

Meissner, Hannes

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## The Resource Curse and Rentier States in the Caspian Region: A Need for Context Analysis

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## **The Resource Curse and Rentier States in the Caspian Region: A Need for Context Analysis**

Hannes Meissner

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Editor of the GIGA Working Papers series: Bert Hoffmann

<[workingpapers@giga-hamburg.de](mailto:workingpapers@giga-hamburg.de)>

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GIGA German Institute of Global and Area Studies  
Leibniz-Institut für Globale und Regionale Studien  
Neuer Jungfernstieg 21  
20354 Hamburg  
Germany  
E-mail: [info@giga-hamburg.de](mailto:info@giga-hamburg.de)  
Website: [www.giga-hamburg.de](http://www.giga-hamburg.de)

## **The Resource Curse and Rentier States in the Caspian Region: A Need for Context Analysis**

### **Abstract**

Although much attention is paid to the Caspian region with regard to energy issues, the domestic consequences of the region's resource production have so far constituted a neglected field of research. A systematic survey of the latest research trends in the economic and political causalities of the resource curse and of rentier states reveals that there is a need for context analysis. In reference to this, the paper traces any shortcomings and promising approaches in the existent body of literature on the Caspian region. Following on from this, the paper then proposes a new approach; specifically, one in which any differences and similarities in the context conditions are captured. This enables a more precise exploration of the exact ways in which they form contemporary post-Soviet Caspian rentier states.

Keywords: resource curse, rentier state, Caspian Sea, natural resources, post-Soviet states, democracy, socioeconomic development, institutions

### **Hannes Meissner**

is a doctoral candidate at the GIGA German Institute of Global and Area Studies, Hamburg.

Contact: [meissner@giga-hamburg.de](mailto:meissner@giga-hamburg.de)

Website: <http://staff.giga-hamburg.de/meissner>

## **Zusammenfassung**

### **Ressourcenfluch und Rentierstaaten in der Region um das Kaspische Meer: Die Notwendigkeit von Kontextanalysen**

Obwohl der Region am Kaspischen Meer im Zuge von Energiediskursen große Aufmerksamkeit zuteil wird, stellen die innerstaatlichen Folgen der Ressourcenproduktion in der Region ein bislang vernachlässigtes Forschungsfeld dar. Ein systematischer Überblick über die jüngsten Forschungstrends zu wirtschaftlichen und politischen Kausalzusammenhängen des Ressourcenfluchs und zu Rentierstaaten offenbart die Notwendigkeit von Kontextanalysen. Hierauf Bezug nehmend, analysiert der Aufsatz sowohl die Mängel als auch viel versprechende Ansätze in der betreffenden Literatur zur Region am Kaspischen Meer. Der Aufsatz stellt letztendlich einen neuen Ansatz vor, der Unterschiede und Gemeinsamkeiten in den Kontextbedingungen erfasst, um zu erforschen, wie diese die gegenwärtigen post-sowjetischen Rentierstaaten in der Region am Kaspischen Meer tatsächlich prägen.

# **The Resource Curse and Rentier States in the Caspian Region: A Need for Context Analysis**

**Hannes Meissner**

## **Article Outline**

- 1 Introduction: The Caspian Region as a Field of Research
- 2 Rentier State and Resource Curse Theories: Basic Approaches and New Trends
- 3 The Resource Curse and Rentier States in the Caspian Region: Literature Survey
- 4 Conclusions: A Need for a New Approach
- 5 Summary

## **1 Introduction: The Caspian Region as a Field of Research**

In the aftermath of the collapse of the Soviet Union, the Caspian region has reemerged as an area of growing importance, predominantly due to its natural resources. Yet, while Azerbaijan and Kazakhstan have attracted Western attention since the 1990s, another player has since appeared on the scene. After the death of their despotic leader, Saparmyrat Nyazow, Turkmenistan has, cautiously, opened up to the international community, and, as a result, a window of opportunity has opened for the encouragement of political reforms. Such activities are mainly driven by inter- and transnational energy interests, which are linked, to a large extent, with the Nabucco Gas Pipeline Project. In turn, it is often argued that the project's breakthrough depends on Turkmenistan's willingness to participate (cf. Wien International 2008).

Another crucial factor is the European Union's keen interest in tapping into new gas fields in the Caspian region, and in creating the basic infrastructure necessary to safeguard the EU's future energy security. This is because current trends in Europe indicate that it will experience increasing gas consumption within its borders, although, that said, renewable energies also seem to be further gaining new market shares. Simultaneous with this increase in gas consumption in Europe is the continual decline of domestic gas production in the North Sea, while the significance of crude oil is also generally diminishing. That all noted, however, despite new alternatives, Russia is—and will remain—Europe's major gas supplier (Dolezal 2010).

In light of all this, it is unsurprising that the four topics that have dominated academic discourse on the Caspian region so far all deal with the region's resource abundance in the context of its intraregional and global relations. These four research angles are:

(1) the amount and importance of Caspian resource deposits. Data on estimated and proven Caspian oil and gas deposits still varies from source to source (EIA 2009a, EIA 2009b, BP 2009). (2) Ethnonational conflicts that arose as a result of the demise of the Soviet Union. While these conflicts remain unresolved they still pose a threat to regional stability and, as such, represent a major obstacle to the further development of the region's oil and gas reserves (Müller 2002: 163, Canzi 2004: 193). (3) The dispute over the legal status of the resource-rich Caspian Sea. Since the break up of the Soviet Union, the five littoral states have been in dispute on how to divide up the oil- and gas-rich seabed (Janusz 2005, Granmayeh 2004, Sadigov 2005). The prospects of a solution in the near future are minimal, although an international regime was recently agreed upon by Azerbaijan, Kazakhstan, and Russia. (Horák/Šir 2009: 51/52). However, most attention has been paid to the prospective route of the new export pipelines in line with geopolitical great power interests (4).

Ever since the collapse of the Soviet Union, the Caspian region has been considered to be at the heart of the competing economic, geostrategic, and political interests among international powers. An enormous amount of academic literature has already been published on this topic (Aydin 2004, Eteshami 2004, Xuetang 2006, Giuli 2008), with a substantial number of scholars taking up the term "the (New) Great Game" (Ehteshami 1994, Clement 1998, Kleveman 2003, Jafar 2004: 211 ff., O'Hara 2005, Leitner 2007, Heidbrink 2007). However, the term itself is problematic. Critics argue that it is outdated, connotational of the imperialistic contest between Great Britain and Tsarist Russia in the race to gain power over the Central Asian landmass in the early 20<sup>th</sup> century. Therefore, it does not fit with the age of globalization, with its changed rules, interests and new stakeholders (Müller 2002). In addition, it is asserted that the "Great Game myth" does not conform with reality, because it exaggerates the geopolitical importance of the Caspian region (Halbach 2004).

Nonetheless, that the region is an arena of competition between both great and regional powers, due to the diverse interests in energy and security politics, is largely uncontested. As Scholvin (2009) concludes, the EU and the USA both have a stake in the Caspian

reserves as they seek to reduce their dependency on Russian gas and on oil controlled by the OPEC respectively. Aside from this, the region is also a focus for security interests, mainly with regard to the war on terror. In addition, Russia continues to consider this post-Soviet region as being its sphere of influence—a factor which also has an effect on Russian energy policies in the Caspian region. While the cleavage between Russia and the West is a significant determinant of regional pipeline politics, it is also important to note that China has recently entered the fray. As a new emerging power, its leverage in the region cannot be underestimated, whereas India, Pakistan, Saudi Arabia and Turkey for now remain on the sidelines.

However, while intraregional and global issues dominate research on the region, less attention has been paid to the domestic developments. Transformation research, focusing mainly on Eastern Europe, neglected the region for a long time. It is only recently that more literature has begun to be published in this field. Since all these countries fall outside of the categorization as Eastern European success stories of transition to democracy and market economics, some studies even look beyond the transition process itself, asking for the reasons for its failure. The identified factors are generally country-specific, but all of them make the common argument that the region's neopatrimonial regimes are a reflection of highly traditional societies. As such, it is posited that their historic-cultural heritage from pre-Soviet times does not fit with Western economic and political notions (Geiss 2006, Heinritz 2007). Other models explain the shortfall of these countries in making the transition as a consequence of their resource abundance. These particular studies form part of the literature on the "resource curse." Despite this diagnosis, however, in comparison to the regions of sub-Saharan Africa and the Middle East, the "Caspian resource curse" remains a somewhat neglected field of research.

To remedy this, this paper is dedicated to the "Caspian resource curse." What is the current state of research in the literature on the resource curse, specifically, in the Caspian region? Does it correspond to the latest trends in research on rentier states and the resource curse in general? What shortcomings can be identified? And what methodological conclusions can be drawn from the lessons that are learned in this analysis?

The paper proceeds as follows: Section 2 provides a basic systematization of resource curse causalities, as well as a survey of the latest research trends. It also reveals that the existence of the "resource curse" as a factor in the Caspian region is still not universally accepted among scholars. While many quantitative studies argue that institutions as an intervening variable are crucial whether resource abundance turns out to be a blessing or a curse, some studies even go one step further and attempt to reject the resource curse hypothesis in general, by arguing that either institutions or leader behavior are the pivotal variables that determine the outcome. Having recourse to two studies (Beck 2007, Basedau 2005), the paper argues that any negative effects of having resources evidently depends on the context conditions. As such, the conclusion is reached that the future research should henceforth apply comprehensive, country-specific, and in-depth context analyses.



Section 3 is dedicated to the previous research on the resource curse and rentier states in the Caspian region. It reveals that only on rare occasions is it up-to-date with the current academic debate on the resource curse, as outlined in Section 2. Therefore, one particular study holds promise, as it introduces the concept of Azerbaijan and Kazakhstan being post-Soviet rentier states (Franke et al. 2009). However, their study views all the Caspian states as one homogenous region with a single post-Soviet legacy. In this way, the study differs greatly from other approaches that are designed to explain the striking differences between the single case studies, which they do by outlining the differences in each country's circumstances (Pomfret 2006b, Esanov et al. 2004).

