

**STATE AND TRANSITION
IN EMERGING PETROLEUM ECONOMIES OF THE CASPIAN**

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JUNE 2003

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ABSTRACT

STATE AND TRANSITION IN EMERGING PETROLEUM ECONOMIES OF THE CASPIAN

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June 2003, 380 pages

The state is the most significant agent, which designates the characteristics of transition of Azerbaijan, Kazakhstan and Turkmenistan in the post-Soviet era. The powerful state is the legacy of the former Soviet regime, which had already created state's autonomy from the society. Azerbaijan, Kazakhstan and Turkmenistan differ from other transition economies because of their rich reserves of hydrocarbons. The transformation of these countries can be best analyzed by referring to the attitude of the state toward the issues related to hydrocarbons. The responses of the state to the demands of Russia, multinational oil companies, international organizations coexist with different domestic policies shaped along national peculiarities. In Azerbaijan, state attempted to open the energy sector to foreign capital as much as possible by following a policy of competitive accelerated adjustment in order to balance the external pressures and the national interests. Kazakhstan's transition period coincided with state's defensive market response, which allowed markets work under an autocratic political regime, whose main concern was to sustain the equilibrium among Russia, multinational companies and international organizations. In Turkmenistan, state gave priority to national interests and undermined the demands of Russia, multinational oil companies and international organizations by its neomercantilist attitude, along which the principal goal was to sustain state's absolute power and increase the flow of revenues extracted from oil and gas trade.

Keywords: State, Oil, Gas, Transition

ÖZ

HAZAR'IN YENİ OLUŞAN PETROL EKONOMİLERİNDE DEVLET VE GEÇİŞ

Bilgin, Mert
Doktora, Siyaset Bilimi ve Kamu Yönetimi Bölümü
Tez Yöneticisi: Yardımcı Doçent Dr. Pınar Akçalı
Haziran 2003, 380 sayfa

Devlet, Azerbaycan, Kazakistan ve Türkmenistan'ın Sovyet sonrası dönemdeki geçiş özelliklerini belirleyen en önemli kurumdur. Güçlü devlet, eski Sovyet rejiminin devlete toplumdan belirli bir oranda görecelik kazanmış olduğu mirastır. Azerbaycan, Kazakistan ve Türkmenistan sahip oldukları hidrokarbon rezervleri sayesinde diğer geçiş ekonomilerinden farklılaşmaktadırlar. Azerbaycan, Kazakistan ve Türkmenistan'ın Sovyet sonrasındaki dönüşümünün analizi en iyi şekilde devletin hidrokarbonlarla ilgili konulara yaklaşımına yönelerek yapılabilir. Devletin, Rusya'nın, çokuluslu petrol şirketlerinin ve uluslararası örgütlerin taleplerine verdiği cevaplar, milli özelliklerle belirlenmiş farklı yerel politikalarla bir arada yer almıştır. Azerbaycan'da devlet dış baskılarla milli gereklilikler arasında bir denge kurabilmek için rekabetçilikle hızlandırılmış ayarlama politikası izleyerek enerji sektörünü yabancı sermayeye mümkün olan en üst seviyede açmaya teşebbüs etmiştir. Kazakistan'ın geçiş süreci devletin pazarların işlemesine otokratik bir siyasi rejim çerçevesinde izin verirken Rusya, çokuluslu şirketler ve uluslararası örgütler arasındaki dengeyi korumayı hedefleyen korumacı piyasa cevabı ile örtüşmüştür. Türkmenistan'da ise devlet milli çıkarlara öncelik vererek esas amacı devletin gücünü ve petrol ile gaz ticaretinden elde edilen gelirlerin ülkeye akışını sağlamak olan neomerkantalist bir tutumla Rusya'nın, çokuluslu şirketlerin ve uluslararası örgütlerin taleplerini göz ardı etmiştir.

Anahtar Kelimeler: Devlet, Petrol, Gaz, Geçiş

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

Date

Signature

6 June 2003

ACKNOWLEDGEMENTS

I would like to express my gratitude to my thesis supervisor Assistant Professor Dr. Pınar Akçalı for her valuable contribution to this dissertation, which she made at every step with no regard to her office hours. I am also indebted to Associate Professor Dr. Mustafa Aydın and Assistant Professor Dr. Ceylan Tokluoğlu for their conscientious analysis of my progress reports, as well as for their accurate suggestions and comments. I am grateful to İhsan Kamalak for his support in terms of logistics, which facilitated the delivery of hard copies from Istanbul to Ankara. Finally, I would like to thank my sister Ceren and my friend Ayşe, who did not deprive me of their continuous support as well as their patience, and encouraged me to accomplish this dissertation.

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ABBREVIATIONS

AIOC: Azerbaijan International Operating Company
ANB: Azerbaijan National Bank
APTL: Association for the Protection of Turkmen Language
BP: British Petroleum
CASDIN: Central Asian Sustainable Development and Information Network's Centre
CEE: Central and Eastern Europe
CBT: Central Bank of Turkmenistan
CIS: Commonwealth of Independent States
CPC: Caspian Pipeline Consortium
DSPP: Department of State Property and Privatization
EBF: Extrabudgetary Funds
EBRD: European Bank for Reconstruction and Development
ESAF: Enhanced structural adjustment facility
EIA: Energy Information Administration
EU: European Union
FERF: Foreign Exchange Reserve Fund
FIC: Foreign Investors' Council
GDP: Gross Domestic Product
G 7: US, France, Germany, Britain, Italy, Japan, and Canada
IMF: International Monetary Fund
ITIC: International Tax and Investment Center
JSC: Joint Stock Company
KCB: Kazakhstan Central Bank
KGB: Committee for State Security
LFPM: Law on Financial Principles of Municipalities
LNGO: Local Non-governmental Organizations
MED: Ministry of Economic Development
MEDAR: Ministry of Economic Development of Azerbaijan Republic
MOF: Ministry of Finance
MPI: Ministry of Petroleum Industry
NAOC: North Absheron Operating Company
NAP: New Azerbaijan Party
NEP: New Economic Policy
NGO: Non-governmental Organizations
OKIOC: Offshore Kazakhstan International Operating Company
PSA: Production Sharing Agreements
SAFI: State Agency for Foreign Investment
SOCAR: State Oil Company of Azerbaijan Republic
Tcf: Trillion cubic feet
TCO: Tengizchevroil
US: United States
USSR: Union of Soviet Socialist Republics
VAT: Value-added tax

**STATE AND TRANSITION
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**A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY**

**BY
MERT BİLGİN**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY
IN
THE DEPARTMENT OF POLITICAL SCIENCE AND
PUBLIC ADMINISTRATION**

JUNE 2003

CHAPTER I

GENERAL INTRODUCTION AND THE FRAMEWORK OF THE DISSERTATION

I.1. General Introduction

I.1.1. Introduction

This dissertation analyzes the role of the state in the development processes of Azerbaijan, Kazakhstan and Turkmenistan during the post-Soviet era, which is characterized by a rapid transition through the trade of oil and gas. Azerbaijan, Kazakhstan and Turkmenistan have not enjoyed the status of an independent actor until the dissolution of the former Union of Soviet Socialist Republics (USSR). Since then, Russia started to lose the specificity of being the hegemon of the region. Azerbaijan, Kazakhstan and Turkmenistan found the opportunity to consolidate power in order to sustain their independence. The most crucial question arises from an ambiguity in terms of their relations with the international system, which is currently being designated along the competing interests in terms of oil and gas.

The disintegration of the former USSR led to a new era, in which Azerbaijan, Kazakhstan and Turkmenistan started to get rid of their socialist characteristics, imposed upon them by the central planning of Russia. This post-Soviet era is significant for these countries because they have the potency of developing themselves as independent entities. In order to understand the specificity of this era, it may be useful to designate the characteristics, which differentiated them from the Tsarist and Soviet periods. The evolution of these republics can be analyzed by three distinct epochs: colonial era under the domination of Tsarist Russia, socialist era under the policies of the Soviet regime, and post-socialist era, which is currently being determined by a transition process.

Colonial era under the domination of Tsarist Russia

The scarcity of available land for cotton production necessary for the ever-growing textile industry of Russia forced the Tsarist government to penetrate into the lands of Central Asia and Caucasus in the nineteenth century. Many Russians, and some Europeans, migrated to these lands after the Russian conquest. The migration of Russian settlers to the rural areas of this region gained an impetus after 1904 by the help of a law, which facilitated the migration of Russians.¹ During this period Azerbaijan, Kazakhstan and Turkmenistan have been the colonies of Tsarist Russia, who extracted their natural resources for improving its economy and never hesitated to use force in order to perpetuate her hegemony.

Socialist era under the policies of the Soviet regime

The colonial era has been transformed into the socialist era by the formation of the Union of Soviet Socialist Republics. Since then, Russia, Azerbaijan, Kazakhstan, Turkmenistan and the other members of the union have become parts of a greater whole. In other words, the newly independent republics of the Caspian Sea were no longer the colonies of Russia, but the constituent units of a new federal state. However, they continued to be underdeveloped and their main function was to supply mineral resources and the raw materials for the advanced industrial regions and complexes of the USSR.²

The policies of the Soviet regime changed the economic structure of the Caspian district. The Soviet regime profoundly transformed the economy of the region, which had been essentially rural. Collectivization and compulsory settlement of the nomads took place between 1929 and 1939. During this period, the Soviet regime intensely developed the cotton culture, which required the construction of big canals to reach the irrigated areas. On the one hand, the

¹ Ian M. Matley, "The Population and the Land", in Edward Allworth, (ed.), Central Asia: 120 Years of Russian Rule, Durham, Duke University Press, 1989, p. 103.

² Boris Z. Rumer, Soviet Central Asia, Boston, Unwin Hyman Ltd, 1989, p.184.

Soviet economic planning intensified the industrialization of Central Asia, which was based on agriculture, increased the diversification of the underground wealth and favored the establishment of processing industries. On the other hand, Soviet economic policies based on the monoculture of cotton led not only to the underestimation of other sectors, but also environmental deterioration.

In short, the economic policies of the Soviet regime created a socialist economic structure, in which Russia controlled the production and allocation of resources.³ This socialist specialization emerged as a kind of domestic disequilibrium, which distinguished the developed regions of the country from the underdeveloped ones. In addition, the central planning of socialist regime created the dependency of Azerbaijan, Kazakhstan and Turkmenistan on other Soviet republics, mostly Russia.

Transition in the post-socialist era

The socialist characteristics of Azerbaijan, Kazakhstan and Turkmenistan started to change after the dissolution of the former USSR. This is a two-dimensional transformation. On the one hand, the relation between Russia, who represented the central authority, and Azerbaijan, Kazakhstan and Turkmenistan, who represented the underdeveloped region of the union, began to change. Today, these countries are no longer the satellites of Russia. Azerbaijan, Kazakhstan and Turkmenistan started to negotiate directly with international organizations and involved in commercial relations with other countries. Consequently, Azerbaijan, Kazakhstan and Turkmenistan have started to get rid of the characteristics, which had made them the satellites of Russia. That is to say, Russia is losing her capability of dominating the economic and political domains of Azerbaijan, Kazakhstan and Turkmenistan. Azerbaijan, Kazakhstan, Turkmenistan have become the part of the “developing” world, which are located on the periphery, whereas the center has

³ See, Bernard Chavance, Le système économique soviétique, Paris, Le Sycomore, 1987

become part of the “developed” world together with the industrialized countries such as the US, France, Germany, Britain, Italy, Japan, and Canada (G 7). In other words, the domestic dual structure of the former USSR characterized by metropolis-satellite relations was replaced by the global dual structure characterized by center-periphery relations.

On the other hand, the socialist framework of Azerbaijan, Kazakhstan and Turkmenistan started to be reconstructed on the basis of liberal economic principles. As Chavance states, the transformation process in the former socialist countries of Eastern Europe and the Soviet Union began under the auspices of a specific transition doctrine adopted by most new governments after the collapse of what remained of the communist ideologies, and under pressure from international organizations and Western states.⁴ Within this context, these countries are faced with serious external pressures, which jeopardized their existing structure. The main components of these pressures were the prevalent neo-liberal theories and the Washington Consensus that imposed stabilization, liberalization and privatization as the main objectives for this unique historical experience.⁵ The post-socialist era is very critical for the development processes of Azerbaijan, Kazakhstan and Turkmenistan because independence gave them a chance to choose their own ways of development. These countries are currently confronted by global pressures, which have started to be influential in all of the republics of the former USSR in the aftermath of the disintegration process. The industrialized countries and international organizations such as the World Bank and the International Monetary Fund (IMF) invoke these countries to reconstruct their structures on the basis of liberal principles. Consequently, Azerbaijan, Kazakhstan and Turkmenistan felt the necessity of transforming their socialist structures into market economies.

However, at this turning point, Azerbaijan, Kazakhstan and Turkmenistan are jeopardized by one big dilemma. Even though they feel the necessity of

⁴ Bernard Chavance, The Historical Conflict of Socialism and Capitalism And the Post-socialist Transformation, UNCTAD High-Level Round Table on Trade and Development : Directions for the Twenty-first Century, Bangkok, 12 February 2000, p. 13.

⁵ Ibid,

accepting the basic principles of market economy, the legacy of the Soviet period impedes the transition to liberalism. Furthermore, these countries hesitate to reconstruct their political economy as well, because they are afraid of damaging their former structures, which had been functioning for a very long time.

The hydrocarbon reserves of these countries appear to be a very critical factor, which determines the characteristics of their transition process. That is to say, the revenues which are extracted from the trade of oil and gas not only contribute to the economic growth of these countries, but also determine the specificity of post-socialist development. Nevertheless, Azerbaijan, Kazakhstan and Turkmenistan do not have certain social groups (such as the bourgeoisie) yet, which can lead the path to economic growth and development. In all three countries, the state seems to be the only actor, who can assume certain responsibilities in order to implement the policies for national development, while coping with the problems of transition from socialism to market economies. The states of Azerbaijan, Kazakhstan and Turkmenistan have assumed significant responsibilities after the disintegration process of the former USSR. Within this context, this study will elaborate the transition processes of Azerbaijan, Kazakhstan and Turkmenistan in the post-socialist era with a special emphasis on the role of the state, who is the only domestic agent capable of dominating the influx of hydrocarbon revenues.

