revenues from the natural resource sector in the form of taxation, royalties, and signing bonuses from the tenders for the new fields. This fund has been copied partially from the Norwegian Petroleum Fund with the exception that Parliament and society do not have any say in the control of fund spending. The fund has saving and stabilization functions. The saving function means in this case, the investment of the money of the National Fund into the financial instruments on international markets. It keeps away the excessive amount of money abroad. Therefore, the economy would not be overheated and prices would not rise on the non-tradable goods. It is a classic symptom of the Dutch disease. In theory as we discussed, the National Fund has to be a tool for controlling the Dutch disease by sterilization of the excess money, which will prevent price growth and a bubble in the non-tradable sector.

The stabilization function means keeping money just in case the favorable price situation on oil and other natural resources changes, when money from the National Fund could be used to keep the economy running and the social obligations of the state fulfilled.

The National Fund is an institutionalized effort to control and save income from oil and other mining operations by the state. It is basically a special account in the National Bank where all the state revenues from the operations of certain companies have been accumulated. The list of the companies is renewed from time to time. Responsibility is divided between the Ministry of
Finance and the National Bank because former is responsible for tax collection and the latter is responsible for the investment of the income in shares and fixed financial instruments worldwide.

Similarly to the Norwegian concept of the fund in the case of Kazakhstan meant a division of authority between the Ministry of Finance and National bank in managing and overlooking the operations. The National Bank works as some kind of a front office, and the Ministry of Finance works as a back office for the fund operations. The National Bank in Kazakhstan has hired some well known financial broker companies to invest money of the fund worldwide, similar to the Norwegian case. Statistics in the fund’s operations are available on the site of the National Bank of Kazakhstan but it is in such a generalized and aggregated manner that it would be difficult to analyze.

The National Fund operates, and the Ministry of Finance checks, the work of the fund but the most important strategic decisions are made by the board of Trustees where the President is a chair and members include the Minister of Finance and chair of the National Bank and other officials from the relevant state bodies.

The National Fund concept where income from taxation of oil operations is collected is a highly criticized object for the opposition politicians. Petr Svoik, who is co-chair of the opposition party Azat, said in interview that the National Fund is a strategic mistake because Kazakhstan needs so many infrastructural projects, the renewal of technological basis of many industries, and saving money in this case abroad means for Kazakhstan only giving the loans to the countries where money of the fund are invested (Interview with Svoik, 2007). This critique became louder after the banking crisis on international markets in 2008 when a lot of bonds and other financial instruments lost value. So, the National Fund presumably lost on the investments in the developed markets. When Kazakhstan faced the economic crisis of 2008, this National Fund was the main tool in stabilizing the situation in Kazakhstan when the government started subsidies to the banking, construction and agriculture industries.

The main problem of the National Fund is that power is concentrated in the hands of the President who is a chair of the Board of trustees. The National Fund’s board of trustees is not accountable to the Parliament and publishes annually a report, which is generalist and some of the information is not open to the public too. As we said, the very idea of the fund was criticized from the beginning by different economists and opposition leaders (Abilov 2008, Jandosov 2009). The essence of critique was a necessity to invest in infrastructure and industrial development in the Kazakh economy rather than saving money abroad and buying US government treasury notes.

The National Fund is an example of institutional development of the political system but political parties in Kazakhstan are still personified and not institutionalized. Political parties are more concentrated around powerful and charismatic leaders of a certain clan but not around the
ideology. Political parties have been developing fast in Kazakhstan but this development was in some sense hectic. Political parties appeared, some disappeared, and other ones merged with each other but clans have survived. Some parties were active only in the electoral period and some were not registered by authorities under various pretexts. Elections were going on in the majority system and then it changed to a proportional system in 2003.

The real politics are made by the President himself. Quite many people assured that only the President is a real politician and the rest are la entourage for him. In my mind it is a simplified picture and even though the President has such powers he has to take into consideration clan contestation and social moods and inclinations. One party in the Parliament is a vehicle for his decisions. Some people joke about the President’s party, that it is simply another additional department in the Administration of the President. Often political parties are connected and supported by the clans who work with them in protecting economic and political interests. Opposition parties can be connected to these influential financial groups as well.

Kazakh nomads were geographically divided into three main hordes or zhuz. Each horde has many clans within it, which were subdivided into the smaller lineages and then families. Each clan and all the smaller units had designated winter and summer pastures. This system was crashed by the de-nomadization and forced settling policies of the communists. The Director of the Institute of Nomad’s Cultural Heritage, Dr. Masanov (2006) discussed that certain loyalty to the clans persist in Soviet Union and today, but that contemporary clans take the traditional clan identification only as one of many the factors. Ashimbayev (2006) states that “The factor of affiliation to this or that tribe is taken to some extent into consideration on the appointing to the position but it is not the dominant one”. I cannot consider the traditional clan affiliation as a main source of the clan’s solidarity today because now preferences of the actors are made along with many other reasons. These reasons can be common educational background, professional and personal affinity and so on. Usually several clans or financial industrial groups are identified in Kazakhstan. It is the main question for many researchers about the clan power and their competition and alliances against each other (Collins 2006, Dave 2007, Schatz 2004).

For Schatz (2004) clan revival in Kazakhstan has even been sponsored by the state and now is out of control, and clan identities after revival have become a source of localization of identities. Bhavna Dave claims that this traditional clan revival identity at the local level challenges efforts of the center to keep stability in the country (Dave 2007, 170). Here we have to divide between the traditional clans and powerful, financial informal groups which are named by everyone as clans. This confusion of concepts has to be solved to avoid any misunderstanding. A traditional clan today in Kazakhstan is incomparable to the influence on politics by the contemporary financial clan which have strong political interests. This debate about the difference
between the traditional clan and modern clans, and weakness and power of the clan identity is supported by Sean Roberts (2006) who argues that “the patron-client relations at the higher levels of politics in Central Asia are more Soviet-based than they are grounded in Central Asian traditions”. Furthermore he says that the “clanism” issue in Central Asia is still poorly understood. Bhavna Dave after analyzing historical traditional clans, named the contemporary ones simply “business groups, which all headed by the prominent leaders connected with the regime which has dominated the economic scene in Kazakhstan since the late 1990s” (Dave 2007, 148). Kazakh experts use the term “financial industrial group” (Ashimbayev 2006).

We will call these informal patron client networks as clans because it is a habitual use of the term in denoting these groups. These clans are actors in economics and politics and they do compete with each other and form unstable unions with each other. Today’s clans were formed from the first independence days and old type of regional clan or tribal based clans can be hardly conceived in comparison with these financial industrial groups.

Privatization was a trigger for the formation of contemporary clans in Kazakhstan. The entire former Soviet or traditional ones were downgraded and became to a certain extent, part of the newly formed, financially based clan. Namely privatization created the contemporary financial strength of today’s clans and it would not really be possible to get lucrative pieces of property in privatization without political support or influence. Thus, any clan in the conditions of Kazakhstan means a combination of big business and political protection. To catch the lucrative pieces of the privatized property without a group and support at different levels of economic, regional and political power, was a problematic endeavor. Organized efforts and the need for political protection made the current clans possible. Privatization either ended the existing clans or established the new ones.

The participation of big business groups in politics today in Kazakhstan can be illustrated in the promotion of certain figures in governmental positions and state companies. Maybe the best illustration would be that conflict of 2001, when one powerful person and his lieutenants were struggling with almost all the other clans and the President was making a choice between the member of his family and almost all the rest. It is a rare case when clan competition was brought to the public, and some of the clans appealed to the public opinion too. Clans used to support certain political parties in the elections of 2004. However, after the merging of the parties with each other, clan competition was going on inside the parties. Now the main competition goes for the influence or access to the President to promote favorable decisions for their business interests, like the lifting of the export excises or gaining the government contracts. The combination of political protection and business interests in the various sectors including banking, media, and raw materials makes clans possible in Kazakhstan.
After the description of the clan and basis of their power we can list them. Usually researchers numerate several clans in Kazakhstan mentioning that some of them are losing influence and other ones are becoming stronger. Again, to remind that the Kazakhs had many traditional clans based upon the kinship or quasi-kinship ties. All the clans divided into three big unions in history of seventeenth and eighteenth centuries. The clan’s political power first was crashed by the Tsarist administration and then the identity of the Kazakhs with clans weakened after twentieth century shocks in the form of the Civil war between the Whites and the Reds, the hunger of 1930s and World War II. Additionally, urbanization and ethnic mixing have weakened clan identity, too. Contemporary clans are based upon the different ties where kinship, if it would play the role, but not the most significant one.

The role of the President is to become an arbiter of the clan on group conflicts, but to avoid the role of becoming a puppet of any of the clans. Almost every more or less powerful and rich individual becomes a patron with clientele around him. It can be a team of professionals, relatives, dependants or people from the same region and quite often this group is a combination of all the aforementioned. We can describe clan configuration in Kazakhstan and separately the role of the President and his interests. Usually each business group has (or had, if the group was destroyed and does not exist anymore) a bank, oil or any other profitable natural resource business, newspaper or TV channel, influence in national companies or government agencies and Parliament, or direct access to the President. This access can be crucial in keeping the influence of the group. Our classification of contemporary clans is a more or less common among the researchers and experts on Kazakhstan (Ashimbayev 2006, Dave 2007). My interviewees primarily agreed with this classification but they added that the concepts of “clan”, “financial group”, “team” or “patron-client network” are almost all interchangeable in this context.

The most powerful group or clan today in Kazakhstan is a clan of the President’s second son-in-law Timur Kulibayev. He is a billionaire according to the Forbes listing valid for 2007 (The Forbes 2007). Some people believe this person controls directly and indirectly 40 percent of the Kazakh economy (Abilov 2008, 2). Today’s Prime-Minister in Kazakhstan has been associated with him as well. The main source of his wealth is from the oil business and banking. He was able to privatize the largest bank of the former Soviet banking system in Kazakhstan. Now this bank, under the name Halyk Bank, is still the largest one in Kazakhstan. He used to be for long time a deputy chair of the Board of Directors in the National Oil Company in Kazakhstan. While there he was a final benefactor of many small and medium size oil companies. One of these fields, Kumkol, was sold to the Chinese National Company for more than USD one billion. Today he is a deputy chair in Samruk-Kazyna, which is a holding managing all the government shares in various projects and national companies including oil, uranium, gas, rail
transportation, etc. Kulibayev is not very public and open to the press and media. Political interests were undefined until now, at least publicly. As Steven Levine points out (2009) “Kulibayev was always an exceedingly low-profile official despite directing Kazakhstan's oil industry, and also the Nazarbayev family wealth”. His first large business was an oil field named Kumkol, and it was divided between him and another Kazakh oligarch. As my business interviewee 3 said, later he became very distant from them and any other national business associations. He has a lot of strong supporters among the heads at the regional level and in the government. From time to time he is the center of scandals in his private life and money spending (Ibid). He was in permanent conflict with the first son-in-law of the President.

The second group, which is almost destroyed now, is a group of the first son-in-law Rahat Aliev who is an émigré today in Austria. This group had a bank and interests in some oil fields and huge influence in mass media. They bought almost all the channels, radio stations and newspapers after 2001. During the elections of 2004 to the Parliament, this group formed a political party, Asar and competed both with the opposition and the key President’s party, Nur Otan. Later Asar merged with Nur Otan. After 2006 the Ministry of Information started buying back the shares of the TV channels and newspapers from this group. The group has strong influence on the security and other legal enforcement agencies because Rahat Aliev used to be a head of the Tax Police and deputy chair of Committee of National Security (former KGB). After the criminal scandal and investigations of 2007, when two banking officers disappeared, the leader fled abroad and the group lost influence. This group was in conflict with almost every other groups. One of the main assets of the group was the first daughter of the President. She was supervising the TV channels and political party during the elections of 2004. Husband was a vice chair of national tax and security agencies at different periods. There were also some active members of the group from the Russian minority but it has not changed any behavioral patterns within the group. When this former son-in-law of the President has emigrated then the group has become weaker and his supporters were withdrawn from the security agencies and media assets were bought back by the state.

We can identify another group as a group of Muhtar Ablyazov who was mentioned several times as an initiator of the revolt of 2001. It was almost destroyed at 2001 and then recovered and now again almost disappeared because the leader is in exile. His property started with the so-called Astana Holding and interest in banking. He participated in the establishment of four major banks in Kazakhstan. Regionally he is from South and he was educated in Moscow. His business interests are presently in Russia, Ukraine and Georgia and might also be in Turkey. He used to own a TV channel and influenced or owned several newspapers. He was a Chair of the National Electric Company from 1997 until 1998 and was also the Minister of Energy, Industry
and Trade from 1998 until 1999. As we said, he was imprisoned in 2002 and released in 2003 by the pardon of the President. It has been reported that he was tremendously harassed in the jail (Svoik 2009). Almost every expert in my interviews was sure that this pardon was conditioned by some unwritten agreement. At least Ablyazov publicly renounced political activities and lived in Russia before returning to Kazakhstan. When he came back to Kazakhstan he returned to the big bank in Kazakhstan as a chair where he used to be a large shareholder. The bank now is under state control and Ablyazov has accused the state in of a hostile buy-out or raid of the bank (Bektiyarova 2009). The state authorities started investigations against Ablyazov on the abuse of his authority in the bank and for embezzling the funds of the bank for his own interest and profit (Esbergen 2009). It has been reported that he hoped in 2001 and 2002 that more than five thousand people from his companies would go to the streets protesting against his arrest. None of them went (Svoik 2009). Despite that, he definitely has some silent support in Kazakhstan among the business community and some officials. His business and leadership talent and energy are undisputable too. He was associated with DVK and went to the split with Ak Zhol. The latest news about Ablyazov is that his assets have been frozen in the UK by the British Court and that he has started to prepare his own statement of claim to the same court about an illegal and hostile buy-out of the bank by the state (Trifonov and Rubnikovich 2010).

One of the groups which were long in opposition can be associated with Ak Zhol in politics and in business can be associated with KazKommertsBank group (Akkulyuly 2009). Ak Zhol after several splits has changed a lot and the KazKommertsBank has difficulties with refinancing its debt too. The state bought 25 percent of the shares of KazKommertsBank in 2008 as a way to support the bank during the difficult economic situation (Kunina 2009).

The main benefactor of this bank, Nurzhan Subhanberdin, is closed to the public. After selling the shares in the Kumkol field along with Timur Kulibayev, he became a billionaire according to the Forbes list of 2007. He is still on the list of billionaires published by Forbes in 2010 (The Forbes 2010).

This group had a lot of influence in the government in the nineties and early twenty-first century and was a consultant and organizer of the privatization during the nineties. The group has interest in various sectors of the economy including oil, construction, insurance and banking. Financially this group supported Ak Zhol in the elections of 2004 despite the fact that Subhanberdin had several times publicly distanced himself from politics. The founder of the group was starting business with Ablyazov but later they divided the assets. It is believed that Subhanberdin has interests in Russian businesses as well. Company Capital Partners associated with his bank works in construction and real estate management in Russia with estimated
investments over USD 300 million (Popov 2008). Furthermore, he had some common interests with Kulibayev and conflicts with Aliev (Academician Interviewee 2008).

Two other clans are interesting because they run under the aegis of non-Kazakhs. It means their political legitimacy is not so wide among the ethnic Kazakhs and they possibly would not claim directly for the political power in the future as they are interested in the conservation of the current political regime and President who guarantees their safety and property. They are very dependent upon the current President and support him without any reservations.

The clan by Mashkevich, Ibragimov and Shodiev has interests in mining and metal production. They are the first billionaires of Kazakhstan but Mashkevich and Shodiev are Kazakh citizens (The Forbes 2010). Each of them has around USD 3.3 billion. All the metals in Kazakhstan except copper are controlled by this group. They influence one newspaper and a large bank and are backed by two political parties from the elections in 2004 to the Parliament. Leaders of this group are citizens of other countries such as Israel or Belgium. They became the first from Kazakhstan to be mentioned in Forbes as billionaires in 2007. Ak Zhol during the elections of 2004, openly declared hostility towards this group. The group has influence in regions where plants and factories of this group are located. Predominantly it is North and East of the country. The interests of the group also go to Zambia, the Democratic Republic of Congo, Russia, and Indonesia.

The last clan to be mentioned as the large one is a group around the company KazakhMys, which is in the copper business whose side metals include zinc, silver and gold. It is lead by a Korean businessman born in Kazakhstan whose name is Alexander Kim. He is now an official chair of KazakhMys. The group is famous for the size of Kim’s fortune; it was around USD 5 billion in the best days of 2007 and now, in 2010, his personal wealth is around USD 3.7 billion. The group has influence on certain banks and on electric, oil, and big construction companies. As for copper prices, they were fluctuating a lot from 2008 to 2009.

These two last clans support the ruling party, Nur Otan and current President of the republic. Mainly companies of these clans were payers to the National Fund as well as oil companies owned by shareholders from the USA and EU.

The opposition once accused the President of keeping away national business from the most profitable assets of the economy and giving them to the foreigners, nor Kazakhs or members of the President’s family because foreigners would never claim political power in Kazakhstan, and thus they are convenient for the current political regime. The smaller clans of Kazakhstan are grouping around the big officials in the form of the patron client networks.

My journalist interviewee 2 said, that looking at the unstable or even nascent political party system, clan identities, the apathy of society, ritualistic participation in elections, and the
dominance of super presidency, we can say that political system in Kazakhstan is undergoing some formation period still. One of the experts in Kazakhstan formulated this situation as the following “It is a paradoxical situation when we cannot do it in Asian way, in Russian way it is not real in near future and we have not grown up to the Western way” (Ismagambetov 2008, 7). Common values and principles are not developed nor shared by every actor. It is going on because society is fragmented and because shared values are not accepted by all participants of political life. The Constitution is still a formality and the certain persons will have more power than the written laws. The political system is still transforming in Kazakhstan. As for political regime then the hard line authoritarianism, which has been justified for economic growth before, is in place and strong enough to offset efforts by the opposition and to satisfy some of the basic needs of the masses.

The opposition by itself recognizes its weakness. One of the leaders of opposition Ualihan Kaisarov (quoted from Uritsyn 2009) named five major weaknesses of today’s opposition in Kazakhstan:

“They cannot unite themselves in one real force. No own ideology which can include masses. Weak financial strength. No support from the people. Foggy prospective”.

The post-Soviet situation in reality after few years, started to mean co-existence of Soviet type of institutions, new or capitalist types of institutions and the revival of parochial traditional and quasi-traditional institutions. Even today as Western observers note “The design of Kazakhstan’s institutional infrastructure is as eclectic as Astana’s (new capital N.I.) architecture” (Gorst 2008).

Josef Stiglitz (2006) considers the process of transition in former Soviet Union republics as a totally failed transition in comparison with Eastern and Central Europe, Vietnam and China. His argument is “it led to unprecedented increases in poverty and inequality”. A mechanism of this failure is following. The former Soviet countries were pushed by the West for fast reforms and conducted “botched” privatization without necessary stressing institutional development such as rule of law, private property guarantees and independence of the courts. The Baltic States have had strong influence and almost official targets from the European Union for institutional development. The rest of the Former Soviet countries, including Russia, failed to develop institutional capacity.

Stiglitz called it “double whammy” situation when actors lose at both directions. Post-Soviet countries lost positive achievements of Soviet system and could not enjoy the fruits of reforms and transition to new capitalist system. So people lost trust in the reforms and felt
nostalgic towards the Soviet times. The rule of law was absent and the state capacity to enforce property rights was weak. As a result of this situation, the vicious circles of asset stripping have started. One of the observers in Kazakhstan writes about this situation clearly “One major problem of the political system remains unsolved from year to year; the problem of universal rules of the game. Rules are changing, transforming, mutating reinterpreted” (Uritsyn 2008). When a system is unstable, then the economic and political interests are short oriented and focused on maximization of benefits as fast as possible. The actors who think about the further perspectives talk more about institutional stability and formalization of the rules. This process means non-revision of the property rights or other ideas of crusade against new oligarchs. It means developing the system of stable institutions where the actors would feel themselves safe and could project their actions to the future in a long enough prospective without the risk of losing everything and political protection or access to oil business.

This oil boom in Kazakhstan contributes to the popularity of the authoritarian regime and thus its legitimacy and further solidification. Our third hypothesis about the more repressive character of the state along with the growing capture of the oil rent can be considered a verified one. There were repressions against opposition and especially for the individuals who challenged the President personally. At the peak of oil prices in 2007, the first and the only President of Kazakhstan was granted a right to be re-elected as many times as he wished. Parliament changed the Constitution on this matter. Non-rotation does not mean automatically that repressiveness and the political regime in Kazakhstan is not as repressive as many other ones in the world, but there is no need to be so repressive when there is public support and popularity.
5. Oil resources and their role in Kazakhstan’s energy policy

5.1 The role of foreign actors in Kazakhstan’s energy policy

Oil resources play such a big role in the economy and politics of Kazakhstan. Oil influence means competition of super powers for oil and its transportation routes from Kazakhstan, rivalry of the local Kazak power groups for the access and control of oil and income associated with oil, general influence on economic performance of Kazakhstan.

Different actors participate in the energy policy formulation and its implementation in Kazakhstan. While analyzing each actor’s role and goals in energy policy making, I also will look at how these actors and their respective goals can aggravate or influence in any way the situation to the resource curse in Kazakhstan. By doing this, I will test my hypothesis about the resource curse development in Kazakhstan.

These actors in energy policymaking are the government, transnational corporations, national business groups, and the governments of other countries, as well as domestic actors such as the state, social organizations, national business, political parties, and mass media.

This classification of the groups’ interests is tricky. Many authors prefer to talk about the clans or financial industrial groups instead of the national business in Kazakhstan. These financial groups have interests in different sectors of the economy, have lobbyists in official state positions and have some contacts or affiliation with foreign transnational corporations. Government of Kazakhstan and transnational corporations can be under the influence of the governments from other countries because energy issue is politicized. These other countries first of all include: the USA, Russia, China, the EU countries and a number of smaller countries like Iran and Turkey. India also demonstrated interest in energy resources in Kazakhstan.

First, we will look to the foreign states which influence energy policy development in Kazakhstan. The resource curse as a set of failures in state policies can be the consequence of the manipulation from the superpowers by the government of oil-rich country. Interest in oil by the great powers can explain why repressive authoritarian governments have the support from the governments of democratic countries. Authoritarian rule can provide stability at least in the short term. Democratic transition or even Islamic political forces might be less cooperative or unpredictable with the countries who import oil. Martha Olcott said in personal interview to me that the USA and the West in general when asked to decide between oil and democracy in Kazakhstan and Central Asia would support democracy rather than oil, and China and Russia would not ask about democracy at all. It contradicts the claims that the West would support any political regime in Kazakhstan which provides stability and is far from Islamic fundamentalism. As for our research, I think oil, oil routes, trade and stability in Kazakhstan are more important for the West in comparison to human rights and democracy issues. Even if the pressure from the West
would occur, China and Russia would consume the oil, gas and metals from Kazakhstan and it would mean simply loss of the influence by the West. One of the prominent journalists in Kazakhstan, Sergei Duvanov, said that opposition in Kazakhstan cannot get support from the West in comparison with such support in cases of Georgia and Ukraine because opposition is so weak in Kazakhstan (Duvanov 2008). The oil of Kazakhstan would be sold to the West regardless of whether a democratic or authoritarian is in office. I think here the choice between democratic or authoritarian or imagery fundamentalist regimes in the context of the popularity of the authoritarian regime among the voters would go in favor of the authoritarian regime which provides stability of oil supplies. For the current regime it is good to exaggerate the risk of possible emergence of the fundamentalists in Central Asia. They would show Kazakhstan as some kind of a barrier to fundamentalists. Economic growth and improvement of living standards till 2008 work for the popularity and public support of the current regime despite of its authoritarian character.