Against the background of the revealed shortcomings, Section 4 provides a new approach, which captures both the differences and similarities in context conditions, and which, as such, allows us to explore the exact ways in which they form the contemporary rentier states of the region.

The paper focuses on resource curse causalities that explain (socio-)economic deficiencies and violations of democracy and human rights. Therefore, it does not pay further attention to natural resources as a factor in violent conflicts. Notwithstanding, further research of such mechanisms would be relevant to the Caspian region, since Azerbaijan is investing its oil revenues in the military sector. There are currently only a few studies that evaluate the likelihood of a fresh outbreak of the Nagorno-Karabakh war (Allison 2005, ARAG 2008, Eteshami 2004: 72).

## 2 Rentier State and Resource Curse Theories: Basic Approaches and New Trends

The term "resource curse" is elastic, as it is being increasingly stretched to act as a general term for all the approaches that employ "resource abundance," "resource production," or "natural resources" as the predominant independent variable that explains the various shortcomings. Despite this catchall utilization, however, the literature on the "resource curse" is rather diverse. Systematizations can be undertaken in two directions. First, studies focus on the different dependent variables. The most popular view is that resource production can cause, or at least trigger off, prolong, and/or expand, "violent conflicts" (Klare 2001, Ross 2004, Ross 2006, Basedau 2005, Basedau/Lay 2009).<sup>1</sup> Other models explain "poor economic governance and/or violations of democracy/human rights." Second, they emphasize different causal links which can be identified as cognitive, economic, societal, and state-centred mechanisms. In fact, most models are hybrids (Ross 1999, Ross 2001, Rosser 2006).

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<sup>1</sup> In fact, the "resource war" causalities are much more complex than is commonly perceived (Smith 2004). Notwithstanding, "primary commodities may not effect civil war onset in the way we originally thought, but they do have important direct and indirect effects" (Ron 2005: 448).

Theories of the “rentier state” can be subordinated to the overall literature on the “resource curse” (Ross 2001: 328, Rosser 2006: 268). Whereas “resource production” is the independent variable with regard to the resource curse, “rents,” frequently going back to the extraction and the export of resources, are the independent variable in theories of the rentier state. As the name implies, these theories are primarily state-centred, but, none the less, come in different forms and emphasize different causal links between resource rents and poor economic governance, as well as authoritarian rule (Ross 1999, Ross 2001, Rosser 2006). The concept of the rentier state is usually used to describe most of the governments in the Middle East and in North Africa. Rents not only determine the characteristics of their national economies but also their state institutions and their government’s attitude towards society.

The trend that most resource-rich countries have performed poorly was first examined in Economic Science, after it became evident that the basic assumption that a state’s natural resource wealth would automatically lead to its catch-up development (known as the “staple theory of economic growth”, Innis 1956, Watkins 1963) had empirically failed. Ever since, Economic Science has formulated different approaches to explain how the export of minimally processed natural resources—encompassing petroleum and gas, hard rock minerals, timber, agricultural commodities (“gifts of nature,” Basedau 2005: 7)—has an influence upon economic growth.

## 2.1 Systematization of Resource Curse Causalities

### 2.1.1 *Economic Causalities Explaining (Socio-)Economic Deficiencies*

The four most prominent economic explanations for the resource curse are: a decline in the terms of trade for primary commodities, the instability of international commodity markets, poor economic linkages between resource and non-resource sectors, and a phenomenon called “Dutch Disease” (Ross 1999: 298). In the present case, it is only the latter two of these explanations that deserve more attention. The research on linkages indicates that a growth in commodity exports has little effect on the performance of the non-export sector, since forward and backward linkages between the sectors are absent. Follow-up investments do not take place, a phenomenon that is reinforced by multinational companies tending to take their profits out of the country instead of reinvesting them.<sup>2</sup> The results are booming enclaves in a country that for the rest remains in poverty and backwardness (Sachs/Warner 1997: 5, Ross 1999: 301-303, Bardt 2005: 5, Iimi 2007: 665). The term “Dutch Disease”<sup>3</sup> refers to a causal mechanism that harms the non-oil sectors. A sharp rise in the export of primary commodities causes an appreciation of both the state’s real exchange rate and, consequently, the national currency. The results are problems in making sales for the country’s agricultural and manu-

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<sup>2</sup> Additionally, the problem can also be blamed to governments as they commonly fail to foster linkages.

<sup>3</sup> So-called because the phenomenon was first perceived in the Netherlands, in the 1960s.

facturing sectors. In addition, they are already weakened by the booming resource sector, which draws away both capital and labor, thereby raising their production costs. In this scenario, the export of agricultural and manufactured goods declines and the costs of the goods and services that cannot be imported inflate. The vicious circle culminates in an overall macroeconomic crisis (Ross 1999: 306, Bardt 2005: 5, Gylfason 2001: 13 ff.).

### 2.1.2 Political/State-centred Causalities Explaining (Socio-) Economic Deficiencies

Economic causalities do not entirely explain why and how actors reinforce the economic dislocations that are caused by resource production, or why they do not take adequate countermeasures against them. In contrast, political explanations for the resource curse posit cognitive, societal and state-centred causalities for economic stagnation. Societal explanations cite the pernicious influence of social groups, who are empowered by resource windfalls and who favor growth-impeding fiscal and trade politics. In contrast, cognitive and state-centred approaches focus on policymakers and/or on state institutions (Ross 1999: 308).

Cognitive approaches suggest that resource wealth causes myopia among public and/or private actors, in the form of myopic sloth or myopic exuberance. In both cases, actors do not take the long-term decisions necessary for sustainable development (Ross 1999: 309). In contrast to this behaviorist approach, rational actor models regard political actors as utility-maximizing individuals. Political elites misuse their power to line their pockets by being engaged in corruption and rent-seeking (Rosser 2006: 15).

The assumption that political elites are first and foremost engaged in rent-seeking activities is very common. Many state-centred explanations for the resource curse utilize this point of view as the basis for their argument. Most explanations that fall into this category are generally hybrids, meshing institutional arguments with cognitive and societal ones. Theories of the rentier state are by far the most common version of these explanations (Ross 1999: 312). Rentier states are states that receive regular, and substantial, amounts of rents ("unearned income"). Whereas foreign aid is an example of political rents, oil profits, export taxes and royalties are instances of economic rents (Rosser 2006: 15, Beck 2007: 45/46).

In spite of this variety of causalities and permutations (Ross 1999: 312/313, Rosser 2006: 268/269), the core argument of theories of the rentier state can be summarized as follows: Recipients can dispose freely of rents, as their future income (in the form of ongoing rents) does not depend on wise reinvestment. This is due to the absence of competitive pressure in rentier systems, a feature that is, likewise, also significant in capitalistic enterprises. As the state becomes deeply involved in the economy, the ruling elite can spend the rents for their own privileges, for reinforcing their own position of power and access to the rents, and for short-sighted public expenditure. As a result, state institutions are weakened and the rents are not utilized to guarantee long-term, sustainable socioeconomic development (Beck 2007: 46).

### 2.1.3 Political/State-centred Causalities Explaining Violations of Democracy and Human Rights

With the ruling elite existing as guardians of the status quo, theories of the rentier state also suggest another hypothesis: oil wealth makes states less democratic. Theories of the rentier state have taken into account the lack of democratic pressure that is exerted on these governments since scholars of the Middle East first developed this concept in the 1970s (Ross 1999: 312). Ross (2001) first proved, quantitatively, that “oil is an obstacle to democracy not only in the Middle East region, but that it does harm to oil exporters elsewhere” (Ross 2001: 325). Furthermore, by substantiating and expanding upon the “lack-of-democratic-pressure-assumption,” Ross (2001: 332 ff.) suggests several causal mechanisms about how this manifests.

The “rentier effect” is based on the idea that the ruling elite can use their rents to alleviate social pressure, and thereby gain greater independence vis-à-vis the public. There are three means by which this may happen. One is the “taxation effect.” Since the government is getting sufficient revenue from the export of oil, they tend to levy less heavy taxes, or even none at all. The population, in turn, is less likely to demand responsibility and accountability (“no representation without taxation”). The “spending effect” posits that instead of gaining legitimization through free elections, governments can instead purchase legitimization through the expenditure of revenues on popular social welfare measures, on subsidization (petrol, basic food, coal, fuel oil), and on creating more employment opportunities in the expanding public sector. Not being aware of the shortsightedness of these policies, and the economic dislocations that they cause, the population rewards this policy with popular support for the government. Whereas the “spending effect” is geared towards the population as a whole, the “group formation effect” specifically impacts the development of independent societal groups or movements, since the government can use its resource revenues to buy them off and/or to co-opt their leaders.

While Ross (2001) derives these three “rentier effects” directly from theories of the rentier state, he traces the “repression effect” to “a close reading of case studies from the Mideast, Africa, and Southeast Asia” (Ross 2001: 335). The effect itself claims that high revenues allow governments to strengthen the security apparatus which, in turn, is used to stifle any democratic aspirations (Bardt 2005: 7).

Basedau/Mehler (2003) expand upon this model so as to take into account externalities. Industrialized countries commonly depend on the import of primary commodities (in particular, oil and gas) to sustain industrial production. Besides, resource-extracting countries are in the spotlight of profit-orientated multinational companies. In this context, they become trading partners and subject to foreign national interest. As a result, “pro-democratic political pressure becomes less likely and at the same time less promising, since the respective country tries not to rely on development assistance” (Basedau 2005: 16/17).