I.1.2. The Specificity of Azerbaijan Kazakhstan and Turkmenistan

Azerbaijan, Kazakhstan and Turkmenistan are the three Turkic republics of the Caspian Sea, which constitute a coherent region. These countries have attained the chance of trading their rich hydrocarbon reserves on world markets at fair prices after a very long period of Russian domination. As a matter of fact, this region is significant in political, geopolitical and economic terms.

Politically, Azerbaijan, Kazakhstan and Turkmenistan are characterized by common factors. They are all Turkic republics, who have long lived under the

influence of Russia. The governing elite of the Soviet era has turned into the national governors of Azerbaijan, Kazakhstan and Turkmenistan in the aftermath of the disintegration of the USSR. Consequently, all of these countries stumble between transition to democracy and the patronage relations of those people, who hold political power by the virtue of their communist background. That is to say, the members of the former communist parties, who currently constitute the governing elite of Azerbaijan, Kazakhstan and Turkmenistan, decide about critical issues such as democratization and liberalization.

Geopolitically, the locations of these countries are very critical because they take place in between three important regional powers (Russia, Iran and Turkey), each with different concerns.⁶ Russia aims to dominate these countries by trying to perpetuate the former characteristics of the metropolis-satellite relations. Iran aims to broaden her influence by using Islamic characteristics of Azerbaijan, Kazakhstan and Turkmenistan. Turkey wants to develop close relations with these Turkic countries, with whom she shares cultural and linguistic affinities. Here it should be mentioned that, not only the regional powers such as Russia, Turkey and Iran, but also other international actors such as G7, as well as the neighboring countries such as Georgia and Armenia, attribute a special attention to Azerbaijan, Kazakhstan and Turkmenistan.

Economically, when the hydrocarbon reserves of Azerbaijan, Kazakhstan and Turkmenistan are analyzed, it may be suggested that the natural resources of these Turkic republics not only increase their political and geopolitical importance, but also vitalize the economic concerns of the actors, who have involved in the trade of the Caspian hydrocarbons. According to the moderate estimations of the US Energy Information Administration, the oil reserves of Azerbaijan is between 31 and 40 billion barrels. This number is somewhere between 95 and 103 billion barrels for Kazakhstan and about 34 billion barrels for Turkmenistan. Azerbaijan's gas reserves are about 35 trillion cubic feet (Tcf). Kazakhstan has a 88 Tcf of reserve. Turkmenistan is the richest in its

⁶ Mustafa Aydın, "Turkey and Central Asia: Challenges of Change", Central Asian Survey, Vol. 15, No. 2, 1996 and Mustafa Aydın, "Ethnic Conflict and Security in Central Asia and Caucasus: The Role of Turkey", Marco Polo Magazine, Vol. 3, 1998.

reserves with a 159 Tcf off shore gases.⁷ In addition to this, we should mention two crucial points. First of all, the production of the Caspian hydrocarbons will steadily increase in the future. Secondly, the current reserves of Azerbaijan, Kazakhstan and Turkmenistan are sufficient for attaining national prosperity in the near future.

On the one hand, the share similar political, geopolitical and economic structures. On the other hand, these countries started to differ from each other by their interaction with the actors of the world economy. Considering all these factors, it may be suggested that, as a coherent region with political, geopolitical and economic importance, Azerbaijan, Kazakhstan and Turkmenistan deserve a closer look.

I.1.3. Theoretical Approach

The dissolution of the former USSR has outmoded socialist ideology. The interaction within the world system is designated by the principles of market economy, which is presented as the only alternative for economic growth and development. The idea of national development has turned out to be a very difficult task to complete under the rapid growth of the global market forces. That is to say, under today's circumstances, mercantalistic and/or nationalist policies may lead to a sort of isolation, which impedes the realization of national development. Under these circumstances, the state should not be cursed as done by the most of the neo-liberals. Rather, the state should be considered as an agent, which has the potency to transform the dialectical interaction between the external and internal factors into the national policies.

Consequently, a theoretical framework, which is aware of the dialectical interaction between global pressures that are being concretized by the neo-liberal impositions of the IMF and the World Bank and regional peculiarities, which are embedded by the states of transition economies, can be relevant for

⁷ According to US. Energy Information Administration.
<http://www.eia.doe.gov/emeu/cabs/caspian.html>

understanding the evolution of post-Soviet transition economies of Azerbaijan, Kazakhstan and Turkmenistan. Within this context, it is possible to elaborate the interaction among state, commerce of hydrocarbons and the transition only through an institutionalist analysis, which is capable of indicating the role played by hydrocarbons. Consequently, this thesis will benefit from the theoretical perspective developed by the institutionalists such as Charles Bettelheim (1963, 1982, 1983), Bernard Chavance (1987, 1989, 1994, 1996, 1999, 2000) and Jacques Sapir (1980, 1984, 1986, 1990, 1992, 1996, 1997, 2000, 2002)

In order to constitute an appropriate institutionalist framework, this dissertation will use a two dimensional approach. First, with regard to theoretical aspect, different interpretations of the state in the post-socialist era will be elaborated. These approaches may lead to a sound theoretical framework and conceptualization, through which it may be possible not only to understand how the state has been conceived by these theories, but also to indicate the characteristics of the interaction between the global pressures, national peculiarities and the state within the context of transition. The changing situation of the state will also be tackled within this sense by a special emphasis on the rising role of neo-liberalism. Neo-liberal understanding of economy, which turned out to be the main recipe of the IMF and the World Bank will be analyzed in order to underline the problems of the transition economies *vis-à-vis* the scope of the state. Consequently, this study will refer to the generalization of neo-liberal perspective by trying not to neglect the basic characteristics of transition economies that can be best identified by their regional peculiarities. Finally, the theoretical aspect will be expanded by an analysis of the interaction among the state, transition and hydrocarbons.

Second, with regard to the historical aspect, this dissertation will attempt to take into consideration the interaction between the historic legacy of the strong Soviet state by not neglecting the situation in the post-Soviet era, which is characterized by trade of hydrocarbons. Therefore, understanding the evolution of the strong state during the Soviet era is expected to help in elucidating the legacy of the current states of Azerbaijan, Kazakhstan and Turkmenistan, which

have been consisted of the members of former Communist Party. Having pointed out the basic premises of the Soviet state, it seems indispensable to understand the interaction between the trade of hydrocarbons and the attitude of the state. In other words, the influence of the trade of hydrocarbons on the authoritarian characteristic of the state is another critical aspect, which deserves to be referred. The attitude of the states tend to vary according to the issues related to oil and gas. In other words, despite their common Soviet history, these republics are currently emerging petroleum economies that are being determined along the attitude of the state concerning the trade of hydrocarbons.

This dissertation will try to use the above mentioned two dimensional framework by not underestimating the changing characteristics of the world economy in the aftermath of the collapse of communism. In this sense, I will attempt to consider the fact that, the willingness of the state in realizing economic transformation may result in (and even intensify) a certain amount of economic growth and development. The neo-liberal global pressures, which are being imposed by the IMF and World Bank, are confronted by regional peculiarities, which lead to different forms of transition. The state plays the most significant role by responding to these pressures. The state's attitude about the issues related to oil and gas determine not only the positionings of Azerbaijan, Kazakhstan and Turkmenistan in the international arena but also the domestic developments.

I.1.4. Hypothesis

The main hypothesis of this dissertation suggests that the state is the most potent and critical domestic agent, which determines the characteristics of post-Soviet transition of Azerbaijan, Kazakhstan and Turkmenistan by interacting with the issues related to hydrocarbons. The states of Azerbaijan, Kazakhstan and Turkmenistan have already assumed a sort of supremacy as a natural consequence of their Soviet heritage, which puts a remarkable emphasis on the state as the most important domestic agent. This supremacy has been widened in the aftermath of the dissolution of the former USSR. As was mentioned above,

the states of this region have assumed the responsibility of realizing national development programs. This enlarged their capabilities of action.

The former Soviet system attributed a very special significance to the state.⁸ Socialism created a tradition of strong state in Azerbaijan, Kazakhstan and Turkmenistan. These countries had always been very familiar with policies such as state subsidies, state intervention, state production etc. The Soviet state had assumed most of the responsibilities such as production, transportation and services. Consequently, the state had been present in every aspect of life. The idea of strong state of the Soviet regime has turned out to be a tradition, which has perpetuated in the aftermath of the disintegration of the former USSR. In other words, the societies of Azerbaijan, Kazakhstan and Turkmenistan are very familiar with the omnipresence of the state. Consequently, the state officials have found the opportunity to strengthen themselves during the Soviet period. Most of the socialist cadres and traditions have perpetuated in the aftermath of the disintegration of the former USSR.

Another very basic indication of strong state in Azerbaijan, Kazakhstan and Turkmenistan comes from the characteristics of the governing elite. Most of the members of the former communist parties are still effective in these states. This governing elite, commonly called as *nomenklatura*, still has the ability to disseminate its power by the virtue of its control over strategic posts. Even though these cadres may be considered as experienced professionals, who have the potency of realizing economic development, patronage relations among them impede the vitalization of national development.

The power of the state, thus described, was reflected upon the transition from socialism to market economy on the one hand, and its attitude towards the revenues of Caspian hydrocarbons on the other. Within this context, it may be suggested that the national development processes of Azerbaijan, Kazakhstan and Turkmenistan have so far been determined by the characteristics of the state, which shapes the policies concerning the issues of transition from

⁸ See, Jacques Sapir, Feu le système soviétique 2, Paris, La Découverte 1992.

socialism to market economy and the way the revenues of the Caspian hydrocarbons are being used. Issues such as implementation of relative and free prices for goods and services, and privatization necessarily diminish the scope of the state, therefore the power of the *nomenklatura*. Consequently, the *nomenklatura* may prefer to adhere to the socialist tradition, which may help to sustain the presence of the state in critical positions such as energy industry, banking, finance etc. In addition to that, the Caspian hydrocarbons increase the role and power of the states of Azerbaijan, Kazakhstan and Turkmenistan. These countries have abundant amounts of hydrocarbon reserves, which will be controlled by these states. On the one hand, the revenues obtained by extracting natural resources may allow the producer countries to involve in rapid economic growth and development. On the other hand, the state, in certain cases, has reallocated these revenues through populist policies in order to legitimize the existence of the governing elite. So, the state has sometimes considered these revenues as a source of legitimization, which could help the *nomenklatura* to perpetuate its power without implementing any national development project.

To sum up, issues such as the characteristics of the state, transition from socialism to market economies and the policies concerning the revenues of the hydrocarbons seem to be shaped by the policies of the current governments of Azerbaijan, Kazakhstan and Turkmenistan. Considering the fact that these governing elites are constituted by the *nomenklatura*, who decide about the national policies, it may be possible to suggest that the development processes of Azerbaijan, Kazakhstan and Turkmenistan will be shaped by the attitude of the states related to their Soviet characteristics, transition from socialism to market economy and the valuation of the revenues of hydrocarbons. Within the basic premises of the hypothesis, it will be questioned to what extent the responses of the state to the pressures imposed upon itself as a burden of commercialization of hydrocarbons fit to competitive accelerated adjustment in Azerbaijan; defensive market response in Kazakhstan; and neo-mercantilist adjustment in Turkmenistan.⁹

⁹ This issue will be discussed in detail in following chapters.

I.1.5. Organization of the Dissertation

This dissertation has four chapters. The first chapter will aim to formulate a sound combination of theoretical and historical framework with the belief that both aspects contain premium significance in the case of post-Soviet republics. Within the theoretical aspect, the liberal, Marxist and elitist perspectives *vis-à-vis* the characteristics of state and society will be referred. Within the historical aspect, the evolution of the strong state during the Soviet era, and the interaction between the state and hydrocarbons in the post-Soviet era will be elaborated. In order to better understand the post-Soviet situation, the basic characteristics of the transition economies will be elaborated by a reference to the contemporary scholars, who have contributed to the neo-liberal theory. Neo-liberal understanding of economy has turned out to be the basis of the regulations, which are being imposed upon the transition economies (developing economies in broader sense) by the IMF and the World Bank.¹⁰ Nevertheless, neo-liberalist perspective misses the continuity between the eras. Consequently, understanding the basic characteristics of neo-liberal perspective will help to draw the general characteristics of the global pressures on the developing economies. In order to understand the link between the Soviet and post-Soviet periods and elucidate the regional peculiarities of these countries, the attitude of state in petroleum economies will be discussed with regard to the specificities arising from being post-Soviet.

In the second, third and fourth chapters, the role and the importance of the state in the transition processes of Azerbaijan, Kazakhstan and Turkmenistan through hydrocarbons will be respectively elaborated. The policies of state concerning transition from socialism to market economy, such as democratization, privatization, and attitude towards the revenues of hydrocarbons will be attributed a special emphasis. In these chapters, the three newly independent countries of the Caspian Sea will be elaborated as separate entities. Consequently, Azerbaijan, Kazakhstan and Turkmenistan will be discussed in

¹⁰ David A. Baldwin (ed.) Neorealism and Neo-liberalism: The Contemporary Debate, New York, Columbia University Press, 1993.

three distinct parts, which will basically aim to offer country data in order to understand the role of the state in their transition processes. The framework which has been developed in the first chapter will be the common ground of these independent chapters in order to better compare and contrast the attitude and changing characteristics of the states *vis-à-vis* the trade of hydrocarbons. In these chapters, I will try to explicate why and how the state is very crucial for the transition processes of Azerbaijan, Kazakhstan and Turkmenistan by a closer look at the legacy of socialist system, which has started to change by the influence of issues related to oil and gas. The extensive presence of the state in Azerbaijan, Kazakhstan and Turkmenistan necessitates a closer look at both political and economic issues, which have been vitalized by the impulses related to oil and gas. This arises from the fact that Azerbaijan, Kazakhstan and Turkmenistan are the emerging petroleum economies characterized by the state's attitude about the issues related to hydrocarbons. Within this context, the meaning of the state for these republics will be determined by a special reference to the effect of hydrocarbons on the evolution of the state in the post-Soviet era. This attempt aims to understand the basic characteristics of the state and to understand the extent in which the issues related to hydrocarbons have been effective in state's formation. The changing regime of hydrocarbons in the post-Soviet era can be pointed out as the main factor, which imposed certain pressures upon the state. Within this context, the characteristics of the oil regime of Azerbaijan, Kazakhstan and Turkmenistan in the post-Soviet era will be elaborated in order to better understand the specificity of the pressures imposed upon the state by external actors. Since then, first political then economic pressures, which have been imposed upon the state by the issues related to hydrocarbons, will be elaborated. In other words, the role of oil and gas on exacerbating certain political and economic problems will be handled by a reference to their link with external actors such as other countries and international organizations. The responses of the state will also be analyzed in order to understand how the state behavior has been shaped along the political and economic pressures related to oil and gas. At the end of the second, third and fourth chapters, the relevant country will be positioned along three distinct lines, which are assumed to represent three distinct responses to oil shocks. Within this sense, we will attempt to identify the state attitude along three

distinct paths: competitive accelerated adjustment in Azerbaijan; defensive market response in Kazakhstan and neo-mercantilist adjustment in Turkmenistan.