It is not a direct involvement of superpowers in oil questions, but as they are main consumers, the government in Kazakhstan has to take it into account while making decisions in developing certain fields and support specific pipeline routes. The goal of each foreign state is to maximize its influence through different means. Some Russian and American authors were talking back in the nineties that the destiny of Kazakhstan is determined in Washington, Moscow and Beijing (Rumer 1998).

Great powers like the USA, Russia, the EU and China, and some regional powers like Iran and Turkey started to express their interests in oil development as well. New geo-political realities and growing oil prices have made the issue even more complicated and attractive. Oil has become a lucrative prize in the so-called “new Great Game”. The implication is that the “old Great Game” was taking place between the two empires of Great Britain and Tsarist Russia for the influence and colonization of Central Asia in the second half of nineteenth century (Hopkirk 1992). The main concern in this “new Great Game” paradigm is that the states in Central Asia are viewed as objects of interests from the angle of what they can do for the great states and what can be extracted from them for the maximization of the “game” participants. It is very similar to neo-colonial treatment and it definitely raises concerns in Central Asian states and in Kazakhstan. Frederick Starr (2008, 15), author of the concept of “Greater Central Asia”, considers the idea of new Great Game as inappropriate altogether and connecting only with “imperial post colonial hangover” from the Russian side.

This logic has slightly changed after the war on terrorism launched by the USA and drastic oil price growth after 1999 to 2008. Energy issues in general and some uncertainty with Russia’s role as energy supplier to Europe have redefined to some extent the question of oil and gas
resources in Central Asia and Kazakhstan. However, as the region is situated in the center of Eurasia and as it does not have direct access to sea-ports, the problem of transportation is not solved. This question of oil and gas transportation has become not only an economical one but also an acute political problem. The question of oil and gas pipelines from Central Asia is an “apple of discord” between the great powers and a difficult choice for the new oil and gas rich regional states. Russia, China, the EU, the USA and Iran have been competing since 1991 for the best possible route of the future pipelines for oil and gas to the international markets. New states are maneuvering between the great powers and trying to find their own interests to be balanced and maintained. The challenge for new countries is in finding a position of not being a puppet for any powerful international player or players in discussing the oil production or pipeline questions.

The total proven reserves of oil in Kazakhstan are 39 billion barrels and 3 trillion cubic tons of gas for 2006 (BP Statistical Review of World Energy 2007). It makes up 3.3 percent of the total world oil reserves and 1.7 percents of the world gas reserves. Production is growing by 5 percent annually since 2000. So far, Kazakhstan has three, world-class oil and gas fields regarding size, recoverable resources and to some extent quality of oil and gas. All of these three fields have not reached peak of production, have good natural pressure and still require some further exploration on defining the total size of the recoverable resources. These three fields are the aforementioned Tengiz, gas field Karachaganak, and under explored, giant off-shore field Eastern Kashagan, which has a very complicated geological structure of the field, as well as complicated environmental and weather conditions and abnormally high pressure. A detailed picture of the oil and gas resources of Kazakhstan is available from different sources (National Statistics Agency, BP estimations, World Bank estimations, etc) but in general it is agreed that Kazakhstan is in the 13th position in the world for oil resources with a potential to produce several million barrels per day in the future.

There are some middle and small sized oil and gas fields which are interesting for the oil business especially with the level of prices for oil effective in 2007. The oil prices of 2007 made it profitable to work with the oil fields which used to be considered too costly for exploration. As Kazakhstan is a landlocked country, the pipeline question is very important. The pipeline issue for Kazakhstan is a part of the larger issue of possible Central Asian export pipelines. The delivery of the oil and gas to world markets has been possible only through existing Russian pipelines or newly built ones. Since independence, two major oil export pipelines were constructed and several of them are under consideration. The pipeline question is an arena for competition between the Great powers to gain influence in the region and namely competition for the direction of the current and future pipelines is an illustration for the new Great Game. The production of oil would not be successful if the pipeline question would not be solved in advance because the
pipelines running through Russia have physical limitations. If only one transit country is on the way the influence of this country would be too high, so different multiple routes would be more secure for the future both for Kazakhstan and potential buyers.

The USA, Russia, and China have been the three main players in the pipeline question for Kazakhstan’s oil and gas to be delivered to the world markets. To a lesser extent the EU is trying to pursue its interests for energy security and decreasing dependency upon Russian supplies. The EU’s role has been steadily growing since 2005. India, Turkey, Iran and some Arabic countries are trying to participate in oil politics in Kazakhstan as well. The USA right from the very beginning of the independence in Kazakhstan has become very involved in oil issues. The Kazakhstan government saw US involvement as some way to move away from Russian dominance and possible imperial ambitions from Russia. The USA backed several projects bypassing Russia and Iran and the most major one is the Baku-Tbilisi-Ceyhan.

From the time of independence all the possible pipelines were going from Central Asia through Russian territory following the past Soviet unity. After the Soviet Union collapse this factor meant the influence of Russia on the future exports of hydrocarbons from Central Asia to the world markets. The group of the transnational oil companies and Oman has started the Caspian Pipeline Consortium (CPC) which has been a partial success because it goes via Russia but it is a privately owned pipeline and thus breaks the monopoly of the Russian state pipeline company, Transneft. It was a very complicated project right from the beginning when a portion of Oman’s share was questioned by the USA and other participants. Also, Transneft was against the project. It did not allow other private Russian oil companies to join the CPC pipeline system using the Transneft network. Then Russian authorities raised tax evasion questions to CPC and it was an obstacle for pumping more oil. Now, Transneft represents Russia as a state in the project, and Oman has sold its shares altogether to Russia, because according to Russian authorities CPC, profitability could not be achieved for several years. Now, Russia has more than 30 percent of shares and a decisive vice in the company. This pipeline works, but increasing its projected capacity is still under consideration; technically, it is possible, but tax and tariff issues are to be solved first.

Later, a Baku-Tbilisi-Ceyhan pipeline from Azerbaijan via Georgia and Turkey was built, with the intention of transporting oil to Kazakhs too. Involvement by the US State Department in the CPC project, and assisting major US oil companies’ entrance into Kazakhstan, has been described by the former Kazakh Minister of Foreign Affairs (Tokayev 1997, 27).

The main rationale behind the Baku-Tbilisi-Ceyhan pipeline is the access of Central Asian and Azerbaijani oil to world markets by bypassing Russia and Iran. In this case, oil from Kazakhstan, Azerbaijan and possibly Turkmenistan in the future, would go to international
markets without the risks of being cut by Russia or Iran. Geographically, the Iranian route is the shortest for the pipeline being built to the seaport to get to international sea routes. However, hostilities between the USA and Iran are the main obstacles for this direction in becoming a reality. Kazakhstan sells some oil through Iran by means of a swap system, but this figure is almost negligible in comparison to the size of the resources available. Some European oil companies like Total, expressed intentions about possible a pipeline through Iran since European companies do not have limitations in investing in Iran. These ideas so far have only been articulated, but feasibility studies have not given any information. Conversely, information about US pressure not to build such a pipeline was more forthcoming (Tokayev 1997, 28).

When the Baku-Tbilisi-Ceyhan (BTC) project started, quite a few experts doubted the possibility of building it because of the high economic and political costs. Several reasons were behind the information and supporting these doubts. First, one was the distance and mountain terrain conditions. The second was difficulties with infrastructure such as roads and electricity. The third was the high risk of political instability along the pipeline route. The last reason concerns oil reserves being pumped through the pipeline. Another somewhat special, geopolitical reason was disfavoring Russia, because the former Soviet republics would be able to further move away from Russian influence. All these reasons meant higher costs for the project, and difficulties financing the building of the pipeline. One reason alone would be reason enough for the project not to become reality. Nevertheless, despite all of these concerns and doubts, the Baku-Tbilisi-Ceyhan pipeline was finally built. Still, the question of oil in the pipeline is under consideration because Azerbaijan does not produce enough oil to make the pipeline profitable, and Kazakhstan has only recently joined the pipeline. American researchers openly say about the competition of the pipelines and interests of the USA and former Soviet republics (Starr 2005, 8):

“Further, it was understood that if such a pipeline could be constructed, it would provide the newly independent states of the Caucasus and Central Asia a degree of control over the export of their most valuable commodity that they would not otherwise have. The alternative was to leave this vital export in the sole hands of the successor to the USSR, the Russian Republic, and its state-controlled monopoly, Transneft. In the post-imperial era, when many Russian politicians still dreamed of reviving their country’s dominion in the Caspian basin, this would be an invitation to mischief”.

Interestingly enough when Russia and the Republic of Georgia had a short military conflict in August 2008, BTC was either bombed or under artillery fire in the Georgian territory by Russian troops, despite being relatively far from the battlefields (Pagnamenta 2008).
The major oil companies of the United States and EU work as consortia at the largest, most productive and richest oil fields of Kazakhstan, including Tengiz, Karachaganak and Eastern Kashagan. These fields have the most technologically and environmentally challenging conditions. All these three fields have not achieved peaks of production yet. Additionally, exploratory drilling is currently underway in non-explored areas.

China is the most active player recently in the oil politics of Kazakhstan. China has been building a pipeline with Kazakh participation, from Western Kazakhstan to the Chinese border. The approximate distance is 3000 km (!). This distance is only to the Chinese border, and oil should also be delivered to the coastal oil-consuming regions of China, so the distance can be even longer. This pipeline would connect the Chinese owned oil field in Kazakhstan, with China. The main difficulty was the huge distance and low prices of oil at the end of the 90s when this project started being discussed between Kazakhstan and Russia. The feasibility study for this pipeline was done in the mid 90s, when oil prices were very low and the profitability of the pipeline would have been questionable, even for the non-public Chinese companies. The Kazakh government pressed hard for this pipeline because it would connect the oil-rich West to industrial North, and populated, agricultural South. Oil from Western Kazakhstan was going to Russian oil refineries during Soviet times, and oil from Russian Siberia was supplied to Northern and Southern Kazakhstan. It was good in Soviet times, but it had become an issue after independence. Thus, the pipeline from Western Kazakhstan in the direction of China was strongly favored by the Kazakh government, although Chinese companies were postponing the start of the construction. It began in 2003, and at the time of this piece’s writing, two-thirds of the construction had been finished. This pipeline revived the pipeline from Russian Siberian to oil fields in Southern Kazakhstan, because Russian companies started to export oil to China using this pipeline. The Russian-Chinese pipeline has been planned for several years, is still yet to be built.

Chinese companies have not been involved in such large projects, but they have excellent mid-size oil fields in Kazakhstan and have bought a lot of risky fields from Kazakh companies where further exploratory drilling and research have to be done. China, in a sense, is a latecomer to Kazakh oil, and some historical fears of Chinese imperialism are behind the reluctance of the Kazakh government and people to have China as a partner in large projects dealing with oil and gas. The pipeline project was also an object of criticism from the Kazakh side. Kazakhstan, several times, blocked the purchase by Chinese companies of shares in oil companies in Kazakhstan because China was considered a threat to the security of the country although Chinese companies work with exploration projects in the offshore Caspian prospective fields.
Russia has not been very active in the oil issues of Kazakhstan in comparison with the USA and China. This may have been due to political turmoil in Russia in the 1990s, a lack of adequate technologies, or the availability of their own unexplored fields, but Russia is presently a minor partner in large projects and a major partner in some Caspian exploratory projects. Russia has been relying more on the capacities and ties developed back in USSR times. However, it was trying to use its position as a transit country and Kazakhstan’s dependency on the Russian pipeline system to full capacity. Russia strongly objected in the mid 90s to the division of the Caspian into national sectors where presumably oil could be found. Russian position changed when the Russian oil lobby outplayed the hawkish military lobby. Every year, a quota for the pumping of Kazakh oil through the Russian pipeline system has to be re-negotiated, and quite a few politicians suggested using this fact to pressure Kazakhstan more. Later, in 2008, this position changed to the opposite as Russia suggested improving the existing pipeline with an aim to increase transit of Kazakh oil into the so-called Baltic Pipeline System (*Baltiiskaya Truboprovodnaya Sistema*), or BTS network, at the Russian part of the Baltic Sea. The main interest was to keep Kazakhstan distant from the projects that bypass Russia, like the BTC (Smirnov 2008, 14).

From the other side, Russia suggested also to increase oil volume through Kazakhstan by building more capacities in the Baltic part of Russia and by upgrading the existing pipelines as well. Three current pipelines reflect the economic logic of the Soviet economy; Western oil from Kazakhstan went to two Russian based refineries and Kazakh oil refineries in Eastern and Southern Kazakhstan received oil from Russian Siberia. Position of Russian State pipeline company Transneft backed by the Russian government are strong enough so that Kazakhstan still exports large amounts of its oil through Russia. This amount would decrease, however, due to Chinese control and Baku-Tbilisi-Ceyhan operations.

We can summarize the goals of four great powers like the USA, Russia, China, and the EU by the following: USA and EU interests are to provide more oil at the international markets from the Central Asian region. The EU is also interested in the diversification of gas supplies and decreasing dependency upon Russian supplies. Oil is an international commodity and the price is similar at any place. The more oil on the market anywhere in the world means pressure on the prices; to boost an additional supply means to influence prices. Another interest is to remove these Central Asian states from the Russian orbit of influence.

China is more concerned with the securing of an additional oil supply for its growing economy, as economic growth in China needs energy in increasing quantities. In addition, it is very important to keep up with the pace of the economic growth to solve issues of poverty and
unemployment too. Energy from any source is a national priority for China and that is why Chinese companies are active in such unstable regions like Sudan and Chad.

Russian interests are to maintain control over the former Soviet republics and participate in the development of oil fields or processing hydrocarbons. Russia is in a more complicated situation as their economy is becoming more dependent upon oil and gas exports to Europe. Gazprom fields are exhausted and new ones require huge investments into exploration and infrastructure. Central Asian fields have better recovery rates and ready built infrastructure. For Russia, it is much more important to keep control over the gas and oil fields than for the USA and EU.

Transnational corporations came to Kazakhstan even before Kazakhstan became independent. The first ones were American corporations including Exxon, Mobil, Texaco, Chevron, Conoco, and many others. Chevron made contact with the leaders of Kazakhstan during Soviet times and a contract for the development of Tengiz was signed after the independence. One of the goals for these companies in periods of low prices can be showing additional oil resources on the balance sheets that make the company look good for the shareholders and which causes shares on the stock market grow. Finally, the overall capitalization of the company grows which increases the possibility to attract more financial resources at cheaper rates. The production of oil at the peak prices of 2007 was highly profitable business.

Chinese companies are not the private ones; they are state entities and less transparent in their deals with Kazakhstan. China’s national interest is to get oil resources to boost economic growth. Chinese companies are the tools for the state of China and work actively on very risky oil projects. They buy out shares in the private oil companies in Kazakhstan and Kazakhstan experts express high concerns about the growing presence of China in the Kazakhstan oil sector (Dzhalilova 2006).

Russian companies are represented in all large projects as minor shareholders and they have their own projects as well, but these are incomparable with Kashagan or Tengiz. Gazprom is more active in Turkmenistan than in Kazakhstan but negotiations there are somewhat difficult.

Kazakh experts fear Kazakhstan will become a puppet of the great powers or transnational corporations in their bargain for oil. Another fear is that the superpowers or oil companies can support the authoritarian government of Kazakhstan, who can work in their interests as a comprador and a counter-weight for possible Islamist movement (Masanov 2006, 265).

5.2 The role of domestic actors in Kazakhstan’s energy policy

Despite the interests of the Great Powers in oil and influence in Kazakhstan, national actors make the real energy policy development, implementation, and follow-up actions. When
we talk about national actors, we look to policy development similar to any of the policies where the President, Parliament, political parties, opposition, NGOs, and different clans or groups of interests are involved.

Therefore, the main actors in our case would be financial industrial groups or clans. The practice is that, according to my interviewees (Business Interviewees 4, 5 and 6), these financial industrial groups try to influence, first, the President or his inner-circle of close advisors and relatives and then, if necessary, the government and Parliament to make an appropriate decision for them. The president distributes whatever lucrative pieces of the business in order to keep a balance between the financial groups in terms of power, wealth, and, subsequently, influence and ambitions. James Giffen, who is under criminal investigation at the time of writing this piece, was a key contact person in large oil questions in Kazakhstan. He was advisor to the President and is known as, “a person who sold Tengiz”. On April 2nd of 2003, he was officially charged in the USA for corruption. The accusation was as follows (United States Attorney Southern District of New York 2003, 1):

“First, the Grand Jury today returned an Indictment charging JAMES H. GIFFEN with making more than $78 million in unlawful payments to two senior officials of the Republic of Kazakhstan in connection with six separate oil transactions, in which the American oil companies Mobil Oil, Amoco, Texaco and Phillips Petroleum acquired valuable oil and gas rights in Kazakhstan”

Giffen was working with big oil fields and foreign corporations while the smaller fields were distributed amongst the locals by the President, under the proposals of his close cronies from his inner-circle (Business Interviewee 1, 2008).

If the issue becomes public, then the clans try to influence political parties and form some kind of public opinion through mass media and NGOs. Oil is supervised, as previously written, by the second son-in-law of the President of the country. His business group is the most influential in 2009 within the oil sector in Kazakhstan because the head of the group was always in the leading positions of the national oil company, KazMunaiGas. Today, he is Vice President of the state owned Samruk-Kazyna Holding, which owns and manages all government shares including oil, copper, and other minerals and industries; this man is Timur Kulibayev. He was Vice President of the national oil company from 2002 until 2005 and CEO of its subsidiary, national oil pipeline company, KazTransGas, from 2000 to 2005. He stepped down in 2005 and became a chair of the KazEnergy Association, which is an association of oil and gas companies both transnational and Kazakh-owned, and is headquartered in Kazakhstan. He holds this position during the time of the writing of this piece, Summer 2009. Several times when, for example, he was dismissed from the national oil company, KazMunaiGas, people began to talk about the loss of influence by
Kulibayev. His influence recovered and today he is probably the most powerful man after the President, but the President does not trust any of his relatives after the first son-in-law’s rebellion. In the spring of 2010, former Kazakh banker Mukhtar Ablyazov gave videotaped interviews and published materials about the corruption practices by Kulibayev and sent them to the office of the Kazakhstan’s General Prosecutor and to the financial police. They analyzed the documents presented by Ablyazov and did not find any corruption practices in the activities of Timur Kulibayev (Yakubov 2010).

Big oil fields cannot be developed without the technological and financial involvement of the major transnational oil corporations, but smaller fields were developed by Kazakh businesses and the first one was belonged to Kulibayev. Despite the fact that he was always working for state services, he could still make his fortune in oil and banking. This made many others in national businesses unhappy. The opposition openly criticized him for his growing influence in almost every aspect of energy policy in Kazakhstan (Abilov 2008). Access to the President in cases of discussing oil projects, can only be facilitated by Kulibayev. As we said, Kulibayev is not a very public figure; he, in a sense, avoids public and media attention.

Other clans like the Ablyazov, Rahat Aliev, KazakhMys group, and KazKommertsBank have been involved in oil production and oil refining too but on a lesser scale (Business Interviewee 4).

The national oil company is called KazMunaiGas (KMG) and has a very interesting story. It was founded in 1997, based on the former ministry and its operational units, and later it was reformed twice. The first reform was when several state companies in oil exploration and production, oil transportation, and oil refining merged into one company. The second reform was when the national oil company joined the newly established state holding Samruk-Kazyna in the management of state shares and assets. It is an organization similar to Singaporean Temasek.

The story of the Kazakh national oil company is interesting because the company’s mission was changing over a certain period. When it was established main mission of the company was to represent Kazakhstan in the large projects where operations were under the control of Western companies. Later, when some capital was generated and qualifications were obtained, KMG started to develop small and medium sized fields. Now, in 2007 and 2008, the goals of the company were the buying out of shares of Western companies in different projects in Kazakhstan, attempts to buy oil refineries in other countries in Europe, exploration activities in the Caspian Sea, and the initial public offering of its subsidiary company on the London Stock Exchange. The company is more and more active and aggressive, but still non-transparent so far.

The parliament in Kazakhstan calls Ministers and Presidents of the national companies regularly for hearings; KMG’s presidents were called for these meetings regularly too. Members
of the Kazakh parliament had been criticizing the activities of KMG for non-payment of the dividends to the state as a shareholder, manipulation of the prices for gasoline in the local markets, non-transparent operations in general, nepotism in the recruitment process, and questionable investments and acquisitions abroad (Kapparova 2004, 4). This initial public offering in London of the exploration subsidiary of the company was also heavily criticized because of the transfer of the national company subsidiary to private owners. Some of these meetings were closed to the media as well. The last scandal with KMG is their support of the ruling party at the last elections to the parliament in 2007.

If KMG is a vehicle to protect interests of the state in the oil industry, the state by itself can be active in different related areas of energy policy making. Oil within the earth’s subsoil is considered as a state property and, under contract, subsoil companies can develop it. The state in Kazakhstan, as we wrote before, is a main actor in dealing with oil issues. First, it is the executive branch of the central government. All contracts and licenses are regulated in the government by the Ministry of Economy and Mineral Resources, or departments within this ministry. The ministry conducts auctions for the prospective lots for exploration and exploitation. All other relevant issues about the environment, labor, taxes, etc, are regulated by the appropriate ministries or local authorities. Taxation is paid to the central and local sources. The ministry represents the government at negotiations with big investors. The president, Prime-Minister, and Vice-Prime-Minister negotiate issues relevant to the three super-large oil fields of Kazakhstan. The Vice-Prime-Minister started long negotiations last year about increasing the shares of Kazakhstan in the Kashagan field.

Parliament is involved as well in oil issues but not so heavily like in Norway. One of the examples of the active participation of the Kazakh Parliament was a situation when Kazakh and Canadian private shareholders in a project, called Kumkol, were selling shares to a Chinese company. While the negotiations were going on, Parliament adopted a law declaring that Kazakhstan as a state has priority rights in buying shares in oil or other projects where national security can be an issue. As a result, shares were sold at much higher levels than at the beginning, under the condition of participation of Kazakh state.