## 2.2 The Role of Institutions and Leader Behavior

The link between resource production and the resource curse for the impediment of the social development of countries is sufficiently proved, both theoretically and empirically. Nonetheless, absolute correlations do not exist (Müller 2004: 4). There is a huge variation in the outputs of the resource-extracting countries. Most of them are affected by the resource curse in various ways and to different extents. Moreover, a few countries (such as Norway, Australia, and Botswana) have been spared from negative consequences. Moreover, natural resources have actually turned out to be a blessing for them. On this basis, some analysts refute the idea of a resource curse, seeing it as a “myth” (Wright/Czelusta 2004: 8), and thus they have attempted to empirically disprove it as a “red herring” (Brunnschweiler/Bulte 2006); in contrast, the vast majority of scholars still insist that “the curse exists” (Kronenberg 2004: 32).

Against this background, a huge array of quantitative studies has been published in recent years, focusing on the particular intervening variables and/or on specifying the independent variable (“natural resources”). As Dietsche (2007: 2) notes, the earlier debate therein focused on the level of resource endowment, especially the extent of dependence on natural resource exports and resource typology to explain variances in outcomes across natural resource-extracting countries. In this regard, Basedau (2005: 24 ff., Basedau/Lay 2009: 759–760) gives a survey of the literature, so as to sum up why the type, the location of resources, and the technical way of exploitation makes a difference. To take one single example of the studies that focus on different types of resources, Wick/Bulte (2005) ascertain how resource rents and geographical clustering (“pointiness”), although not being homogenous, can be associated with civil strife and sub-optimal economic performance.

A further specification of resources as an independent variable dates back to Smith’s (2004) empirical finding that oil wealth is associated with increased regime durability and with the decreased likelihood of civil war. This finding seems to contradict the common notion that natural resources enhance the prospect of violent conflict. However, Smith (2004: 242) does not provide a robust explanation for this “puzzle.” Basedau/Lacher (2006) and Basedau/Lay (2009), in contrast, establish an explanatory model that presents some aspects of a possible solution. The basic idea therein is that it is necessary to distinguish between “resource dependence” and “resource wealth per capita.” Resource dependence is just an economic measure, not revealing much about internal possibilities to utilize the revenues. On the other hand, the availability of very high, per capita, revenues from oil allows governments to achieve internal stability by rentier mechanisms, in particular by a combination of large-scale distribution, high spending on the security apparatus, and from protection by outsiders (Basedau/Lay 2009: 757). Hence, regarding the likelihood of civil conflict, resource wealth on the one hand and dependence on the other work in different directions with regard to peace (Basedau/Lay 2009: 774). Similarly, Beck (2007: 46/47) points out that the level of the inflowing rents to a high degree determines whether, and to what extent, the effects, as predicted by the rentier state approach, occur. Therefore, he distinguishes between high

grade-, medium grade-, and low grade- rentiers (share of rents in state budget 40-50 percent, versus 30-40 percent, versus 20-30 percent).

The academic debate has, however, recently shifted towards focusing more on the quality of institutions as a specific intervening variable (Dietsche 2007: 3). Murshed (2004) demonstrates that “point-source type natural resource endowment” does retard democratic and institutional development, which in turn hampers economic growth. Therefore, institutions and institutional functioning are the crucial link between resource endowments, geography and policies on the one hand, and economic growth on the other. While this argument is generally close to Ross’ (2001) “oil hinders democracy” hypothesis, though extended to economic consequences, Mehlum et al. (2005) advance a different approach. Their aim is to explain the paradox that countries rich in natural resources constitute both growth losers and winners. The authors find that the quality of institutions determines the effect of resources on economic growth—even if resource abundance has no effect on institutions. “More natural resources push aggregate income down, when institutions are grabber friendly, while more resources raise income, when institutions are producer friendly.” Similarly, though with recourse to economic causalities, Ploeg/Poelhekke (2009) demonstrate that volatility is a quintessential feature of the resource curse, but also that with well-developed financial sectors the resource curse is less pronounced. Polterovich et al. (2008) identify negative impacts in two directions. On the one hand, resource abundance hampers growth, if the institutions of a country are weak, as this leads to the less efficient use of resources. On the other hand, resource abundance leads to the corruption of institutions. Moreover, they come to the conclusion that negative effects particularly occur if the institutions were not strong at the outset.

Approaches that derive the differences in the outcome from the quality of institutions are also confronted with studies that focus on the behavior of the political elite to explain whether resources turn out to be a blessing or a curse. Nonetheless, such studies are in a minority. Caselli (2006) states that countries with large reserves of natural resources experience power struggles, since there are challengers who want to replace the political elite to gain access to the resources themselves. The danger of being overthrown induces the rulers to undersupply human capital, infrastructure, contractual enforcement, and the rule of law, as their successor would benefit from such policies. Instead they are engaged in rent-seeking. While this study does not take into account the differences in the outcome, Caselli/Cunningham (2009) develop an approach to explain “the highly non-monotonic effects” of resource abundance. With reference to the assumption that an increase in revenues goes in tandem with an increase in the value of remaining in power, the ruling elite has an incentive to carry out activities and expenditures to cement their political control. The way in which this actually happens depends on the leader’s behavior—which can be classified as busy, lazy, repressive, or fatalistic. Some of these actions induce greater investment in assets that favor growth; others lead to a potentially catastrophic drop in such activities. However, since the study does not include further contextual factors, leader behavior appears to be rather unpredictable.

Some studies trade off the relevance of leader behavior against the impact of institutions. Others argue for it to be the other way round. Olarinmoye (2008) asserts that it is the policy choices of politicians that determines how resources are utilized. Notwithstanding, what matters is the extent to which political institutions promote the use of rational and meritocratic criteria in allocating public sector resources, and also the extent to which they ensure accountability. Similarly, Robinson et al. (2005) discover that politicians cause economic dislocations due to economic miscalculations and the resource-induced incentive to stay in power. Nevertheless, the overall impact of resource booms depends critically on institutions, since they determine the extent to which political incentives turn into political outcomes. In contrast, Arezki/Ploeg (2007) come to the conclusion that the assumption that the resource curse can be turned into a blessing for countries with strong institutions is not robust. The natural resource curse is particularly detrimental to the economic performance of countries with a low degree of trade openness. Therefore, trade policies directed toward more openness can make the resource curse less severe and may even turn it into a blessing. Dietsche (2007: 2) points to a theoretical shortcoming of the “institution matters” hypothesis. “The assumptions on which this conclusion is based deny the possibility that those with political and economic power could under certain conditions take a favorable interest in changing existing institutions.” Furthermore, institutional change cannot be implemented in a technocratic and rational way.

Accordingly, both arguments can be criticized for overemphasizing a single intervening variable (quality of institutions versus behavior of the political elite), and thereby creating a weight bias. Notwithstanding, very few studies use either the quality of institutions or leader behavior as the independent variable, and thereby refuting the resource curse theories on the whole. In their theoretical study about “The Myth of the Resource Curse,” Wright/Czelusta (2004) argue that “economies have performed poorly, not because they have overemphasized minerals but because they have failed to develop their mineral potential through appropriate policies.” (...) “It is largely the manner in which policymakers and businesses view minerals that determines the outcome” (Wright/Czelusta 2004: 8, 36). Brunnschweiler/Bulte (2006) empirically find the resource curse to be a “red herring.” In fact, resource-rich countries tend to be better off than resource-poor ones. “Resource abundance is significantly associated with both growth and institutional quality, but the nature of this association runs contrary to the resource curse hypothesis: greater abundance leads to better institutions and more rapid growth” (Brunnschweiler/Bulte 2006: 20). They conclude that “The curse simply does not exist.” In fact, countries with certain institutional designs fail to develop significant non-resource sectors, which makes them dependent on primary sector extraction. “If so, the causality would be from institutions to dependence and not the other way round” (Brunnschweiler/Bulte 2006: 21).

### 2.3 Context Matters

At first glance, the presented heterogeneity and inconsistency of the research on the resource curse is astonishing. In fact, the reason for this fragmentation can frequently be traced back to shortcomings in basic assumptions. What some researchers are talking about is essentially two sides of the same coin, while others are guilty of overstressing the resource curse theories. Against this background, the paper presents a twofold argument: First, that the quality of institutions does determine the way in which resources are utilized. That said, one also has to pay attention to the state of the institutions at the commencement of resource extraction. If democratic/participatory institutions have already been consolidated by that point, then it is less likely that the “resource curse” will occur, and, in this case, resource abundance tends to turn out to instead be a blessing. Second, institutions and leader behavior are inter-related, since they are embedded in a country-specific context. This also means that there are further country-specific factors (such as degree of abundance, watchdog structures in society, externalities etc.) that are likely to have an impact on the utilization of resource abundance. In sum, country-specific factors matter. They need to be analyzed also from their historical and procedural dimensions, wherein the situation at the beginning of resource extraction is one critical juncture.

The argument for this can be derived from the basic assumptions of the theories of the rentier state. In his study about countries that seem, at first glance, to disprove rentier state assumptions, Beck (2007) points out that theories of the rentier state require the consolidation of authoritarian structures due to rents—and do not concern the impact of rents in democratic regimes. More specifically, countries that were already consolidated democracies, or at least were far advanced in this direction when the influx of rents began, do not fall under the auspices of what the theories of the rentier state deal with (Beck 2007: 54). Examples of this are Israel (political rents) (Beck 2007: 56) and Botswana (diamond rents) (Beck 2007: 55). Moreover, the influx of high rents is not the solitary factor that fosters authoritarian and economically-deficient structures (Beck 2007: 47). For that reason, the author seeks the intervening country-specific factors. In the case of Botswana he identifies socially-sourced participatory ideas of an indigenous communitarianism and, moreover, the absence of a colonial legacy in the form of political elites addicted to their own self-interests.