In the Conclusion, the regional peculiarities of Azerbaijan, Kazakhstan and Turkmenistan will be compared and contrasted within the theoretical framework drawn in the first chapter. The transition processes of these republics will be compared and contrasted by using the data offered in the second, third and fourth chapters of the dissertation in order to analyze the validity of the hypothesis and its suggestions.

I.1.6. Methodology

The theoretical framework of this dissertation will be constructed by the analysis of the interaction between the state and hydrocarbons with regard to the peculiarities arising from being transition economies.

The methodology of the first chapter, referring to the most applicable aspects of general theories, is used in order to acquire particular conclusions. The characteristics of the relations between the state and transition through hydrocarbons are theoretically elaborated in order to reach at a suitable framework for the case of Azerbaijan, Kazakhstan and Turkmenistan.

A comparative analysis of the relevant country data about political and economic indicators of Azerbaijan, Kazakhstan and Turkmenistan is used in the second, third and fourth chapters in order to both enrich this dissertation and strengthen the validity of its basic hypothesis. Besides the library study, a very intense analysis of the internet resources, including the state branches of Azerbaijan Kazakhstan and Turkmenistan on the one hand; external actors such as foreign companies, the IMF and the World Bank on the other, are extensively referred in order to update and contribute to this study.

It is expected that the above-mentioned methodology will ameliorate this dissertation in three ways. First of all, it will be possible to test the validity of the hypothesis. Secondly, it will be possible to compare and contrast the post-Soviet evolution of these countries by interrogating the role of the state in transition through hydrocarbons. Thirdly, it will be possible not only to understand the role of the state for the transition processes of Azerbaijan, Kazakhstan and Turkmenistan, but also to explicate that the attitude of the state and its relations with society have differed from each other along regional peculiarities.

I.2. Theoretical Framework

State is one of the most debatable concepts in the fields of economics and politics. There are many definitions of state, which can be identified by referring to different aspects, such as state with its institutions, state as governing apparatus, state as the identifier of a country etc. Putting more emphasis on one of these aspects of the state may create different definitions of the state. On the one hand, the differences among the definitions make it difficult to clearly conceptualize the issues that are related to the state. On the other hand, different definitions of the state serve for different perspectives, which aspire to offer political and/or economic models. The duties, responsibilities and capabilities, which are assigned to state determine the scope of not only the state *per se* but also the society. As a matter of fact, the definition of the state seems to be a crucial point, which must be clarified. Clarification of the scope of the state turns out to be a very hard task especially in developing countries where there are no definite boundaries between the state and society. However, a definition, at least in theoretical means, should be reached in order to draw the contingent scope of the state.

Within this context, a broad sense of the definition of the state seems to be a good starting point, which first of all, refers to the governmental capabilities of the state. In its broadest sense, the state includes the apparatus of government and recognizably public institutions that are that are not only responsible for the

collective organization of communal life but also funded at the public's expense.¹¹ Thus, the state is usually distinguished from society by comprising the various institutions of government, the bureaucracy, the military, police, courts, social security system and so forth. Within this context, the state can be identified with the entire body politic. As Heywood indicates, the state has a vital territorial component in which its authority is confined to a precise geographical area. This is why the state is best thought of not just as a set of institutions but as a particular kind of political association, specifically one that establishes sovereign jurisdiction within defined territorial borders.¹²

It is explicit that the state deviates from the society leaving a certain amount of space in between. Nevertheless, identification of the state with certain elements such as the various institutions of government, the bureaucracy, the military, police, courts, social security system, the territorial component of a country, an authority exercising sovereignty on a geography, and so forth, may lead to practical difficulties. Every state may be endowed with such institutional capabilities. The critical point here is the extent in which state executes, controls and dominates these institutions. If the state is able to manipulate the activities of these institutions, then it is possible to talk about a strong state, which has absolutist tendencies. On the contrary, if the state has no control over these institutions, then it becomes possible to talk about a weak state which is being jeopardized by centrifugal powers. A sort of equilibrium in which state executes and controls, but not manipulates these institutions may be considered as an indication of democratic consolidation.

All of these issues indicate that among various aspects, the characteristics which designate the governing capacities of the state should be attributed a special significance. Within this context, the state appears to be the apparatus of government, through which it is possible not only to vitalize national and foreign policies but also manage certain institutions. That is to say, the term body politic should be considered with regard to the norms, values, regulations,

¹¹ Andrew Heywood, Political Theory, London, McMillan Press, 1999, pp. 74-75.

¹² Ibid,

laws and practices, which designate the characteristics of the relations between the state and society. The capacities of the state, which coincides with the body politic, specifies the positioning of the state with regard to society, and to market.

The constitutional definition of the scope of the state is of course significant. Nevertheless, the characteristics of the relation between the state and society should not be undermined. The relation between the state and society is a sort of vital reality which comes into life as a product of the historicity of the state. More clearly, the evolution of the state is a long process in which traditions, norms and values play a significant role. Within this context, it may be argued that, whatever the constitutional definition of the state be, the characteristics of the relations between the state and society are affected by the norms and values that are common to the relevant country. Whenever there exists differences between the attitude of the state and the expectation of the society, there occurs a clash of interests in between them. Hence, the consensus between the state and society and the way that the state sustains this consensus explicates the extent of democracy in that country. “The core of the state apparatus comprises a distinct ensemble of institutions and organizations whose socially accepted function is to define and enforce collectively binding decisions on the members of a society in the name of their common interest or general will.”¹³ Within this sense, the state transcends a mere identification with certain institutions, government, bureaucracy etc. “This broad 'cluster' definition identifies the state in terms of its generic features as a specific form of macro-political organization with a specific type of political orientation; it also establishes clear links between the state and the political sphere and, indeed, the wider society.”¹⁴ This approach emphasizes the fact that not all forms of macro-political organization can be classed as state nor can the state simply be equated with government, law, bureaucracy, a coercive apparatus, or another political institution.

¹³ Bob Jessop, State Theory, Cambridge, Polity Press, 1990, p. 341.

¹⁴ Ibid,

The relations between the state and society indicate the economic and political characteristics of a country and vice versa. Consequently, a certain amount of significance should be attributed to the characteristics of the relations between the state and society that indicate the rights and duties of the sides to each other. Nevertheless, the definition of the boundaries between the state and society turns out to be a very difficult task especially when the concerned parties belong to a transition country. The political immaturity increases the significance of historical factors. Consequently, the process of development stumbles because of the unclear roles of the state and society. Therefore, a theoretical elaboration of the relations between state and society may offer a sound framework, which can be better elucidated by referring to the peculiarities of the countries. Considering the fact that the interaction between state and society has always been a critical point for diverse theoretical approaches, a brief summary of the basic arguments of these theories should be made in order to acquire the tools for understanding the relations between the two. Within this sense, a short overview of the arguments of liberal, Marxist and elitist perspectives about the interaction between state and society will contribute to the elucidation of the contingent consequences of the confrontation between state and society. In addition to these perspectives, the neo-liberal approach should also be elaborated by considering the fact that the demise of socialism led to the rise of liberal economy, which not only opposed every sort of central planning, mainly that of the state, but also attributed a premium significance to the role of the market by identifying it as the scope of society. This argument has validity especially for the transition economies, which are characterized by the confrontation of liberal and socialist values that simultaneously take place with the patronage relationships among certain societal groups. This approach, which is being imposed upon the transition economies by the pressures of the IMF and the World Bank, has turned out to be a prerequisite for obtaining aids, credits and loans. Consequently, liberalism turned out to be significant both for the developed and developing nations.

Nevertheless, understanding the highlights of these theoretical perspectives, *vis-à-vis* the characteristics of the relations between state and society, on its own, does not handle the case of Azerbaijan, Kazakhstan and Turkmenistan, where

the commercialization of hydrocarbons appears to be a very critical factor which, at the same time, designates the domains of the state and society in the post-Soviet era. Within this sense, the theoretical commonground of different perspectives should be analyzed with regard to the general characteristics of the relations between the state and society in the oil producer countries of the non-western world. Since then, the devices which are provided by these perspectives will likely to contribute to the analysis of the role of the state in transition of Azerbaijan, Kazakhstan and Turkmenistan through hydrocarbons.

Therefore, the situation of Azerbaijan, Kazakhstan and Turkmenistan can be understood by a comparative analysis which emphasizes the vicissitudes between the Soviet and post-Soviet era while not neglecting the new responses of the state to the neo-liberal pressures. Azerbaijan, Kazakhstan and Turkmenistan should be contrasted and compared with each other through an institutional analysis, which does not neglect the changing role of the state in the post-Soviet era and its interaction with the issues related to oil and gas. In other words, to the extent that, as a part of the developing world, Azerbaijan, Kazakhstan and Turkmenistan are transition economies, whose structures are being affected by the attitude of the states toward hydrocarbons, it is indispensable to elucidate first the post-Soviet transformation of the state, the situation transition economies, and finally the specificity of oil producer countries. Only can this method offer a sound theoretical framework, which is appropriate for the unique cases of Azerbaijan, Kazakhstan and Turkmenistan.

II.2.1. State in the Aftermath of Socialism

The Post-Soviet Transformation of the State

The enormous expansion of the state in post-socialist countries impede the rise of society which constitutes the domain of market relations. Consequently, the contemporary liberal discourse conscientiously supports the existence of strong society as an indispensable indicator of democracy, which facilitates transition to market economy. This aspect of society is considered to be one of the most

crucial factors that can lead to the consolidation of democratic regimes not only in the western countries, but also in the non-western world.¹⁵ As a matter of fact, the emergence of civil society has been considered to be a very crucial step for democratization and transition to market economy. “The movements of the 1980s in Eastern Europe waged their revolution in the name of an autonomous society. French conservatives in the nineteenth century had sought to construct a fabric of societal associations to dampen revolutionary politics. In the 1980s, in contrast, democrats in Eastern Europe sought to reconstruct society precisely to reconstruct democratic politics.”¹⁶

Not only the Eastern European countries, but also other non-Western countries, such as China, consider the presence of autonomous society as a must both for transition to democracy and for constituting relatively liberal economic models. The communist regimes have once destroyed the autonomous characteristics of society in order to prevent diversities that might have impeded the transition to socialist homogeneity. Nevertheless, once the traditional associations, which constituted the basis of society were destroyed, it turned to be very hard to rebuild them. The Chinese model can be pointed out as one of the best example. “Christiansen’s pessimistic account of the chances of creating a sphere of autonomous society in China further emphasizes the problem of transition: If China looks less like a Marxist-Leninist regime, it also does not look much like a system on the road to democratization.”¹⁷

The most critical issue that must be emphasized here is the contingent role of autonomous society not only in democratic consolidation but also in the construction of liberal economies. Hence, the relations amongst society, economic liberalization and democratization should be examined as the interactive parts of a greater whole. The linkage between autonomous society and democratization should be obvious. “Democracy after all is a set of rules and institutions of governance through a peaceful management of competing

¹⁵ Graham E. Fuller, Demokrasi Tuzağı, İstanbul, Altın Kitaplar, 1996, pp. 51-53.

¹⁶ Charles S. Maier, Democracy Since The French Revolution, in John Dunn, (ed.) Democracy The Unfinished Journey, Oxford, Oxford University Press, 1992, pp.148-149.

¹⁷ Geraint Parry and Michael Moran, (ed.) Democracy and Democratization London, Routledge, 1992, pp. 10-11.

groups and-or conflicting interests. The normative component of "civil society" is essentially the same as that of "democracy". Despite noted distortion and time legs, civil society building is necessary in order to strengthen the process of democratization."¹⁸ What can be argued with no doubt is the crucial role of autonomous society in democratic consolidation and the growth of market.¹⁹ The development of autonomous society is considered to be crucial for democracy's evolution under market rules. A well developed autonomous society, facilitates the expansion of the norms, rules and regulations which seem to be supportive of democracy, therefore market economy. "A society that does not have free individuals and group expression in nonpolitical matters is not likely to make an exception for political ones."²⁰ This is why countries with few civil liberties have limited political rights. The society creates the environment in which rights and freedoms are expressed. "A viable society creates favorable conditions for the development of democracy, and the existence of democracy enhances a country's development potential."²¹

The relationship among the expansion of society, democracy and market economy is clear. The problem appears when the scopes of these domains are questioned. That is to say, to what extent should the state be diminished on behalf of the growth of the society, which generally coincides with the market? At the ideal level, the relations between state and society are expected to reflect a sort of equilibrium, in which the domination of the state is balanced with its responsibilities to the citizens.²² The crucial question here is whether there exist clear boundaries between state and society which can be a sort of ultimate goal for post-socialist countries. Clear boundaries here means the limits of the state concerning its intervention both in economic domain but also political, social and cultural aspects of life.