When we talk about the “Kazakh state” in an oil project, it means the Kazakh National Oil Company or KazMunaiGas. The ministry works at a regulatory level and KazMunaiGas at the level of operations in the projects where Kazakhstan as a state is shareholder. A special fund called Samruk-Kazyna, was established at 2008 to work with all the state assets and shares in different sectors of the economy including mining, oil, electricity, banking, etc. It is similar in a way to the TEMASEK holding in Singapore.
I described the organizations and structures that are involved in oil business in Kazakhstan. As I said, clan or financial industrial groups can be behind these organizations. The Kazakh President himself and his close relatives are behind oil business in Kazakhstan. We talked about the national company, sale of shares in the Kumkol and Samruk-Kazyna Fund and the second son-in-law of the President. Mr. Timur Kulibayev, has been involved in all of these organizations. He was Vice President in KazMunaiGas, one of the main shareholders in Kumkol, and today is a Vice President of Samruk-Kazyna. He is on the list of billionaires, which has been published by Forbes for several years, and his business interests are in many different areas (The Forbes 2010). He is actually one of the main decision-makers in big oil issues in Kazakhstan along with the President. He keeps his own clan of supporters and influences many important decisions in bureaucracy in the National government, local governments, and ministries, Parliament, and companies.

The opposition’s role is quite interesting in oil issues and energy policymaking in Kazakhstan. First, they started a discussion about the renegotiation on the conditions of the contract with transnational companies and increasing shares and taxes from these projects. The opposition includes these questions all the time in the political programs of the elections. One of my respondents said in during the interview that the West does not support this opposition in Kazakhstan because of the claims on renegotiation of the contracts. The opposition included the idea of renegotiating the contracts in the election of 2004, and in 2007. The government started the renegotiation process with foreign investors in the Kashagan oil field at 2008.

KazMunaiGas and Samruk-Kazyna are the parastatals or state owned organizations where some financial and not very transparent activities for the support of the state are going on. We saw in the previous chapter that the activity of parastatals without adequate civic control might be the factors for the growing resource curse. It could happen because of the sponsoring of some state projects, elections, etc without accountability to society, which should be the main benefactor of the parastatals’ activities. Still, reports and the decision-making process in these organization are generalist and non-transparent to the public.

5.3 Interplay between the state and oil business in the case of contracts

When we talk about energy policy, quite often there are many different aspects where interests of the state, company and society are closely interlinked. One is acquiring the right to explore and produce, and then transportation issues and income distribution. As Kazakhstan has not had financial and technological expertise to work with huge oil and gas fields, these fields are then developed by efforts of transnational oil companies, whereas Kazakhstan is a shareholder in the project and benefactor of taxation and other payments. Society in all these processes is
represented by Non-governmental organizations (NGO) working in oil-related issues concerning the environment and income distribution. Role of NGO in Kazakhstan in oil related issues cannot be underestimated because they, for example, created a pressure for several years upon the government and transnational corporation to join to Extractive Industries Transparency Initiative (EITI).

The main institution that gives the right to produce oil is a contract for the oil production signed between the company and the state authority, which is represented, by the Ministry of Economy and Mineral Resources. The process of acquiring the oil field starts with the application of the private company for a prospective lot. The government publishes the list of prospective lots with some basic information. To attract possible investors, the government can do some promotion actions as well, like conferences, exhibitions and tours. Some of the lots can be ready for the production stage, meaning that exploration has been completed and information about the reserves is more or less clear. If the highly attractive field is up for bid, then investors compete by the size of subscription bonus and investment programs. In other cases, a company takes a prospective territory and presents a program for the exploratory activities. All these procedures are similar other countries.

A company, after signing the contract, should submit not only standard tax, license and other documents every year, but also a report on the activities in the field with figures about the extracted volume, costs and environmental activities and program for the next year. The government authority can retract the contract in case the investment program is not fulfilled according to the plan. It is possible to justify non-fulfillment of the investment obligations by different internal or external factors in the report. The government in Kazakhstan started to call back more than 100 medium and small contracts from 2004 to today. It means simply that government became much more active and qualified in the assessment of the investment programs too. A company can sue the government for such call back of a contract. Small and medium contracts in the oil sector can have an annual investment value of more than USD 1 million. As my interviewees in the business sector said, “The 90s was a period in the mining industry of Kazakhstan when some aventuriste businessmen came to Kazakhstan, won contracts for certain fields by promising substantial investments and paying good subscription bonuses, and then took loans in Western banks putting the fields up as collateral, and disappeared with these loans” (Business interviews 3).

Another story goes with the large fields being investments worth more than USD 1 billion. If the field is considerably large, then some special investment contract can be signed with some conditions for the investor, like exemption from certain taxes, or a possibility to extract oil until all the costs of the project are reimbursed. There was a time in the 1990s when oil prices were
low and investors were in better position. Kazakhstan’s negotiators had no experience in such negotiations and transnational corporations had much better qualified negotiators. Therefore, these contracts were signed in unfavorable conditions for Kazakhstan. At least now, many people oppose calls for the re-negotiation of these contracts (Abilov 2008, 3). Foreign observers or independent researchers also say the transnational corporations have unbelievably good conditions for the contracts in Kazakhstan (Johnston 2007, 76).

We can summarize reasons why these contracts were signed in such unfavorable ways for Kazakhstan. The versions of reasons vary depending upon if we take the government interpretation, interpretation from the opposition or interpretation of Western scholars. Also, before analyzing the politics around the contract’s the short excurse in the history of oil contracts would be useful. Kazakhstan has three world-class oil and gas fields: Kashagan, Tengiz, and Karachaganak. All of them are governed by special contractual agreements between the state and private transnational oil corporations. Foreign corporations owned more than 80 percent of oil produced in Kazakhstan in 2001 (Maslov 2001, 5). Now this figure is thought to be around 70 to 75 percent. It means that the lion share of profits has been expatriated because taxation loads are special and very low at any standard (Smirnov 2000). Kazakhstan has signed contracts with transnational oil corporations in the 90s, and conditions were so good for transnational corporations, that the researchers even wondered why the Kazakhst an state and given up almost all its oil to foreign companies (Jones and Weintal 2001, 368). Several reasons were mentioned in this regard, and Kazakhstan government officials mentioned some of them in justifying the contract signing. The Kazakh government for local public has produced the following reasons.

1. No capital was available in the 90s to develop the fields when the republic became independent. Additionally the urgent need for money to pay the salaries and to fulfill social obligations was pressing because the economic crisis of the planned economy was on the way;
2. Kazakhstan, as a part of the Soviet Union previously did not have the necessary technology to get the oil from problematic oil fields;
3. Some of oil and gas fields were under-explored and needed further exploration, like the Caspian shelf;

The first reason that the republic was in a desperate situation and looking for money, was due to its very existence being a problem, which explains why the contracts were concluded in such a way that the tax load was slow for oil corporations, and other privileges were made for foreign investors as well. As these contracts in the 90s were so unfavorable for the republic, they were not open to the public or members of the Parliament. One ex-Prime
Minister said that he could not see these contracts either while being in Kazakhstan (Kazhegeldin 2004).

The Prime Minister of Kazakhstan in 2007, Karim Masimov has openly admitted all these difficulties when interviewed “In the 90s, we did not have experience and resources to work with the subsoil; nor financial, administrative or managerial ones” (Ivanter and Skirka 2007, 12).

The Kazakhstan government signed the first contracts in the 90s with oil corporations because it did not have much of a choice. It was in desperate need for money to fulfill its obligations; it did not have much room for maneuvering due to world oil prices being low, and there were not institutional ways to increase transparency or the accountability of government officials who were pursuing their own profit and interest.

The most important contract signed in the 90s was a contract with Chevron over the Tengiz and Korolevskoe fields; with a special clause that contract cannot be changed. This special provision is meant to be a guarantee that if political power changes due to re-election or some other case in Kazakhstan. This provision has been the main obstacle for possibility for changing the contracts in Kazakhstan. However, since Fall 2007, one of the first legislative initiatives of the newly elected lower chamber of Parliament has been an initiative to change such types of contract clauses in the new contracts, despite provisions regarding national interests and national security. The Senate passed this draft without any discussion. Old contract left intact.

So one of the reasons for the fast signing of contracts where oil transnational corporations have had privileged conditions, was due to the absence of adequate technology for oil production. The Kazakh government could not formulate clearly its positions during those years, but it needed money as fast as possible to fulfill its social obligations. Tengiz and Kashagan have abnormal high pressure, and oil is so deep, that Soviet technology could not reach it.

One reason is analyzed by Western scholars in geopolitical analysis of the new Great Game situation in Central Asia after the breakup of USSR (Jones and Weintal 2001, 369). The reason was that Kazakhstan was trying to escape Russian influence, and because calling Western oil corporations had political meaning.

Kazakh opposition has been concerned with the contracts as well, and their argument is that giving the most lucrative pieces of property, including natural resource like oil and natural gas to foreigners, was the goal of the current ruling group or ruling family to limit the financial power, which can transform into political power, of national business. Therefore, the ruling group demonstrates its comprador and the neocolonial behavior in favor of the transnational
business and not for national one. National business in the case of it gaining world-class assets would be a threat to political interests in the current regime. Another reason mentioned by the opposition, is that the ruling group had an opportunity for personal enrichment while signing the contracts, so it was a variant of rent seeking and comprador mentality.

The contracts, starting from Tengiz, are nontransparent, and public oversight was not in place. Parliament was out of the procedure of signing the contract too. Justification for it was commercial confidentiality. The total tax load was incomparably small, and for the Tengiz operator; it was 4 percent according to data for 2000 (Smirnov 2000, 5). Opposition leaders and journalists associated with them had made clear statements on the comprador character of this contract and other ones signed prior to 2004. One example includes the following (Tokpanov 2003):

“Everyone has to understand that state power in Kazakhstan exists not for protection of the interests of 14 million of Kazakhstan’s population, but to protect the income of transnational corporations and offshore companies settled here from the encroachments of this very population”.

The taxation load on the company working on the new field with good pressure and low costs, the Tengiz field was better for the company in comparison to the old fields run by national oil company KazMunaiGas.

The opposition in this sense is even more motivated to revise the contracts. Opposition leaders consider the situation of the contracts being revised by Kazakhstan as “inevitable”. However, they see that the problem is not the contracts, but the overall non-transparent system with high dependency upon natural resources production (Svoik 2008). The reality may be that a combination of all the reasons was a motivator in signing the first contracts. It is interesting that Russia has not followed in this way, by starting to develop their private oil companies and not allowing foreigners to come, while Azerbaijan invited Western capital as much as possible.

If Kazakhstan had signed the contracts due to several combined reasons, the companies also had a number of important reasons to speed up the contract signing. Oil fields in the Caspian are maybe the last ones of such impressive size that can be worked on with existing technologies.

One of the risks in the political area for resource rich countries is secessionist movements in the regions where the resource are located. We discussed it in a previous part, where examples of Biafra in Nigeria and the so-called “lootable” and “unlootable” resources and their influence on civil strife (Ross 2004, 337-342). In brief, “lootable” resources like diamonds or heroin, and to some extent tantalite, do not require much of the infrastructure, and are easily transported. Unlootable resources require capital investment and constant infrastructural support like oil or timber. Lootable resources can provoke civil unrest and instability, but not a separatist conflict because criminals who control these resources are interested in a weak state and open boundaries.
Unlootable resources can provoke the conflict of total separation, because to sell this resource, people would need to control capital and huge infrastructure, too. It means to sell oil, you need to control the pipeline, and to sell diamonds you need access to air transportation. That is a difference between the conflict in Sierra Leone, and the Biafra case in Nigeria.

Kazakhstan right from gaining independence was at risk of suffering from a separatist conflict because the regions in the North were populated by up to 90 percent Ethnic Russians. The northern regions were not the oil-rich ones, but the secession risk was there. When this risk was moderated and finally subsided, the issue of the West of Kazakhstan where oil is located, then came forward. Experts in my interviews were skeptical about the separatist moods in the oil regions of Kazakhstan because separation movement should have support from abroad: charismatic leaders and a strong identity based upon religion, language, and ethnicity. These factors are absent in the Western Kazakhstan. Separation because of capturing the oil rent is the only factor. The tribal identity of the region is special, but is it stronger in comparison to the identity of being a citizen of Kazakhstan? One of the respondents said it can be in the interest of secret services or terrorist organizations to provoke some motion on these issues, but the people and leaders are not prone to such experiments with politics. Institutionally Kazakhstan is a unitary state, and elections of the local heads are not yet realized as nor are the local budgets distributed from the center.

To summarize political and economic institutional issues concerning the resource curse, we can say that institutional development in Kazakhstan have stumbled or are not going smoothly. Reformers of the first governments, who established the new tax and financial system, could not expand reforms to include the law enforcing and legislative bodies. Conversely, the authorities of the legislature and judiciary branch were cut, and authority within the executive branch has been growing. Decision makers’ will for reform decreased if the economic growth takes place. Today, only the opposition calls for reforms.

Overall, the main issue in this situation is over-reliance of the state on the oil sector, and its revenues, and the authoritarian political regime as a decision and choice of the elite, who exist comfortably and prosper individually at the expense of a manipulated, fragmented society. The lack of experience and expertise, lack of political will and moral standards, brought up the system where rent seeking behavior is a norm, and formal law is neglected, meaning corruption and selective law enforcement against the undesirable or revolting members of the elite.

Coming back to our research question about effects of oil on division of power in the political system, we can see an almost paradoxical development. We saw that whenever challenges from any of the clans were demonstrated, the President could neutralize them and still be popular among the people. The paradox is the following, in the short term there is
consolidation and even solidification of the authoritarian regime and a concentration of power in the executive branch, meaning the President. However, according to the Constitution: the next President will have a shorter term, five years instead of seven, Parliament will be formed by political party lists and the voting threshold will be decreased. These talks about the future growth of authority in Parliament in the formation of the government and budget are strong. Therefore, the current President wants to safeguard himself and make the system more balanced in the long term, with more authority delegated other branches of power. He will step down someday and wants some guarantee of the property for his family and personal safety. These intentions force the President and his inner circle to find more balanced structure of power, with division and checks and balances for the future stability. Sadly, perhaps this is only talk and a mere façade, and real actions will not follow. Now to go further into the consolidation of authoritarianism is difficult, because the President has almost all possible power. The opposition exists, but they have already stopped criticizing him, and criticize only the government and regional governors thereby making the President almost immune to critique. Only newspapers and certain web sites publish materials with limited critique of the President.

To look closer at the actors’ expectations about oil influence in the politics and the economy of Kazakhstan, we will analyze the expert interviews, and look at the difference in oil prices, and various indicators of Kazakhstan’s performance. We will do the cross-national comparison in the following chapters.

5.4 Effects of oil on economic development in Kazakhstan

As we posed several research questions about economic issues related to oil dominance in the national economy and exports of Kazakhstan, we will look closely at that here. As we have seen, oil has been an important issue in the clan’s rivalry. NGOs active in oil issues is an attraction for transnational corporations to come to Kazakhstan; this has been a center for the government’s activities as well. The state budget and National fund were dependent upon oil operations. Oil as a factor had definite influence on the institutional framework in Kazakhstan, developing various laws and decrees regarding the activities of the sub-soil users, and managing the income for oil sector activities. Clan competition and political rivalry in regards to oil, theme was clearly illustrated in elections when the opposition was exploiting it in their platforms. They were able to create enough pressure, and public expectations pushed the government to start to renegotiate the contract conditions and join the Extractive Industries Transparency Initiative (EITI), too.

Now we will look closer at the questions of how oil and oil income affect the economic structure of the national economy in Kazakhstan, and especially the labor structure changes under
the oil boom. One of the hot and debated topics in Kazakhstan is how Kazakhstan is connected to the international economy. Is a country only a source of raw materials for the world economy, like *Rohstoffanhängsel*, which is best translated from German as “commodity appendage”, or are there other prospects too?

We will look to the three effects of oil boom on the national economy discussed in the literature and their application to the Kazakhstan case. The first one is “Dutch disease”, the second one is “boom bust cycle” and the third one is building linkages and diversification efforts. We know that oil boom has the Dutch disease; a consequence of when a country has dominant product, this sector first attracts capital and labor, then currency goes up and later the non-tradable sector booms, which includes the labor sector as well, while other tradable manufacturing becomes stagnate. As for Kazakhstan, debates about the Dutch disease began as early as 1996 by future opposition leader, Zhakiyanov (interview by Svoik 2007). These debates came at a time of low prices but signaled to the Kazakh elite about the risk Dutch disease. In addition, academic debate on the Dutch disease in Kazakhstan was continuous, with some opinions that the concepts of a mature, capitalist free market economy cannot be directly applied to the post-Soviet reality of Kazakhstan, because collapse of a socialist country has never happened before, and it has to be described by a new conceptual framework (Zhusupov 2007, 29).

The World Bank report on Kazakhstan from 2005 was titled “Republic of Kazakhstan. Getting Competitive, Staying Competitive: The Challenge of Managing Kazakhstan’s Oil Boom” meaning that “staying competitive” is difficult in times of oil boom. One of the main challenges named in the report was this Dutch disease risk. I discussed this issue back in 2005 with this report team leader, Pedro Rodríguez who told me about the signs of the Dutch disease in Kazakhstan and moves the government had already made to avoid this disease, and about future moves to continue avoiding it. He said this was the main challenge in improving productivity in Kazakhstan in all sectors. The fast growth of the non-tradable sector can be justified by the under-development of it in the Soviet economy, where banking and insurance were small. The other ineffective industries of the Soviet economy, with orientation to the military production also disappeared in Kazakhstan. Conversion of the military plants to the production of the civilian goods was not successful.

As for the direct and indirect signs of the Dutch disease, at least the Kazakh currency was appreciating gradually from the years 2000 to 2007. For several years, the volatility of the exchange rate was almost negligible. After prices for oil dropped in 2008, in February 2009, the currency of Kazakhstan dropped at 20 percent to the US dollar (Gizitdinov 2009).

Kazakhstan’s biggest city Almaty, which has more than 10 percent of the country’s population, has had a huge price growth in the real estate market during the years 2000 to 2007,
and in 2008 prices dropped to 50 percent for secondary apartments in comparison to the same period in 2007 (Popov 2008, 66). These prices tripled from 2005 to 2007, achieving the median price per square meter of USD 3600 (Ibid, 66). Some experts still expect further price decreases because banks have not started yet selling their bailed property (Kalinin 2009, 2). This price growth and game of speculative capital on the real estate market, demonstrated the availability of money. Due to a lack of investment opportunities, people started to invest in real estate. This bubble also was fueled by the availability of cheap loans. Oil price growth enabled Kazakh banks to find easy money in international markets because the credit ratings of the country were high. This money was being heavily invested into real estate, and prices were skyrocketing. It was not an oil money inflow, because oil money was saved in the National Fund, and profits of transnational oil companies moved to their countries. At different estimations, some banks in Kazakhstan have 30 to 60 percent of their credit portfolio under construction (Kalinin 2009).

The importing of manufactured goods was growing fast in times of the oil boom. Food imports from China were growing fast as well. It is a clear and even classic sign of the Dutch disease when local manufacturing or tradable sectors are not competitive with goods that are priced internationally. Petr Svoik (2008) illustrates it:

“In the year 2000, when the raw material cycle of price growth started, all the imports in Kazakhstan constituted USD9 billion, which is not so small, especially if we compare it with 1993-95 when it was less than 2 billion. Last year (2007), despite the frozen construction sites, import was USD 45 billion ... and this year despite all the crisis, it is expected to be more than USD 30 billion”.

We found the following signs: currency appreciations, real estate market bubble, the growth of non-tradable goods in general, and an increase in imports of the manufacturing goods. All these processes were going in the context of high oil prices when country had the sudden inflow of income from oil operations and relatively cheap loans from international capital market. A shift of labor between sectors was not happening massively in Kazakhstan when labor, according to the Dutch disease theory, first moves to the booming oil or other natural resource sector, and then, after some time, the service sector attracts a lot of labor from the manufacturing. Kazakhstan has not experienced this move of labor between the sectors and it is obvious in the following statistics.

Table 1. Employment by Sector in the Republic of Kazakhstan from 1995 until 2003 in thousand of people

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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1,444.5</td>
<td>1,388.9</td>
<td>1,551.2</td>
<td>1,359.8</td>
<td>1,342.3</td>
<td>1,948.2</td>
<td>2,379.4</td>
<td>2,380.2</td>
<td>2,462.6</td>
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e, forestry and fishery

<table>
<thead>
<tr>
<th>Industry and construction</th>
<th>1,452.2</th>
<th>1,341.8</th>
<th>1,183</th>
<th>1,126.1</th>
<th>1,115.1</th>
<th>1,081.3</th>
<th>1,094.4</th>
<th>1,092.4</th>
<th>1,184.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service sector</td>
<td>3,654.8</td>
<td>3,788.2</td>
<td>3,738.1</td>
<td>3,641.7</td>
<td>3,648</td>
<td>3,171.5</td>
<td>3,225</td>
<td>3,236.3</td>
<td>3,337.9</td>
</tr>
</tbody>
</table>


Labor distribution and its dynamics are even more obvious in graphic form as below.

Graph 1. Distribution of labor by sector in Kazakhstan from 1995 until 2003

It is difficult to say there is full scale Dutch disease in Kazakhstan because many other sectors, like metals or grain were booming as well, during this same period. The shift of labor between manufacturing, agriculture and services has not happened. The manufacturing sector was in deep crisis mainly because of the Soviet Union collapse and the loss of ties with other post-Soviet countries. However, certain signs of the Dutch disease were obviously present, and as soon as the prices dropped, we became witnesses to the boom bust cycle in Kazakhstan.

As for the unemployment rate in Kazakhstan, it was gradually decreasing in times of economic growth, which is not a surprise. The economy was growing, and people were getting more jobs. The Statistics Agency of Kazakhstan registered the unemployment rate at 7.4 percent.
for May 2009, and it fell in the summer of 2009 to 6.9 percent (Kazakhstan Today 2009, Agency on statistics of the Republic of Kazakhstan 2009). As for statistics for the years before and after the oil boom, they are presented in the table below.

**Table 2. General Unemployment rate in Kazakhstan from 1994 to 2000.**

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</thead>
<tbody>
<tr>
<td>General Unemployment rate%</td>
<td>7.5</td>
<td>11</td>
<td>13</td>
<td>13</td>
<td>13.1</td>
<td>13.5</td>
<td>12.8</td>
<td>10.4</td>
</tr>
</tbody>
</table>


The third table shows the unemployment rate during the days of the oil boom and the almost double-digit economic growth of certain years.

**Table 3. General Unemployment rate in Kazakhstan from 2002 until 2009 (est.).**

<table>
<thead>
<tr>
<th>year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Unemployment rate%</td>
<td>9.3</td>
<td>8.8</td>
<td>8.4</td>
<td>8.1</td>
<td>7.8</td>
<td>7.3</td>
<td>6.6</td>
<td>6.7</td>
</tr>
</tbody>
</table>


There was such a sharp growth during the year 1995, because privatization and price liberalization took place during that year. Oil prices began changing in 2000, and subsequently employment started to grow.