In the case of Venezuela he traces democracy back to a pluralism of elites. Subsequently, the stakeholders, being development-oriented, agreed on a mutual pact (Beck 2007: 58, 63). Beck (2007: 63) subsumes all these country specific factors under the universal variable “ideas.”<sup>4</sup> The second main factor that the author identifies is “external threats.” As an intervening variable, they have the effect of being an incentive for governments to backup national autonomy, like the government of Botswana did vis-à-vis Great Britain and South Af-

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<sup>4</sup> Nevertheless, it is debatable whether a “constellation of actors” should be better considered as a separate variable influencing the rise of ideas.



rica (Beck 2007: 62–63). The third main variable is “conditionality.” Since it is imposed by external donors—like the USA did in the case of South Korea and Taiwan—recipients cannot dispense freely of the rents. Moreover, as the inflow of rents is temporal, future incomes depend on wise reinvestment (Beck 2007: 63–64).

However, such in-depth studies, taking into account country-specific context conditions, are in the minority. Basedau/Lacher (2006: 7) criticize the fact that revenue distribution has so far been assumed to be largely determined by resource-specific factors. Similarly, Dietsche (2007: 3,14,15) notes that only a few recent papers have explored how institutions and institutional differences across countries have come about. Most studies do not take into account social factors, political interests and incentives. For this reason, future research needs to carry out country-specific context analyses. This will widen the opportunity for the further clarification of the political causalities of the resource curse, and thereby, the reasons for different outcomes between countries. Moreover, country-specific context analyses are a suitable tool to clarify whether dislocations are actually a result of natural resources. Once examined, resource-independent context factors might turn out to actually be the root causes. The resource curse can only be said to exist if (socio-) economic dislocations, violations of democracy and/or human rights, and/or violent conflicts were caused, or at least triggered, aggravated, prolonged, and/or expanded due to natural resources—by cognitive, economic, societal, and/or state-centred mechanisms. If such causal links do not exist, or if resources are responsible for improvements in the aforementioned fields, then the resource curse does not exist.

#### **2.4 A Need for Context Analysis**

As Basedau (2005: 32) notes, to trace back complex causalities, qualitative small-N-case studies, which go into greater depth, seem to be the most suitable approach. In this vein, he proposes a model based on the assumption that whether or not the resource curse strikes, and the manner in which it does so, will depend on a complex set of context conditions in a given country. He argues that all these mitigating circumstances need to become an integral part of the research agenda. Context conditions differ in terms of a) pre- and non-resource, country-specific conditions, and b) resource-specific conditions. The latter include the type of resource, the location of resources, the degree of abundance and dependence, the technical means of exploitation, and the revenue management system. Once resource production has started, or at least becomes a realistic option in the minds of actors, these conditions interact with non-resource, country-specific conditions—such as the level of socioeconomic development, intercommunal relations, the functioning of institutions, externalities and the strategies of political leaders. Attention should be paid to the multifaceted complexity of mechanisms, interplays and direct and indirect effects (Basedau 2005: 28, Basedau/Lacher 2006: 6).

### 3 The Resource Curse and Rentier States in the Caspian Region: Literature Survey

The literature on the resource curse and rentier states in the Caspian region varies widely in every regard. Only on rare occasions is it up-to-date with the current academic debate on the resource curse, as previously described. Therefore, it is impossible to make such clear distinctions as those outlined in Section 2. Moreover, studies are in a minority that refer to a profound methodological or theoretic base upon which to examine the effects of resource abundance in their particular field of research. Furthermore, upon the analysis of particular economic and/or political causalities, it is evident that most of them differ greatly from each other. However, most studies are broad in the scope of their explanations for the shortcomings in the countries' transition to democracy and market economics. In this context, it seems that they are seizing upon different political and economic resource curse causalities, although doing so in a somewhat unsystematic fashion. Several of them even lack any serious theoretical framework. Notwithstanding, all these studies are an empirical source of information, demonstrating how the Caspian resource curse plays out. Moreover, some of them point to the intervening context factors that need to be taken into account for the conceptualization of a future model of Caspian rentier states.

However, before demonstrating that in detail, one needs to first bear in mind the basic theoretical and empirical challenges. First, there is no consensual geographic definition of which states form the Caspian region. Second, the data on both the estimated and proven Caspian oil and gas deposits varies significantly. This means, in turn, that the future level of income remains unclear. Third, the current level of income is also a highly dynamical and varying factor.

#### 3.1 The Caspian Region, its Resource Deposits and Resource Exploitation

The Caspian region encompasses Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan, the five littoral states that surround the Caspian Sea—the largest landlocked body of water in the world. Nevertheless, definitions of the “region” also have to take into account variations in the context, and a narrow geographic understanding is thus inadequate in several regards. Predominant among them is the Soviet legacy. As a consequence of that history, Azerbaijan, Kazakhstan and Turkmenistan have more in common with all other post-Soviet Central Asian and South Caucasian states than they do with Iran. Besides, there are geopolitical reasons why Iran is, first and foremost, part of the Mideast. Russia as a whole falls outside of being defined as part of the Caspian region, due to its enormous size, wherein it ranges from the Baltic Sea to the Bering Sea. In contrast, many studies include landlocked Uzbekistan.

Estimated and proven Caspian oil and gas deposits are far below the amount proclaimed in the mid-1990s. Declaring the Caspian Sea a new “Oil Dorado,” or even the “Gulf of the 21<sup>st</sup> Century,” the region was seen as one of the most important future energy producing regions of the entire world (Klare 2001: 84/85, Raballand/Genté 2008: 10). Euphoric over-

estimations were mainly politically motivated, aimed at justifying the international presence in the region (Adams 2004: 92). A case in point was a highly unrealistic US study that claimed that the region might even contain up to two-thirds of the world's known oil reserves.<sup>5</sup> Until 2001 both oil and gas estimations had been scaled down significantly (ICG 2004, Akiner 2004, Halbach 2004, Auty 2004: 112, Raballand/Genté 2008: 10 ff.). Ever since predictions have continued to vary, and to suggest that Caspian energy supplies could satisfy around 3 to 7 percent of global needs. In relation to the world's proven reserves of crude oil in 2009, the share of the Caspian littoral states Azerbaijan, Kazakhstan, and Turkmenistan, in combination with Uzbekistan, was put at 2.8 percent.

Holding an amount of 30 billion barrels, Kazakhstan is the richest state in this context, followed by Azerbaijan, which has an estimated amount of 7 billion barrels. In this regard, Turkmenistan (0.6 billion barrels) and Uzbekistan (0.594 billion barrels) are of minor importance (EIA 2009a, alike: BP 2009). Both states gain their attributed relevance in regard to their proven gas supply. Notwithstanding, there are severe differences in the data offered by the U.S. government (EIA 2009b) and by BP (2009). In the particular case of Turkmenistan, the country's proven reserves are estimated at 94 trillion cubic feet in the former case, whereas the latter claim a total amount of 280.6 trillion. That would be 4.3 percent of the world's proven reserves.<sup>6</sup> Uzbek gas supply is estimated at 55.8 trillion (BP 2009) and 65 trillion cubic feet (EIA 2009b) respectively. While Kazakhstan holds an amount ranging between 64.4 trillion (BP 2009) and 85 trillion cubic feet (EIA 2009b), Azerbaijan has the lowest deposits, estimated between 30 trillion (EIA 2009b) and 42.3 trillion cubic feet (BP 2009). Accordingly, the four states together hold between 4.4 percent (EIA 2009b) and 6.8 percent (BP 2009) of the world's proven gas reserves.

The data thus reveals that the level of resource endowment, and therewith the future level of income, varies from country to country. Simultaneously, the current level of income also differs, since the Caspian states are in different stages of exploitation. Moreover, revenues from the export of natural resources are growing at a rapid pace. For example, the share of oil and gas revenues in total government revenues grew from 23 percent in 1999 to 52 percent in 2004 in Azerbaijan, and from 5 percent in 1999 to 28 percent in 2004 in Kazakhstan (Bayulgen 2009: 180). These aspects pose some difficulties for resource curse and rentier states analyses, as the level of income certainly makes a difference.

### 3.2 Studies that Analyze Specific Resource Curse Causalities

Several studies analyze the economic outcomes of resource production in the region. Therefore, they seize on specific resource curse causalities. Egert/Leonard (2008) carry out a quan-

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<sup>5</sup> In December 1995 the American Petroleum Institute announced that Caspian reserves were 659 billion barrels.

<sup>6</sup> New explorations have taken place after Niyazov's successor, Berdymuchamedow, began to seek out new markets. Furthermore, high estimations might also be driven by political interests. This holds true, first and foremost, for the Turkmen government, which is notorious for its manipulation of data to suit its own interests.

titative study of the impact of oil prices on the nominal and real exchange rates in the case of Kazakhstan, coming to the conclusion that the country has not been affected by Dutch Disease thus far. Pomfret (2006a) demonstrates that the Kazakh oil boom has resulted in a booming enclave. Significantly, its location is the country's largest city, Almaty, whereas the production region itself has not seemingly benefited from resource extraction. The author proposes political reasons for this phenomenon, stating that Almaty is home to the country's elite. Similarly, in a comparative case study Leschenko/Troschke (2008) determine that the oil boom is aggravating regional imbalances, instead of correcting them, in Azerbaijan, as well as in Turkmenistan and Uzbekistan. Seeking the causality for this, the authors identify institutional shortcomings in fiscal policy. The transfer system lacks transparency and predictability. Information and control rights rest at the central level, whereas fiscal autonomy is close to zero at the local level. By comparison, Kazakhstan is well ahead. But, compared to other transition economies, it is also falling behind.