¹⁸ Saadeddin Ibrahim, "Civil Society and Prospects of Democratization in The Arab World", in Augustus Richard Norton, (ed.), Civil Society In The Middle East, Leiden, E. J. Brill, 1995, pp. 29-30.

¹⁹ Ibid,

²⁰ Entelis P. John, "Civil Society And The Authoritarian Temptation In Algerian Politics: Islamic Democracy versus The Centralized State", in Augustus Richard Norton (ed.), Civil Society In The Middle East, Leiden, E. J. Brill, 1996, p. 47.

²¹ Ibid,

²² See, C. Roe Goddard, John T Pass  -Smith, John G. Conklin, (eds.) International Political Economy: State-Market Relations in the Changing Global Order, Boulder, Lynne Rienner, 1995.

The equilibrium between the state and society can be depicted by emphasizing certain characteristics of autonomous society. The rule-of-law effectively protect citizens from state arbitrariness. The existence of strongly organized non-state interest groups capable of checking eventual abuses of power by those who control the means of administration and coercion and the existence of a balanced pluralism among civil society interests is essential so that none can establish absolute dominance.²³

This model offers an ideal type, which may be capable of minimizing the abuses of power in the administrative bodies. In addition, a balanced pluralism may impede the dominance of one sector of society over the others.²⁴ Reaching at this model is not an easy task because regional peculiarities lead to evolution of different sorts of relations between states and societies. What can be said with no doubt is the fact that, the evolution of the relations between state and society should be considered within the peculiarities of different countries, which lead to the evolution of autonomous societies with distinct characteristics. Accordingly, this perspective includes notions of cooperation, that is of groups working both together and with a responsive state.

Most of the post-socialist countries suffer from the weakness of their society, which is generally suppressed by the absolute power of the state.²⁵ It is very difficult to attain a civil society in these countries where the lack of a clear definition of citizenship impedes the amelioration of the civil aspect of the society. In most cases, a sheer pursuit of interests amalgamates in the form of patronage relations based on kinship, ethnicity, religion, tribe affiliation etc. The

²³ Nicos Mouzelis, "Modernity, Late Development and Civil Society", in John A. Hall (ed.), Civil Society, Cambridge, Polity Press, 1995, pp. 225-226.

²⁴ Ibid,

²⁵ For instance, the strength of Spanish civil society was seen in the ability of the leaders of popular movements to organize and to control their forces, thus ensuring both orderly decompression and the consolidation of democracy. In contrast, the utter destruction of civil society by state socialism made liberalization impossible; it further entails a dreadful vacuum in post-communism, which remains a threat to the consolidation of democracy. The Latin American situation stands interestingly between these two types. Civil society is present, but it is still weak. See, John A. Hall, Coercion and Consent: Studies on The Modern State, Cambridge, Polity Press, 1994, pp. 112-113.

cleavages in the society are worsened by the collaboration of certain sects of the society with those who hold power through state. Therefore, it should also be mentioned that the society may have the appearance of being civil while hiding certain cleavages which arise from the collaboration among the elites. This situation is relevant especially for the countries where there exists a clandestine collaboration between the state and society. In this case, the society approves the perpetuation of the strong state with no regard to the quality of democratic applications so far as it is endowed by certain privileges. That is to say, even though the society possesses the indicators of civility, the collaboration between the state and society impedes the evolution of free market relations being strengthened by democracy.

One of the issues that must be questioned here is in what sense the society is fraudulent? It pretends to be the area of individual self-interest and free pursuit of private ends, which is characterized by brazen egotism. Is it possible to suggest then that this fraudulence is to be found not in society as such, but in the total social structure, in the pairing of society and its protector-state, in the spurious neutrality of the latter? To what extent is society morally spurious on its own, since its formal egalitarianism does not make visible the hidden inequality, the loading of the social dice, the real powerlessness of the formally free, and all the secret agendas, the separation of the owners of capital from the others and their tacit collusion with the state? ²⁶ Other liabilities may also occur arising from the natural contradictions and inadequacies, which tend to exist in most of the organizations. The interaction amongst the members, the bargains, competition and cooperation with other associations as well as the correlation between society and state play crucial role in determining the extent to which society can be effective. "Society must depend upon the ability to escape any particular cage; membership of autonomous groups needs to be both voluntary and overlapping if society is to become civil." ²⁷

²⁶ Ernest Gellner, Conditions of Liberty - Civil Society And Its Rivals, New York, The Penguin Press, 1994, p. 56.

²⁷ John A. Hall, "In Search of Civil Society", in Hall (ed.), Civil Society, Cambridge, Polity Press, 1995, p.15.

The groups, which constitute the society are assumed to be the incentives of democracy. However, it is not clear whether their contribution to democracy is a concern of positive or negative goal. A positive goal indicates here a will of these associations to search for their interests under democratic principles, while a negative goal refers to another *raison d'être*, which can be described as clandestine collaboration to acquire some bonuses. In this case, the members of the associations compare the losses and the gains, which arise from being a member of the relevant association in order to decide whether to continue their membership. Thus, contribution to democracy can solely be a secondary effect of the activities of these groups. Hence, if the associations prefer to involve in antidemocratic measures with the expectation that an authoritarian regime may help them to improve their privileges, what is called an incentive for democracy can immediately turn into a collaborator that challenges democracy for some benefits. “Like any social phenomenon, society can, and often, does have a negative side. Self- interest, prejudice and hatred cohabit with altruism, fairness and compassion, and the unrestrained free play of society is a chilling thought, not a warm and fuzzy one.”²⁸ This aspect negatively affects the development of societies in the countries who are essentially rural.

When society is based on some primordial phenomena, competition and rivalry amongst distinct groupings may lead to clashes. Most of the post-colonial developing countries seem to suffer from the severe differences within the segments of society based on ethnic, religious, linguistic and tribal means. In these places, autonomous society is understood to be a tool that may gain social upward mobility rather than an intermediate body that sustains the equilibrium between the society and the state. Consequently, the relations between the state and society should be analyzed with a reference to the interaction among different sectors of society, which reflect the patronage relationships of tribes, clans and other interest groups. Finally, it should also be mentioned that, a dynamic society may prevail under regimes, whose principal attributes are foreign to both the liberal and non-liberal notions of democracy. “A benevolent ruler or aristocracy may provide sufficient conditions for an uninterrupted

²⁸ Richard Norton Augustus, (ed.), Civil Society In The Middle East Vol. I, Leiden: E. J. Brill, 1995, pp. 7-8.

operation of society... Democratic "rules of the game" could be imposed "from above" on societies which lack the experience or supportive normative roots, or whose extent of "civility" is unknown."²⁹ That is to say, the presence of autonomous society can not be considered as an indicator of democracy especially in the situations where the state legitimizes its existence by a wide range of propaganda, populist policies and custom etc.

The rise of neo-liberal economy jeopardizes the state

Keynesian economics was very dominant between 1940s and 1970s until its validity had started to be questioned by the negative consequences of rising inflation and instability of the global commodity markets. The decline of Keynesianism led to the emergence of two distinct movements after the second half of 1970s in two distinct parts of the world. On the one hand, Britain and the United States introduced neo-liberalism as a sort of a counter action against Keynesianism under the leadership of Thatcher and Reagen. On the other hand, developing nations started to ask for the establishment of a New International Economic Order, which demanded the stabilization of raw material export prices and the expansion of international aid programs with more favorable conditions.

These demands were not compatible with the interests of developed nations, mainly Britain and the Unites Sates, who continued to support the idea of free market mechanism. Monetarists such as Thatcher and Reagen were opposing the idea of government regulation by suggesting that property rights, social stability and public defense could be sustained merely by a minimalist state. The main idea of monetarists was to restrict the rate of growth of the money supply in order to control inflation and intensify growth. This monetarist perspective would turn into the neo-liberalism by the programs, which have been built upon an innovated form of *laissez faire* through a market-driven economy that was

²⁹ Gideon Doron, "Two Civil Societies and One State: Jews and Arabs In The State of Israel", in Augustus Richard Norton (ed.) Civil Society In The Middle East, Leiden, E. J. Brill, 1996, pp. 196-197.

expanding from the developed nations towards the developing ones including the members of the former USSR. That is to say, economic liberalism was starting to dominate development economics.³⁰

The rise of neo-liberalism can be considered as a natural consequence of the demise of socialism which promoted the acceptance of liberal values. Not surprisingly, liberalism, finding itself without any ideological rivals, could get the chance of introducing a very sharp form of a liberal wing under the motto of neo-liberalism. This neo-liberal perspective claims to be appropriate for the attempt of creating a unified and homogeneous world market which is based on democracy. The main pillars of neo-liberalism can be pointed out as limited government intervention, incentives for industrialization, desire for development, and individualism, meaning that the pursuit of self interests would lead to the good for the society under the mediator role of market relations.³¹ Nevertheless, these pillars are not attributed the same significance. In other words, the most critical superiority of neo-liberalism is creating a minimalist state. State is considered to be the source of many problems both in the developed and developing countries.

Within the neo-liberal perspective, state can be criticized in terms of three aspects. First of all, The enormous expansion of public sector damages the growth of an efficient economy. Secondly, the public sector generally offers giant projects, which lead to the underestimation of other entrepreneurs. Thirdly, inefficient production and economic structures are hidden by the political concerns of the governments.

At first sight, it seems as if the society is being favored by the neo-liberal perspective which aspires to diminish the scope of the state. This is true in a limited sense. Society is assigned a sort of supremacy as far as the mechanism of citizenship properly works under market conditions. Citizenship is attributed

³⁰ See, Albert Hirschman, "Rise and Decline of Development Economics," in Albert Hirschman, Essays in Trespassing, New York, Cambridge University Press, pp. 1-24.

³¹ P. Bauer "Remembrance of Studies Past" in Gerald Meier and Dudley Seers (eds.) Pioneers in Development, Oxford, Oxford University Press, 1984, pp. 27-43.

a special significance because of its being the cornerstone of both society and market which are assumed to correspond with each other. It is suggested that citizenship does not only include the right to work but also a duty to work.³²

The minimization of the state in the developed countries generally increase economic efficiency. The private sector, which has already developed high managerial skills with advanced technological capabilities as well as extensive financial resources, fills the space left by the state. Nevertheless, neo-liberal policies are confronted by political concerns which focus on the issues of employment and social security. In contrast to the western countries, neo-liberal policies tend to simultaneously bring economic and political burdens to post-socialist countries. Indeed these countries suffer from certain structural inadequacies, which tend to prevail under every system so matter whether be it socialism or liberalism. In other words, these countries are confronted by certain problems in the system, which has no ideological background. These countries suffer from irrationality, waste, instability, endogeneous fluctuations, unequal distribution of wealth and income or power, obstacles to genuine development, dependency *vis-à-vis* the great power(s) and the denial of true liberty. They need to attain rationality, overall efficiency, possibility of steady and long term growth, potentially realized social justice, economic development, modernization and ensured individual and social liberty.³³ Therefore, these countries should be analyzed not only in terms of replacement of socialism by liberalism but also in terms of the system values no matter what the name of the system is.

Economically, it should be mentioned that minimization of state is not a guarantee of the multiplication of productivity and efficiency in post-socialist countries at least in the short term. The lack of an efficient private sector impedes the amelioration of the modes of production and efficiency. Within this sense, the minimization of the state should be considered as the first step

³² See, Lawrence Mead, "Social Programmes and Social Obligations" Public Interest, No. 69, 1982.

³³ See, Bernard, Chavance The Historical Conflict of Socialism and Capitalism And the Post-socialist Transformation, UNCTAD High-Level Round Table on Trade and Development: Directions for the Twenty-first Century, Bangkok, 12 February 2000, p. 13.

towards the construction of private sector. Politically, the patronage relationship amongst the governing elite undermine the economic concerns of the programs. Political interests are favored rather than long term national interests. As a matter of fact, the minimization of the state can lead to success so far as an efficient private sector fills in the space left by the state.

Despite their lack of sound private sector, the post-socialist countries feel the necessity of involving in huge privatization programs as a consequence of the pessimistic interpretation of the state by the neo-liberal perspective. In addition, neo-liberalism criticizes development economics by indicating the negative aspects of too much macroeconomic considerations. Consequently, besides issues such as economic growth, industrialization and employment, the necessity of microeconomic concerns are emphasized.³⁴ These two criticisms of neo-liberal perspective are congruent with each other because macro economic considerations such as economic growth, industrialization and employment increase the role of the state especially in post-socialist countries where there exists no efficient market mechanism based on bourgeoisie and private entrepreneurship.

The most critical point that should be mentioned here is that the expansion of neo-liberal policies bring economic gains to western countries. Within this sense, despite the contingency of social corrosion, neo-liberalism seems to increase the economic efficiency in western countries. The social cost of neo-liberal policies are heavier in post-socialist countries where it is not that easy to increase the economic productivity and efficiency in the short term through neo-liberal policies. Nevertheless, once the state is minimized, the macroeconomic concerns are undermined and the unification of the relevant post-socialist country with the world economy is accelerated. As a matter of fact, the gap of the decay of macroeconomic concerns are filled by the influx of foreign goods and services.

³⁴ See, Deepak Lal, The Poverty of Development Economics, Cambridge, Harvard Press, 1985.

The post-socialist countries feel the necessity of applying these neo-liberal policies because of the external pressures. The IMF and the World Bank, whose powers have started to steadily increase since the 1980s, threatened the post-socialist countries, especially the transition economies, to cut off the aid and loans so far as the negative aspects of the state are not reduced. Nevertheless, the nonexistence of other agents of development, mainly the bourgeoisie, turns out to be a factor, which invokes the post-socialist nations to refer to state as a critical agent for sustaining economic growth and industrialization. The neo-liberal perspective, which also constitutes a good bargaining tool for the IMF and the World Bank, turns out to be a source of instability when market forces start to fail in leading to industrialization of post-socialist economies. Consequently, the post-socialist countries are invoked to delay macro economic programs on behalf of the neo-liberal regulations, which harmonize the general characteristics of the domestic economy according to the conditions necessary for the expansion of the market.³⁵ This fact indicates that there exists an interesting correlation between the state and market. That is to say, the presence of state diminishes naturally, so far as the market works properly. On the contrary, the market failure extensifies the interventionism of state.³⁶

This approach points out a missing point in the neo-liberal perspective, which does not put enough emphasis on the situation wherein the market forces fail to work due to certain regional peculiarities. In other words, rather than cursing the state as the source of all economic disasters, a realistic understanding of the negative aspects of the state could be more beneficial, as it is done by certain neo-liberal thinkers. Within this sense, governments can be criticized because of the anchorage between multiple objectives and few policy instruments. This confrontation is apparent especially when the duties of state, such as rapid growth, low inflation, increasing social conditions, repayment of foreign loans, are jeopardized by the political concerns of the government, which corrupt the objectivity of the state about the domestic and foreign policies.³⁷

³⁵ See, Ibid,

³⁶ See, Karl Polanyi, The Great Transformation, Boston, Beacon Press, 1957.