Moreover, a substantial amount of workers came to Kazakhstan from 2000 to 2007, from Uzbekistan, Tajikistan and Kyrgyzstan, because salaries in Kazakhstan were higher. Many of them worked in agriculture and construction. Kazakhstan also experienced internal migration when people were moving to Almaty, Atyrau and Astana trying to find better jobs (Aidossov 2005). The migration of foreign workers to a booming oil country has also been happening in the Persian Gulf and in Venezuela. Today, Indians make up more than fifty percent of the total labor force in oil monarchies of the Persian Gulf (The Economist 2002). Russia and Kazakhstan also had the same type of development when workers from poorer post-Soviet states came to find jobs and fortune.

The boom bust cycle is closely connected to the economic activity in the given country because of the price fluctuation of its dominant commodity, especially in regards to the budgetary plans and state investments. During the boom in oil prices, the economy of Kazakhstan was growing fast and it experienced close to double-digit growth for several years. Now optimistic expectations forecast growth of maybe 1.5 or 2 percent and pessimistic ones by the IMF anticipate a contraction of the economy by 2 percent in the year 2009 (Reuters 2009).
As we saw, the construction industry has stopped, and it was such a sudden stop as one
Kazakh banker describes, “A contractor came to us in August for money and we did not have it”
(Popov 2008, 67).

The boom bust cycle is mainly attributed to the budget spending when in a favorable, the
state starts many projects and is not able to complete them after an unexpected stop in money
inflow. Kazakhstan’s budget spending in 2008 was already cut in the Spring, and Parliament
accepted it without a lot of discussion (Svoik 2008). The National Fund became a main tool for
combating the crisis. The state and its obligations have not gone bust because of the prudential
policy before. However, the banking sector of Kazakhstan has had difficulties in servicing its
debts (Ibid). The government decided to enter into these problematic banks and to save some of
them, as well as to give some loans to construction companies. Therefore, we can say that the
boom stopped, but going bust has not come along with the price drop.

As for building linkages, both backward and forward ones, Kazakhstan’s government
declared so many programs to be built them and diversified, that the government could not fulfill
them, and the opposition was skeptical about the ability of this government to do it (Abilov 2008,
4). Neither the government nor the political system provides an environment for the
diversification of developing other non-oil and non-raw material industries competitive in world
markets. Even Kazakh officials state their open dissatisfaction with all the programs in
diversification, with no results and success stories. The Mayor of Almaty, Akhmetzhan Esimov
(quoted from Kazakhstan Today 2009) said it openly:

“We had so many projects from the Ministry of Economy, I am not mentioning the
whole government. There was a Cluster program. They said it would bring happiness.
Where is this happiness? Thirty corporate leaders, break-through projects as the
locomotives of the economy. Where are they, these locomotives? Is there even one that
was carrying forward our economy?”

This speech refers to different programs on diversification, but the very first program was
on Industrial Innovation Development in Kazakhstan until 2015. Then, a new program on cluster
development with the assistance of Michael Porter was adopted. After that, a program about thirty
corporate leaders was declared. The last effort from the government was the industrial innovation
map of Kazakhstan. However, there are not any publicly presented plants and factories with
export capacities. Perhaps the publicity efforts are not good. There are some plants, but none of
the new oil refineries have been built during the twenty years of independence.

The dependencies of the economy on the exports of raw materials like oil, gas, metals and
grain, and of the banking system on loans from abroad and imports of key consumer products,
show the fragility of economic growth in Kazakhstan. When the banking system had difficulties,
then imports would decrease. When oil and metal prices dropped, then towns where the mines and fields were located started to feel pressures and massive layoffs. The Kazakh economy is connected with the world economy only as a supplier of raw materials, and this is a situation of non-sustainable and unbalanced development. Now internal triggers for the economic growth are to be found, as well as more sophisticated products for export.

The opposition is dissatisfied by eighteen years of diversification efforts when economic growth could not contribute to this diversification. “Yes, it was a bubble: total dependency upon the world oil and metal prices, the market is dominated by imported and Chinese goods, and we have not learnt to produce our own competitive goods” said Bulat Abilov (Boranbayev 2009) who is nowadays Azat leader and a former prominent businessman and one of the founders of DVK. One economist who is not associated with the state funded agencies said simply “We are totally dependent upon oil prices. We cannot do anything new about that” (Berentayev 2009).

Oil is a commodity with many different dimensions, and it has a multi-dimensional influence on the Kazakh economy as well. It has created a boom and other sectors have started to grow. It was not balanced growth, but it is better than an absence of the growth. The Dutch disease is present in currency appreciation and import growth. Kazakhstan however, has many territories that are not developed in terms of infrastructure, so oil money has helped to solve these issues too, or as we wrote in literature review, it helped to fill developmental gaps. Diversification, which is another effort to fill this developmental gap, is more declarative and is not visible yet. Maybe all the desired things have not happened as fast as they were conceived, but the intentions to diversify are good, although realizations are lagging behind, or terms of the project realization are taking longer than expected. The labor market changed with economic development, and more immigrants came to Kazakhstan with its unemployment rate falling. The main lesson of the boom is that the boom is transient and temporal, but the continuous economic crisis of 2008 shows this cyclical character of economic development, which is also a bit new for the post-Soviet countries and their elites.

The classical resource curse in strict terms happens only in theory. As for our first hypothesis about the certain signs of the resource curse in Kazakhstan, because it is a post-Soviet distributive state, this hypothesis can only be partially verified. This happened because of Soviet types of institutions and the desire of their elite to freeze them for their own personal gains. A lack of pro-developmental institutions is a conscious will of the decision-makers because they can maximize their individual gains, and have not played in the different system yet. Competition among the clans might bring competition in the elections as in 2004 and 2006, but the President supported a less formalized way of doing things, and all the political actors either followed or were subjugated. It meant unbalanced growth for the economy where all the clans were interested
in short term fast gains, without investing in the future because they have to get everything they can while the current President is still in office. Signs of the Dutch disease, the boom bust cycle and the failure of having yet to diversify, show that the lack of public control and accountability in politics creates economic problems as well.

5.5 The Kashagan case as an example of public pressures and government maneuvering in oil business in Kazakhstan

One of the examples of how other clans could mobilize social support is a story of renegotiating the contract on the Kashagan oil field. It can be our good case study on how energy policy is elaborated upon and implemented. Main information for this part of our research was taken from different sources, including interviews with NGO leaders and business representatives in Kazakhstan in 2007 and 2008, as well as from a report “Kashagan oil field development. Kazakhstan” by the collective of authors from the Friends of Earth Europe, under the project “Extractive Industries: Blessing or Curse?” published in 2008 (Urbaniak et al. 2007).

Kashagan as a business project has gone through all the possible stages. It was explored by the consortium, companies were competing for the operational position, Kazakhstan’s opposition was calling for revision of the contract, the government followed this call, and still, it has not produced oil because of the high infrastructural costs and construction involved. As we said, three projects in Kazakhstan are world-class in the oil business. One is Tengiz, another one is Karachaganak and the most difficult and perhaps most promising, is Kashagan. Exploratory activities in Kashagan began in 1992, but still there is not any production of commercial volumes of oil due to infrastructural, environmental, geological and most recently, financial issues.

Kashagan was suggested as a block for exploration to the consortium of major oil companies in 1997 (Yenikeyeff 2008, 27). It is a huge territory of 5500 square km in the Caspian Sea, and it was divided to the Eastern, Western and Southern parts (Ibid). If Tengiz was explored in Soviet times and had proven reserves, then the Caspian Sea was more risky a project. The pull of oil major corporations was organized, and a new consortium under the name Kazakhstancaspishelf, was established in 1993 with the participation of Kazakhstan as a shareholder. An exploration consortium, Offshore Kazakhstan International Operating Company (OKIOC) had been established in 1997 after Kazakhstancaspishelf finalized a preliminary two-dimensional map of the Kashagan block. Kazakhstan decided to sell its shares in OKIOC to combat the financial crisis of 1998. The Russian currency crisis of 1998 had strong repercussions in Kazakhstan because of the common trade and economic ties, so Kazakhstan was under pressure too. The Russian crisis in turn was indirectly connected to the Asian crisis of 1997. More important for the Kazakh government, was that in 1999, new presidential elections were held. Former Prime-Minister Kazhegeldin was challenging Nazarbayev in 1998. There was an urgent
need for money from the government, and for the President to get public support and neutralize rivals like Kazhegeldin. Oil prices in 1998 were less than USD 15 per barrel. Kazakhstan’s share in OCIOC was sold for USD 500 million, and local analysts considered it a good deal because of the money was so urgently needed, and there was still uncertainty surrounding the discovery of oil in commercial volumes.

The elections of the President were not on schedule; the President held a popular referendum prior to the elections, where he was granted even more powers. The authority and powers of the President changed, and then the new elections announced. The economic crisis in Russia was due to the defaulting of the Russian government on government bonds. It caused panic among the traders and fast devaluation of the Russian currency. As for Kazakhstan, trade and certain contracts were in the Russian currency, and losses from devaluation were very high. Running for the Presidency is difficult in this situation, especially when such a charismatic opponent like the former Prime Minister is the challenger. Share in OKIOC was sold, and with this money, the President could keep the Kazakh currency from devaluation until the elections were over. All these events were going similar to the processes described by Wantchekon (1999) on the issue why resource rich countries would have authoritarian governments. We saw it in our literature review before. In his model, an incumbent in an oil-rich country has more chances for re-election because he or she has had more opportunities to use finances from oil rent. Money from the sale of Kazakhstan’s share in Kashagan played the role of the oil rent in Kazakhstan’s elections in 1999.

The government of Kazakhstan declared a discovery in Kashagan in 2000 and later in June 2002 Agip KCO confirmed this statement (ExxonMobil press release 2002). Later, Kashagan was called the largest oil discovery in last thirty years. The Kazakh government declared this discovery earlier than the foreign oil companies. It was so important for Kazakhstan to show that the Caspian has good prospects as an oil basin, because other opportunities in the oil business were opening internationally and prices for oil were growing. The attraction of new investors to other blocks in the Caspian had crucial meaning for the government of Kazakhstan. In these tight conditions, the success of the Kashagan exploration was working well with the strategy of attracting new investors.

As soon as the commercial discovery had been made in Kashagan, the competition started between shareholders for the operational position. When exploration was over, a new stage of operation or production started in the project. ExxonMobil from one side and Total Petrofina and Eni on the other, were claimants for the position of operator. Geologically, Kashagan proved to be challenging and complicated; it was deep, with abnormally high pressure, and sulfur-rich oil. All these contributed to the high environmental risk in Kashagan development. The rivalry between
ExxonMobil and Eni ended up with the Eni victory. The Kazakh government supported Eni in this rivalry because one of the concerns was the pipeline issue, and ExxonMobil could not develop a possible pipeline via Iran. Eni, as an operator, has not had as many limitations in the Iranian direction. It was too far ahead for the pipeline question to matter at the time of the operator nomination, but oil projects are planned for the decades because infrastructural and capital costs are so big and returns from the investments takes years. When oil was discovered, the British Petroleum and Statoil decided to quit because their share was small and the horizon for the investment looked so long. Their shares were bought up by all the participants of the consortium.

When the operator in Kashagan started to work in 2001, the company changed the name to Agip KCO or, Agip Kazakhstan North Caspian Operating Company. The new company was working, and costs were rising and rising. It meant that commercial production was being postponed to almost uncertain future, but when this new company on oil production was established, the government put a condition on producing oil by 2002, some three years later. When it failed to happen, the government publicly accused Agip KCO of violating the agreement and losing profits from this project. AgipKCO paid some money to the state budget as a fine for the inability to produce on time. This sum was around USD 150 million (Shakhnazaryan 2005).

The Kashagan contract goes under the abbreviation of North Caspian Production Sharing Agreement (NCPSA) with the condition that the company first recover the costs, and later that the profit would be gained by the state. Increasing the costs of the project means increasing the period of time necessary for the cost recovery, and it postpones the gains of Kazakhstan as a state from the oil production in this project.

The Kazakh government closely oversaw the project. When British Gas decided to quit for the same reasons and started the selling process, Chinese companies showed interest in buying the shares in the project. All other shareholders wanted to buy it under the right of the current shareholder, to buy shares first, as they were in privileged position. The Kazakh Parliament passed the law right before the case on the Kumkol field, as a case about the necessity of governmental approval in regards to selling shares in oil projects. Finally, BG shares were divided between the government of Kazakhstan and all other shareholders.

The opposition started to press stronger and stronger for making these contracts public to everyone, and the renegotiation of the contracts because they were signed secretly and possibly among unfavorable conditions to Kazakhstan. The idea to revise the contract was one of the leitmotifs for the elections to the Parliament in 2004, and of the President in 2006 from opposition candidates. First, Ak Zhol made a strong point in their electoral campaign of 2004 on making contracts transparent, and if taxation load to the company according to the contract is low to
revise it. Then one joint opposition candidate for the election of the President also made this claim one of the key moments of his program. In both cases, the opposition could not win elections, but the government suddenly stopped all operations in Kashagan for three months due to the violation of environmental laws. The respective Ministry and Vice Prime-Minister publicly expressed their concerns about the slow development in Kashagan. 2006 and 2007 were the years when Bolivia, Venezuela, Russia, and Mongolia revised the contracts with foreign natural resource corporations, and Kazakhstan was perhaps the last one that started to raise this question.

It turned out that the project could not be sped up in any case, because of the complexity and rising prices of construction materials and services. If oil was growing fast, then steel and many other components and chemicals were growing quickly too, so the costs of the project were growing. It meant that Kazakhstan would not receive the money for a long time, because under the PSA condition, first the costs have to be recovered. That is why increasing the costs has twice resulted in such a severe reaction from the government of Kazakhstan.

As Kazakhstan’s authorities were displeased by the postponing of the project, they used official pressure in the form of ordering the Environmental Ministry to watch over all the work on the field. The Bloomberg reported about this case as “The Eni-led Kashagan development was suspended for at least three months because of ‘environmental violations’,” (Gizitdinov and Walters 2007).

Kazakhstan and all other participants started to negotiate further conditions because the project was becoming more and more delayed and costs were growing up and up. Kazakhstan’s government insisted on its growing representation in the project as other shareholders although it had only seven percent from that British Gas share. Finally, the KazMunaiGas share was increased to 16.81 percent, as large as other shareholders. Today, the structure of shares resembles the following: KMG - 16.81 percent, Eni - 16.81 percent, Shell- 16.81 percent, Total Petrofina - 16.81 percent, ExxonMobil- 16.81 percent, ConocoPhillips – 8.4 percent, Inpex-7.54 percent (Shakhnazaryan 2008). It is believed that oil production in Kashagan could start in seven or ten years from 2009.

Therefore, the contract on Kashagan is still unavailable to the public and to the Parliament despite that the Parliament in 2008 “…passed legislation empowering the government to annul or revise oil contracts perceived to harm the republic's strategic interests” (Gorst and Dinmore 2007). The Kazakh President in turn said that the contract remained intact but the timing of the big cash flow could not be postponed anymore (Ibid). The operator has changed and now it is not a single company, but rather a real pool of operators. Kazakhstan could increase its presence in the project. As we know from quoted Western sources, Kazakhstan would gain only 2 percent of the profits from this project as a state, and this
information was effective for 2006 (Johnston 2007). KMG as a state representative would probably gain more according to its shares. By increasing the share, this figure of 2 percent can grow too. Kazakhstan also pressed hard to be a co-operator of the project and it might bring a transfer of technology and qualifications to Kazakh staff and companies.

The European Union officers and Romano Prodi were warning and asking about keeping the project and Eni intact but all the parties could finally achieve some agreement. Eni promised too much and that is why they could win the operator position, but they could not keep the promise and lost this position. How much Kazakhstan paid for the return is not known. One figure was articulated and it was USD 1.78 billion, and as we remember, Kazakhstan bought the same share eleven years ago for USD 500 million. This money in 1998 and 1999 was urgently used in the elections of the President by keeping the exchange rate stable for the local Kazakhstan currency. Kazakhstan buying back these shares in 2007 and 2008 was half of market price (Crooks and Gorst 2008). The overall cost of the project may have been USD136 billion, and it is obvious that Kazakhstan does not want to bear all the risk by itself and nationalize the field (Ibid). An oil field, which has so much oil in it and so much geological and environmental risk, is still to be developed in the future. Political and economic risks or even battles will follow without any doubts.
6. Interpretive repertoires analysis

6.1 Interpretive repertoires analytical framework

Interpretive repertoire analysis is an important and useful tool in my research process. It is another tool to test my second hypothesis. My second hypothesis is

*Oil as a phenomenon has not been identified or interpreted by the decision makers and the expert community of Kazakhstan as something causing a resource curse and a source of growing state authoritative and unaccountable practices*

We have been exploring the concept of “oil” with the partner respondents in the series of interviews in the field trips to Kazakhstan. I conducted 24 interviews in 2007 and 2008. I also talked to Martha Olcott in 2001, with Nurbolat Masanov in 2006 and Andrey Illarionov in 2008. I included Masanov in the list of interviewees despite the fact that he passed away in 2006. Other interviewees have been working in different private, state and non-commercial organizations.

First, I present some basic information on the procedures and preliminary findings. According to the interpretive repertoires approach, some of the well-known concepts can be identified by the actors in different and often parallel or even contradictory meanings (Tuominen, and Turja 2007, 134-137). A classical example of an interpretive approach would be scientific activity that is defined as a rational inquiry, and a networking or promoting of the scientific activity. Our example is oil as a concept interpreted by actors in Kazakhstan.

The main idea is the interpretation of oil in society by different groups, which demonstrates how oil gets or already has gotten an informal institutionalization. If people interpret oil as a source of public benefit, then efforts to make the formal institutions or their existence for the social needs can be expected. If oil is interpreted as a threat to the society and it is seen as a source of corruption and scandal, we can say that the institutions are not working well and oil does not bring all the benefits to the society. I came to these ideas already post-factum when the results of the interviews were more or less ready for the analysis. In short, interpretation of oil is a reflection of the different groups’ understanding represented by the partner respondents to use or misuse oil for public benefits institutionalized formally or informally.

Within the frames of this research, I made a presentation and had a discussion at a round table in Almaty in December 2007, talking about oil, the resource curse and political issues in Kazakhstan. The round table took place in the NGO office called club Politon at December 6th, 2007. They used to have a website but it no longer exists. Politon has existed since 2001. The most recent news about Politon is that it has some difficulties with the tax authorities. It has been a place where speakers are invited, or where they can propose their own topic on social, historic, economic and political issues and present to an audience. Some government officials, MPs and
many opposition leaders, ex-ministers, prominent historians, ambassadors and economists made their presentations in Politon on a wide range of topics. An advisor to the President held presentations at this place several times. It can be considered a kind of Chatham House, but the journalists publish materials about presentations there. This NGO has been surviving on grants from different organizations mainly from the USA and Europe. Order in the discussion is simple. A moderator announces the topic and speaker, and then after the presentation for twenty 20 or twenty-five minutes, a discussion is held and everyone can ask question. After the questions, people might comment upon the topic and questions. To gather the people for the presentation, Politon staff usually sends e-mails to newspapers and different organizations, and people who signed up to receive announcements from Politon. Everyone was supposed to speak with a microphone because the discussion was recorded for archiving.

Putting my topic on the agenda was simple. I wrote Politon an e-mail one month before the date of the presentation and they asked me to send a proposal and plan of the presentation. After I sent it, the topic was discussed for some time at the forum and in the meantime, I started to prepare myself for the presentation. I sent a proposal, and it was confirmed.

I came to several hearings beforehand feel the atmosphere of the discussion. On the day of my presentation, I came and the moderator introduced me to the participants. There was around fifteen to twenty people altogether. They were journalists, political activists, NGO representatives and academicians. Sometimes Politon hosted government officials but that time I did not noticed any of them. My presentation, and the questions and comments of the participants were all recorded.

I was presenting for twenty minutes or so, and then the questions started. Mainly questions were about how to overcome these risks, and what is to be done on policy to avoid dependency upon oil. People advocated an active role of the state, or the state as an engine not a mere arbiter in this cause. The argument was that people still are passive, and it is a legacy of the Soviet Union when people look to the state as a leading and transforming force. After a while, the discussion came to the issue of the corporatist state and its failures as well.

Another issue was who is to blame for the oil dependency. The prices are favorable and the country is getting money, but to manage them well and for everyone’s benefit in Kazakhstan is a problem, because only those who are in power can maximize their individual gains under the idea of distributing it to the society.

People were identifying oil more as a chance for development, and luck that requires attentive and careful treatment. Participants, especially in their own comments could identify oil from the different angles, and it helped me a lot in building my interpretive repertoire’s analysis.
So far, I could identify seven main or repetitive patterns in interpreting the concept of oil in the repertoires of the partner respondents. Two other interpretations of oil concepts were used only by two individuals and have interesting potential for analysis. We can easily divide these interpretations on the positive or optimistic, then negative and pessimistic and neutral or other interpretations. Therefore, in total, there are nine understandings of oil as a concept in the Kazakhstan context. It would be worthwhile to compare these understandings of oil with the attributes of oil by Amuzegar (2001, 12) mentioned in the second chapter, when he writes about oil as huge risk and reward, big business and big politics and other interesting attributes of oil. I find it interesting to compare interpretive repertoires with the typical resource curse features analyzed by a number of authors. We also looked to the concept of the resource curse altogether and the familiarity of the partner respondents with this idea as well.

Before and after this round table I conducted interviews and spoke to Nurbolat Masanov in 2006 before his sudden death. My task was to find how people identify oil in Kazakhstan and what the attributes they would associate with oil are. All the interviews had the same first question “What is oil for Kazakhstan?” and later the questions were more free flowing. We also discussed topics on how oil was influencing the performance of the Kazakh economy and politics in general, and what the institutional issues in Kazakhstan appearing along with the oil money are, and how Kazakh society reacts to the oil boom and similar questions.

One of the issues in these interviews was the time factor. I conducted the interviews in June, July and August of 2007. Kazakhstan faced the sudden bank crisis which was a reflection of the American mortgage crisis at August of the same year. Later in 2008, the global crisis had become a reality, and oil dropped to less than USD 80 per barrel. However, the record price for 2008 was USD 147. Therefore, the respondents in general had not foreseen the coming crises. One of them clearly pointed out that the internal crisis for Kazakhstan came because of the bubble in the real estate market, which was determined by the oil money inflow to Kazakhstan. Also during 2007, the Kazakh government was active in renegotiating some conditions and clauses of the contract with Western oil companies over the development of the Kashagan oil field in the Northern Caspian. The main correction and intervening factor for all these interviews might be the global crises and its manifestation in Kazakhstan. It started earlier in Kazakhstan and the bubble in real estate from one side was caused by oil, but from the other side oil money in National Fund started to play this stabilization role when the government supported some key businesses of the country.