### **3.3 Studies that Apply Complex Resource-driven Political Economy Models to Explain Development Prospects**

In comparison, Auty's (2004) comparative case study is broader in scope, applying in-depth models of development and governance to explain the development prospects of Azerbaijan, Kazakhstan and Turkmenistan in the transition to market economics during the 1990s. Comparing them to energy-poor countries in the Caspian region, the author suggests that natural resource abundance impeded the progress in the competitive restructuring of their economies due to neglected reforms and Dutch Disease effects. Notwithstanding, he comes to the conclusion that a higher share of government rents is not associated with higher levels of corruption and rent-seeking behavior. This finding is, at first glance, astonishing since corruption is extreme high in the whole region. As a consequence, political leaders are engaged in corruption, self-enrichment and rent-seeking. In contrast, important problems are not adequately tackled. With regard to the Caspian states, it would be necessary to strengthen institutions, to mitigate poverty and negative macroeconomic effects, as well as to enhance the effectiveness of the oil rent deployment strategy. To explain the shortcomings, the author points to post-Soviet context factors, in particular deficient macro institutions, characterized by the influence of informal networks based on social ties within a local region (Azerbaijan), a family (Kazakhstan and Turkmenistan), or a clan (Uzbekistan). The pernicious influences of resource abundance are thus not solely confined to the economic sphere, since all three energy-rich countries significantly weakened nascent democratic institutions.

In his second study, Auty (2006b) weighs up optimistic and pessimistic scenarios regarding the economic performance of Azerbaijan and Kazakhstan. He therefore applies a resource-driven political economy model based on two core factors (Auty 2006a). First, the effects of resource abundance depend on the degree of potential rent relative to non-oil GDP

(high, medium, low rents). In the present case, the author concludes that the absorption of oil rents presents more problems for Azerbaijan than for Kazakhstan, since the Azeri oil rents are likely to be larger and since they will taper off more rapidly after a shorter, but more intense, peak in 2009–13. Second, whether rents turn out to be a blessing or a curse depends on the nature of the political state (developmental political state versus predatory political state). By confronting identified institutional gaps with the conditions required to optimize the benefits from the energy rents, the author classifies both countries as concentrated oligarchies. Moreover, he derives pessimistic future scenarios from both cases. The result is based on the following reasons: Both states fall short of the requirements for successful deployment. They are undermining political accountability, civic associations and institutions, and their economies remain badly distorted, generating insufficient employment to alleviate poverty.

### **3.4 Studies Broad in Scope: Resource Abundance, Soviet Legacy and the Failure in Transition**

Several single case studies seize on different economic and political resource curse causalities when analyzing the failure in transition to democracy and market economics. They differ greatly from each other with regard to their theoretical and methodological consistency and commonality.

Jafar (2004) analyzes Kazakhstan's oil politics. He notes that the rate of privatization is initially astounding. However, the incentive was driven more by the government's pressing need for revenues after the Soviet collapse, rather than by any long-term macroeconomic strategy. The author further dismantles the positive macroeconomic data, pointing to covered negative socioeconomic and political effects typical for petro-states. The non-oil sectors are crowded out and irrational expenditures take place, resulting in economic dislocations. An example of this is the change of the capital city from Almaty to Astana. In the meantime, the population at large sees little improvement in their living standards. Social, educational and health services, all together being in a poor state, remain underfunded. The author further identifies pernicious policies, featuring the taxation effect. The failure of the government to develop and enforce a reliable tax system corresponds with their aim to centralize power and reinforce autocratic structures. Meanwhile, the President and his family have become the country's economic elite with a tight grip on all areas of the economy. Operating at high levels of corruption, the regime has become ever more distant from the general population. In this context, the author further outlines negative externalities, in particular the West's oil-driven support for the political elite.

With regard to Azerbaijan, Walker (2008) concludes that the resource curse is taking root. The country has failed to develop democratic accountable and transparent institutions. State institutions seem to be designed to bestow privileges to individuals and special groups,

rather than to meet the broader social needs. Siphoning off oil revenue via infrastructure projects, the ruling elite also benefits from hyper-corruption. Therefore, the authorities are not interested in crucial reform measures. Besides, the state budget is too dependent on the state oil fund. Moreover, watchdog structures in the society are weak. Against the backdrop of that, the country will fail to manage its resource wealth effectively and the citizens will not benefit from resource wealth. However, resource abundance may be seen as only one factor alongside others—resource abundance alone did not transform Azerbaijan, Kazakhstan and Russia into authoritarian regimes. Referring to these three post-Soviet states, the author highlights instead the relevance of the quality of institutions at the beginning of resource extraction. In the cases where transparency and accountability were already weak at that initial stage, the new wealth could only serve to propel and intensify authoritarian practices.

Although the volume edited by Torjesen/Øverland (2007) on “Election Observers in Azerbaijan” lacks any sound methodological and theoretical framework, it encompasses a number of essays that investigate rent-seeking strategies and that expose the West’s oil-driven support for the political elite. It, first and foremost, demonstrates the need for systematized research on the resource curse in Azerbaijan. Notwithstanding, some essays are worthy of presentation as outstanding empirical sources on how the resource curse manifests in Azerbaijan. Analyzing the 2005 parliamentary elections, Alieva (2007) argues that the West’s promotion of its declared values were characterized by softness and inconsistency, due to their fear of losing out in energy and security issues. Therefore, they preferred a *de facto* hereditary monarchical transfer of power in 2003 and assessed the fraudulent election and post-election violence in 2005 very leniently. Beyond this, Guliev (2007) highlights the country’s informal pyramid structure, which allows for the appropriation of the lion’s share of the budget and the oil revenues by the ruling political elite. The money, in turn, opens up the possibility of them being able to bribe NGOs and the press. Similarly, Seyidov (2007) reveals that Azerbaijan is managed by a “family-parochial clan” with a pyramid-structured corruption network. Since the USA is reliant on Azerbaijan in the war against terrorism, and since they are afraid of losing out in petroleum flows, they haven’t given their political support to the party in power.

While a large amount of literature has been published on Azerbaijan and Kazakhstan, comparatively little has been written on Uzbekistan and Turkmenistan. Horák/Šír’s (2009) study on Turkmenistan, aimed at the government period of Berdymuchamedow, first and foremost scrutinizes the alleged steps forward in different policy fields. However, it gives subtle hints on the role of energy rents inside one of the world’s most repressive regimes. Since gas is practically the only commodity that the country can export, it forms the financial basis of the extremely centralized regime in power. While the education, health and social sectors had been completely devastated under Niyazov’s rule, he himself had wasted vast sums of money on his personal pomposity. Since then, substantial changes in domestic af-

fairs have not taken place. In foreign affairs, after years of self-imposed isolation, the oil and gas sector is now the country's driving force in developing external relations.

Since the ruling elite of Turkmenistan has total control over the revenue streams, thereby hiding it both from its own population as well the global public as top secret, almost nothing is known about it. In light of this, an investigative report by Global Witness (2006) is still a unique source of information concerning the former dictator's appropriation of resources. The study reveals the role of a Deutsche Bank account with more than three billion U.S. dollars at Njazov's own disposal.

Crude Accountability (2009) provides a qualitative in-depth assessment of how the hydrocarbon development is affecting Turkmenistan. Although primarily focusing on ecological impacts, the study takes into account the whole economic and political context. It inquires how a regime of totalitarian control could survive and why this resource-producing country has continued to fall behind its Central Asian neighbors in most areas of development since the dissolution of the Soviet Union. While the Turkmen economy is not only driven by oil and gas revenues, but also financed by it, a huge sum of money is wasted on numerous inef-fable monuments and projects. As an example, the study highlights the "Golden Lake-Project," which plans an artificial lake in the middle of the Karakum Desert. The study further refers to externalities, criticizing the fact that Turkmenistan's abysmal human rights record has not quelled the enthusiasm of foreign governments and international oil and gas companies to conduct business with the Turkmen government. In the present case, then, energy and profit appears to trump human rights.

Some qualitative studies analyze the Caspian region as a whole. In her essay on the economic and political developments in the Caspian region since the breakdown of the Soviet Union, Akiner (2004) not only points to resource abundance as the reason for economic and political shortcomings. In fact, the strengthening of presidential authoritarian regimes, informal networks and the corruption in the higher echelons of society, as well as social fragmentation processes, are also seen as a manifestation of the Soviet and pre-Soviet legacy. She further highlights that multinational companies tend to welcome, or at least tolerate, autocratic leaderships. Amineh (2006) points out that Azerbaijan, Kazakhstan, and Turkmenistan have transitioned from Soviet totalitarian rule to authoritarian rule all the while with the same elites staying in power. This entails elitism and corrupt governance, leading to nepotism within clan and family circles. Subsequently, resource revenues are not a solution to social underdevelopment, but rather are integral to the maintenance of authoritarian structures and self-enriching elites. In this way, the resource curse takes root. In comparison with each other, only Kazakhstan might circumvent the resource curse since its economic reforms have led to a substantial movement of fiscal assets to the private sector, an expansion of the banking sector, the privatization of electricity, and an increase in foreign investment. In Azerbaijan this process was hindered by an inefficient public administration that entangled

regulatory and commercial interests and bred corruption, while in Turkmenistan most economic reforms are either negligible or purely rhetorical.

In his qualitative study of the economic and political consequences of Caspian energy wealth, Bayulgen (2009) depicts both negative externalities and domestic economic and political effects of resource abundance in Azerbaijan, Kazakhstan, and Turkmenistan. In the case of Kazakhstan, he notes signs of Dutch Disease and the effects of crowding out the agricultural and non-fuel industrial sectors. He further assesses weak governance, rampant corruption, growing inequality and a deterioration in the quality of public education and health care. In all three countries the presidents and their closed circle of loyalists hold almost total control over all energy issues. Subsequently, the inflowing money has empowered them to become forceful elites who dominate the political system as well as the access to resources. In examining root causes, the author identifies the significance of the Soviet legacy, and above all highly centralised state structures and extremely weak societies.