³⁷ Keith Griffin, Alternative Strategies for Economic Development, New York, St Martin Press, 1989 p. 48.

It has already been mentioned that the demise of socialism led to imposition of neo-liberalism as a common solution for all the countries with no regard to their regional peculiarities. The interaction between the neo-liberal global pressures and the responses which are being shaped by the regional peculiarities indicate that post-socialist countries are passing through different processes even though they apply similar policies. Various levels of liberalism lead to different relations between the state and society in different places. In order to better apply the neo-liberal policies on post-socialist countries, the differences among the peculiarities of different types of states should be considered. Within this context, there may be pointed out three types of states in the developing countries.³⁸

First of all, there may emerge the 'factional state' when certain groups start to benefit from the rents created by subsidies, tariffs, tax exemptions and other policies of government. The organic relationship between these groups and the state, invokes the government to follow inefficient policies for the perpetuation of rent maximization. In this case, the neolibral perspective offers not only minimization of the state (whether be it democratic or authoritarian) through privatization programs, but also elimination of tariffs, import licenses and special subsidies.

Secondly, 'the absolutist state' may come into life when the state is controlled by state bureaucrats who are in pursuit of self interest. In this case, the state becomes an autonomous force whose survival depends not only its legitimacy but also upon the limits of tax revenues. As a matter of fact, the distribution of rents constitutes the most critical factor which promotes the corruption of the objectivity of state. When state is able to redistribute the revenues to certain sectors of society, it may turn into a source of rents.

Thirdly ' the guardian state' may gain a certain degree of autonomy from the society when the presidents desire to increase the economic welfare of their

³⁸ Anne Krueger (Chief Economist at World Bank between 1982-1987) Political Economy of Policy Reform in Developing Countries, Cambridge, MIT Press, 1993, pp. 61-66.

people. In this case, the state follows policies, which contribute to the national welfare under the leadership of a bureaucratic state, which tends to become absolutist.

Krueger's typology indicates the fact that neo-liberal perspective is aware of the presence of various types of states, whose peculiarities have been shaped along regional characteristics.³⁹ Within this perspective, there are two aspects of neo-liberal perspective which lead to serious hazards in post-socialist economies. First of all, it is still the fact that the state is being cursed as the most significant source of problems. However in most of the post-socialist countries the diminution of the state is being determined by the cadres who control the state apparatus. These cadres generally find the chances of transforming the assets of the state to the actors with which they have organic relations. Within this sense, rapid diminution of the state does not always decrease the tendency to corruption. The second serious problem arises from the fact that neo-liberals impose the same policies as global solutions with no regard to the way, how post-socialist countries respond differently to the same regulations. The capacity of the state in sustaining certain degrees of progress are undermined. In addition, most of the post-socialist countries are characterized by the awkward characteristics of the society wherein it does not seem possible to generate a definition of citizenship which is developed by the neo-liberals in western countries.

I.2.2. State Transition and Hydrocarbons

State and Transition

The disintegration of the USSR introduced the concept of transition economy, which symbolizes the metamorphosis of the formerly socialist countries towards liberalism through the application of free market rules. The conceptualization of transition economy was necessary especially for the international organizations,

³⁹ Ibid,

such as the IMF and the World Bank, who wanted to categorize the members of the former socialist block in order to impose homogeneous neo-liberal regulations upon the socialist structures.

It is obvious that the situation of the transition economies differ from that of other developing countries. The presence of a well developed, but exhausted, socialist infrastructure constitutes the reason, which invokes the transition economies to deviate from the category of developing countries. On the one hand, the socialist structure helps the states of transition economies to carry out certain services that are expected by the society. On the other hand, the exhaustion of the socialist infrastructure, and the external pressures, which force the states to imply neo-liberal policies, lead to withdrawal of the state from production, finance and certain services. These characteristics invoke problems that are peculiar to the transition economies.

The specificity of the problems limits the capabilities of the transition economies because of two reasons. First of all, they are asked to apply certain liberal programs which are assumed to promote democracy and market economy without questioning the appropriateness of these precautions to the former socialist framework. Secondly, the situation of transition economies constitutes a prototype, which has never existed before. Within this sense, the states of transition economies can not benefit from other examples. The lack of other cases force them to refer to the liberal impositions of international organizations.

Consequently, it is possible to suggest that the former socialist countries entered into a unique phase, in which liberal policies such as free market prices and privatization are assumed to have the role of a catalyst in order to transform the legacy of the strict central planning into a new structure that is assumed to be more convenient for unification with the world economy. Some of the major constraints of the post-socialist countries are an inefficient system of organization and management, a low rate of innovation and product renewal, low investment efficiency of fixed capital, inefficient monitoring of human capital, high share of production costs (e.g. high energy inefficiency), a

considerable lack of social capital, the raising of value added per employee in post-communist countries, which are lagging far behind the European Union (EU) countries.⁴⁰

These are serious problems that are common in most of the developing countries. Nevertheless, it should also be mentioned that most of the problems in post-socialist countries are being aggravated by the confrontation between the existing socialist framework and liberal regulations. The former socialist countries feel the necessity of accepting liberal norms in order to interact with the actors of the world economy. On the one hand, they attempt to apply structural regulations, which are compatible with the advises of the IMF and the World Bank. On the other hand, they desire to complete their sectoral reconstruction in order to commercialize their production in world markets. These countries may succeed to involve in economic growth if the structural regulations are accompanied with an appropriate recomposition of the production. Most of the transition economies are considered to be successful, so far as they reduce of fiscal deficits, avoid price controls and trade restrictions, imply not only realistic exchange rate regimes but also real interest rates, and support the rise of private sector.

The extensive power of state can be pointed out as a very critical factor, which leads to problems that are peculiar to the transition economies. As a matter of fact, the attitude of neo-liberal perspective of the IMF and the World Bank contradicts with a dilemma that appears to be a common specificity of the transition economies. The socialist structure, which has not allowed the development of private entrepreneurs, had obscured the vitalization of other agencies, such as bourgeoisie, who could replace the place of the state after the demise of socialism. The privatization programs shift the ownership of entrepreneurs from state towards new owners creating new agency relationships, the success of which depend on the managerial abilities of the concerned actors. Nevertheless, in most cases the emerging private owners lack the experience

⁴⁰ See, Stefan Bojnec, "Trends in Development of Transition Countries: Characteristics and Possibilities of Slovenia in Comparison with Other Post-Communist Countries and the European Union" Europe-Asia Studies, 01 September 2000.

and skill which are supposed to exist in the managerial levels of such entrepreneurs.⁴¹

Therefore, the diminution of state creates new problems which are provoked by internal discapabilities arising from the contradiction between managerial issues and external effects creating immature market relations.⁴² That is to say, the rise of the private ownership may lead to new problems, which are deteriorated by corruption that allocates the state assets not in terms of an economic analysis, but in terms of interest relations, where being a member of certain cadre plays an important role. This is especially crucial for the transition economies, wherein the former *nomenklatura* still dominates the government. The misuse of public power for private interests appears to be the common problem of the post-communist countries.⁴³

Policies such as privatization may turn into a sort of reallocation of resources to the people, who have organic relations with the *nomenklatura*. Consequently, the transition economies are jeopardized by a dilemma. If they suspend the privatization process, acquiring loans, credits and assists from the IMF and the World Bank turns out to be a very difficult task. In addition, the state continues to increase its power. If they attempt to diminish the state through the transformation of state assets to private ownership, they may create an inefficient entrepreneurship that is based on patronage relationships among certain cadres. In the second case, the society is jeopardized by the inequalities, which are created through the patronage relationships among certain cadres, who find the chances to benefit from the policies of the government.⁴⁴ In addition, the efficiency of the entrepreneurs remain highly restricted because of the managerial inadequacies of the new owners.

⁴¹ K. M. Eisenhardt, "Agency theory: An assessment and review", Academy of Management Review, No. 14, 1989, pp. 57-74.

⁴² See, B. K. Boyd, "Board control and CEO compensation", Strategic Management Journal, Vol. 15, 1994, pp. 335-344.

⁴³ Susan Rose-Ackerman, Corruption and Government: Causes, Consequences, and Reform, New York, Cambridge University Press, 1999, p. 91.

⁴⁴ See, B. Milanovic, Poverty and Inequality in the Transition, Washington, The World Bank, 1997.

All these issues obscure the success of transition economies to successfully complete their transformation.⁴⁵ At the eve of the liberalization process, there has been a great optimism about the consequences of the transition. Nevertheless, the current developments indicated that the responses of transition economies to global pressures differed from each other by creating unexpected hazards. That is to say, the success of a transition economy is highly dependent on the way the external pressures interact with the regional dynamics. Within this context, it should also be mentioned that, most of the transition economies share a common problem, which has come to life as an output of the interaction between liberal regulations and socialist structures. For instance, when the transition over the past ten years to democracy and a market economy in Central and Eastern Europe (CEE), in the Commonwealth of Independent States (CIS) and in Russia is considered, it can be suggested that transition has provided some grounds for optimism but has also been a social and moral disaster in many ways. It does not seem possible to consider certain amount of economic growth as a reliable indicator of economic or social health, since it is everywhere and always based on sharp rises in inequality and an explosive growth of real, intense misery and poverty. In many countries, the transition process of the last ten years has been dispiriting: it is explicit that people have gained greater political freedom, however it is also clear that they have paid a heavy price in other forms, as has been catalogued by various United Nations agencies.⁴⁶

Currently, the transition economies share similar social problems, which are being intensified by economic deterioration. It seems as if the futures of transition economies will drastically differ from each other along the regional peculiarities, which have long been hidden under the socialist regimes. Within this regard, the external pressures, which are being shaped by the neo-liberal policies of international organizations, mainly by the IMF and the World Bank, exacerbate the problematic aspect of the transition economies which have been concealed by the socialist fabric of these countries.

⁴⁵ See, Bojnec,

⁴⁶ Robert McIntyre, "Globalization and the role of the state: lessons from Central and Eastern Europe", Ecumenical Review, 01 October 2001.

State and Hydrocarbons

It is explicit that there exists a dialectical interaction between the state and various groups within society the characteristics of which vary according to the attitude of the state and the civil aspect of the society. This interaction indicates the ways how the state works to maintain its power while sustaining its legitimacy. As a matter of fact, the characteristics of the relations between the state and society appears to be a crucial issue which also designates the specificity of the market relations. “In an environment in which the groups have a great diversity of views as to what constitutes a transgression by the state, the latter learns that it is relatively easy to maintain its power by playing one group against other. Alternatively, in an environment where there is a consensus among groups as to what constitutes a breach of promise by the state, the state learns to credibly commit itself to wealth-enhancing policies. How is this consensus to be achieved?”⁴⁷ Achievement of this consensus appears to be one of the most critical issues for the developing countries whether be them transition economies or not.

Most of the time, sustaining the consensus of the society appears to be a very difficult task especially for the state of developing countries, the viability of which are being questioned by economic deterioration. The states of transition economies where the regime viability is highly dependent on the perpetuation of the former socialist structures seem to solve this problem by benefiting from the tradition of strong state which could have prevailed in the aftermath of the disintegration of the USSR. Nevertheless, economic deterioration and corruption invoke the society to express certain discontentment.

When the characteristics of the relation between the state and society in oil producing non-western countries is analyzed, it should be first of all underlined that their situation fundamentally differs from the cases in other developing countries, whether be them transition economies or not. The consensus between the state and society is not very difficult in oil producer countries, where the

⁴⁷ Richard Grabowski, Pathways to Economic Development, Cheltenham, Edward Elgar, 1999 p. 132.

state gains the support of other groups by allocating them oil revenues. First of all, unlike many other developing countries, wherein the state internally earns most of its revenues through classical methods such as taxation, the state in oil producer countries externally generates oil revenues from the commercial relations with foreign partners. Externally generated capital directly shapes the structure and function of the state in oil producer countries.⁴⁸

In most of the oil producer countries of the developing world, the commercialization of hydrocarbons have fundamentally shaped the relations between the state and society. The consequence of the influx of petroleum revenues have gained impetus to the economic growth of these countries. Nevertheless, the sudden flow of foreign currencies have also brought certain negative consequences to these countries.

These negative consequences can be summarized by referring to the general premises of the Dutch disease, which, first of all, indicates the existence of structural problems such as the consequences of the overvaluation of the real exchange rate. The country enters in a new period as soon as the discovery of the commercial resources are declared. These problems become more dangerous when there are inadequacies in the domestic institutions that coincide with the financial markets. Secondly, the Dutch disease includes certain sectoral problems when there exists a contradiction between the enormous expansion of oil sector (and services) on the detriment of the non-petroleum sectors. Both of these problems are the consequence of inappropriate usage of revenues. These problems are vitalized when the producer country fails to transform the revenues to other sectors by the support of appropriate structural adjustments. The rentier state economy is borned if the state prefers to manipulate the revenues in order to perpetuate the power of certain cadres. The rent seeking behavior not only intensifies the structural and sectoral problems but also creates social problems.

⁴⁸ See, Kiren Aziz Chaudry, "The Price of Wealth: Business and State in Labor Remittance and Oil Economies" International Organization, Winter, 1989.