6.2 Oil as a positive phenomenon

In general, oil was associated or interpreted in the interviews with seven different but connected themes. Two individuals identified and interpreted oil in a particularly different way.
Below I present a table of my main findings of the oil concept interpreted in interviews. In the first column I name this interpretation. In the second and third columns, I divide responses into two groups of synonyms, because the first groups are more emotional and metaphoric whereas the second one is more neutral. The fourth column is an analysis of the meanings of these interpretations. The first seven interpretations were repeated several times by different respondents, and last two were developed by two different respondents individually. I put these interpretations in order of frequency of occurrence by the respondents. As it is assumed by the interpretive repertoire analysis, one respondent might use several interpretations in one conversation.

We have the whole palette of different opinions and identifications of oil by the interviewees. To analyze these interpretative repertoires of oil as a concept, I want to delineate the main ideas. First, we see the references and implications to formal and informal institutions like morals or an absence of power limitations. I am aware of the research myopia problem here e.g. if I look for the institutions I will find only the institutions. Second, some of the partner respondents said discussed economic, political, social and international aspects of the problem of oil simultaneously, which means that oil identified differently and that the interpretation of oil depends upon the context. Oil penetrates and has had importance in politics, the economy and society. It is not possible to classify the interviews’ results according to age or gender, because one partner respondent could interpret oil in different aspects in one interview. It is possible to a certain extent to mention the professional affiliations of the respondents when it makes clear difference. The third point is that one trend however is clear; the closer to the official power the respondent might be located, then more positive or optimistic the oil interpretation would be. Fourth, two respondents who identified oil as not good or bad, and oil as a threat on moral grounds were also contemplating the inadequacy of the current decision-makers because of their inexperience specific in the context of Kazakhstan.

Table 4. Interpretive repertoires. What is oil for Kazakhstan? Positive view

<table>
<thead>
<tr>
<th>Interpretation in repertoire</th>
<th>First group of synonyms</th>
<th>Second group of synonyms and explanation by the partner respondents</th>
<th>Analysis and possible meaning, Actions called</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Oil is a good chance for</td>
<td>Chance for development,</td>
<td>Blessing, Natural fortune, Asset, Advantage</td>
<td>Positive interpretation and future oriented</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Engine for development,</td>
<td></td>
<td>direction, Oil money pours to economy and</td>
</tr>
<tr>
<td></td>
<td>Economic growth, Source</td>
<td></td>
<td>revives it</td>
</tr>
</tbody>
</table>

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The first group of partner respondents identifies oil as a good opportunity for Kazakhstan in all aspects. Generally, business people and government officials positively estimate the impact of oil on the Kazakhstan economy. Oil creates business opportunities and employment. It boosts the regional growth, which leads to the growth of the country. There is also a multiplier effect, when one oil project brings development in construction services and in supply chain of intermediary products and services. It is what we called in theory, a linkage effect. In this interpretation, oil is viewed as a natural fortune and a benevolent caprice of nature. Kazakhstan is considered to be lucky in regards to the oil. Oil is identified as a resource convertible into economic and political development, an engine for growth, and a source of sovereignty, national wealth, even as a hope for development. One of the partner respondents made it as a strong lapidary statement “Oil for Kazakhstan is more than a chance to become a normal country; it is a hope, a grand hope of generations”.

Oil as a source of public benefits is the second positive identification. It was particularly emphasized by NGO leaders and government officials in some normative or prescriptive way. It means that oil is viewed through the social value context. What are the good things oil bring to? The idea is that oil “should” be a source of public benefit and this has not yet been the case in Kazakhstan. A respondent from Western Kazakhstan, where the main oil fields are located, specially said about lack of benefits to the region from extracted oil and environmental costs of such oil production for the region. People of Western Kazakhstan do not see the improvement of their life while oil is extracted. For our respondents, oil has became a basis for building a society in rich monarchies in the Middle East and Persian Gulf, and now to some extent in Kazakhstan. This claim was challenged and discussed by respondents because of the traditionalism of oil monarchies and the secular character of Kazakhstan. One respondent was very critical of it because society in his view became depraved by easy oil money and state care. It is not only the over-confidence of the policy-makers but also of the citizens. Actually, the majority of respondents think Kazakh society is simply alienated from oil income, but that some benefits are
passed down to the people as well. These benefits, even if they are distributed prior to the main elections are obvious; it can be growing stipends for students, pensions and even education grants.

### 6.3 Oil as a negative phenomenon

The resource curse and other related concepts imply oil as something if not negative, then still troublesome. These old “oil spoils” or “oil in turmoil” phrases are good illustrations that the oil in the social sciences is a loaded concept. Our respondents also felt some alarmist feelings about oil’s role and they interpreted it in negative terms as well.

*Table 5. Interpretive repertoires. What is oil for Kazakhstan? Negative view*

<table>
<thead>
<tr>
<th>Interpretation in repertoire</th>
<th>First group of synonyms</th>
<th>Second group of synonyms and explanation by the partner respondents</th>
<th>Analysis and possible meaning, Actions called</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Oil is a source for personal enrichment of certain individuals</td>
<td>Huge money involved, Oil price growth internationally, big business, Access to close deals , “Big” people business</td>
<td>Absence of public control for oil money redistribution, public assets became private ones, contacts with foreign transnational corporations at public expense</td>
<td>Critical to current political establishment, Accent on unfair and unequal access to oil benefits, Alienation of national business from oil. Waiting till current president would leave</td>
</tr>
<tr>
<td>2. Oil is international risk for Kazakhstan</td>
<td>Great countries oil interest, Russia, China and USA might divide Kazakhstan oil, Security of oil, Pipelines, Great Game</td>
<td>Oil and Kazakh government as a puppet of oil corporations, Lobbing of oil interests of foreign companies in Kazakhstan by Kazakh officials, oil as neocolonialism</td>
<td>Kazakhstan as an object for manipulation of big players. Renegotiation of the contracts, National interest protection</td>
</tr>
<tr>
<td>3. Oil is an internal political risk for Kazakhstan</td>
<td>Concentration of power, oil only for cronies, nepotism, Monopoly of economy means control of politics</td>
<td>High stakes of oil, Government playing for the transnational corporations, Society and oil regions are far from oil money, Oil as a political resource</td>
<td>Clan competition for access to oil business, Lack of competence of current decision makers</td>
</tr>
</tbody>
</table>
The first negative interpretation views oil as a source for the personal enrichment of certain individuals. Journalists, academicians and opposition representatives said this. Oil gives a chance not just for the country but for the individuals who are involved in oil deals with foreign corporations as well. It is a huge amount of money and a great window of opportunities for private individuals. This interpretation is much more critical than the previous one. Oil is considered a weakness in the public control context, and oversight and an overall low accountability of the current ruling political group. Consequences of such low accountability brings higher opportunities of enrichment for certain people who are entitled to protect the public interest, but who also pursue their own interest scarifying the public one. The current President and his family and cronies are the ones who benefit at the maximum form the current configuration of the oil issue.

The second interpretation of oil in this case, views oil as a source of international risk for Kazakhstan, for the development of Kazakhstan and for the very existence of the state's independence and sovereignty. Oil has been for the last sixty years, an object of rivalry from more powerful states. Today, the pipeline question and access of companies from different countries illustrates this concept of oil for Kazakhstan. The main misgiving is the option when great powers like Russia, China, the USA, and to a lesser extent the EU, might divide Kazakhstan without Kazakh involvement at all. A short war between Russia and the Republic of Georgia threatened and jeopardized oil transportation via the Caucasus from the Caspian where Kazakhstan had been participating. Concerns of being a loose change in the great games of great powers are rising, or at least do exist in Kazakhstan. One interesting comment in an interview was made about the connection of international and domestic political establishments for sharing interest in Kazakhstan. This idea also circulates widely among the opposition. The main idea is that the West is disinterested in the democratic development of Kazakhstan and is ready to sacrifice whatever
democratic values for the oil sake. The oil of Kazakhstan is more important than the democracy of Kazakhstan for the West. Following this interpretation, the current political regime in Kazakhstan has been insulted by Western pressure to democratize because access to oil from Western corporations is safeguarded. The hopes for further democratization are becoming futile in this situation. If not the West, the other two major interested parties, China and Russia, are concerned with the safe access to oil fields in Kazakhstan, but not in democracy or whatever possible instability. In addition, the fears of the involvement of great powers reach the idea that some of the great powers or any of them can support radical political movements in Kazakhstan. It can be a “Rose Revolution” scenario like in Georgia, or a sudden death of the first leader like in Turkmenistan. Russian political consultants operated with the concept of “manageable conflict” in Tajikistan when Russia supported for years one party in the civil strife. The main meaning is the conflict inside forces to find a third authority outside for arbitrage. This arbitrage is made by a great state and often in the interest of the great state. The geopolitical or “Great game” tilt in oil questions was one of the main points in interviews because oil is considered more than a commodity, it is considered a political tool.

The third negative interpretation of oil is the internal political risk for Kazakhstan. It is more systemic view than a consideration of oil as a source of personal enrichment. Internal political risk means a long-term potential for instability. The concentration of political power came through the one-sided structure of the economy because control over the main source of financial flows like the oil industry, could easily bring political control. It is especially true in this case when public control is inadequate and the checks and balances of the political system are underdeveloped. Oil as an internal risk has many aspects. One of them is the possible growth of secessionist moods in oil regions. Actually, my partner respondents are skeptical about it, but some of them mentioned a debate about this risk. Kazakhstan before Russian colonization was historically divided into three economic and political units, and today oil in concentrated in the Western part of Kazakhstan. It was that kind of a united state before the Russian colonization. It is difficult to call it a state because the nomadic territorial and political consciousness is very specific, but unity was in place. Skepticism comes from estimations that there would be a secession of the North of Kazakhstan in the early years of independence due to its predominantly high Russian population. It did not happen. Now, the involvement of Kazakh oil regions with Western Kazakhstan and its secessionist agenda is even more questionable. Media in Kazakhstan discussed this issue for some time, and then the intensity of the discussion subsided because the national agenda changed. One of the alarming signs was the reportedly low popularity of the current President. It is so difficult to check the validity of these claims because during the last elections the current President won by a very large margin. Additionally, the local governing
bodies by law have very low authority. Perhaps these provisions were introduced specifically because of the fear of secession in the North back in the early 90s.

The fourth interpretation is oil as a source of scandal. Starting from the year 2000, the United States’ legal authorities started a case against American citizen James Giffen who was accused in bribing some Kazakh officials for licenses and contracts of transnational oil corporations under the Foreign Corrupt Practices Act (FCPA). James Giffen for several years was an aide for the Kazakh President. It became known as “Kazakhgate” and it is still going on in American court. Oil majors like Mobil were involved in the scandal. The main suspect, James Giffen, was released under unprecedented bail of USD 10 million. When this scandal began, questions were addressed to the current President in different press conferences and public interviews in Kazakhstan, as well as to the Prime Ministers. The main version in Kazakhstan is that it is an internal affair of the USA and Kazakhstan does not hold anything common with it. Later the President announced that this scandal was orchestrated specifically, and had the intent to press Kazakhstan for better deals in the new Caspian oil projects. It was an effort to “save the face”. Still “Kazakhgate” is some kind of taboo in the Kazakh media and the official position is keeping distance from it. At the time of writing this piece, the case is pending and in court. The majority of the respondents was well informed about the scandal, and considers it a very negative factor for Kazakhstan authorities. Interestingly enough, one of the opposition parties tried to use this scandal in an electoral campaign to the Parliament in 2004 without too much success. One of the respondents said this oil and scandal theme and “Kazakhgate” would have a postponed effect in Kazakhstan in the future, but today it cannot even be a factor for international pressure because oil is a more valuable asset than being seen as corruption-free. In addition, respondents contemplated the high administrative costs and barriers of access to the oil business. It can be seen as “oil for their own relatives” (нефть дыя своих). This interpretation of oil as a source of scandal is similar to the interpretation of oil as personal wealth, and to the international risks. The personal illegal enrichment through corruption schemes are connected with the oil business and where huge amounts of money are circulated. The international risk or pressure of the great powers to Kazakh authorities goes through the legal case against a person who used to closely associate with highest officials in Kazakhstan.

The fifth interpretation of oil is a one-sided economy. Oil dominance in the economy is an unfavorable factor for our partner respondents. It is a dissonance for the first interpretation of oil as a good chance for economic development. At least it can be considered to be some kind of disillusionment from the idea of a good chance of oil as an engine for development. First, respondents criticized the unproductive efforts by the government to diversify the economy with
the help of oil money, and the over-reliance on income from the oil industry as some kind of de-motivator for the government to take efficient policies.

A variety of negative interpretations of oil prevailed, but certain people, as it happened in interviews, could simultaneously view oil from different angles and interpret it differently.

6.4 Other interpretations and some analysis of the repertoires and interviews

Here interpretation of oil by the group respondents ends. All of these interpretations were mentioned by more than one respondent. Clearly, interpretations depend upon the context or angle of view and the group concerned by oil. To build a hierarchy of interpretations by frequency of being mentioned is not possible because these interpretations have equal character. I mean that some respondent could mention two or even just one interpretation and another, five or six. I decided to include two individual and neutral interpretations of oil not only because they are interesting, but also because these interpretations have some repercussions in the research field about the effect of oil on other countries performances.

Table 6. Interpretive repertoires. What is oil for Kazakhstan? Neutral view

<table>
<thead>
<tr>
<th>Interpretation in repertoire</th>
<th>First group of synonyms</th>
<th>Second group of synonyms and explanation by the partner respondents</th>
<th>Analysis and possible meaning, Actions called</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Oil is not good or bad, it has secondary role (one respondent)</td>
<td>It is opportunity and risk but ultimate role depends upon decision makers</td>
<td>Different countries have produced different outcomes. Kazakhstan is unique and analogies with other oil countries might be false. Russian example can be similar but scale is different</td>
<td>Maybe he is familiar with literature on oil influence to the development</td>
</tr>
<tr>
<td>2. Oil is a destroyer morality both state officials and public (one respondent)</td>
<td>Oil in religious societies might play positive role. Kazakhstan has moral crisis. Oil only deepens and aggravates this crisis more</td>
<td>Kazakhstan as “second Kuwait” is difficult to imagine. Oil creates too lucrative incentives for the officials to pursue their personal goals</td>
<td>At the Middle East religiosity helped to provide public benefits if</td>
</tr>
</tbody>
</table>
For the first interpretation one respondent said that oil has a secondary role. Oil use depends totally upon the people and laws where people operate. Decision-makers and their maturity have had major roles in putting oil to good or bad use in society. Oil is a commodity and it is a neutral one. It does not make a lot of difference; only actors and their actions, choices, intentions, and limitations by formal and informal ties and frames make it special. It can be encapsulated in the sentence “Oil is nothing, people are everything”. The difference of an oil country’s performance cannot be based upon the natural endowment or its absence; people, their qualities and their actions have a much more important role.

The second interpretation has an unexpected identity for oil altogether, because oil is interpreted as a moral destroyer of the decision-makers and people. Oil creates a “dizziness” of the decision-makers of easy money and overconfidence. Decision-makers would be so used to fast money that they cannot plan for longer periods. Society is becoming “hooked” on the idea of social protection from the cradle to grave, and a person relies upon the government that distributes oil money.

Similarities between several interpretations of oil, demonstrate that the boundary between these identifications is permeable and not fixed. Certain identifications could flow to each another. It is even more obvious when a live interview is going on. Oil is such a complex concept that it can be easily identified in different ways. So we can see each of the identifications in more detail. Several interviewees defined the resource curse concept as a bad and detrimental one because it can justify and forgive the mishaps and errors made by politicians, simply by the fact that natural resources create special unproductive policy sets. Later, I found this idea articulated in Russia as well by Andrey Illarionov, former advisor to the President (Illarionov 2008). Illarionov looks to “the resource curse” as something dependent upon the actions of the people, not the availability of the resources (Ibid.):

“In times of high oil prices different countries behaved differently. Some countries experienced erosion of the rule of law institutions, e.g. in Russia, some countries have not changed, somewhere like in OPEC countries incremental improvement in institutions takes place. Oil is not guilty. Therefore, a concept of the resource curse is a pure theory, myth, which is not only non-correct but also detrimental. It states, if nothing can be done in the country when high oil prices occur then this country is doomed, regardless of what you do”.

Illarionov came to Almaty in May 2008 to participate in a conference on risk management. I do not think about a priority of the idea articulation by whoever it might be, but I think this idea is in the air and various people could come to the same conclusions from the same premises.
When analyzing or differentiating between interpretations of oil by partner respondents, I faced an issue that analysis can go deeper and it can be connected with the free-flow of an interview, because when an interview was going on, themes and topics were following one after another and this flow was very smooth. I will give a short synopsis of the different interpretations of oil, and I will use it in detail in later chapters. When analyzing or differentiating between interpretations of oil by partner respondents, I faced an issue that analysis can go deeper and it can be connected with the free-flow of an interview, because when an interview was going on, themes and topics were following one after another and this flow was very smooth. I will give a short synopsis of the different interpretations of oil, and I will use it in detail in later chapters.

Interview results show that experts from different groups interpret oil issue for Kazakhstan differently. It is not a surprise or a puzzle. Each of this group of experts has their own agenda and own interests regarding oil. Despite of the current monolithic political landscape in Kazakhstan, where opposition is marginalized and critics are silenced, the variety of the views to oil which is one of the important assets of Kazakhstan’ economy demonstrates a potential for the variation and changes in political life as well. If different groups interpret and understand oil differently they would argue about it maybe secretly and non publicly at the first stage and then open appeal to the public would follow. Variety of the views now is a first step to the political contestation in the future because oil is important issue.

Our differentiation of the expert community was based more on professional basis. Selection of the experts allows to say about some representation of the views to the discussed topic of oil. Room for future sociological research remains with more resources involved and with the aim to see how Kazakhs and Russians view oil because these two ethnic groups are the most numerous in Kazakhstan, how Kazakhs from different regions look to oil, what is a view of the elderly and young generations, rich, middle income and poor ones, males and females, rural and urban people to oil. My research is still limited and could encompass only the experts who understand oil issues better than the general public but the understandings and evaluations of larger social groups are interesting and important. Experts are in this theme but oil and possible income or absence of the income from oil influence general public wellbeing even more.

Lack of representation of the public interest in Kazakhstan and oil interpretation by our experts are connected because the association of oil with big money, influence of superpowers and risks for losing sovereignty, big scandal and other negative associations mean the public control over oil and oil income is obviously absent. Another inference is that people who should safeguard the public interest are not fulfilling this function or even abusing it. Even if you group our interpretations we see that people have two positive, four negative and two neutral
interpretations of oil. Experts see oil and oil income as something which is bypassing them and that is why negative interpretations really dominate.

We could say that positive understanding of oil by the state officials can be connected with the fact that the state captures the oil rent and society is ousted from the oil rent distribution and control. However it would be too strong statement because state apparatus is not unified. Average state official might benefit from the oil rent capturing but he or she are not involved in the control of the rent. Only the key decision makers and top officials can pursue their private interest in oil issue while they have to protect and safeguard the public interests.

Lack of qualification of the negotiators is another issue related to oil agenda in Kazakhstan. David Johnston referred to the flagrant fact of possible 2 per cent of income to Kazakhstan in Kashagan project which is unacceptable in a democratic country but in authoritarian country there are no debates about it. Absence of debates has various reasons. First one is that this information is simply not easily available. Politics and all the negotiations on this topic are not public too under the pretexts of commercial confidentiality. Second, public debates are still limited. These debates do exist but they are limited. NGOs and politicians raise this issue and as I will show in following chapters, opposition leaders make renegotiation of the contracts a key point of the electoral programs.

I discussed this issue with the journalists. They are aware about small figure to be paid o Kazakhstan and weak negotiation power from Kazakh side in this case but they do know exact figures to operate. One my respondent from business assumed that the figure should be at least 50 % of Kazakhstan gain in the rent out of oil in Kashagan and rent extraction and living standards should be at the level of UAE (!).

In general, the interviews have been successful, and thought provoking; the interviewees showed interest and even concern about the institutional weaknesses of Kazakhstan in its ability to manage the oil boom. There was interest also in the formal and non-formal institutions in Kazakhstan. Interviewees were not critical of the actions of the government, and some of them emphasized improving order in the budget procedure. The strict budget procedure would help prevent a possible budget spree and mismanagement.

Oil was not identified a dichotomy: right or wrong, good or bad. Oil was identified in a more complicated way, according to the different levels and aspects such as politics, the economy, motivation, international relations, institutions, and even religion and morality. Variety of the interpretations opens room for further research and questions because as the experts still reflect certain public moods and opinions and further debate in the society of Kazakhstan can be expected some day in the future.
6.5 Analysis of the publicly available materials on the oil influence in politics and the economy in Kazakhstan

In addition to the interviews, I analyzed the materials of political programs of different political parties in Kazakhstan. This is more of a discourse analysis of the written sources than the interpretive repertoires. Written sources do not have such outspoken interpretations. They are edited and people who write them control more their speech or text more.

I looked at how “oil” is identified by the different political actors according to their political position; either they are in the opposition or in the government, or they in the NGO sector or an academic researcher. I analyzed how oil as a concept is identified, viewed and interpreted by different political parties including: Nur Otan, Ak Zhol, Azat, OSDP, and the non-registered party Alga during Parliamentary elections in 2004 and 2007 and the presidential elections in 2005. I have chosen these parties because they are the most active and powerful in terms of financial resources and support by the electorate. There are other smaller parties which participate in the elections.

One of the problems is that some parties have disappeared or reappeared and that others merged or changed their names in this period since 2004; the same happens with their websites which disappear or undergo reconstruction. It does not show the dynamic character of the political life; it shows instead the short-term interests and non-stable life of political parties in Kazakhstan. The selection of representative sampling can be a challenge. The analysis was based on the materials available on the websites of these parties relevant to the oil issue, and include hard copies of political programs, publications, interviews of the political leaders and news selections related to oil from their websites. This part of research is more an addition to the interpretive repertoires analysis because here it is more “depersonalized” and refined information prepared for public use, and not articulated in interviews.

Even if the political parties are not well-developed they still have participated in several parliamentary elections. Websites of some parties revive during electoral periods and some parties keep their websites updated all the time. In regards to oil, I analyzed five websites, and in total more than two hundred documents from several years of publication. It was not only the political parties’ electoral programs and interviews of their leaders in electoral periods, but also a collection of the materials from their websites about the role of oil in Kazakhstan. In fact, the opposition has been renewing their materials and websites much more regularly compared to pro governmental party websites. It can be explained easily because the official party has better and almost exclusive access to TV channels. In contrast, the opposition is in a sense forced to use different media outlets. Actually, the oil topic is considered taboo by the official parties or oil was considered only in the positive way. If oil risks are discussed by the ruling party, then the risks are
described and solutions or steps to overcome them are suggested. Oil as an issue or a challenge is less and less articulated by government officials and more and more by the opposition. This has started because the state has declared the introduction of innovation and diversification programs in the economy and is using oil money for that.