### **3.5 Approaches that Apply the Concept of the Rentier State**

To sum up, many studies hint at post-Soviet context factors in their analysis of resource curse causalities, in both single and comparable case studies. However, as previously mentioned, most of them do not then carry forward their results to establish a profound and comprehensive framework of similarities and differences between the countries in the Caspian region. For this reason, the study of Franke et al. (2009) on the “post-Soviet rentier states” Azerbaijan and Kazakhstan has a unique position. With a claim to reveal the interrelation between resource incomes and resource policy, the institutional frame and the decision-making process, the authors formulate the overarching idea that both countries share similarities and structural parallels due to their Soviet legacy and their resource endowment. Further, they identify two core structural factors, a political one and an economic one. The first is related to strong autocratic presidentialism with neopatrimonial structures, inherited from Soviet and pre-Soviet times. It is the basis for the allocation of rents through non-transparent networks, and it is similarly sustained by the revenue from the export of oil and gas. The second core factor is related to the enormous national resources of oil and gas, as well as to low economic diversification rates. Both states suffer from Soviet legacies, with forms characteristic of them having been planned economies, tailored to Soviet needs. After their independence, Azerbaijan and Kazakhstan reformed their political structures only to the extent that was necessary so as to gain international investment, while rents were mostly used to consolidate autocratic regimes and to hinder further reforms.

Focusing on both of these core factors, the authors carry out comparative case studies on Azerbaijan and Kazakhstan, thereby hinting at further significant factors—such as a low level of political interest in the respective societies, the essentially hierarchical proclivity of the population and toleration of the countries’ failed transition by foreign powers, due to



their own economic and energy interests. From all of this, the authors derive seven specific features of the post-Soviet rentier state, as represented by Azerbaijan and Kazakhstan:

- (1) elite power in oil and gas contract conclusions,
- (2) permanent, corrupt and rent-seeking elites,
- (3) support purchased through rent allocation,
- (4) deficits in the regulation of economic structures,
- (5) missing concepts in relation to distribution,
- (6) a lack of transparency, and
- (7) medium legitimacy of the regimes in power in relation to resource policy.

Further to the exposure of these factors, the authors also include additional factors consequential to the post-Soviet legacy. They are, for example, hangovers from Socialist social welfare benefits in the case of purchased support through rent allocation, and a fear of criticizing authorities in the context of medium legitimacy of the regimes in power.

Although Franke et al. (2009) hint at there being striking differences between both of these countries—such as the characteristics of the patrimonial network in each, the missing party system with oppositional structures in Kazakhstan, the basically democratic constitution of Azerbaijan, as well as differences in the levels of natural resource endowment—they do not deem these contrasts to be of far-reaching significance.. As the authors themselves put it, the study applies “an intraregional research design which views post-Soviet states as one region with a common post-Soviet legacy, although naturally this varies somewhat from country to country” (Franke et al. 2009: 110).

### **3.6 Approaches that Explain the Striking Differences between the Single Case Studies**

As this study approaches the region in its totality, it differs greatly from other approaches that are designed to explain the striking differences between the single case studies. In their comparative study between resource-poor and resource-rich post-Soviet states, in particular Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan, Esanov et al. (2004) prove quantitatively that the performance of these four resource-rich states, judged against their potential for development, has been disappointing in every case. Going into greater depth, they subsequently note that the negative finding is caused by Turkmenistan and Uzbekistan, while the reform track of Azerbaijan, on the other hand, is quite similar to, or even slightly above, the average of all case studies. In seeking the root cause of this, they come to the conclusion that, in contrast to Turkmenistan and Uzbekistan, energy resources in Azerbaijan and Kazakhstan were not immediately available at the time of gaining national independence and, consequently, first had to be developed. To attract foreign investment, both countries were comparatively reform-minded in the beginning.

Contrasting the development of Azerbaijan and Kazakhstan since independence with the progress of Turkmenistan and Uzbekistan, Pomfret (2006b) comes to a rather similar con-

clusion. While the first two countries were dependent on foreign investment, rents from the export of agricultural goods, gold (mainly Uzbekistan), and gas (mainly Turkmenistan) could be realised with little need for recourse to foreign investment in both of the latter countries. Subsequently, both regimes were able to resist pressure for rapid reform. However, the author then even goes one step further, so as to point out the differences between both countries, to the effect that Uzbekistan managed its rents more effectively and responsibly than Turkmenistan. In the case of Turkmenistan, the government has maintained its strategy of reform-avoidance. Economic policy is intended to minimize change, while maintaining popular support through consumption subsidies ("populist giveaways," Pomfret 2006b: 81). Although Uzbekistan scored poorly on Western-based transition indicators, its economic performance is superior. The country forced a policy of public investment. Moreover, Uzbekistan has a comparatively good record of maintaining state revenues and public expenditures on education and health.

To explain these differences, the author identifies three core factors. Firstly, he points out that there are differences in leader behavior. Whereas Uzbek President Karimov is a trained economist and competent manager, who, moreover, pursues economic development by competing with Kazakhstan for regional hegemony, Nyazov's actions, first and foremost, demonstrated a greater concern for his own personal glorification and satisfaction than for economic development. Secondly, Tashkent used to be an important administrative and cosmopolitan metropolis in the region. This history created a capacity for effective administration that is, in contrast, a possibility lacking in Ashgabat. As the author notes, it is difficult to imagine an independent Uzbekistan tolerating the personality cult or simplistic policies of Nyazov. Thirdly, the countries differ in terms of the economic structure that they each inherited from the Soviet era. The author notes that an economy like the Uzbek one, which is heavily dependent upon cotton farming, requires maintenance of the infrastructure of irrigation, provision of other inputs, and of a marketing network. Moreover, such an economic structure is harder for an individual despot to control without others sharing some of the spoils. In contrast, in Turkmenistan, the inherited simple economic structure, based on gas exploitation, permitted a quasi-planned economy to remain intact even after the end of the Soviet era and its policy of economic planning.

#### **4 Conclusions: A Need for a New Approach**

Although the approaches of Franke et al. (2009), Pomfret 2006b and Esanov et al. (2004) vary widely in their scope and findings, they nevertheless do not negate each other. A direct comparison of these three studies reveals the respective shortcomings of each. Each study can be said to overestimate single factors, while remaining neglectful of others. In light of this reality, it is apparent that a new approach is needed if all the relevant regional dynamics and factors are to be identified and understood.

#### 4.1 Shortcomings of Previous Approaches

Focusing in on the differences between each of the country cases, Esanov et al. (2004) oversimplify the causality by reducing it to one single context factor. Despite this shortcoming, though, the study is extremely useful because it clearly illuminates the fact that the availability of revenues at the time of gaining national independence is of vital importance. Pomfret (2006b) seizes upon the same causality, but extends it to three further context factors: leader behavior/interests as influenced by externalities, rooted traditions of modern statehood, and inherited economic structures. However, he does not expand the results to create a theoretical and methodological framework that can encapsulate all Caspian rentier states. In this respect, the study of Franke et al. (2009) is the most far-reaching. Noting that both post-Soviet rentier states reformed their political structures only to the extent to which it was necessary to do so in order to gain international investment, the authors also point out that the availability of resources at the time of gaining national independence is a relevant factor. However, unlike Esanov et al. (2004) and Pomfret (2006b), they do not put further emphasis on it.

Aside from this point, the study expounds the great significance of two structural core features –namely, the economic and political legacies from the Soviet period—while other potentially influential context factors are only included, at best, subordinately. Therefore, even this approach is far from being comprehensive. Subsequently, the exact effects of resource rents in combination with post-Soviet context factors remain obscure, and that despite the fact that the approach includes empirical case studies of Azerbaijan and Kazakhstan. On the one hand, the study's aim is to characterize both states as rentier states. Therefore, it might not seem to be necessary to reconstruct the underlying causalities comprehensively. On the other hand, as a consequence, the seven core features of both post-Soviet states seem to be applied in an exclusively top-down manner. The approach might be sufficient with regard to Azerbaijan and Kazakhstan, since the regime differences are not as pronounced. Nevertheless, one cannot satisfactorily expand these findings so as to utilize them as a comprehensive approach for all Caspian rentier states. As Esanov et al. (2004: 1) put it, "the transition patterns observed in the region differ quite dramatically between Kazakhstan on the one hand and Turkmenistan on the other." Therefore, this approach simply does not reconcile the disparities.

#### 4.2 Why Differences Matter

The methodological problem faced can be exemplified by reference to the seven features of post-Soviet rentier states. The differences are even more striking than the similarities when using Turkmenistan, instead of Kazakhstan, as the counterpart of Azerbaijan:

- (1) With the elites having authority over oil and gas contracts, Azerbaijan and Turkmenistan seem to be rather similar at first glance. Once examined, however, each country context differs in significant ways. In Azerbaijan, there is still weak political opposition. The op-

position, as well as several NGOs working on budget and revenue management issues, challenge the current constellation to some degree. Moreover, it was the opposition, being in power in the early 1990s, which started the negotiations on the “contract of the century” – the country’s most important oil contract concluded with mainly Western, transnational companies. In Turkmenistan, on the other hand, there is no organized opposition remaining, due to the regime’s quasi-totalitarian instruments of power. Hence, it would be simply impossible there to establish an NGO to advocate on political and economic issues. Moreover, under Nyazow’s reign, legal uncertainty and the regime’s unpredictability was a severe obstacle to foreign investment (Olcott 2004, Global Witness 2009: 6).

