

# **Soviet Legacies and the Consolidation of Economic Rentierism in Kazakhstan**

Written by Mira Sairanen

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MIRA SAIRANEN, APR 22 2019

The Soviet Union and its policies shaped Central Asia both economically and politically, and this history still influences the region today. Under Soviet rule, Central Asian states served the role of primary resource providers to the central state, while their own industry and development was neglected. The economies of these countries were built around this specific role, as were their political systems; the main task assigned to Central Asian leaders was to ensure adherence to quotas and rules set by the central state, rather than to serve their local populations. Thus, at the time of independence, the new states were severely underdeveloped and headed by leaders who had little interest in empowering the wider public, and many of whom remain in positions of power today. Economic rentierism has thrived in this political environment.

This essay will discuss the Soviet legacies that facilitated the rise of economic rentierism in post-independence Kazakhstan, the region's main oil producer and most prosperous state. Kazakhstan's case is particularly interesting because of its importance in the world energy market and its relatively strong economy; compared to its Central Asian neighbors, Kazakhstan has experienced more industrial development and boasts a more open economy. Yet the oil might has failed to diversify its economy, which remains extremely dependent on oil and gas. Economic rentierism in Kazakhstan is evident; a small, well-connected elite collects rents from the sale of its natural resources to outside markets, while the development of domestic production and industry remains neglected. The revenues from the oil and gas sectors are mainly used for personal enrichment and maintaining patron-client networks that keep the ruling regime in power (Lewis 2011). Furthermore, with rents from natural resources, the regime has been able to increase its capacities in both security and redistribution, which have helped maintain stability and shield it from opposition and alternative development models (Ostrowski 2011; Radio Free Europe 2016).

The essay will focus on two of the most important Soviet legacies that paved the way to the consolidation of rentierism in post-independence Kazakhstan, namely its economic role in the Soviet Union, and its corrupt, patronage-based political system which has changed little since independence. These two factors are closely interrelated; the Soviet-era structure of production was supported by a political system based on loyalty rather than accountability (Lewis 2011). However, it is important to note the other factors that have reinforced rentierism in the post-independence era. While Soviet policies created a system that incentivized economic rentierism, since then global markets have enabled and even encouraged the continuation of this model by offering quick and easy profits for those connected to the energy sector despite the widespread corruption involved (Ostrowski 2011). Hence, Soviet legacies are only part of a series of factors that have led to the consolidation of economic rentierism in Kazakhstan.

### **Kazakhstan's Role in the Soviet Union**

The economic role assigned to Kazakhstan during the Soviet era has significantly influenced its development and turn to economic rentierism in the post-independence years. Kazakhstan's economic development was designed to support the wider Soviet structure and was based almost exclusively on oil and gas extraction. The central state, in turn, provided Kazakhstan with subsidies needed to feed its population. Given its dependent position, Kazakhstan, as the rest of Central Asia, was wholly unprepared to deal with its abrupt independence following the disintegration of

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the Soviet Union. There had been no preparation for independence during Soviet rule, and when Kazakhstan suddenly found itself cut off from Soviet demand and supply chains and state subsidies, its national economy collapsed (Pomfret 2010). In the midst of this crisis, the regime quickly turned to economic rentierism.

Kazakhstan inherited an outdated infrastructure designed primarily to support the transport of its natural resources to refineries in the central state. Almost all pipelines lead to Russia and many of them remain under Russian ownership, and consequently Kazakhstan's dependence on Russia for transit routes has continued (Dobronravina 2010). Russia has been able to continue its domination of Kazakhstan's energy sector, using transit fees and the regulation of oil flows to influence decision-making in line with its interests (Dorian 2006; Marten 2007). These issues with transportation have perpetuated a situation where Kazakhstan still does not have full control of the process of selling its resources. Of course, it should be noted that Kazakhstan's infrastructure problem is also complicated by its geographical location. The country is landlocked, so any transport of its oil and gas to the global market will necessarily require transit through another country. Furthermore, most of its reserves are located in extremely remote areas and are difficult to extract. Kazakhstan lacks the capacity to invest in the needed infrastructure and technological upgrades, and depends excessively on foreign investors (Marten 2007; Seidimbek 2016).

Most foreign investment is directed at Kazakhstan's oil and gas sectors, with little interest in developing its industry (Dorian 2006). The regime, in turn, has created laws and institutional structures that have advanced the interests of foreign investors while the concerns of the wider population are often a secondary concern (Ostrowski 2011). Therefore, while the economic model of reliance on natural resource extraction is partly a Soviet legacy, it also partly reflects the preferences of the global market. In this sense, Kazakhstan's economic rentierism could be considered to be part of the wider phenomenon of "the oil curse", where economic and social development are overshadowed by the global thirst for energy resources.