This analysis emphasizes that the characteristics of the externally generated revenues are very effective in determining the economic future of a country. The first and primary distinction between different types of capital inflows involves variations in the degree of control of the different public or private sector groups. The extent to which that control is dispersed or centralized is crucial. This typology indicates that the revenues of hydrocarbons tend to centralize the state. The domestic economy becomes highly vulnerable to the developments in the market of hydrocarbons. Secondly, if the relevant country acquires most of its revenues from the programs of international aid, direct foreign investments etc., then the state is assumed to be less centralized. The economy becomes more open to global pressures. The dependence on international organizations and developed countries increase. This distinction can be made between the capital inflows which involve a transnational third actor (such as the multinational corporations, the donors, or the institutions of lending) and those that are regulated exclusively by international market forces. The foreign institutions have relatively little direct influence over domestic economic policy although the remittances and the oil revenues are connected to volatile forces in the international economy. Thirdly, the state is assumed to be dispersed if the economy is conducted by the revenues of labor. In this case, the vulnerability is high to the shocks in the market of concerned goods and services. This distinction can be drawn according to the level of dependence on foreign capital.⁴⁹ Fourthly, there is the preexisting strength of regulatory institutions and entrepreneurial groups as an important intervening variable, which determines the ability of the state to allocate resources by developing coherent economic policies and promoting national integration. Institutions are vulnerable to fluctuations in the international market where capital inflows coincide with the birth of the bureaucracy. Both institutional obsolescence and domestic opposition must be overcome in times of economic recession.⁵⁰

⁴⁹ See, Wiladimir, Andreff "Facteurs inertiels et effets de sentier ("path dependency") dans l'analyse théorique de la transition" Contribution au XLVe Congrès de l'Association Française de Science Economique, septembre 1996, p. 10.

⁵⁰ See, Chaudhry, pp. 105-107.

This typology is significant because the consequences of the influx of revenues of hydrocarbons may lead to negative effects on the domestic economy if the relevant country fails to implement certain structural adjustments.⁵¹ Therefore, Azerbaijan, Kazakhstan and Turkmenistan tend to suffer from the Dutch disease because the sudden influx of revenues of hydrocarbons may create a domino effect, which imposes structural and sectoral deterioration as well as social problems.

Within this context, the influx of oil revenues has two aspects. On the one hand, the state generates a certain amount of oil revenues, which may be transferred to other sectors that might contribute to the attainment of sustainable development. On the other hand, the influx of oil revenues may turn into a source of legitimization, which promote populist policies. In this case, the state prefers to reallocate the oil revenues directly, rather than transforming them to other sectors such as industry and agriculture. Consequently, these countries can not manage industrial and/or agricultural development. On the contrary, unlike many other developing countries, the extent of services, which are supplied by the state turns out to be very far reaching. That is to say, the state offers its citizens a very broad range of free services, such as transportation, health care, social security etc., by the virtue of externally generated oil revenues. Direct transfer of oil revenues to services creates no problem for the ordinary citizens, whose expectations are satisfied by cheap and free services. In other words, the citizens become contented by the state who supplies them a high standard of living wherein most of the services are being provided with very low costs. At first sight, it may seem as if the state is serving the society by satisfying the material demands of the people through the reallocation of externally generated oil revenues. Nevertheless, the satisfaction of the material demands constitute a very slight aspect of the relation between the state and society. As a matter of fact, numerous problems arise so far as the state prefers to perpetuate its existence by sustaining the consensus of the society through allocating certain benefits.

⁵¹ Ibid,

The most important impact of oil and gas business is that it gives rulers direct access to externally generated revenues outside the local economy. This process gives a unique type of independence to the rulers whose revenues diverge from the population. This independence is almost uniquely peculiar to the business of oil and gas. Other exports necessarily involve some accommodation between the rulers and the cadres who control the work force and extract surplus revenues. “The external nature of oil and gas rents, the enclave nature of the industry and the size of the boom spared rulers the need to extract, through taxation and repression, economic and social resources allocated through other (tribal, religious, but especially mercantile) networks of obligation, freeing the rulers from their historical, economically based dependence on the merchants.”⁵²

Most of the non-western oil producing countries are not considered as a part of the developed world despite their very qualified economic indicators. When this situation is interpreted with regard to the positioning of state, it should be mentioned that the externally generated petroleum revenues increase the capabilities of the state towards the society. “In the long run, oil created new dependencies on foreign markets for capital, labor, and goods.”⁵³ The specificity of these oil producer countries should be mentioned with a reference to the relations between the state and society. The state, whose income is not dependent on domestic incomes such as taxation, attains a very critical autonomy, which allows itself to follow policies that undermine the goals such as realizing national development. The awkward relations between the state and society can be pointed out as the reason why these countries remain a part of developing world in spite of their material richness.

It must also be mentioned that the heterogeneous characteristic of the society may encourage an unfair reallocation of petroleum revenues. In other words, those who hold power by controlling hydrocarbons may support certain groups on the basis of patronage relations based on ethnicity, language, religion etc. In

⁵² Jill Crystal, “Coalitions in Oil Monarchies: Kuwait and Qatar”, Comparative Politics, Vol. 21, July 1989, p.430.

⁵³ Ibid,

this case, the clumsy characteristic of society becomes more apparent. To the extent that the plurality of the citizens seem to be contented by the direct reallocation of petroleum revenues, certain groups become unprotected. The perpetuation of power is possible because the anti-democratic implications are likely to be legitimized by the direct reallocation of petroleum revenues. The commercialization of hydrocarbons creates an influx of petroleum revenues, which determine not only the structural and sectoral evolution but also the modes of consumption in the producer countries. Consequently, the direct reallocation of revenues turns out to be a source of legitimacy, which not only promotes consumption of luxury goods and services but also hides the inefficient aspects of the state *per se*. The result is a clumsy relation between the state and unhealthy society, which is identified by luxury and extravagant consumption.

This scene is very common among the oil producer countries of the Middle East. Countries such as Kuwait and Saudi Arabia can be exemplified in order to concretize the fact, how externally generated petroleum revenues impede sustainable development by creating a disequilibrium in which the absolute power of the state is legitimized by the reallocation of the richness through populist policies. “As in most contemporary Third World countries, it is hard to distinguish political and social revolution in any firm way, because the state and its incumbent elites are so central to the ownership and control of economy.”⁵⁴ As a matter of fact, those who hold power remain in power for decades without sustaining an improvement in indicators of development. These countries can be named as pure rentier state in order to better concretize how the influx of oil revenues may lead to a sort of underdevelopment which is characterized by an awkward relation between state and society.⁵⁵

Rentier states have a number of special problems, which they have to solve if their economic growth is to continue smoothly and not be disrupted severely when the external rents begin to fluctuate or even decline. This necessity exists

⁵⁴ Theda Skocpol, “Rentier State and Shi'a Islam in the Iranian Revolution”, Theory and Society, Vol. 11, No. 3, May, 1982, p. 266.

⁵⁵ See, Crystal

even in the best organizations, which concentrate on the issue of oil and gas royalties. The producing countries may discover that they have ignored not only the most important aspect of having such a large industry on their soil, but also its potential for generating growth. The rentier states also suffer from certain socio-political aspects. A government, which does not rely on heavy taxation in order to expand its services, acquires an independence from the people. This deviation is seldom found in other countries. “However, not having developed an effective administrative machinery for the purposes of taxation, the governments of rentier states may suffer from inefficiency in any field of activity that requires extensive organizational inputs”⁵⁶ It is explicit that the state increases its power against the society by using the externally generated petroleum revenues. In addition to this, the cleavages in the society become more apparent. The allocation of the externally generated revenues may lead to new problems because of the concentration of vast external rents in few hands. “The temptation for a government bureaucracy to turn into a rentier class with its own independent source of income are considerable.”⁵⁷ In other words, the society becomes totally dependent on the state while the state gains a certain amount of autonomy.

Nevertheless, besides this strong aspect of the state in oil producer countries, it must also be mentioned that the state also gains a sort of weakness. The state, who appears to be very strong in its national boundaries by the virtue of externally generated revenues, may become very weak in the international arena because of its dependence on oil revenues. The state turns out to be an entity with two faces. The domestic strength which arises from state’s being not dependent on internally generated revenues such as taxation, turns out to be a sort of international weakness because of being dependent on the externally generated revenues. In addition to this contradictory characteristics, there occurs many problems which are specific to the rentier state of the oil producing country. These problems cease the dreams of the producer states to keep

⁵⁶ H. Mahdavy, “The Patterns and Problems of Economic Development in Rentier States: The Case of Iran” in M. A. Cook (ed.) Studies in Economic History of the Middle East, Oxford, Oxford University Press, 1970, pp. 466-467.

⁵⁷ Ibid,

extensive deposit of international currencies and reserves of hydrocarbons as a precaution to decrease their external dependence. To state more clearly, the extensive wealth of these countries does not solve their structural problems, which impede their development process. As a matter of fact, the dependence of these countries on external factors continues so far as they can not adjust their structures according to the necessities of the international competition.

There are significant characteristics of the dependence of the oil producer countries.⁵⁸ First of all, the state becomes dependent on the externally generated petroleum revenues; a fact which means that state *per se* loses its autonomy on behalf of foreign petroleum companies. In addition, the state becomes very vulnerable to the fluctuations of international oil prices. This infirmity lingers so far as the state continues to reallocate the petroleum revenues rather than transforming them into other sectors.⁵⁹

The rentier state may think about changing its policy concerning the oil revenues. That is to say, it may attempt to transform the oil revenues to other sectors in order to promote the development of industrial and/or agricultural production. In addition to this, the influx of oil revenues can be used for the vitalization of appropriate structural adjustments, which intensify the overall growth of the economy. Nevertheless, once the state legitimizes its domination by allocating revenues through populist policies, it turns out to be extremely difficult to cut the funds of certain groups in order to encourage the development of other sectors. Consequently, the state finds itself in a vicious circle, in which it tries to perpetuate its power by referring to externally generated petroleum revenues; a policy which costs to the underdevelopment of both society and economy.

All of these characteristics indicate that once the state becomes a rentier state, it turns out to be very difficult to transfer the externally generated revenues to other sectors while sustaining the regime viability. The state that is used to manipulate the oil revenues by legitimizing its perpetuation through allocation

⁵⁸ See, Crystal,
⁵⁹ Mahdavy,

of the sources to certain sections of society, does not tend to endanger its survival. In addition, the structural adjustments are also open to be abused by these cadres who tend to manipulate the policies of the government. The government can not find the liberty of applying certain policies with no regard to the interests of the elites. It should also be mentioned that besides the elites, the state has no reason to transform the oil revenues into nationalistic policies, which serve the overall development of the country so far as the citizens approve the simple allocation of oil revenues with no sound development program. The members of the society who attain high living standards and free services do not interrogate issues such as the characteristics of the state, the reasons for underdevelopment, the awkwardness of democracy etc. A sort of consensus exists among the state, elites and the citizens. Each of them becomes contented about the mechanism, which allocates the interests that are expected by them. In such a case, neither economy nor democracy can be healthy in its western definition. The consensus between the state and society does not indicate that the relevant country has entered into a development process. On the contrary, the consensus appears to be the factor, which approves the coexistence of rentier state, quasi-civil society and luxury consumerism, where the term production is identified with a mere supply of services covering a very broad range. Within this context, three fundamental points are worth stressing about the characteristics of the state in oil producing countries of the developing world:⁶⁰

1- In almost all oil countries -even those with thriving private sector- people's dependence on the state, as a nucleus of authority, assistance and support, has palpably increased. The state has become not only the focus of power but the initiator, promoter and monitor of all major economic activities - without being adequately prepared to assume these responsibilities.

2- Governments themselves have become alarmingly dependent on oil revenues for long term national economic development and for current consumption. A

⁶⁰ Jahangir Amuzegar, "Oil Wealth: A very Mixed Blessing", Foreign Affairs, Vol. 60, No. 4, Spring 1982, pp. 834-835.

majority of increasingly articulate urban population has become addicted to heightened consumerism.

3- Oil revenues have themselves become dependent, to a growing degree, on factors outside the control of the governments of the producing countries. Domestic monetary, fiscal and exchange policies have always been influenced by developments abroad, particularly for oil countries with substantial foreign assets; now these policies have been, to a troublesome extent, placed at the mercy of outside decisions, actions and trends.

Even though these characteristics are apparent in most of the oil producer countries of the developing world, there are certain differences between them.⁶¹ In other words, the regional peculiarities are also effective in determining the scopes of the state and society. As a matter of fact, the consequences of the influx of oil revenues to a producer country should be analyzed with a special reference to the regional peculiarities.

I.3. Historical Framework

The state explicitly is the most potent actor, who dominates and shapes the domestic economies of Azerbaijan, Kazakhstan and Turkmenistan. This is a natural consequence of the peculiarity of the Soviet state, which perpetuated in the aftermath of the disintegration of the USSR. “In order to appreciate the real value of the role that the state has played and plays in the lives of nations, it should not be considered solely, and the situation in which it has been evaluated should be examined.”⁶²

It is possible to suggest that the characteristics of the state *per se* had a significant effect on the disintegration of the USSR. The significance arises from those factors, which led to this deterioration and which could have

⁶¹ Ibid,

⁶² J. Gabrys, Le Probleme des Nationalités et La Paix Durable, Lousanne, Libraire Centrale Des Nationalités, 1977, p. 55.

perpetuated throughout years under the leadership of different personalities. The power of the Communist Party and the strength of the state have constituted the commonground of the Soviet regime.

When the characteristics of the Soviet state are analyzed, it may be possible to conclude that there were certain peculiarities, which created the collapse of the state through patronage relations and corruption. From the beginning of the Soviet history, trust was the main concern of the regime manipulating the ideals of socialism with the dream of rapid economic growth through high productivity. Consequently, the relations among the members of the Communist Party became more and more important. The members, who had closer relations with the management cadres could easily find the chance of upward mobility in distinct branches of the Communist Party, which also meant the opportunity to consolidate power through an extensive control over economic and/or political issues.