My main finding is that the closer the political party is to the ruling group, and then more positively oil is identified. The opposite view is true as well, and if the party is more in opposition to the current regime, then they are more critical and would tend to view the oil or actions of political authorities in dealing with oil issue negatively. The opposition identifies oil with scandals and a “resource curse” and the ruling party identifies oil as an engine for the growth of the economy and in general as a blessing for Kazakhstan. Some parties in between look at oil as an issue for the current government to handle, which cannot use the positive potential of oil for the full capacity of economic growth. It is more a spectrum of different views, rather than just the “good” and the “bad”. It is not only a black and white picture, because the current President talked about the resource curse just as the opposition leaders did (Konceptsia 2030 1998, Abilov 2008).

One of the ideas by moderate opposition stated during the elections of 2004, and later repeated during the presidential elections of 2005, was the inefficiency of the government and its inability to take the appropriate steps to manage the oil boom. It was repeated once more by the opposition in 2008 as well, and although the government has recognized the resource curse, it is not taking any proper steps to overcome it. “We could not diversify our economy and make it more sustainable and less dependent from so-called “resource curse” for the last fifteen years; it is only talks and talks” said Bulat Abilov who is the chair of Azat, a moderate opposition party (Abilov 2008).

It is possible to find four main identifications of oil in the political parties’ positions from the parliamentary elections of 2004. The most radical opposition was an electoral block of the Communist Party with the Democratic Choice of Kazakhstan (DVK), and they identified oil as a source of scandal and national shame because of corruption. This scandal implication meant that oil was a way for the enrichment of power groups and robbing the people of Kazakhstan. The moderate opposition, or Ak Zhol party, used the oil theme very intensively in their campaign and it was in a sense a backbone of the campaign. The oil issue was a central theme in their TV ads. The main idea of this ad was the unfairness of the distribution of oil income between different groups of society. The party suggested a solution to this issue in the form of the direct distribution of the oil income between all citizens of Kazakhstan, including newborn babies. Opponents and journalists called this proposed step by Ak Zhol populist. However, Ak Zhol denied these accusations, because if every citizen were to receive approximately US $110, as was calculated, then it would be a help for many poor households.
The documents of the ruling or pro-governmental party, Nur Otan (Otan before) poorly address oil identification. When we talk about the President and the ruling party, the President has had dominance because he created the party, and because the party’s officials were confirming constantly that the party stands behind its leader, the President. I can refer first, to the message of the President to the people of Kazakhstan in 1997, which is called the National Concept 2030. It declared the key goals for Kazakhstan by 2030, and is referred to as one of the main documents of the country. Here, the oil topic is discussed in detail. First of all, special focus is on the “rapid increase in extracting and exporting oil and gas with the aim of gaining revenues which would enhance stable economic growth and improvement of living standards of the people” (Konceptsia 2030, 1998). Later almost all debatable issues are delineated, such as the need for diversification within the economy, the necessity of new export routes, the balance between Russia, China and the USA, signing contracts with oil corporations and the technology transfer in such contracts, and social benefits and the risks of the Dutch Disease. All these issues are repeated regularly by Nur Otan. Nur Otan does not talk about the renegotiation of the contracts, but the government did initiate a new round of negotiations in 2007 with oil corporations.

The opposition leaders openly promise to change the contracts with major oil and metal corporations in Kazakhstan because the current ones are so favorable in the interests of corporations that Kazakhstan as a country is losing. Western researchers have also recognized this. David Johnston says about 2 percent of profits for Kazakhstan in the major oil contract on the Kashagan field is unacceptable in a democratic country. His thought of the lack of negotiation skill and signing unfavorable contacts by the developing countries is going through in this impressive volume *Escaping the Resource Curse* edited by Stiglitz, Humphreys and Sachs (2007).

As the government takes steps in working with the contracts, and public pressure is created by the opposition, we could see a unified political process on one important national issue despite contradictions and conflicts. Therefore, the political platforms of the different parties regarding oil, vary with their relation to power; the closer to the power the less critically the party would interpret the oil. The opposite is correct; if the party is in opposition, it will be more critical in its interpretation of the oil issue. This criticism goes not only for the actions of the government, but also for the oil as an issue. However, the ruling party was taking the actions proposed by the opposition without acknowledging that the ideas come from the opposition.

Website analysis is very interesting because it helps to provide a full picture in the preference of political parties in terms of information. Internet politics in Kazakhstan at the beginning of 2000 was a tool of the poor opposition which was not presented on TV because of financial and political constraints. Also the target groups of the opposition were educated people, which have access to the internet. This situation changed when the internet became more and
more available and websites became more influential. Several pro-governmental sites appeared as attention from the state increased toward the internet when some people began to publish private audio and video recordings of government officials on the web. This included debates on political issues and money questions. A scandal occurred when Rahat Aliev published audio recordings of phone conversations of high ranking officials (Ryskozha 2008). The Prosecutor General prohibited the publication and reprinting of these conversations as they were considered a violation of the privacy of a citizen (Ibid.).
7. Kazakhstan’s energy policy in the cross-national context

7.1 Cross-national statistical descriptions

Now we test our third research hypothesis by the cross-national comparison. The third hypothesis was postulated as:

*If oil prices were to grow, then post-Soviet oil-exporting countries, Kazakhstan among them, can demonstrate the repressiveness and closure of political opportunities, due to power being concentrated in the state, and the civil society having not yet been historically developed.*

The main problem in our cross-national analysis is the choice of the indicators or units of comparison. The proper choice means a thorough description of our cases and the possibility of making inferences from the data. Therefore, I would like to compare the figures and ratings of Norway with all OPEC members, Azerbaijan, Kazakhstan, Russia, Turkmenistan, Uzbekistan, and Canada, and then explain the differences between them. My choice of countries is justified for me by the classification of Eifert, Gelb, and Tallroth (2003) of oil exporters and their reaction to oil boom. I discussed this piece of research in the literature review. In short, they classify the countries into five groups: mature democracies, factional democracies, reformist autocracies, paternalistic autocracies, and predatory autocracies. Each country would react differently to the oil boom and some of them benefit and others do not, depending upon the government institution and scope of time horizon and planning. As Eifert et alia conclude, “…it is clear that countries taking a long-term view will benefit the most from their oil resources” (Ibid.). Three types of oil exporters - namely mature democracies, reformist autocracies, and paternalistic autocracies - plan to spend oil income in the long horizon. Two types - factional democracies and predatory autocracies - plan and spend the income in the short time horizon.

This classification is helpful and allows my hypothesis to be tested in terms of post-Soviet countries as some kind of autocracies, either reformist or paternalistic, and juxtapose them with oil monarchies of the Persian Gulf or mature democracies such as Canada and Norway.

I look to the period from 1999 to 2008, which is a period of oil price growth, for my analysis. In regards to the post-Soviet countries, they can be considered as oil-rich, oil-exporting countries in transition from the Soviet system of economy and politics, to something new and different. With some reservations, we can say that post-Soviet countries started from similar positions. My reservations refer to the obvious regional differences in the development of Soviet Union in respect to various aspects such as industry, urbanization, education, and infrastructure. All my cases have had a common history for the last one-hundred or one-hundred-and-fifty years, but even the history is going through a reassessment phase because of the availability of new
sources, opinions and interpretations. To some extent, Russia was the only state with deep traditions of statehood and a qualified national civil service.

The first group of figures is general information about our cases like territory, size of population, literacy, median age, ethnic composition, life expectancy at birth, infant mortality, and fertility rates for the last available year. These figures are relatively stable and do not change much in a short period.

The second group of indicators will be economic and oil related figures. It will include proven oil reserves, the production of oil annually, the production of oil per capita, GDP in purchasing power parity (PPP), and GDP per capita in PPP terms.

A third group of tables will be different from all the above because I will present how oil prices and indicators were changing in time. A time series is a complicated tool because just one case or year can change the inferences. Therefore, we present and analyze on a case-by-case basis. I look at annual political and economic indicators such as the Corruption Perception Index by Transparency International, the Freedom House ratings, and the Human Development Indexes and Governance indicators from the World Bank.

Transparency International defines the Corruption Perceptions Index (CPI) “in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, a poll of polls, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions” (Transparency International 2008). The methodology for the CPI is a “poll of polls”. It means they collect information on corruption on each case from different agencies. In 2008 there were eighteen cases. The list includes the Asian Development Bank (ADB), Economist Intelligence Unit (EIU), and Bertelsmann Transformation Index (BTI). These agencies conduct interviews with a panel of experts in the given countries (Lambsdorff 2008, 4).

The Freedom House publishes a survey each year and, “…measures freedom according to two broad categories, which are derived from the Universal Declaration of Human Rights: political rights and civil liberties. Each country and territory covered in the survey is assigned two numerical ratings-- one for political rights and one for civil liberties--on a scale of 1 to 7; a rating of 1 indicates the highest degree of freedom and a 7 the least amount of freedom” (Freedom House 2008). Freedom House uses a number of analysts and senior academic experts who in turn use “foreign and domestic news reports, academic analyses, non-governmental organizations, think tanks, individual professional contacts, and visits to the region” (Ibid). Freedom House has two main indicators: Political Rights (PR) and Civil Liberties (CL).

The Human Development Index was developed by UNDP researchers Amartya Sen and Mahbub ul Haq. This index is “measuring average achievement in three basic dimensions of
human development—a long and healthy life, knowledge and a decent standard of living” (Human Development Report 2007, 225). The Human Development Index is more sophisticated and works with statistical averages for each dimension in each country’s case. However, for developed and developing countries they calculate more detailed ratings like gender empowerment on different grounds (Ibid, 356-357).

Governance by the World Bank is defined as “the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, Kraay and Mastruzzi 2009, 5). Out of this government effectiveness is the “capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies” (Ibid, 6). The methodology for the governance indicators is a combination of individual interviews and data sources and a statistical processing method.

All the aforementioned indicators help to see the picture in our selected cases from the view of observers and from different angles.

After presenting the table on general information, I will analyze Kazakhstan in detail in its historical context and then explain the differences and similarities in the performance of each country for the given period. After each table, I present some analysis and textual explanation of the table data as well. Some of the terms require an explanation as well, as there are cases where data is not possible or some figures might be questionable, or different sources give different values.

Table 7. General Information about the cases of analysis

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</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>86,100</td>
<td>8,238,672</td>
<td>98,6</td>
<td>28.2</td>
<td>Azeri 90.6%, other 9,4%</td>
<td>66.66</td>
<td>2.04</td>
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<td>Kazakhstan</td>
<td>2,717,300</td>
<td>16,402,861</td>
<td>98,6</td>
<td>29.6</td>
<td>Kazakh 53.4%, Slavs 33.7%, other 13 %</td>
<td>67.8</td>
<td>1.88</td>
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<td>Russia</td>
<td>16,995,800</td>
<td>140,412,247</td>
<td>99,5</td>
<td>38.4</td>
<td>Russian 79.8%, Tatar 20.2% (2002 census)</td>
<td>66.03</td>
<td>1.41</td>
<td>10.56</td>
</tr>
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<td>Country</td>
<td>Population</td>
<td>Urban Population</td>
<td>Urban %</td>
<td>Diversity</td>
<td>Origin</td>
<td></td>
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<tr>
<td>Canada</td>
<td>33,487,208</td>
<td>9,984,870</td>
<td>99</td>
<td>40.4</td>
<td>British Isles origin 28%, French origin 23%, other European 15%, Amerindian 2%, other, mostly Asian, African, Arab 6%, mixed background 26%</td>
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<tr>
<td>Norway</td>
<td>4,660,539</td>
<td>323,802,002</td>
<td>100</td>
<td>39.4</td>
<td>Norwegian 94.4% (includes Sami, about 60,000), other European 3.6%, other 2%</td>
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<td></td>
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<td>Algeria</td>
<td>8,188,188</td>
<td>2,381,741</td>
<td>69.9</td>
<td>26.6</td>
<td>Arab-Berber 99%, European less than 1%</td>
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<tr>
<td>Angola</td>
<td>9,293,979</td>
<td>1,246,700</td>
<td>67.4</td>
<td>18</td>
<td>Ovimbundu 37%, Kimbundu 25%, Bakongo 13%, mestico (mixed European and native African) 2%, European 1%, other 22%</td>
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<tr>
<td>Ecuador</td>
<td>3,101,011</td>
<td>283,561</td>
<td>91</td>
<td>25</td>
<td>Mestizo 65%, Amerindian 25%, Spanish and others 7%, black 3%</td>
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</tr>
<tr>
<td>Iran</td>
<td>2,984,247</td>
<td>1,648,195</td>
<td>77</td>
<td>27</td>
<td>Persian 51%, Azeri 24%, Gilaki and Mazandarani 8%, Kurd 7%, Arab 3%, Lur 2%, Baloch 2%, Turkmen 2%, other 1%</td>
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<tr>
<td>Iraq</td>
<td>5,569,569</td>
<td>438,317</td>
<td>74.1</td>
<td>20.4</td>
<td>Arab 75%-80%, Kurdish 15%-20%, Turkoman, Assyrian, or other 5%</td>
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<tr>
<td>Kuwait</td>
<td>526,933</td>
<td>17,818</td>
<td>93.3</td>
<td>26.2</td>
<td>Kuwaiti 45%, other Arab 35%, South Asian 9%, Iranian</td>
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</tr>
<tr>
<td>Country</td>
<td>Population</td>
<td>Area</td>
<td>Density</td>
<td>Life Expectancy</td>
<td>Population %</td>
<td>Life Expectancy</td>
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<tr>
<td>Libya</td>
<td>1,759,540</td>
<td>6,324</td>
<td>282.6</td>
<td>23.9</td>
<td>Berber and Arab 97%, other 3%</td>
<td>77.29</td>
<td>3.08</td>
<td>21.7</td>
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<tr>
<td>Nigeria</td>
<td>923,768</td>
<td>149,2</td>
<td>68</td>
<td>19</td>
<td>250 ethnic groups, Hausa and Fulani 29%, Yoruba 21%, Igbo (Ibo) 18%, Ijaw 10%, Kanuri 4%, Ibibio 3.5%, Tiv 2.5%</td>
<td>46.94</td>
<td>4.91</td>
<td>94.35</td>
</tr>
<tr>
<td>Qatar</td>
<td>11,586</td>
<td>833.2</td>
<td>89</td>
<td>30.8</td>
<td>Arab 40%, Indian 18%, Pakistani 18%, Iranian 10%, other 14%</td>
<td>75.35</td>
<td>2.45</td>
<td>12.66</td>
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<tr>
<td>Saudi Arabia</td>
<td>2,149,690</td>
<td>28.68</td>
<td>78.8</td>
<td>21.6</td>
<td>Arab 90%, Afro-Asian 10%</td>
<td>76.3</td>
<td>3.83</td>
<td>11.57</td>
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<td>UAE</td>
<td>83,604</td>
<td>4,798</td>
<td>77.9</td>
<td>30.1</td>
<td>Emirati 19%, other Arab and Iranian 23%, South Asian 50%, other expatriates 8%</td>
<td>76.11</td>
<td>2.42</td>
<td>12.7</td>
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<tr>
<td>Venezuela</td>
<td>912,050</td>
<td>26.81</td>
<td>93</td>
<td>25.5</td>
<td>Spanish, Italian, Portuguese, Arab, German, African, indigenous people</td>
<td>73.61</td>
<td>2.48</td>
<td>21.54</td>
</tr>
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<td>Turkmenistan</td>
<td>488,100</td>
<td>4,884</td>
<td>98.8</td>
<td>24.4</td>
<td>Turkmen 85%, Uzbek 5%, Russian 4%, other 6%</td>
<td>67.87</td>
<td>2.22</td>
<td>45.36</td>
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<tr>
<td>Uzbekistan</td>
<td>447,400</td>
<td>27,60</td>
<td>99.3</td>
<td>24.7</td>
<td>Uzbek 80%, Russian 5.5%, Tajik 5%, Kazakh 3%, Karakalpak 2.5%, Tatar 1.5%, other 2.5%</td>
<td>71.96</td>
<td>1.95</td>
<td>23.43</td>
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</table>

Source: All information is taken from related pages of [www.cia.gov](http://www.cia.gov) Accessed on May 9, 2009 and March 27, 2010

 Territory and population sizes make a difference because small oil monarchies of the Persian Gulf and the small in population country of Norway are different from the other countries. Turkmenistan, and possibly Azerbaijan, could be like these cases in the future too, but they are very different in terms of GDP figures, which are presented in next table. Longer life
expectancies correspond, in our list, with lower infant mortality rates, which is expectable. Russia is the biggest country in terms of territory in the world. It has become a challenge for the Russian state because of the need for infrastructural development in all of these territories. Kazakhstan is the ninth country in the world in terms of territory, and has the same challenges Russia does in developing roads, railroads, electricity, pipelines, small cities and villages. The density of the population in Kazakhstan is even less than in Russia. For both countries, the size of their territory is also deceiving because not much of the territory is suitable for living. Russia has such a severe climate in the North with frozen soil, that everyday living is not comfortable at all. Kazakhstan has deserts where survival for humans is also a challenge. Russia and Kazakhstan have similar demographic problems along with similar problems regarding the inhabitation of their territories.

Table 8. Oil, Oil Economy Related Data and GDP in PPP terms

<table>
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<td>Azerbaijan</td>
<td>7.0</td>
<td>868</td>
<td>105,3</td>
<td>86,05</td>
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<td>1,287</td>
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<td>2556</td>
<td>554</td>
<td>276,5</td>
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<td>2016</td>
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<td>244,3</td>
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<td>520</td>
<td>37,1</td>
<td>108,2</td>
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<td>4322</td>
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<td>17,4</td>
<td>353,2</td>
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<td>1240</td>
<td>101,2</td>
<td>121,400</td>
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<td>10449</td>
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<td>581,3</td>
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<td>41,800</td>
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<td>Uzbekistan</td>
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<td>114</td>
<td>3,5</td>
<td>77,57</td>
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The second group of indicators is economy, oil, and oil economy related figures of oil exporters. This data is very fragmented and I collected it from very different sources. The Energy Information Administration and the Central Intelligence Agency were my sources. We can classify the countries of very low GDP per capita, like Uzbekistan, Iraq and Nigeria, and the very affluent, like Qatar, Canada, Norway, and the United Arab Emirates. There is a large group in the middle starting with Saudi Arabia, with USD 20,300 to Turkmenistan, with USD 6,700 GDP per capita. Oil production correlates with the GDP per capita figures too and countries with small populations like in Qatar or Norway are the most affluent on the list. Canada is more like an exception from the rule because it is a much more diversified country. The United Arab Emirates were quite successful in diversification efforts too.

Now I will look at the annual changes in the indicators and oil price change.

**Table 9. Corruption perception Index and Oil Prices. Low scores mean high levels of corruption**

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Source: Oil price statistics were retrieved from the Energy Information Administration. They are available at [http://tonto.eia.doe.gov/dnav/pet/hist/rbrtea.htm](http://tonto.eia.doe.gov/dnav/pet/hist/rbrtea.htm) Accessed on May 12, 2009. The Corruption Perception Index was taken from the Transparency International website.

Obviously, there is not any correlation between oil price and the Corruption Perception Index (CPI) in all our selected cases. Price was growing all the time and the CPIs have not changed much along with the prices. This claim is better illustrated by the graph.

**Graph 2. Oil Prices vs. Corruption Perception Index**

As CPI indexes are calculated from 1 to 6, I multiplied them by 10 so they would match up to the numerical order, and so that they would be more visible on this graph.

We look at the oil price since 1999, but the oil price in 1998 was USD 12.76. It was at its lowest then, during the entire twenty-one-year period taken from 1987 until 2008. Oil prices fluctuate seasonally and even monthly, and daily, and different commercial blends of oil can be different in price terms because of the quality. We give here the Europe Brent Spot Price on Free On Board (FOB) conditions according to the American Energy Information Administration’s statistics. Quality and price depend upon the blending of the oils from several fields because all the oil is then transported in the same pipeline. The oil blend from the former USSR is usually a bit cheaper than the average international price When Kazakhstan sells oil via old Russian
pipelines, it has different prices than if it is sold from Caspian Pipeline Consortium, due to
different blends. Oil was hitting the ceiling price of USD 140 per barrel in 2008, but the annual
average is different.

Actually, despite the low scores in the Corruption Perception Index, the cases are not very
dynamic. We can see three main groups in the chart. The first group includes Canada and
Norway, with model scores. The second group with middle scores includes the four Arab
countries of Qatar, Kuwait, UAE, and Saudi Arabia. The third group, with low scores, is
comprised of the rest of the countries. All of the post-Soviet countries are situated in the third
group because of high corruption practices. Corruption becomes systemic, which means that it is a
system of relations between the actors, and that it is not only an additional tax on businesses and
to the discredit of the state service, but that everyone knows about it and that there is no way to
avoid it in everyday practice. Azerbaijan showed some positive dynamics with higher oil prices.
Corruption decreased with higher revenues for the state. It means that law enforcement in
Azerbaijan became more effective and that the state’s capacity to enforce the law and fight
corruption at certain levels improved. Azerbaijan has weak state capacities because of some
instability within the country and the war with Armenia, but as soon as more revenues were
generated, the state began to better perform. Qatar and the UAE both demonstrate a positive
correlation with oil prices, and Saudi Arabia and Kuwait are slightly moving down the road with
the price growth. All of the other cases in the high and low scoring groups are almost immune to
price fluctuations. Therefore, we can infer with some reservations that oil price growth makes a
difference with groups which are in the middle, where there is room for degradation and progress.

The next table is a table from the Freedom House, and we remember the statement by
Tomas Friedman (2006) in his The First Law of Petropolitics about the strong correlation between
oil price and the decrease of freedom in the world. Our cases have been rated as “not free” for a
very long time.

Table 10. Freedom House Indicator and oil prices.

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We have two countries that are constantly free and, without surprise, they are Canada and Norway. Three cases were influenced strongly by the oil price increase in terms of moving from a freer country to a less free one. These cases are Ecuador, Venezuela, and Russia. Ecuador and Venezuela were freer before oil price increases and then became partially free countries. Ecuador and Venezuela were free in 1999 and right after that year when oil prices started to grow they moved to partially free group. Russia was rated as a partially free country until 2005 and then it became a suppressed country. Kuwait and Nigeria were partly free country and it did not change. The rest of the countries were all suppressed countries, and some of them were even moving a little toward harsh or less harsh conditions. We can infer that oil price increases and, subsequently, oil rent captured by the government makes a difference in countries at the boundaries where political rights and civil liberties are not well grounded. Oil price fluctuations do not influence hard line dictatorships too much, or liberal democracies as well. Our table confirms, only in part, the statement by Friedman (2006) that was discussed before.