- (2) With regard to the second feature, both Azerbaijan and Turkmenistan are, beyond doubt, ruled by permanent, corrupt and rent-seeking elites. However, Azerbaijan, with its elite ostensibly committed to Western norms, is a leading member of the “Extractive Industries Transparency Initiative (EITI),” whereas the membership of Turkmenistan, with its even more centralized “sultanistic regime” (Heinritz 2007) is hard to imagine. Despite this difference, both states lack transparency, since the budget management of Azerbaijan is also far from being open to scrutiny. Notwithstanding, there is relatively more transparency there than in Turkmenistan, where, as previously mentioned, revenues are hidden from society as a state secret.
- (3) Likewise, Turkmen policies towards its own society are much more simplistic. Revenue management is communicated with the celebrated slogan of the upcoming “Golden Age” – an extremely vague commitment. In Azerbaijan, such policies are also conducted, but to a far lesser degree, while the government is eager to permanently substantiate upon their alleged responsibility to effectively manage the resource revenues.
- (4) (/5) Accordingly, a state oil fund was set up and the government has launched a long-term strategy for the management of oil and gas revenues with the support of international financial institutions. Although critics permanently question its success, and ability to succeed, the prospects of Azerbaijan coming good in this regard are much higher than are those of Turkmenistan. Only recently has a national stabilization fund been established in the latter. However, there is not much known about the fund, since the overseer rights remain exclusively with the president. It seems, therefore, to be little more than a token gesture. The economic structures and the budget management are still as extreme in their opaqueness as they were under the reign of Nyazow. Critics claim that the repeatedly announced economic success amounts to nothing more than post-Soviet propaganda.
- (6) Regarding the likelihood of popular demonstrations against the current resource policy, there are, indeed, hardly any to be expected either in Azerbaijan or Turkmenistan. Notwithstanding, the potential still varies greatly. In Azerbaijan, oppositional ideas are much more rooted in society. To a certain extent, the country can be said to have a pluralistic history. It was induced by Western oil exploitation, which caused social upheavals in the late 19<sup>th</sup> and early 20<sup>th</sup> Centuries (Alieva 2009: 29 ff.). At the end of the Soviet Union the

“Popular Front” was formed and between a hundred thousand and one million people demonstrated in the streets of Baku for national freedom. Further, in 2003 and 2005 demonstrations against falsified elections were violently defeated. In Turkmenistan, meanwhile, with its persisting clan and tribe mentalities, national ideas are weak, whereas democratic ideas are almost non-existent. It is a widely accepted norm not to challenge any decisions made by an authority. The small “city-based intelligentsia” (Dannreuther 1994: 16) originating from a Soviet educational background, any lacking any deeper roots in society, was always weak. In the 1990s, they were forced to leave the country (Heinritz 2007).

#### 4.3 A New Approach Capturing Differences and Similarities in Context Conditions

Despite striking differences between the individual states, it is still legitimate to establish a collective concept of Caspian rentier states. The common Soviet and pre-Soviet legacies, which partially determines the characteristics of Caspian states and the utilization of their natural resources, are simply too strong to be completely ignored. However, a new approach is essential, capturing differences and similarities in context conditions to explore the exact ways in which they form the contemporary rentier states in the region. A future concept of Caspian rentier states needs to be generated from the bottom, that is, the specific country contexts, up. Against this background, three conclusions are essential:

- (1) *A Need for post-Soviet context analysis.* As Basedau (2005) puts it, all mitigating context conditions need to become an integral part of the research agenda. However, the Caspian rentier states also require a specifically tailored approach, as a result of the peculiarities arising from the post-Soviet context. Therefore, it is appropriate to distinguish between the following three sets of context variables (a) Soviet and pre-Soviet legacy, (b) resource-specific conditions (c) the constellation of stakeholders, leader behavior/strategies and externalities. Resource-specific conditions are a set of factors subordinate to “natural resources,” the main independent variable. The first set is subject to a rather structuralist approach, whereas the last one underlies a primarily actor-oriented perspective, although this cannot be completely generalized.

As Basedau (2005) puts it, context analyses require attention to the multifaceted complexity of mechanisms, interplays and direct and indirect effects between the single factors. In this context, one should focus on the state of the institutions/country context at the beginning of resource extraction, as argued in Section 2 of this paper. Likewise, Basedau (2005) puts forward an analytical model based on the distinction between a) pre- and non-resource, country-specific conditions, and b) resource-specific conditions, wherein both sets begin to interact once resource production has begun. However, as noted above, post-Soviet context analyses require a different approach. That is because the point in time at which national independence was gained is more important as a critical juncture than is the beginning of resource extraction.

(2) *The time of gaining national independence.* Before 1991 the individual republics were bound to the center in Moscow in all respects. Any important political and socioeconomic decisions were made there. Likewise, the heads of the Communist Party's local units were strictly embedded in the hierarchy of the *nomenklatura* system, although it is necessary to also consider that they were potentially able to set up informal networks within their republics. Although resources were already extracted, and even if the Soviet Union met the criteria of a rentier state (cf. Kim 2003), the revenues were not at the disposal of the individual republics, since they were advanced to, and reallocated by, Moscow.<sup>7</sup> Nevertheless, resource extraction and allocation influenced the political and economic setting in the Caspian republics.

In 1991 the constellation changed radically. The individual republics were given the task of building up independent nation-states and national economies respectively, simultaneously transforming the former system towards a new economic and political order, which should, at least ostensibly, meet the criteria of democracy and market economics. Further challenges that the independent republics had to cope with came from their simultaneous entrance onto the stage of international relations.

Likewise, the resource-related constellation changed. Post-independence, the successor states henceforth had the oil and gas resources at their own disposal—the vast majority of them for the very first time in their entire national history. Since national leaders could now choose external partners with whom to extract and trade gas and oil resources, and moreover, decide on how to utilize the revenues, leader behavior and externalities took on a new dimension.

From the analytical point of view, the point in time at which national independence is gained is the moment when leader behavior and externalities come into play as significant mitigating factors. Since national leaders can now independently decide on how to utilize their resources, resource curse causalities such as the “taxation effect,” “spending effect,” or “repression effect” (Ross 2001), as well as specific external effects (cf. Base-dau/Mehler 2003) become operative. In this sense, they offer an explanatory model for the advancing development and stabilization of rentier state characteristics in the Caspian republics. However, there are further factors to be included. Firstly, leader behavior is embedded into a country-specific constellation of internal and external necessities and constraints. Secondly, the country-specific constellation in general, and leader behavior in particular, depend, in turn, on the Soviet and pre-Soviet legacies, as well as on resource-specific conditions. Upon the attainment of national independence, the dynamic and influential interaction of these factors commenced. For this reason, the time period since the countries became independent is decisive in the analysis of these interactions.

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<sup>7</sup> For more information on the Soviet transfer system see Orłowski (1993).

Since resource extraction and allocation had already taken place in Soviet times, the Soviet and pre-Soviet legacies are, in turn, also influenced by resource-specific factors. However, it is not necessary to reconstruct the exact causality by applying an interaction analysis. Rather, one should carefully assess the effects that resource-related factors ultimately had upon the specific Soviet and pre-Soviet determinants. In Azerbaijan, for example, resource production had early impacts on the development of the country, since industrial oil extraction started in the second half of the 19<sup>th</sup> century. Apart from that, the example highlights, once more, that it is not appropriate to use the beginning of resource extraction as a “critical juncture” in post-Soviet context analysis. Ever since, several radical and complex changes have taken place, bearing no relationship to the country’s natural resources.

The Soviet and pre-Soviet legacies are, ultimately, the most significant factors that account for the peculiarities of the Caspian rentier states. However, before dissecting that, it is necessary to take a closer look on the other two sets of factors (resource-specific conditions on the one hand, and constellation of stakeholders, leader behavior/strategies and externalities on the other), and, for that, to bring to mind the previously published empirical results.

Correlating leader behavior back with personal ideas and preferences, as well as to the individual’s educational background, “leader behavior” is to some extent an independent factor, as Pomfret (2006) exemplifies with regard to both the Uzbek leader Karimow and the Turkmen leader Nyazow. In terms of the related internal and external necessities and constraints that confine the leaders’ freedom of action, it is necessary to pay attention to the idiosyncrasies of each country context. Leaders of resource-producing states tend to be freer to act—especially if their country is far away from Western centers of power, if they are exporting their commodities to non-Western countries, if they are internally unchallenged due to a paucity of opposition or a passive public, and if they not entirely dependent on foreign investment in the national oil and gas sector. These have all been the case in Turkmenistan. It is the set of circumstances that enabled Nyazow to implement, unimpeded, his bizarre ideas. Azerbaijan is rather different in all these regards, as already mentioned above. However, it should be highlighted once again that Heydar Aliyew’s decision to conduct oil business with the West opened up leverage to reinforce ideals and norms of Western statehood. Certainly, with the huge oil revenues coming in since 2006, this initial window of opportunity has finally closed. Similarly, the Azerbaijani leadership under Ilham Aliyew has demonstrated how to benefit from playing off the West against Russia.

In terms of resource-specific context factors, it is noteworthy, first, that oil and gas resources are the focal point of Caspian rentier states—and not Central Asian cotton which might have, at least to some degree, similar effects. Second, the whole region shares the particularity that the export of oil, like the general export of gas, depends on pipelines,

and thereby on intraregional cooperation. This is even more likely the case in this region, as the Caspian Sea lacks any access to the open sea. Third, as demonstrated by Basedau/Lacher (2006), Basedau/Lay (2009), and Beck (2007) in general, and by Auty (2006b) with regard to Azerbaijan and Kazakhstan, the “level of income,” more precisely the “resource wealth per capita,” makes a difference. Both Kazakhstan and Turkmenistan are vast countries with low population densities, yet enormous resource deposits. However, this factor is also dynamic. As previously mentioned, revenues from the export of natural resources are currently growing at a rapid rate. It is also important to remember that the level of resource endowment differs. Moreover, the Caspian states are in different exploitation stages. In this context, Uzbekistan has a further exceptional position. Whereas the energy endowments are sufficient to cover domestic needs, the major exports are cotton and gold (Pomfret 2006b: 77). However, in terms of the level of income, it is of outstanding importance whether resources were immediately available at the time of gaining national independence, as it was in Turkmenistan and Uzbekistan, or had to be developed first, as was the case in Azerbaijan and Kazakhstan.