The management of various republics and peoples under a centralized economy required a strict control over the administrative organs. The concern of the Soviet regime to strictly control the administrative branches in the republics affected the structure of the governmental bodies. The Communist Party of the former USSR had constituted distinct branches in each of the republics. The secretary general of the Party in these branches was generally a person, who was ethnically close to the relevant republic. Nevertheless, Russians were appointed in the position of assistant secretaries in almost all of the branches of communist parties. The presence of Russians indicated the close control of Russia over the communist parties.⁶³ In other words, there were cleavages along ethnic lines giving Russians a sort of superiority.⁶⁴ The initiatives of the Soviet regime to sustain the integrity of the union through strict central policies, which were implemented by the interaction among the members of the Communist Party, led to the rise of patronage relations.

⁶³ Atilla Artam, *Türk Cumhuriyetlerinin Sosyo-Ekonomik Analizleri ve Türkiye İlişkileri*, İstanbul, Yıldız Yayınları, 1993, p. 129.

⁶⁴ William J. Foltz, "Ethnicity, Status and Conflict", in Wendell Bell and Walter E. Freeman, (eds.), *Ethnicity and Nation-Building*, California, Sage Publications, 1974, p. 113.

Consequently, the process of elite formation took place simultaneously with the implementation of the centralist policies that have been developed by the Soviet regime. These policies constructed the actual foundation of the Soviet Union, which can be best described as the will of rapid economic growth through heavy industrialization under the strict control of the regime. Patronage relations among the members of the communist parties of the republics became the main pillar of the status-quo.

The branches of the Communist Party in the republics were obliged to obey the rules which were imposed upon them. That is to say, the Soviet republics were constituted by the integrity of pseudo-states or proto-states, which had some of the trappings of true states but lacked essential elements such as control of their own territory and economy.⁶⁵ This formation was unique in the sense that the ethnicities, who were very different from the dominant Russian culture were managed by an understanding that was determined completely in line with Russian values.⁶⁶ This fact led to a very interesting situation, wherein the cadres of the Communist Party started to deviate from their people by becoming closer to Slavic values. This divergence could be considered as the incarnation of the *nomenklatura* in the republics, which referred to a privileged cadre by the virtue of their strategic positions, who endowed them with certain degree of Slavic culture.

Under normal conditions, the cadres who had extensive control over the branches of the states in the republics of the union could not deviate themselves from the population as much as the ones who reigned the Soviet regime. Nevertheless, these pseudo-states or proto-states of the republics turned into a tool of power consolidation through the private relations in the Communist Party. The perpetuation of power turned out to be the main concern of the people, who controlled the strategic positions.⁶⁷

⁶⁵ See, Pal Kolsto "Anticipating demographic superiority: Kazakh thinking on integration and nation building", Europe-Asia Studies, 01 January 1998.

⁶⁶ Ernest Gellner , "Ethnicity and Anthropology in the Soviet Union", Archives Europeennes de Sociologie, Vol. 18 No. 2, 1977, pp. 201-220.

⁶⁷ For a deeper analysis see, Bobo Lo Soviet Labour Ideology and the Collapse of the State, New York, St Martin's Press, 2000.

This deviation of *nomenklatura* from the rank and file should be questioned *vis-à-vis* the evolution of the state. In other words, to the extent that the *nomenklatura* was evaluated from the governing elite, who constituted the administrative branches of the states, the evolution of the state had its direct effects on the ideological divergence of the Soviet regime. The amalgamation of flourishing (*prosvetaniye*) and drawing together (*sblizhenie*) with industrialization and elimination of inequalities have created a centralist state who had earned huge autonomy from the society.

The most significant point that should be explicated at this point arises from the fact that, ideologically speaking, the above mentioned evolution of the *nomenklatura* contradicts with the socialist principle. In fact, the deviation of a certain class from labor could be considered as the clandestine initiation of the corruption of the Soviet state. Therefore, it is possible to indicate that the collapse of the Soviet state can not be elucidated with no regard to the divergence of the “labor ideology” which aimed to connect the socialist ideals with the basic statements of the Soviet constitution such as the right to work, full employment and absolute job security from the “labor productivity” by referring to the rise of production through heavy industrialization under the strict central planning of the Soviet regime.⁶⁸ That is to say, the Soviet state started to collapse when it lost its ability to lead to labor productivity in economics by following socialist principles in ideology and tried to find a compromise in between the two in order to satisfy the demands of the distinct segments of the society.⁶⁹

The diversification of the socialist principles and economic policies that came to life as the first signal of corruption in the Soviet system still appears to be a crucial problem in most of the successors of the Soviet Union. That is to say, not a revolution from above or below, but rather a sort of opportunism within the system, which led to the refusal of bureaucrats to obey orders from above

⁶⁸ Ibid,

⁶⁹ Ibid, pp.132-134

can be considered as the most significant reason of the collapse of the Soviet state.⁷⁰

The refusal of bureaucrats to follow socialist ideals and obey certain orders from above can be considered as an outcome of their deviation from the rest of the population by the virtue of their holding strategic positions. The personal networks which existed in the Soviet Communist Party played a key role in the formative period of state development.⁷¹ The process, which led to the disintegration of the USSR should be considered within this context, inheriting the perpetuation of the former patronage relations and corruption in various degrees in different republics.

The reasons that give the state its potency should be examined by considering the fact that these countries are born in the aftermath of the disintegration of the USSR. That is to say, the governing cadres of the states of Azerbaijan, Kazakhstan and Turkmenistan are older than the republics. This anocracy leads to different levels of understanding between the cadres of the state and the necessities of the republics, which are being shaped by the pressures that are coming from the international organizations such as the IMF and the World Bank.

Within this context, the historicity of the states of Azerbaijan, Kazakhstan and Turkmenistan appears to be a very critical issue, which necessitates a further elaboration. To the extent that these states are composed of the cadres most of which are the members of the former communist parties, it is possible to consider the state apparatuses as vital mechanisms the existence of which is not dependent on the creation of the republics in the aftermath of the disintegration of the USSR. That is to say, the states of these republics should be considered as entities, who have long ago gained their autonomy from the society.

⁷⁰ Steven L. Solnick, Stealing the State: Control and Collapse in Soviet Institutions, Cambridge, Harvard University Press, 1999, p. 3.

⁷¹ This approach is compatible with the elite paradigm which goes back to Mosca and Pareto. The empirical evidence for this perspective has been obtained through the analysis of the archives of the Communist Party in the post-Soviet era. See, Gerald M. Easter Reconstructing the State: Personal Networks and Elite Identity in Soviet Russia, Cambridge, Cambridge University Press, 2000.

The way how this autonomy has been gained is a very critical issue especially in the case of Azerbaijan, Kazakhstan and Turkmenistan, where during the Soviet times the state was very effective in almost every aspect of political economy. Within this context, a succinct analysis of the evolution of the state in these countries tend to offer the tools, which may be very useful for understanding the increasing power of the states by the help of the trade of hydrocarbons. The evolution of strong state in this region can be analyzed in terms of two distinct epochs. The first epoch refers to the Soviet times, which has been characterized by the consolidation of the elites, who had extensive control on the branches of the state by the virtue of being a part of the *nomenklatura*. The patronage relations among the members of the communist parties have been the main determinant of this era. The strict control of the Soviet regime over the republics through the branches of the Communist Party can be pointed out as the most significant peculiarity of this period, which increased the power of the state. The second epoch refers to the post-Soviet time which is being characterized by rising power of the carry-over of the former *nomenklatura*, who currently controls not only the states of Azerbaijan, Kazakhstan and Turkmenistan, but also consolidates power by manipulating the hydrocarbons. This epoch differs from the previous one in the sense that the states of Azerbaijan, Kazakhstan and Turkmenistan have attained to use their natural resources freely for the first time in their history.

That is to say, the new commercial relations in the post-Soviet era drastically affect the former interaction between the members of the Soviet Union, whose main pillars were strict central planning, specialization, applications of exchange and the control of Russia. Nevertheless, it does not seem possible to clearly differentiate these two periods. In other words, the influence of the Caspian hydrocarbons can not be understood if the legacy of the Soviet system is neglected. Therefore, understanding the Soviet characteristics of the states of Azerbaijan, Kazakhstan and Turkmenistan appears to be a significant condition of understanding how the post-Soviet governing elite is able to consolidate its power and/or implement sound policies for economic development through commercialization of hydrocarbons.

I.3.1. The Soviet Era: Evolution of the Strong State

The state was the most significant actor that controlled almost every aspect of life during the Soviet times. The potency of the Soviet state can be considered as a natural outcome of the socialist tradition, which evolved into a unique form under the peculiarities of the former USSR. As a matter of fact, the Soviet state turned into an enigmatic entity, which became more and more complicated by patronage and interest relations among different cadres, who had control over the strategic positions in the branches of the state in various republics.

The intricacy of the Soviet state arises from a two dimensional complexity, which involves the geographical structures of the republics and various peoples on the one hand, and the interaction among different cadres on the other. Knowing the evolution of this complex structure appears to be an indispensable condition of understanding the attitude of the state in the aftermath of the disintegration of the USSR. Within this context, the developments which had created and characterized the state under the Soviet regime should be characterized with regard to the historical circumstances.

The historicity of the Soviet state goes back to the times of Bolshevik revolution, which had drastically changed the political economy of Russia by imposing a socialist system upon the legacy of the royalty.⁷² The New Economic Policy (NEP) was the first significant policy of the Bolsheviks, who were renamed as communists in 1918. The First World War gained an impetus to the production of weapons and military goods. The NEP tried to increase not only the cooperation among the peoples, but also the production of the workers. Transition from individualism to collectivism has been a main concern of the communists for the incarnation of the dictatorship of proletariat. Nevertheless, the NEP was faced with financial problems because of the lack of foreign loans, which decreased industrial production.⁷³

⁷² See, Stephen White, After Gorbachev, Cambridge, Cambridge University Press, 1993, pp. 143-331.

⁷³ Ibid,

The emancipation of the values of Bolsheviks led to a sort of mess in which the heterodoxy of various populations were confronted by the homogeneity of socialism. After the revolution, the multitude of various republics, peoples and minorities constituted a very serious problem for the Soviet regime, which aimed to sustain the integrity of the union while applying the centralist policies of the Communist Party. Within this context, it is possible to suggest that the search of a conformity between the orthodox understanding of the Soviet regime and the diversity of various ethnic groups had been very effective in determining the extent of the state in the republics. Many important phenomena, which shaped the boundaries of the state, were designated by referring to this principle that can be best summarized as harmonization between orthodox monism and ethnic pluralism.⁷⁴

To start with the definition of “country”, it can be suggested that this concept *per se* was constructed on the above mentioned goal of harmonization within the principles of socialism. In order to reach this goal, the Soviet regime applied policies, which necessitated the differentiation of the concept of the nation from the total population of the country, as a political unit.⁷⁵ It was expected that this formulation could sustain the integrity of the USSR while guaranteeing a certain amount of free space for different groups which had their own peculiarities.⁷⁶

Within this context, the nation was considered as a phenomenon representing the cultural and ethnic entity of certain homogeneous groups. This definition necessitated the diversification of the concept of citizenship from the basis of ethnicity. That is to say, the terms citizenship and nationality were assigned distinct senses. In this scheme, nationality has been identified with ethnicity. Every Soviet citizen had an official nationality, which was written into his/her passport. The Soviet federal state was founded upon the territorial units, which were named in terms of certain ethnic groups that simultaneously constituted the titular nationalities.

⁷⁴ See, Svante E. Cornell “The Devaluation of the Concept of Autonomy: National Minorities in the Former Soviet Union”, *Central Asian Survey*, Vol. 18, No. 2, 1999, pp. 85-196.

⁷⁵ Yuriy Slezkine, “The USSR as a Communal Apartment, or How a Socialist State Promoted Ethnic Particularism”, *Slavic Review*, Vol. 53, No. 2, 1994, pp. 414-452.

⁷⁶ Ibid,

The Soviet regime created an administrative structure, which coincided with the peculiarities of various nationalities. In order not to allow the rise of centrifugal powers, the Communist Party felt the necessity of sustaining a close relationship between the administrative branches in the republics and the Soviet regime. The communist parties of the republics appeared to be a good tool for sustaining the control of the Soviet regime on the republics. The significant specificity of this structure was the imposition of the Soviet State as the most potent agent of domestic affairs. The communist parties turned into the mechanisms of cadres who controlled the branches of the state in various republics by guaranteeing the loyalty of the republics to the Soviet regime. In addition to this, it should also be mentioned that the state attained a special power by assuming all of the responsibilities in terms of economic development of various republics and nationalities under the umbrella of the former Soviet Union.

A part from these political/ideological concerns, there occurred many incidents which directly affected the evolution of the state under Soviet regime. Among these, the policies which flourished under the personality cult of Lenin should be attributed a special significance. This arose from the fact that Lenin did not only designate the specificity of the Soviet state but also characterized its role and responsibilities towards the republics and various nationalities. The influence of Lenin on the evolution of the state was very extensive. This was created by the fact that Lenin considered state as a mechanism, which could balance the interests of the nationalities with the socialist ideals. On its broadest sense, it is possible to suggest that Lenin's attitude was a consequence of the search for a synchronization between the monism of orthodoxy and the plurality of various nationalities. Nevertheless, Lenin's approach was unique in the sense that the concept of development was merged with the idea of harmonization. Lenin's nationality policy provided the framework for the Soviet state which aimed to establish the 'flourishing' and 'drawing together' of the society in the process of moving towards socialism and communism. Economic development,

which was identified by industrialization, had a special meaning in this process of eliminating inequalities.⁷⁷

This approach was transformed to the doctrine of nationalities under the motto of developed socialism; a term which indicated that the vitalization of the Soviet people led to the necessity of a total management of the Soviet economy in terms of a national economic complex, the incentives of which had appeared as the scientific-technical revolution. The Soviet regime aimed to complete a policy that had two pillars of general social and economic progress on the one hand, and equalization of different levels of economic development among distinct peoples on the other. Within this context, Soviet economic development was characterized by the transformation from agricultural society to industrialized one.⁷⁸

This total approach put a special emphasis on the harmonization of the interests of each nation and people with the general interests of the Soviet people. That is to say, the Soviet regime wanted to sustain a rapid economic growth through industrialization which would be strengthened by scientific-technical revolution under a sort of harmony among the interests of the nations and peoples on the one side, and the Soviet people as a whole on the other. As a matter of fact, central planning aimed to imply rational specialization and harmonious cooperation among the republics with a common ground of product maximization. A constant economic and social progress has been supposed to be common in every Soviet republic.