The Freedom House published a special report in 2008 about nations in transit called Nations in Transit 2008: Petro-Authoritarianism and Eurasia's New Divides, where their experts connect freedom with oil export (Walker and Goehring 2008). The issues of oil and freedom are connected for Freedom House, and oil or energy supplies might be considered by the countries owning the resources as a tool for the pressures of their own citizens and neighboring countries as well. The main claim of this report is that “as the price of oil has risen over the past ten years, Nations in Transit’s findings have registered a concurrent and striking decline in the openness and

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Source: Information was taken from the Freedom House website and annual report. *Data for this year is given for 1998/1999. Political rights (Pr) and Civic Liberties (Cl). A higher rating means less freedom. Bold font marks not free cases, italic font marks partly free and normal font marks free cases.
independence of institutions that could be paving the way for more transparent and accountable governance” (Ibid, 26). Russia showed these dynamics in aggregate scores, and eventually ended up with a score similar to Kazakhstan and Azerbaijan (Daly 2009). Kazakhstan did not change at all, and Azerbaijan changed from 1999 to 2000 in respect to civil liberties. In addition, the Freedom House has disaggregated data in their surveys where scores might vary, and their changes are more evident, although the total aggregate scores changed only for Russia along with the growth of oil prices

When we discussed the “law of petro politics” by Friedman, it can be applied in our case only to Ecuador, Venezuela, and Russia. Ecuador and Venezuela reacted to oil boom very fast and moved from free” to “partly free” listing. Authoritarian regimes have been autocratic before and after the oil boom. Democratic institutions could not erode there because they did not exist at all. This shows the primacy of institutions established prior to the oil boom.

Ecuador is an example which deserves some special attention because its performance on CPI and Freedom score was interesting. Situation with CPI in Ecuador improved and from 1999 till 2009 general trend for CPI index was growing. Situation with freedom in Ecuador deteriorated and we cannot analyze this because the change had happened only for one point in 1999 and then the scores were not changing which is clear negative relationship. Oil prices were growing all this period. It is a clear correlation between these sets of the data. I have run a linear regression for the Ecuador’s CPI and oil prices. R coefficient was 0,607546. It is a large correlation meaning a positive dependency when the growth in oil price meant the improvement of CPI score for Ecuador. This correlation looks more convincing because CPI scores varied more than Freedom House scores. We can explain it that Ecuador government despite of growing authoritarianism became more consistent in fighting corruption. This phenomenon leaves room for further more sophisticated research with larger datasets and various assumptions.

Regarding the post-Soviet countries, we can assume that Azerbaijan, Turkmenistan, Uzbekistan, and Kazakhstan would probably have remained autocratic with or without an oil boom. Russia’s fragile democratic institutions could not survive under the oil pressure and thus confirmed Friedman’s law.

The next table is a comparison of government effectiveness. This indicator is a part of the six indicators in The Worldwide Governance Indicators (WGI) conducted by the World Bank. These governance indicators include Voice and Accountability, Political Stability and the Absence of Violence, Government Effectiveness, Regulatory Quality, the Rule of Law, and the Control of Corruption. I decided to look at the government’s effectiveness because the resource curse deals primarily with the choices of government officials in their management of the oil rent.
Government effectiveness and all other WGI are calculated in “percentile rank” where a ranking of 100 is the highest and 0 is the lowest. It is based upon a survey of experts.

Table 11. Government effectiveness and oil prices

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<td>Oil price, $ per barrel</td>
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<td>24.46</td>
<td>24.99</td>
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<td>71</td>
<td>73</td>
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<td>n.a.</td>
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<td>16</td>
<td>23</td>
<td>27</td>
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<td>n.a.</td>
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<td>5</td>
<td>3</td>
<td>3</td>
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<td>12</td>
<td>11</td>
<td>9</td>
<td>12</td>
<td>25</td>
<td>n.a.</td>
</tr>
</tbody>
</table>


Results are mixed and oil producers vary in their effectiveness from 2 in Iraq where war has been going on or 6 in Turkmenistan to 96 in Canada and 99 in Norway. It is difficult to infer any ideas from the given data because our cases have almost not fluctuated along with the fluctuation of oil prices, but the list of variations is impressive in itself. We present the graph for the year of 2007 to see how different the countries are.

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This variation in government effectiveness allows us to go back to the piece by Eifert et al. regarding the classification on mature democracies, reformist autocracies, and paternalistic autocracies as focused on long term horizon, and factional democracies and predatory autocracies as focused on short term horizons in managing oil wind flows. We have just looked to the Freedom House scores and now we can compare these scores with government effectiveness scores. We can say that factional democracies like Ecuador or Nigeria, or the populist regime in Venezuela, are similar in their effectiveness with predatory autocracies like Turkmenistan, or countries in war like Iraq and Angola, in managing their oil money. Mature democracies like Canada and Norway are effective in their governance and various autocracies are mixed in with their performance category. I would classify every country below a score of 20 as non-effective and those with scores over 80 as very effective. Everything in between is considered as having non-stable performances with pockets of efficiencies. In this case, the scores of the UAE, Kuwait, and Qatar are interesting as they are clearly suppressed countries with a high degree of effectiveness.

It would be interesting to see how other post-Soviet countries, with and without oil or any other natural resources, performed and I made a graph to illustrate this indicator for 2008. All of these countries came from more or less same political Soviet background but other factors like more distant history, current economic development, demography, urban and rural population and even motivation of the decision makers and rulers were not the same and it might cause the difference.
Azerbaijan, Kazakhstan, Uzbekistan and Russia were neither the best not the worst in 2008 for this indicator. Resource poor Georgia and Armenia were the best, but gas and oil-rich Turkmenistan and resource-poor Belarus were the worst in government effectiveness in 2008. We can say that availability of the natural resources might be an obstacle for the government effectiveness only along with other factors.

Government effectiveness is higher in Russia, and it can be expected because Azerbaijan and Kazakhstan have created their states as new bureaucracies. However, for eighteen years of nation building, some better scores could have been achieved. The low scores of Kazakhstan in 2002 and Azerbaijan in 2004 are difficult to explain, and I connect it with the elections in Azerbaijan and the events in Kazakhstan in 2001 and 2002. Azerbaijan held elections in 2004 to the Parliament. Observers started to talk about the repetition of scenarios similar to those in Ukraine in 2004, Georgia 2003, Kyrgyzstan in 2005, and to a certain extent also to those in Serbia in 2000 and in Lebanon in 2005, when people were protesting non-violently against the fraudulent elections forged by the authoritarian and corrupted ruling groups. The street protests forced the ruling groups to resign, and new more accountable politicians came took office. Prominent opposition figure in Azerbaijan, Rasul Guliev, registered to run for the elections in 2004. He was
living abroad for ten years in the United Kingdom and suddenly was registered as a candidate for the Parliament elections.

Events in Ukraine, Georgia and Kyrgyzstan were dubbed “color revolutions” and it made elites in post-Soviet authoritarian states very nervous. Azerbaijan leaders did not allow Guliev to participate in elections, but situation was shaky (Nikolaev 2005, 5). Maybe it was a reason for such a low score in government effectiveness. Many people in Russia and ousted politicians from Georgia and Kyrgyzstan, believe that these revolutions were sponsored from the outside by some concerned parties from the West. The British The Guardian supports the idea about Western involvement in these revolutions (Traynor 2004).

Kazakhstan had some similar elements of the “revolutions” earlier than elsewhere, but it had its own inner causes, and if it was sponsored, the sponsors were local business and banking groups. Information about the support from abroad for this movement is available. It happened in Kazakhstan in 2001 and 2002 and we discussed it a little bit in previous chapters when the group of government officials and prominent businessmen started opposition political activity. A group of influential government officials, local governors and businessmen formed a political movement, the DVK. They called for press conferences and protested against the son-in-law of the president, who became an upsetting factor for many people due to his interests in business and methods of expanding it. He simply was a corporate raider and simultaneously, the deputy chair of the National Secret Service. Actually, it is clear that it is not the personality of this son-in-law that matters, but rather the system that was producing individuals like him. Therefore, people were fed up by these developments and formed a political movement. The organizers of the protest were called “technocrats” because they were representing some kind of a new wave of the young and educated officials, in comparison to the old communist bureaucracy. This protest was not too successful; the President’s son-in-law was dismissed, and sent as ambassador to Austria, but the radical leaders of the newly formed movement were put in jail under corruption accusations. Now they have been released, and both have left the country. Two opposition leaders were mysteriously murdered in 2005 and 2006, and criminal investigations still leave some questions and doubts.

The story has not ended yet, and has almost become a farce. The son-in-law had a criminal case in his bank, and had revolted against the President in 2007, but then declared his ambitions to become President, fled the country and got political asylum in Austria. Later, he was sentenced to forty years in Kazakhstan prison under criminal accusations of treason to the state. As a response or revenge, he started to publish on the web some matériaux compromettant about the high-ranking state officials of Kazakhstan. The state started to adopt laws to better control the Internet. Now, he has published a book containing documents demonstrating corruption at the highest level.
in Kazakhstan, which was discussed in previous chapters. That is the story behind the low score of government effectiveness for Kazakhstan in 2002.

Russia has been getting relatively high scores for government effectiveness, but still it is low in comparison to the developed countries. Azerbaijan and Kazakhstan show some progress along the oil price growth, but it is not some break-through, it is more of an incremental improvement

The last table is a comparison of the Human Development Index against the oil prices. The Human Development Index is a combined index where education, life expectancy and GDP per capita are taken equally into consideration. All of the countries have a common feature; they are all oil exporters (natural gas exporter in case of Uzbekistan and Turkmenistan) where oil (or gas) is important for their economic performance. However, they all also have different backgrounds, historical traditions, oil per capita production, and population sizes. These different factors will influence human development trends for each country.

*Table 12. Human Development Index Indicator and oil prices*

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<tr>
<td><strong>Oil price $</strong></td>
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<td>28.66</td>
<td>24.46</td>
<td>24.99</td>
<td>28.85</td>
<td>38.26</td>
<td>54.57</td>
<td>65.16</td>
<td>72.44</td>
<td>96.94</td>
</tr>
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<td>0.741</td>
<td>0.744</td>
<td>0.746</td>
<td>0.729</td>
<td>0.736</td>
<td>0.746</td>
<td>0.758</td>
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<td>0.766</td>
<td>0.761</td>
<td>0.774</td>
<td>0.799</td>
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<td>0.797</td>
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</table>
We can see a very high Human Development in Norway, Canada, Kuwait, Qatar, and the UAE. Following them are Libya, Venezuela, Saudi Arabia, Ecuador, Kazakhstan, and Russia. Other countries do not have as high Human Development scores; Nigeria and Angola have very low indexes. However, almost all countries improved their human development indexes in correlation with oil price growth. So we can say that oil helped to improve some of the Human Development components and it can simply be the GDP per capita, which composes one third of the calculation of the Human Development Index. Improvement in life expectancy and education policies take a longer time to improve and their improvement are obvious in short periods.

The graph below demonstrates the differences in HDI of 2007 for our selected cases of oil producers.

*Graph 5. Human Development Indexes in 2007 for the selected oil producers*

It is obvious that the countries are not similar on the Human Development Index, and it again reminds us of the argument about the equal or unequal starting conditions present after the Soviet Union’s break-up. Turkmenistan and Uzbekistan have low indexes of Human Development and their respective GDP per capita are very low. Azerbaijan has lower indexes than Kazakhstan and Russia, but life expectancy there was higher in 2001 than in Kazakhstan and in Russia. Uzbekistan and Turkmenistan have a higher life expectancy figure than in Kazakhstan and Russia. However, the GDP’s of Turkmenistan, Uzbekistan, and Azerbaijan were much lower than

| Turkmenistan | 0.730 | 0.741 | 0.748 | 0.752 | 0.738 | 0.724 | 0.713 | 0.739 |
| Uzbekistan   | 0.698 | 0.727 | 0.729 | 0.709 | 0.694 | 0.696 | 0.702 | 0.710 |

*Source: All the data on the Human Development Indexes was retrieved from the Global Human Development Reports available for download at http://hdr.undp.org/en/reports/global/hdr2007-2008*
in the other two cases. Kazakhstan out-performed Russia in the Human Development Index in 2006 for the first time ever, and this happened despite the fact that GDP per capita in Russia is higher. The higher HDI in Kazakhstan can be explained by such a low life expectancy in Russia, even though Kazakhstan still has a very low life expectancy itself. Males in Russia and Kazakhstan have such a low life expectancy in comparison with the level of GDP per capita and education in both countries. Usually countries with the same GDP per capita and education have much better figures in terms of general life expectancy and life expectancy for males. One of the factors is the so-called “unhealthy habits” such as drinking and smoking, but still today the consequences of the shock of the 1990s when the Soviet Union collapsed and values, life goals and even everyday habits were reassessed for the whole generation. The human costs for the economic hardships is epitomized by what one of the Russian authors said, “Unfortunately, the main form of social protest in Russia in case of the worsening of the life conditions, is the social degradation” (Latynina 2009). Russia and Kazakhstan have better position in the economy than many countries, but life expectancy is higher in much more economically unstable countries such as Kyrgyzstan or Tajikistan. The latter one has even experienced a civil war. Human development is calculated in two years of time, meaning the index for 2006 reflects work done in 2004 by the report experts. All the countries demonstrate a positive correlation of the Human Development Index with oil prices’ growth. We can say that higher oil prices brought better life conditions, and in terms of the Human Development “more choices” for the people in our selected countries. Kazakhstan once had a negative correlation from 2002 to 2003. I have only one explanation for this phenomenon. It happened because the methodology for the calculation of infant mortality was changed in Kazakhstan. It became stricter in its assumptions and definitions, and it influenced the statistics in life expectancy from birth.

As for other non-oil post-Soviet countries, again it is difficult to see the clear influence of oil on the HDI performance.

*Graph 6. Human Development Index from 2005 in 12 post-Soviet Countries*
Belarus is the best of twelve in the Human Development of 12 post-Soviet countries. It is resource-poor and in government effectiveness scores by the World Bank, it was ranked second to last. I think Belarus’s scores in government effectiveness and human development contradict each other. Azerbaijan, Kazakhstan and Russia are not on the top of the list. Russia is number two and Kazakhstan is number three on the list. We cannot make any strict conclusions because Belarus (1) and Armenia (4) are resource-poor countries yet they are among the group leaders.

7.2 Brief cross-national information on Kazakhstan and its historical, political and economic context

Kazakhstan’s statistics in the historical context reflect some of the main events in the history of the country. We can start from the first quarter of the 20th century, when the Kazakhs faced two tremendous hunger periods in Soviet history. The first one was in 1919 and lasted until 1922, and second from 1928 until 1932. The first hunger is associated with the Civil War between the Reds and Whites, and the second hunger with forced collectivization. The population of Kazakhs decreased in the 1930s by almost 25 or 30 percent, when people died from hunger or else fled to China, Afghanistan and even further to Turkey. This happened because of the forceful denomadization of the Kazakhs by the Soviet state. Still, there are discussions about the size of the human losses (Abylkhozhin 2007, Tatimov 1993, Ryskhozha 2008). The hunger of the 1930s is one of the hot topics in discussion within Kazakhstan, and is still a social shock for the Kazakhs. Kazakhstan officials have not articulated many political decisions or opinions about the memory of the hunger due to Russia’s sensitivity to the topic.

Discussions are ongoing about the exact numbers of human losses because statistics and censuses in Stalin times were ranked top secret and some of the statisticians were repressed too. As territories became unpopulated, Soviet authorities moved repressed groups and ethnicities to...
Kazakhstan. Germans, Russian *kulaks*, Chechens, Koreans, Greeks, and many other smaller ethnic groups were moved to Kazakhstan. More Russian people came in the 1960s when the Soviet state started the Virgin lands campaign. That is an explanation as to why Kazakhstan had become a “republic of minorities” at the time of independence, when none of the ethnic groups formed a majority. Gradually during eighteen years of independence, Kazakhs became an ethnic majority. One of the fears in Kazakhstan was the possibility of ethnic strife although it did not happen for various reasons. Social competition was going on in Kazakhstan, not on an ethnic basis but based on material affluence. People group themselves not only on their ethnicity, but also on a rich or poor class basis. Class based competition was more important than the ethnic based. All the clan identities we discussed in the section about political system, relate to the elite groups with access to the power and resources.

The people we saw from the Freedom House data are actually alienated from the political power. Authoritarianism in Kazakhstan has been justified by economic growth and general civil passiveness. Whatever the reasons for the economic growth, people associated them with the ruling group performance. Even if the reason was the favorable prices on the international markets, it contributed to the economic growth, affluence and popularity of the power. Politics is an inter-elite business there and the elections, as we said, have a more ritualistic character. Kazakhstan was rated as a partially free country from 1991 until 1994, and then the concentration of the power in the executive branch occurred. Maybe the fear of possible inter-ethnic strife made people supportive of the current power, which despite the authoritarianism and constant scandals can provide some stability, peace and economic growth.

Concerning the Human Development in Kazakhstan, male life expectancy for 1991 was 63 years, and in 1997, it was 58 years. Females’ life expectancy was 72 in 1991 and 69 in 1997 (the National Human Development Report Kazakhstan 2000, 21). People paid with their lives for the reforms. As for the Human Development Index being expressed in numbers, it was 0.743 in 1991 and only in 2001 could it outperform that level. Life expectancy started to rise in 1998 and it has been growing until now.

One of the authors of the Human Development reports noted in conversation with me, that the median age in Kazakhstan and the Human Development Index are different in Kazakhstan among different ethnic groups. It means that the social benefits and development results are not evenly distributed among the ethnic groups. Neither Kazakhs nor Russians are at the top or bottom of the list, with the explanation perhaps being that small ethnic groups have more solidarity and better support each other in Kazakhstan, and have different ethnic traditions or lifestyles as well.
Oil resources and oil production in Kazakhstan are impressive by any standard. Peaks of the production in the largest oil fields have not yet been reached. This means that more revenue for the state can be expected in the future. Yet the current contracts are still a secret and are not available for public scrutiny under the pretext of commercial confidentiality. Some leakages about conditions of the contracts were not refuted by state officials in Kazakhstan. State officials try to justify not good conditions of the contracts by the difficult conditions in the 90s in the republic when the contracts were signed (Ivanter and Skirka 2007). Every opposition leader calls for the transparency of the contracts and renegotiation process. They always say “renegotiation” not “nationalization”.

At least the growth of oil prices internationally has meant an improvement for in human development and per capita income in Kazakhstan; it could have been better, but it could also have been worse. Authoritarianism in the Freedom House terms and pervasive corruption cannot go further; they are already features of the system. If the changes and liberalization are to be expected, then it will be connected to the regime change, and oil income has not been a trigger yet.

7.3 Resource curse analysis in comparative context

Oil-rich countries of the former Soviet Union are good examples of how oil or natural resources might influence political and economic performance. Institutionally all these countries are undergoing some challenges and changes. They are authoritarian, not free countries where oil production, oil export and oil income are critically important for the regime survival. Our hypothesis about the “repressiveness and closure of the political opportunities” associated with the growth of the oil price, is strictly fair only in the Russian case because the other two other cases have already reached some kind of level of repressiveness even before oil prices boomed, and are not changing along with oil price fluctuations. Looking back, Kazakhstan and Azerbaijan were more open and free countries before but they became authoritarian ones, prior to the oil boom and without any connection to oil prices.

However new findings came along regarding the human development situation, with corruption and government effectiveness in our selected cases. We can call all our cases “benevolent dictatorships” where the leader is popular among the people, but where proper elections are not allowed, and power is concentrated in one person or group without foreseeable rotation. The resource curse has a political dimension in our cases. It is demonstrated in the growing or realized authoritarianism with power, concentrated around the control of the oil rent. It does not mean stability for the regime, because as we saw, both the Azerbaijan and Kazakhstan
ruling groups were very nervous when they were challenged from within, which was reflected in
government effectiveness scoring.

The main finding is that oil price growth solidified authoritarian regimes, brought some
economic progress to the societies and almost neutralized the government’s effectiveness and
corruption practices. Therefore, oil factor is not positive or negative one; it is a different one and
depends upon intervening factors. Countries benefited and regimes are popular, but societies
would have gotten more in the case of more open and accountable power.

Oil income can improve the situation of corruption control in Azerbaijan by increasing
government effectiveness under the condition of the starting condition of low government
effectiveness and high levels of corruption, but later it became a neutral factor. Corruption in a
sense, is controlled at the low and middle levels, but the highest levels are as corrupted as before,
because it is the old situation of “who polices the police”. Corruption cannot be controlled if the
leader of the nation is corrupt and elections are not allowed. In Russia, government effectiveness
has even lowered along with the increase of oil prices. It is what we mentioned in our literature
review as “over-confidence” brought on by easy oil money and a lack of accountability. Still, all
our cases of analysis are of relatively weak states where some factors, not only oil income or its
absence, can destabilize the situation.

In our analysis, several other findings are clear. Oil income was growing and it coincided
with the improvement of the Human Development Indexes in all the cases whatever political
regime was ruling. We can make the inference that the oil factor was one of the factors that
contributed to the better quality of living. Some of the countries progressed faster than others and
we explain this by the scale of the country and some historical events. Russia is too big to
improvements quickly from such a factor as limited oil; Russia needs more universal and
sustainable sources for its economic growth. Oil cannot solve all the problems of the Human
Development because as we saw, Russia and Kazakhstan are more affluent countries, but life
expectancy is lower than in many others less economically advantaged states.

As the Human Development Indexes were improving, along with oil prices’ growth, we
assume the growing oil income for the state then we can say that the ruling groups, which
controlled the state, were transferring some part of the rent for the social good to provide some
kind of public support. It can be understood as buying the loyalty of the people. People vote for
the ruling groups and in return, people get some kind of public benefits from the rent distributed
by the ruling group. The issue is that the rent is distributed unequally; when elite members are
very rich at any standard and people improve their living conditions moderately.

All our data is taken for the relatively short period, but we can see the mechanisms of
interactions between the elite, who control the rent and its distribution, and the people who are in
fact alienated from the rent to a large extent. Regimes are benevolent to society, repressive to the opposition and media, and are corrupted and not rotating through the elections. In this regard, if government effectiveness is not improving along with oil income growth, it can mean that the government officials are depraved and overconfident in their managerial decisions.

Another mechanism of rent extraction and its distribution is that the state, in case of Kazakhstan, has given the rent mainly to transnational corporations. It was done for two reasons. The first one is out of fear of giving it to the national bourgeoisie because the huge profits from the oil business might lead to political ambitions like in Russia, in the case of YKOS and its former owner. The second fear was a fear of Russia and the necessity to place large investments from private companies into securing some political issues over the sovereignty. Kazakhstan started to press for the changing the conditions of the contracts in order to capture more rent. It was done exclusively through the state-owned company and it means that national business is still alienated from the most profitable business opportunities. This is not related to the metal industry which is run by foreigner citizens of Soviet decent and who are loyal to the President.