Unlike the rest of Central Asia, Kazakhstan did experience some degree of industrialization during the Soviet era, which also influenced the economic system that would take shape in the post-independence era. Kazakhstan's industrial development was limited and weak, and like its resource extraction model, it was designed to support the Soviet economy rather than a domestic one. Kazakhstan's industry was mostly based on "one company towns" which specialized on the production of specific, intermediate products which would then be sent to Russia for further processing. The whole industrial economy was so intertwined with the Soviet economy that it collapsed almost immediately with the fall of the Soviet Union as demand for its products disappeared. (Ostrowski 2011: 292-293)

The neglect of Kazakhstan's industrial economy during the Soviet era facilitated the turn to economic rentierism because it meant that at the time of independence, its enterprises would be so weak that the regime had little interest in developing them further. Instead, in response to the economic crisis triggered by the disintegration of the Soviet Union, Kazakhstan's leadership decided to privatize these enterprises and to focus almost exclusively on oil and gas, its most promising and lucrative assets (Ostrowski 2011). Thus, in the years following independence, although Kazakhstan embarked on a process of reforms towards a market-based economy, the sweeping privatizations of the 1990s "created powerful private interests that distorted the reform process" and contributed to the creation of a system of crony capitalism and corruption, in turn facilitating the consolidation of an economic system based on rentierism rather than industrial development (Pomfret 2010: 453).

## **Corruption and Patronage Politics**

Kazakhstan's political system reflects its Soviet past in many ways. Political power continues to be maintained through patronage networks, and much of the same leadership has remained in power since the Soviet era, including recently resigned, authoritarian president Nursultan Nazarbayev who ruled Kazakhstan for nearly three decades. Shortly after independence, Nazarbayev consolidated his position by establishing a super-presidential regime, in which the legislature and courts are dominated by the executive. Nazarbayev and his party, *Nur Otan*, have had virtually complete and unchecked control over decision-making, and the opposition is marginal (Overland and Vakulchuk 2018: 151). Corruption is deeply embedded in politics in Kazakhstan, and oil and gas rents are very entangled in this system.

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Continuity of Soviet legacies in the political sphere has been aided by the fact that many of the former Communist Party officials “transferred directly into the government administration of the newly independent Kazakhstan” (Heinrich 2010: 36). In the Soviet Union, Kazakhstan’s leaders were charged primarily with ensuring that the state met the quotas set for its resource extraction by Moscow, as well as keeping the population in check. The political system rewarded those who showed loyalty and obedience, rather than accountability to the wider population, and this political culture has largely persisted (Anderson 2007).

Kazakhstan’s political structure encourages rentierism because access to, and control over, the management of natural resources is essential for maintaining stable patronage networks. Kazakhstan is a neopatrimonial state, where “power is carried by individuals and interpersonal patronage networks” and the “basic dynamics of political processes are defined by the logic of the patron-client relationship” (Gyene 2016: 181-182). In other words, access to public office depends on interpersonal relationships and loyalty. Those who control oil and gas rents are able to maintain power primarily by distributing profits to loyal clients, and by blocking the opposition’s access to these resources. For many remote regions struggling with underdevelopment and poverty, patronage networks are an important lifeline, as patron-client networks link the periphery and particular regional interests to the political center of Kazakhstan. Therefore, loyalty to the regime and the patronage possibilities associated with it are for many also a survival strategy (Anderson 2007).

In a political system based on patronage and rentierism, there is little incentive for opening or diversifying the economy as long as rents are sufficient to maintain stability. This has been the case in Kazakhstan, where the state has used some of these revenues to provide enough benefits to the wider population to keep the standard of living rising enough to shield it from popular discontent (Ostrowski 2011; Radio Free Europe 2016). The regime has pursued a “strategic and paternalistic use of social policy”, increasing access to services such as health care and social security as well as raising salaries in the sizable public sector (Gyene 2016: 188). These redistribution policies have provided some legitimacy for the regime’s development model. Furthermore, as the state does not need to rely on taxation for income, it is to some extent relinquished from popular demands for accountability for its expenditures (Pomfret 2010; Ziegler 2014). Diversifying the economy, on the other hand, could risk destabilizing existing power structures by changing the dynamics of patronage networks and generating pressure for reform (Pomfret 2010).

Shortly after independence, Kazakhstan did move away from the inherited “command economy” towards a more free-market oriented approach, selling off much of its industry as well as ownership of natural resources to private investors. Importantly, many of these reforms were recommendations of the World Bank and IMF, and therefore at least to some extent a result of Kazakhstan’s increased exposure to, and involvement in, international organizations (Overland and Vakulchuk 2018: 152). Yet despite rhetoric about free markets and transparency, these privatizations consolidated the system of corruption shaped during the Soviet era because they reinforced the power of those who were well-connected to the government and allowed them to expand their patronage networks and influence (Ostrowski 2011). In a study of elite turnover from 1989-2002, Murphy (2006) similarly finds that the country’s elite largely managed to hold onto their grip on power throughout the transition years by linking private business interests to those of the state, concluding that “the central elite has successfully repressed the emergence of an independent acquisition class, so that although Kazakhstan’s economy is now mainly privately owned, it is largely owned by the same people who run the state.” (550).

## Conclusions

Economic rentierism in Kazakhstan has partly been facilitated by underlying structures that can be directly linked to Soviet policies, most importantly the establishment of an economy based almost exclusively on natural resource extraction, and a political system based on patronage. On the other hand, however, the turn to rentierism has also been enabled and incentivized by the global economy, which offers quick and easy profits for those connected to oil and gas extraction. Therefore, Kazakhstan’s economic rentierism is only partly a result of its history as part of the Soviet system. As Ostrowski (2011) argues, “the Soviet Union set the material and political stage on which Central Asian elites have since been operating” but this system was consolidated by the neoliberal global economic order, which has similarly favored a “division of labor” between industrialized states on the one hand, and primary resource providers on the other (285). Thus, it could be said that the Soviet legacies and the neoliberal era form a continuity,

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and have both reinforced Kazakhstan's rentier economy.

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