- (3) *Soviet and pre-Soviet legacy* characterizes the particularities of the Caspian rentier states. However, despite broad similarities arising from common pre-Soviet cultural traditions and the unifying process of Sovietization, variations remained. On the one hand, the form of Sovietization to some degree differed from country to country. On the other hand, many differences stem from pre-Soviet times. Traditional structures and behavioral patterns, as well as the rudiments of the civil society that was established before 1918, remained below the surface. Some differences are rooted in resource-specific conditions. For example, as previously noted, resource exploitation had some early effects on Azerbaijan. In any case, based on the conclusions of the previous empirical results, the similarities and differences should be calculated on the premise of the following Soviet and pre-Soviet context factors:
- a) *Nomenklatura dominating the centralized state structure.* The political leaders of the Communist Party’s local units had high ranks in the *nomenklatura* system. Skilled in the harsh cadre training unit, they had forged ahead and were familiar with Soviet means of power. At the time of gaining national independence, they still controlled all political branches and had a tight grip on the media and police forces. Experienced as they were, they knew how to cope with deviants, how to lead the people by means of propaganda, and how to conserve highly centralized authoritarian state structures.
  - b) *Weak and inexperienced counter-elites.* In some republics, dissident movements emerged in the 1960s for the first time. In the 1970s and 1980s the base for potential counter-elites increased, since the share of young skilled people grew, from those who benefited from the rigorous Soviet *education* system. However, the intellectual elite, who increasingly questioned the current system, were city-based and lacked any firm roots in society. *Ipsa facto*,



and as a result of the fact that they had had no opportunity to gain political experience, the oppositional groups that arose in the late 1980s remained weak. However, the constellation differed from country to country. In contrast to rural republics, with their highly traditional population, oppositional groups had a stronger base in urban regions, especially in those with pre-Soviet democratic traditions.

- c) *Passive societies.* The passivity of post-Soviet societies can be traced back to both pre-Soviet and Soviet determinants. Even if clans and tribes have lost influence in their society, or even if they have completely *dissolved*, nevertheless the accompanying mentalities are, to a large extent, still prevalent. As a consequence and example thereof, it is still widely accepted in such societies that one should not criticize, let alone challenge, the authorities. However, during the 70 years of Soviet rule, obedience, rooted in cultural traditions, was conserved, if not even reinforced, by totalitarianism, resultant in a fear of voicing public criticism. This is particularly true for the older generation, as a consequence of them having witnessed Stalinist terror. Besides, there is a further aspect worthy of consideration; in exchange for socialist social welfare benefits, the Soviet leadership demanded from the population their non-interference in politics.<sup>8</sup>
- d) *Informal networks.* Informal networks were of extraordinary high importance in Soviet political life (Fairbanks 1996). Despite their common Soviet background, they vary greatly from country to country. In some remote areas, Moscow drew on traditional kinship networks to establish Soviet power. A case-in-point is Turkmenistan, where informal networks have a more traditional background in the form of pre-Soviet kinship and tribal groups (Heinritz 2007).<sup>9</sup> The most important clans are the “Soviet type of clans,” since they were set up in Soviet times by political leaders gathering their friends and relatives around them in the ranks below, as was the case in Azerbaijan (Andvig 1999: 71). Such paternalistic and clientelistic networks have a pyramid or “Christmas tree” structure, with political leaders on the top. They are the source of the siphoning off of oil and gas revenues which, in turn, serves to stabilize these networks and thereby the whole political system.
- e) *Culture of corruption.* Against the background of the importance of informal networks, corruption is not a shallow phenomenon, but deeply rooted in the respective societies. Since everybody is engaged in similar practices, corruption in general, and the fact that some are benefiting more than others in particular, is accepted as something normal, and such as something that it is not possible to tackle, or even that should not be tackled. Such mentalities are a breeding ground for collusion with political elites who siphon off revenues.

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<sup>8</sup> Since the Soviet Union was a commodity-exporting country, this social contract can be seen as a Soviet form of Ross’ (2001) spending effect.

<sup>9</sup> However, since Nyazov was an orphan he was more independent from such networks. This factor might have formed a cornerstone of his eccentric dictatorship.

- f) *Simple economic structure.* Although the economic structure inherited from Soviet times varies from country to country, the Soviet peripheral regions all share a common structural legacy. The Soviet economic system was characterized by a highly centralized distribution of roles. Peripheral republics were confined to the production of natural resources in exchange for manufactured products from the more highly developed republics in the western reaches of the Soviet Union (Esanov et al. 2004: 11). However, the basis for this colonial economic structure had already been established after the conquest of the remote regions by the Russian Tsar in the 19<sup>th</sup> Century. Furthermore, the economies of the republics were tailored to Soviet needs rather than to the requirements of the global market. As a result, the demise of the Soviet Union created a grave crisis for the manufacturing sectors in these republics, leaving natural resources as one of their very few profitable commodities.
- g) *Cleavages.* Domestic and cross-national cleavages are important for two reasons. First, under certain circumstances, they induce the formation of oppositional groups and mobilize the masses. Subsequently, the ruling elite might be overthrown. This was the case in Azerbaijan, as a consequence of the renewed outbreak of the traditional Nagorno-Karabakh conflict in the late 1980s. In contrast, in Turkmenistan, the potentials for tribal and regional disparities and disagreements, which might trigger unrest, have been consistently prevented by a pact between domestic elites (Denison 2008: 87). Second, domestic and inter-state conflicts provide a pretext for the enlargement of the military and the security apparatus, which, in turn, can be used as an opportunity to strengthen authoritarian rule.

## 5 Summary

The discourse on the Caspian region is dominated by focus upon the intraregional and global dynamics. In this, the two aspects to which the greatest attention is paid are, firstly, the ethnonational conflicts that broken out upon the dissolution of the Soviet Union and, secondly, energy issues. However, the domestic effects of the region's resource abundance remains a neglected field of research. Studies on the "resource curse" and "rentier states," first and foremost, focus on sub-Saharan Africa and the Middle East.

The literature on the resource curse is rather diverse. Systematizations can be undertaken in two directions. First, studies focus on different outcomes, in particular violent conflicts, poor economic governance, and the emergence of authoritarian regimes. Second, they emphasize the different causal links that can be distinguished between the cognitive, economic, societal and state-centred mechanisms. In fact, most models are hybrids, in the sense that they address several of these causalities.

However, the survey of latest research trends reveals that the existence of the resource curse as a phenomenon is still not commonly accepted. While many quantitative studies ar-

gue that institutions as an intervening variable are crucial, regardless of whether resources turn out to be either a blessing or a curse, some studies even go one step further and attempt to discredit the resource curse hypothesis altogether, instead arguing that either institutions or leader behavior is the variable that determines the outcomes in a given country.

However, such arguments negate two crucial factors. Firstly, the quality and strength of institutions does determine the ways in which resources are utilized. To fully appreciate and understand this, one also has to focus on the state of the institutions at the beginning of resource extraction. If democratic/participatory institutions are already consolidated at the outset of resource exploitation, then the occurrence of the resource curse is less likely and resource abundance tends to turn out as blessing. Secondly, institutions and leader behavior are interrelated, since they are embedded in a complex country-specific context with further factors influencing the utilization of resources. In brief, it is the context that matters. Therefore, future research needs to apply comprehensive country-specific and in-depth context analyses to fully illuminate and understand the relevant dynamics.

The literature on the resource curse and rentier states in the Caspian region varies widely in every regard. Only on rare occasions, is it contemporary with the current academic debate on the resource curse. In this way, there is only one particular study (Franke et al. 2009) that is promising, as it introduces a conceptual framework for the post-Soviet rentier states Azerbaijan and Kazakhstan. Despite this promise, though, it also falls short in that it views the Caspian states only as one region with a common post-Soviet legacy. Thus, this study diverges greatly from the other approaches that are designed to explain the striking differences that exist between the single case studies, which they do by outlining the variances in each country context.

Since each study overestimates single factors, while neglecting others, a new approach is needed, in which differences and similarities in context conditions are captured, and in which there is an exploration of the exact ways in which they form the contemporary rentier states of the region. Against this background, three conclusions are essential. First, there is a need for dynamic context analyses based on a distinction between three sets of context variables: (a) the Soviet and pre-Soviet legacies, (b) the resource-specific conditions (c) the constellation of stakeholders, leader behavior and strategies, as well as externalities. Second, post-Soviet context analyses need to focus on the point in time at which national independence was gained. Third, the Soviet and pre-Soviet legacies characterize the particularities of the Caspian rentier states. In particular, similarities and differences should be formulated on the basis of seven Soviet and pre-Soviet context factors: (1) the domination by *nomenklatura* of the centralized state structure, (2) weak and inexperienced counter-elites, (3) passive societies, (4) informal networks, (5) the culture of corruption, (6) simplistic economic structures, (7) domestic and cross-national cleavages.

The conceptualization of the Caspian rentier states through the application of comprehensive, country-specific, and in-depth context analyses, holds great promise in several re-

gards. It serves as the basis for an exact understanding of the causalities of the resource curse in general, and the shortcomings of the Caspian states' transition to democracy and market economics in particular. This, in turn, provides a foundation for subsequent, specific political recommendations on how the resource curse in the Caspian region might be overcome. This is particularly pertinent because the debate on the resource curse is already in the process of shifting towards political recommendations (Bagirov 2007a, b, Humphreys et al. 2007, Goldwyn 2008). And with the EITI leading the way, diverse initiatives to enhance accountability and transparency over oil and gas revenues are being carried out simultaneously across the region. However, their results have thus far been disappointing. Assumedly, these initiatives are not sufficiently tailored to country-specific needs.

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