We can explain corruption also as a way of buying the loyalty of the middlemen in the state service by the top officials. They are allowed to get money from the budget and they are very supportive of the current regime without free media and control from law enforcement agencies and the judicial branch. Constant declarations of struggle against corruption are not productive at all. This struggle turned out to be a tool of different groups in power to fight with each other under the pretext of eliminating corruption, and later capturing the assets or sources of income of the over-thrown contestor. I think it is one of the explanations of the YKOS fall and bankruptcy in Russia. YKOS owner, Mr. Khodorkovsky, had political ambitions and he was one of the oligarchs who contributed to the rise of Putin at the beginning, and who was accused of avoiding taxes via criminal schemes. He is still in jail. Kazakh opposition leaders went to jail in 2001. When the President has pardoned them, they have decided to leave the country.

In addition, I doubt if the leaders of our three cases would withdraw voluntarily from office. This scenario is very questionable because whoever comes afterwards, he or she would start an investigation into the corruption of the previous leaders, would try to get their assets abroad back for the countries, and would question the legality of their and their relatives’ assets in their home countries. No one would protect the former owners because the courts are not neutral and independent, and the same is true about media. These threats would make the current leaders keep the power as much as they could and limit political and economic competition. The current leaders of these countries – Kazakhstan, Russia, Uzbekistan, Turkmenistan and Azerbaijan- are not interested in institutional development within their countries because it would promote competition and threaten their current positions of power. It is a trap from the corrupted
authoritarian leader which creates the resource curse. If popularity would decrease because of difficulties with the economy, we would expect more repressiveness from these regimes. It would not be reflected in the ratings of the Freedom House because the countries already have lowest possible ratings. The power and influence of the external players is a big issue because Kazakhstan’s neighbors, Russia and China, which are not the best examples of democracy. As for the USA and the EU, they still prefer to find common ground with the current regimes other than supporting human rights activists or the opposition. This support is not effective.

I think the data also shows certain limitations on the concept of the “resource curse” in the explanation of post-Soviet states. It can explain this repressive and corrupted character simultaneously with the popularity of the regime, its stability and overall economic development. The reality is that there is a conscious will of the power not to allow elections and future modernization both in industry and in politics. All of these states were unable so far to foster competitive industries other than minerals and oil and it will take much more serious efforts in institutional building too.

After my cross-national analysis, I have doubts that these regimes would not necessarily become more liberal and open if oil prices were to drop, and oil income suddenly decreased. They would become more repressive, less popular, and nervous about the oil prices, but they would not conduct fair elections because they never did. Kazakhstan and Azerbaijan were not free countries before the oil boom, and Russia caught up to them very quickly. Here, our third hypothesis comes forward about the influence of oil on the authoritarian character of the regime. This cannot be verified because it has not taken into consideration the fact that the scores are not measuring hard and soft authoritarian regimes and subtle changes as well. Regimes in Kazakhstan have become more authoritarian, but it is impossible to see this in the indicators because it had also been repressive prior to the oil boom. After the oil boom, only one party was represented in the Parliament, more repressive laws on Internet adopted and the current President granted a right to be reelected as many times as he liked. These actions cannot be reflected in scores because the system before was authoritarian. Russia has become more authoritarian in the oil boom period, and it supports our hypothesis too.

The economic growth has been fueled by the oil price growth in all these countries. Economic growth justifies the authoritarianism in Azerbaijan, Kazakhstan and Russia for the voters, and these regimes are supported by their own people, which is why the opposition is weak. Oil prices dropped in 2008 and then grew and stabilized in 2009. This factor contributes to the conservation of the regimes. These regimes could have lost popularity a little bit but still had enough repressive power to suppress possible protests. The ability to reform and the will for the reforms does not look impressive. Only the pressure from the society, which has become
accustomed to the economic growth, might change the situation. I cannot see a political will to reform in these countries. Political will was directed to keep the status quo in times of high oil prices. Even government effectiveness in Russia worsens along with the growth of oil prices. I can refer again to Illarionov (2008) and Alekseev and Conrad (2009) who agree that oil income worsened governance in Russia and post Soviet transition countries. Illarionov also writes that OPEC countries could improve their governance practices.

We can expect pressures in these political regimes from their societies or other elite groups for the reforms and liberalization, but the outcomes are difficult to foresee. Maybe the strongest pressure would be the court’s efficiency and property rights enforcement. Kazakhstan experienced during the last twelve years some kind of political challenge to the President every two or three years. First, it was a former Prime Minister in 1998, then a group of top government officials in 2001. During the elections of 2004, the same group tried to get to the Parliament, and in 2007 it was the notorious son-in-law. Now we can surely expect some kind of events as well. The President was able to control his challengers but it cannot continue for much longer.

These regimes proved to provide stability for relatively long periods, but the examples of Kyrgyzstan, Ukraine and Georgia, which were such corrupted regimes and toppled fast, prove the opposite. The countries that experienced the “color revolutions” do not have oil or other substantial natural resources. Oil matters in this regard, and future studies would be addressing these issues as well.

8. Conclusion

The main research question for us was formulated at the beginning as the following; Was a resource curse in Kazakhstan a reality or not? The answer is “yes” in politics and “no” in regards to the economy. When I say “in politics”, I mean in the concentration of power, the limitation of freedoms and rights and pervasive corruption. While doing the research the concept changed to certain degree. When we talk about the economic effects, we see that Kazakhstan was growing economically, incomes of the households and overall Human Development scores improved. One factor, like oil resources, is the only one factor because other explanations might apply. The recovery of the Human Development and economic growth can be partially explained by the huge downturn from 1991 to 1998.

Our first hypothesis was that Kazakhstan has certain resource curse signs because of the under-development of the institutional capacity. The resource curse was defined first by Auty (1993) and was supported by Sachs, as lower economic growth in the resource-rich countries. Later researchers like Ross (1999), Torvick and Robinson (2005), and Gylfason (2001) started to talk about the political and social consequences of the development led by the natural resources or
political aspects of the resource curse. We discussed these in the previous part of the theoretical review. Therefore, we have economic and political signs of the resource curse, which includes respectively low economic growth and political authoritarianism. It has not happened in Kazakhstan in all aspects; political authoritarianism was there, but the economy recovered after the Soviet collapse and then was growing due to the oil prices.

In Kazakhstan, economic growth was measured in double digits during times of the oil boom. So economically, the country was growing fast despite the reliance upon the oil and other mining sectors. Two factors are important while considering this impressive economic growth. The first one is that the growth has been a recovery from the huge depression of the early 1990s when all post-Soviet countries’ economies shrunk. Kazakhstan’s economy deprived from 1991 until 1996 by 40 percent (UNDP 2005, 43). Only in 2004, did Kazakhstan’s GDP exceed the level of 1991 (Zhukov 2004, 5). Was the growth of the economy from 1999 until 2008 simply a recovery from the shock of the Soviet Union collapse? The collapse of the Soviet Union meant not only change in the political system, but also the disappearance of the economic ties of one economic system. These ties disappeared because of various reasons such as ineffective planning, unbalanced structures, long distances, changed priorities for the economic actors, the paralysis of law enforcement, and the consequence was economic depression. I think that the Kazakh economy was not only recovering; it was real, new economic growth of the newly created economy which had some basis, including infrastructure, from the old Soviet one, but many industries were created for the first time, like banking, oil production, services, retail, and even grain production.

So, the economic growth was not accompanied by political development. We can say that political aspects of the resource curse are present in Kazakhstan not just economic ones. Political power is concentrated in one branch. Additionally political power is personified in the president. His family members formed a powerful clan with interest and influence in both private and state companies and bodies. The rotation of the ruling political party or figure within the executive branch has not happened. Moreover, political power was consolidated into one group. Those who disagreed were expelled from the political Olympus and formed the opposition. It is difficult to accuse the current President of an absolute totalitarian dictatorship because some opposition press is published (but harassed). The opposition as a political entity is functioning (but several figures fled from the country and two were killed presumably by the criminals in 2004 and 2005), private business works.

Contract with foreign transnational corporations are signed containing unfavorable conditions for Kazakhstan people. This can mean by the comprador orientation of the ruling group in Kazakhstan. The government tries to refuse these accusations because when these contracts
were signed in 1993, oil prices were low and Kazakhstan had made its first steps in signing contracts. Later conditions were more elaborate and worked more for the benefit of Kazakhstan. The process to renegotiate the contracts started under the pressure of the opposition too.

Kazakhstan’s government voluntarily joined the Extractive Industries Transparency Initiative (EITI) process, and has to publish how much money it gets from mining operations via taxation, subscription bonuses, excises, etc. It is also a step towards greater transparency made under the pressure from the civil society.

Overall, it can be said that the results are mixed because economic performance is good even in times of the crisis during 2008, and political repressiveness is not as harsh as in many other authoritarian regimes. The resource curse in Kazakhstan has a special way, which has brought benevolent authoritarian rule where economic growth solidifies authoritarian rule. Society in times of economic growth, regardless of the reasons of the growth, might be comfortable with the good oil prices and external debt, but would associate this growth with political authority of countries. Maybe the role of the authorities is not so significant when oil money was coming to Kazakhstan and banks, because money could be borrowed from abroad easily and provided financing for the domestic economy as well. However, the growing economy meant growing income as well for the people. Poverty in Kazakhstan was reduced from 1999 to 2005 from 36 to 9, 8 percent of total population. It is also some kind of success (UNDP 2006, 15, 29).

We developed three hypotheses at the beginning of our research and tested them by using both quantitative and qualitative methods. First, we saw the signs of the resource curse and rentier state in Kazakhstan and it was obvious that political control over the distribution of the rent is very important in Kazakhstan. It has some specific point that the transnational corporations are extracting the rent, and that the state has not been able to levy the appropriate tax upon them because the contracts were signed during unfavorable conditions. Because of that, the people in Kazakhstan do not get the maximum benefits out of these natural resources.

The second hypothesis was about understanding the resource risks in Kazakhstan by the actors. This has been formulated as:

*Oil as a phenomenon was not identified or interpreted in Kazakhstan by the decision-makers and the expert community as something causing the resource curse troubles or as the source of growing state authoritative and unaccountable practices.*

We analyzed this understanding by interpretive repertoires in our interviews. A variety of interpretations means the absence of the unified approach to the oil income and ways to manage it. Oil is viewed as a chance for the development, as a source of scandal and enrichment, and as a
tool of the superpowers to influence Kazakhstan. This hypothesis has not been verified because
the majority of the respondents interpreted oil as something positive. We found out that the people
who associate oil with some troubles and define it negatively, are more dissatisfied by the
decision-makers and their ability to not manage oil wisely and by using the oil for their private
benefit.

The third hypothesis was based upon the cross-national comparison of the post-Soviet oil-
rich states of Azerbaijan, Kazakhstan and Russia. We formulated the following:

*If the oil prices grow, the post-Soviet oil-exporting countries, Kazakhstan
among them, can demonstrate the repressiveness and closure of the political
opportunities due to power having been concentrated in the state, and the lack
of historical development in civil society.*

We saw some correlations and positive dynamics at least, in the Human Development
Index during times of the oil boom. Still, Azerbaijan and Kazakhstan are not stable, and power is
not tested through their elections. Authoritarianism in all the countries was strengthening along
with the growing economy and oil prices. Two of our cases, Azerbaijan and Kazakhstan, had
become very authoritarian before the oil boom and changes in oil price might have resulted in an
increase in authoritarianism, although this cannot be traced in the ratings. Russia surely became
more authoritarian along with the oil price growth, and is now equal in the ratings with Azerbaijan
and Kazakhstan. Another conclusion we came to while testing this hypothesis was, that despite
the harsh authoritarianism in all the cases, they have not become predatory autocracies where only
the elite take the benefits from the resource at the expense of the population. The population in
our case also benefited to some extent from the oil boom as was illustrated in the Human
Development Index improvements in all three cases.

We refer here to the “political Dutch disease” in Wantchekon and Lam’s (2002) terms,
where the elite are not rotated, and the populace does not have much to say on the elite’s political
and economic performance. When the economic performance is good, the elite control the rent
and negotiations between the populace and elite over the rent distribution do not take place too
much. Ruling group in Kazakhstan has not been rotated for the last twenty years, but it was
challenged several times. Political parties compete every election, but opposition parties are not
represented in the Parliament at all.

Now we can test our concept of the resource curse in its appropriateness of the resource
curse as a heuristic theory to the realities in Kazakhstan.

One of the first features of the resource curse concepts was not fair terms of trade by
Prebisch (1950). The argument was that raw material exporters would lose competition with the
exporters of manufactured goods, because the value added is higher in manufactured goods, and because there is a general historical downturn in raw material prices. Ross (1999) as we saw, was arguing about this price’s trend for raw materials and showed that prices have not been falling so much for the raw materials. International prices for Kazakhstan’s exports such as oil, metals and grain, were growing during the selected timeframe. Imports were growing as well, and here we come to the Hirschman idea of the linkages (1958). The linkage theory suggests developing the backward and forward linkages around one dominant sector in an economy. If it is oil, then forward linkage would be oil refining and oil chemistry, and backward linkage would be exploration and services for oil production. The creation of the linkages helps to diversify the economy and avoid the resource curse. Linkage theory is connected with the staples thesis developed by Innis in the 1930s, when he explained peculiarities in the Canadian economy and its regional differences due to the dominance of one commodity (Innis 1999). Innis started to write about the linkages around one commodity or another, but Hirschman extrapolated on his idea to the development of a process. Innis was skeptical about Canadian prospects because staples cause entrepreneurial expertise to become stagnant (Ibid, 392). Kazakhstan’s government has created many programs to diversify the economy and has established several agencies to promote diversification and linkages. The oil sector was considered an engine for the growth of other sectors. Special clauses about the local content in oil production were adopted, and in the conferences and meetings, government officials advocated the necessity to diversify them. There is not too much success yet, and as we saw, the opposition is very critical of the governmental efforts to diversify due to corruption considerations. Corruption is high in Kazakhstan, and other cases of our cross-national analysis. Interestingly enough, Azerbaijan showed positive dynamics in controlling corruption along with the growth of oil prices, and Russia with Kazakhstan were almost neutral. Our explanation was that the government and law enforcement were weak in Azerbaijan, and as soon as more income came to the state, it was able to control corruption in the low and middle tiers of the officials.

Taking into consideration the combination of economic growth and authoritarianism we can identify Kazakhstan as a transition from a paternalistic to a reformist autocracy. We saw the classification of oil-rich states in terms of political regimes by Eifert et alia (2003) and Kazakhstan does not fall exactly into one type or another. Eifert et alia define paternalistic autocracies management oil income non-transparent, the economy as non-competitive and power as autocratic and legitimized partially by the traditions and distribution of the rent. Kazakhstan fits this definition, but it has some features of the reformist autocracies where a “strong constituency for stabilization and fiscal restraint” and the legitimacy of the government come from
development and success. It will take quite some time still before mature democracies and reformist autocracies can become more paternalistic.

Dependency upon the oil rent distribution was one of the important points in the concepts of the “petro-state”, “petro-politics” and “petro-authoritarianism”. Petro-politics by Tomas Freidman (2006) and petro-authoritarianism by the Freedom House (Walker and Goehring 2008) directly connect the rise in oil prices with the fall of freedom internationally, and these concepts are based upon the petro-state concept. Terry Karl (1997) introduced the concept of the petro-state where state structures and the decision-making process highly depend upon the availability of the rent. Thus, the state as a main distributor of the rent becomes the main actor in comparison to the private sector and society in general. The state has weak institutions and management of the rent is not efficient. Michael Ross (1999) criticized this concept of the petro-state because it is too general, and even Venezuela does not fit this definition. Venezuela was the most stable, affluent and democratic country in Latin America, and it contradictory to the petro-state concept where the state is authoritarian, weak and has malfunctioning bureaucracy. Today many experts call Russia under Putin, a petro-state (Naim 2004, Goldman 2008). For me, a petro-state is too wide a concept where different variants described by Eifert et alia are possible. Kazakhstan has features of a petro-state, and as we said it also has traits of both paternalistic and reformist autocracies.

We mention Michael Ross quite a few times because he elaborated extensively on the different aspects in regards to politics and stability in the oil-rich state. He debated in detail how to define a natural resource-rich state, either by the share in exports, or share in GDP, and finally concluded that the main barometer would be the dependency upon the rent captured by the state from the resource. In a resource curse context, we will look first to the possibility of the secessionist movement in an oil-rich region and political instability. Ross (2003) divides the natural resources as “lootable” and “unlootable”, or easy to loot and impossible to loot. Oil is impossible to loot without the necessary capital and infrastructure. Unlootable resources like oil can provoke conflict within the establishment of a new sovereign state. As for Kazakhstan, oil is concentrated mainly in the West, and in the Central West and South West. Active explorations are going on in the East, because across the border China has the huge Karamai oil field. Therefore, oil in a sense is dispersed throughout Kazakhstan. The main risk for secession came from the Slavic populated North, and after the short war between Russia and Georgia, this fear of secession has been revived. I do not think that the secession of oil regions is on the agenda. Kazakhs, despite tribal differences, have a common language, beliefs, history and sense of the first state in contemporary history; all these factors keep the country together. Still there are concerns in Kazakhstan about the provocations and pressures from the Great powers in any form, like “color revolutions” or preferred routes for the pipelines.
Ross developed the concepts of several effects describing oil-rich states that would hinder democracy (Ross 2001). We talked about his concepts of taxation, group formation, repression and modernization effects. The taxation effect works when the state does not depend upon taxing the citizens, but depends upon extracting rent. The state becomes independent from the society because taxation means representation and no taxes means no representation of the society, and an absence of the accountability of the state. Kazakhstan does not fit into this completely, but it bears some resemblance to it. The government is autocratic, and not accountable, but there are some specific features regarding the rent and taxation. The Kazakh budget depends upon taxing not the citizens, but rather several large corporations. One-hundred large taxpayers provided 45-52 percent of all taxes to the state budget during 1999-2000 (Berdalina and Mustapaeva 2003, 32). This situation was for the year of 2001, but situation has not changed much since then. These large taxpayers are not only oil or transnational companies; many of them are coming from the metal, grain, construction and service industries. Taxation brings 64 percent of budget revenues in Kazakhstan, and in 2009, the deficit was covered by transfers from the National Fund (Askarov 2009, 6). Money from the National Fund were not taken for several years before that. We can observe this taxation effect in Kazakhstan although it has modified who controls directly or indirectly these one-hundred largest companies, which in turn control politics in Kazakhstan. This sign of the resource curse is in place.

The group formation effect means hostility and suspicion of the state in civil society organization, because the state views them as a competitor in the distribution of the oil rent and even in political power. This point is very interesting because as I wrote before all the “color revolutions” started from the NGOs in Kyrgyzstan, Ukraine and Georgia. Kazakhstan, Uzbekistan and Russia right after these revolutions, started to check the tax books of many NGOs associated with the USA and the UK. Kazakhstan left these NGOs without any sanctions, but tried to adopt very repressive laws in the non-commercial sector. This law was elaborated upon by the two chambers of Parliament, but was later vetoed by the President. After these events, the government in Kazakhstan started to develop pro-governmental NGOs, and sponsored civil sector through government orders and projects. So today, both independent and government sponsored non-commercial sectors are functioning in Kazakhstan. The government also decided to join the Extractive Industries Transparency Initiative (EITI) under pressure from the local NGOs, and presumably from Western governments as well. So the group formation effect in Ross’ terminology is partially represented in Kazakhstan.

The repression effect consists of two components, according to Ross. The first one is a cooptation effect, when an opposition leader is invited to take a good position in the government, and the government leaves the opposition without leaders. If the cooptation does not work, and
opposition leaders are stubborn, the repression goes upon the disagreed opposition leaders. The Kazakhstan opposition as we saw, has been heavily formed from the former high-ranking government officials including the former Vice Prime-Minister, ex-Head of the Administration of the President, ex-Ministers, etc. However, the opposition is fragmented and cannot unite. The leaders of the opposition have had ongoing cases in the courts on various grounds. The opposition is allowed to exist and publish its views, participate in elections, and criticize the government, but they cannot get any real political power, or enter the Parliament or the government.

The modernization effect by Ross is increasing pressure among the modern attributes of society, along with progress in the form income. He says modernization has bypassed the oil monarchies in Middle East, which are affluent but where females’ rights are still neglected, where education is an issue, along with labor rights and so on. Kazakhstan in a sense is a modern country, but traditionalism has been revived because of the old Soviet system of values failing. The new one is a mix of Soviet, traditional and Western values. It is impossible to apply the modernization effect to Kazakhstan at its full scale, because the education level is high, female are active and their rights are developed, and demographic pattern of Kazakhstan is close to modern countries as well.

The last point from Ross, that I would like to discuss, is the role of parastatals, which are government-associated companies or government-owned companies. Kazakhstan’s oil is produced largely by the consortia of transnational corporations. KMG, the national oil operator, produces 25 percent of the total oil. A minor part is produced by small Kazakh and foreign companies. As we said, the history and activities of KMG have been accompanied by inquiries in the Parliament about its operations, dividend policies and acquisitions. The company is not transparent and is controlled by the second son-in-law of the President who is a legal billionaire. Again, the family-based nepotism is evident.

The new situation with oil prices has stopped the formidable growth of Kazakhstan’s economy. New internal growth reserves are required for building institutional capacity as a foundation for the actors. Kazakhstan is still in a transition period, and the role of the decision-makers, actors or agents in key positions, grows significantly because the structures or institutions are under stress, change and construction. One of the most pessimistic interpretations of this historical moment is that the decision-makers can be interested in such institutional uncertainty because this situation is favorable for the maximization of their personal enrichment goals. It leads to the personification of the institutions when a powerful individual can create obstacles for the general institutional development by pursuing his or her own goals. Neither the law nor rule of law are important, but rather the ability to make and change the laws for the personal sake. Constant changes in the Constitutions of the post-Soviet countries are demonstrated clearly, when
the Parliaments are convoked and dissolved, the terms of the Presidency prolonged, and elections happening irregularly because of the short-term necessity. Changes can also occur when the society does not trust the state, and is passive because of certain fears of inter-ethnic tensions and memories of historical violence and repression. Some interesting developments in Kazakhstan should be expected now, because in 2008 oil prices sharply declined. Therefore, we can expect reforms and more mature, socially oriented institutional developments, too.
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List of Interviewees

2. Anton Artemyev (2008) Head of Soros-Kazakhstan Foundation program Kazakhstan Revenue Watch
5. Business Interviewee 3 (2007) Head of the Department in the Kazakh Bank responsible for collaterals and appraisals
10. Round Table in Politon discussion club. It is a club of researchers, journalists, politicians, NGO leaders, and diplomats. State officials or any other speaker deliver a report and then it is discussed by the participants. Access to the club is free. Website is blocked since recently. I made a presentation there and number of participants was 15 people. My topic was Resource curse in Kazakhstan. Fall 2007
15. NGO Interviewee 1 (2007) Director of Kazakh NGO
17. Academician Interviewee 1 (2008) Historian, Professor in Kazakh University
20. Academician Interviewee 2 (2008) Senior Researcher in Institute of Geology, Oil and Geology Consultant
22. Business Interviewee 7 (2007) Business Consultant, ex member of Board of Directors of Kazakh Bank