The consequences of this general approach can be pointed out in terms of two dimensions. On the one hand, every Soviet republic involved in a progress of economic growth through specializing on certain goods but with different levels of development.⁷⁹ There was a strong emphasis on industrialization based on

⁷⁷ See, Donna Bahry and Carol Nechemias, "Half Full or Half Empty? The Debate over Soviet Regional Equality", Slavic Review, Vol. 40, No.3, 1981, pp. 366-383.

⁷⁸ Stephen Rapawy, "Regional Employment Trends in the USSR 1950-1975" in US Congress, Joint Economic Committee, Soviet Economy in a Time of Change, Washington, Vol. 1, 1979, pp. 604-610.

⁷⁹ For the differences in development, see, Alfred Evans, "Interrepublic Inequality in Agricultural Development in the USSR", Slavic Review, Vol. 40, No. 1, 1980, pp. 570-580.

product specialization under the command of central planning, which also brought high level of monopolization of industry. Consequently, the high level of monopolization led to an intensive interregional exchange of goods among the former Soviet republics, and so interrepublican trade had become a major factor in their interdependence.⁸⁰ The differences among the republics emerged as the outcomes of the policies of the Soviet regime, which made more investments in the regions that were either in harmony with the interests of the Communist Party or necessary for the development of other regions.⁸¹ Within this sense, the Soviet regime could manage to increase the economic growth of the republics, but failed to overcome the inequalities among them. In the USSR as a whole, standards of living in rural areas varied between two-thirds to three-fourths of urban levels; qualitatively.⁸²

On the other hand, this approach imposed central planning as the indispensable condition of economic growth. Consequently, central planning created a very strong state mechanism, which had the potency of collecting and allocating resources. To put it more clearly, the Soviet republic entered in a process of economic growth under central planning, which increased the mutual dependency and intense economic integration among peoples. Centrifugal forces, no matter what their source of motivation was, could hamper the domination of the Soviet regime in the republics. In order to avoid the expansion of these movements, the Soviet regime considered the organs of Communist Party as the tools to manage and control the situation in the republics. Consequently, the state, which had enormous power by definition could find the opportunity to increase its control in almost every aspect of life.

The death of Lenin in 1924 can be considered as the beginning of a new era in which the state increased its power not only by using the socialist ideology but also by transforming it into oppressive policies under the Stalinist regime. Islam

⁸⁰ Ünal Çeviköz, "A Brief account of the Economic Situation in the Former Soviet Republics of Central Asia", Central Asian Survey, Vol. 13, No. 1, 1994, p. 45.

⁸¹ These differences became important reasons, which led to divergence of the republics from each other in the post-Soviet era.

⁸² See, Gertrude E. Schroeder, "Rural Living Standards" in Robert Stuart (ed) The Soviet Rural Economy, Totowa, Rowman and Allanheld, 1983, pp. 241-257.

was a source of fear for Stalin because of its potency to unite masses. Consequently, the Soviet regime tried to eradicate the traces of Islam in this region. This movement led to the banishment of Islamic practices as well as eradication of symbols, which could strengthen the ties towards Islamic culture.⁸³ Stalin also put a special emphasis on the goal of rapid industrialization. In addition to this, party discipline and unity and awareness against the enemies of socialism became effective principles.

It is possible to suggest that the state, by its extensive responsibilities, role and duties increased its power during the epochs of Lenin and Stalin. Nevertheless, it should also be mentioned that the policies of Stalin were fundamentally different than those of Lenin's. Under Lenin's rule strong state was a tool for the development and harmonization of the republics which were consisted of different groups. On the contrary, Stalin exacerbated the authoritarian aspect of the state through strict policies, which aimed to sustain the national integrity by undermining the pluralist characteristic of the Soviet Union. Consequently, the state turned into a mechanism, which intruded every aspect of life. In this era, the nationalities were confronted by compulsory migrations, which aimed to eradicate certain factors, such as religion, in order to prevent a contingent unified centrifugal movement. This resulted in oppressions for the years to come, which underestimated the needs of the society on behalf of the state.⁸⁴

Labor turned into a supplier of work during the Stalinist era. The collectivization of the farms were a major strategy for acquiring more agricultural production. This system required the movement of the peasants in terms of their productivity. In other words, the state turned into an apparatus which imposed not only compulsory migrations of ethnic groups but also extra

⁸³ "In all the Turkic countries, the Arabic alphabet had been used fore more than 1000 years. Even though Azerbaijanis themselves opted for a Latin-based alphabet in 1928, there was a vigorous Soviet movement to destroy everything that was written in the Arabic script. No doubt in Azerbaijani case, this also related to the question of their ties to the Azerbaijanis living south of their border in Iran (whose Azeri population now numbers nearly 30 million). This separation of the Azerbaijani people occurred when Russia and Iran signed the Turkmenchay Treaty in 1828."Elkhan Garibli, "What's in a name? Nationality for Starters", Azerbaijan International, Autumn 1999, Vol.7, No..3.

<http://azer.com/AIWeb/Categories/Magazinehtml/73.folder/73-articles/73-name.html>

⁸⁴ Robert Conquest, "Victims of Stalinism: A Comment", Europe-Asia Studies, Vol. 49, No.7, November 1997, pp. 1317-1319.

work upon people through the kolkhoz system and working camps.⁸⁵ These camps have been the manifestation of the absolute power of the state.⁸⁶ Consequently the Russian economy boosted by the rise of industrial production, which was sustained by oppressive methods that hampered the socialist ideals and democracy.

The Stalinist era witnessed the abuse of the socialist understanding, preparing a very appropriate environment for power consolidation through the state apparatus.⁸⁷ As a matter of fact, not only the socialist ideals but also the administrative bodies, which were contributing to the production under distinct groups of labor and agriculture such as *kolkhoz* and *gulags* turned into the tools of coercion.⁸⁸ 21.5 million Soviet citizens lost their lives because of the policies of Stalin, who aimed to sustain national integrity through reconstruction of the republics while increasing the productivity through oppressive methods, imposed upon the workers.⁸⁹

These methods could generate the upheaval of the citizens in various republics. Stalin was afraid of the opponents of the regime. His fear lead to the creation of The Committee for State Security (KGB). The Second World War became a good opportunity for Stalin, who justified his oppressive methods by consolidating power against Germany. The oppression of Stalin did not decrease after the war. On the contrary, certain nationalities such as the Crimean Tatars and the Central Asian peoples faced further suppression.⁹⁰ Later, in compliance

⁸⁵ Robert Conquest, "Forced Labour Statistics: Some Comments", *Soviet Studies*, Vol. 34, No. 3, 1982 p. 438.

⁸⁶ See, Robert Conquest, "Excess Deaths and Camp Numbers: Some Comments", *Soviet Studies*, Vol. 43, No. 5, 1991, p. 951.

⁸⁷ See, Conquest, Victims...

⁸⁸ See, Edwin Bacon, *The Gulag at War: Stalin's Forced Labour System in the Light of the Archives*, London, Macmillan, 1994, pp. 36-38.

⁸⁹ Dmitrii Volkogonov, *The Rise and Fall of the Soviet Empire*, Harper-Collins, 1998, p. 153.

⁹⁰ The Soviets have been afraid of separatist movements, which could be strengthened by unification of Islamic/Turkic people. In order to prevent such a contingency the Soviet regime created new republics in the lands, which have coincided with the so called Turkestan. Linguistic intervention has been one of the main strategies of this purpose. In 1937 the Soviets changed the alphabet to Cyrillic. In Cyrillic, they further complicated the issue among Turkic speakers by identifying different symbols for the same vowels in various Turkic languages such as Kazakh, Turkmen, Uzbek Kyrgyz and Azeri. For example Azerbaijan uses a schwa (upside-down "e") to represent the "a" sound in "fat cat". Other Turkic speaking republics had to represent that same sound with a different symbol. It seems the old adage, "divide and conquer" applies to the alphabet as profoundly as it does to politics. One of the greatest difficulties of

with Stalin's own definition of nation, Soviet authorities established an idea of nation bound to a certain territory. Instead of referring to religious or ethnic culture, they marked special territories where there existed privileges for titular nationalities.⁹¹

Khrushchev, who became the secretary general of the Communist Part after the death of Stalin in 1953 immediately started a process of destalinization by releasing millions of prisoners held in labor camps. His policies focused on short term goals, which would fail under the actual situation of the Soviet Union. The virgin lands project, which aimed to increase grain production by opening new farms during the 1950s failed because most of the concerned lands had already become unproductive. The division of the party into two in terms of agriculture and industry, due the difficulties *vis-à-vis* the coordination of the two branches, was another significant fallacy of Khrushchev.⁹²

Khrushchev was replaced by Brezhnev in 1964 who could remain in his position until 1982 by following statist policies, which led to the perpetuation of the same power relations throughout years. Those who held strategic positions could continue to hold their positions by the mild attitude of Brezhnev because he was very cautious about not changing the status-quo within the party and its branches in the republics. After the death of Brezhnev in 1982 Andropov and Chernenko held the position of secretary general respectively in 1993 and 1994. Andropov has been in charge of KGB prior to his appointment to secretary general position. In contrast to Brezhnev, he attacked status-quo especially by focusing on corruption and alcoholism. In 1985, the Soviet Union introduced its new leader Gorbachev, who would propose fundamental reforms eventually

Azeri nation has been that they have changed their alphabet four times in a century. First, there was the Arabic script that they used for more than a millennium, then the Latin script was introduced in 1927, then Cyrillic in 1937. Then they reverted to Latin again in 1991 as soon as they gained their independence." Mirvarid Dilbazi, A Century of Tears, in Azerbaijan International, Autumn, 1999, Vol.7, No.3.

<http://azer.com/AIWeb/Categories/Magazinehtml/73.folder/73-articles/73-dilbazi.html>.

⁹¹ Ronald Grigor Suny, "The Soviet South: Nationalism and the Outside World", in, The Rise of Nations in the Soviet Union, Michael Mandelbaum, (ed.), New York, Council on Foreign Relations Press, 1991, p. 68.

⁹² Ibid,

resulting in the disintegration of the Union.⁹³ According to Gorbachev, *glasnost* (mass participation, higher morale of labor, more freedom and openness) could contribute to the amelioration of economy. In addition to this, *perestroika* (the restructuration of the economy) was another strategy, which aimed to expand local planning and investments, increase quality and amount of production, more initiatives for managers, introduction of producer cooperatives, expansion of private farming, joint ventures with foreign companies and similar liberal strategies.

The period between Lenin and Gorbachev can be summarized as follows: “I. Lenin has thought of Soviet Union as a federation of autonomous republics. J. Stalin has accepted the existence of seemingly different cultures and wanted their developments, but in practice he demanded the foundation of the same single culture. N. Krushev with the goal of reaching the real communist ideal has thought that the nations would weld together in the future. L. I. Brezhnev, demanded the welding of the nations rather than their separate ethnic and political development. Y. Andropov, argued the policy of welding of the nations under a single language, ideology and economic ties. M. Gorbachev, wanted to develop Andropov's ideas with stronger economic ties.”⁹⁴

The Gorbachev reforms could not manage to keep the Union together. Even though Gorbachev implemented appropriate policies, the patronage relations between *nomenklatura* and corruption among the cadres of the state created significant problems, which accelerated the disintegration of the USSR. Yeltsin appeared to be an important opponent of Gorbachev by acquiring the economic sovereignty of Russia through a decision of the Russian Republic's Supreme Soviet in 1987. In this period the sects in the Communist Party became solid between the reformers and the conservatives. Both of these sects were criticizing Gorbachev, who was following policies that resembled to the NEP of Lenin.

⁹³ See, Harley D. Balzer (ed.) Five Years that Shook the World: Gorbachev's Unfinished Revolution, Oxford, West View Press, 1991, pp. 91-105.

⁹⁴ A. Suat Bilge, Commonwealth of Independent States and Turkey”, Eurasian Studies, Vol. 1, No. 4, Winter 1995, p. 68.

The situation of Gorbachev can be best described as international popularity and domestic discontentment. The economic deterioration and the fall of the regimes in the satellites of the Soviet Union were the main reasons of the domestic discontentment against Gorbachev. Transition to market economy was a significant source of problems under the inappropriate conditions of the Soviet economic structure. When Yeltsin reduced the subsidies of the Soviet agencies, Gorbachev found himself suppressed by the consequences of transition towards market economy. The failure of Gorbachev to sustain the national support led to the military intervention of 1991, after which Yeltsin could find the chance to replace Gorbachev. The Communist Party was banned under the presidency of Yeltsin, which also led to the independence of the Russia Republic.

Yeltsin from Russia, Kravchuk from Ukraine, Shushkevich from Belarus met in the town of Minsk on 8 December 1991 and signed a resolution which ceased the existence of the Soviet Union by creating the Commonwealth (Sodruzhestvo) of Independent States (CIS)⁹⁵ This declaration led to the anxiety of other members of the Soviet Union, who considered the declaration of Minsk as the establishment of a Slavic Union. In response, the Central Asian republics started to negotiate with each other in order to establish a union similar to CIS. The creation of a union in central Asia could hamper the interests of the CIS. Consequently the CIS expanded by admission of other republics in December 1991. The CIS which was established by the Alma-Ata Declaration on 21 December 1991 made the signatory states promote their individual national interests by respecting the common economic rules of the Soviet period. At the same time, the members considered the CIS as a multifunctional tool, which would facilitate the perpetuation of national independence while sustaining equitable and mutually beneficial cooperation among the members.

The CIS was not a new form of political integration, including contingent formations such as union, federation or confederation. Rather the signatories accepted the idea that CIS would be effective by leading common policies of monetary, exchange rates, employment, tax and investment. Nevertheless, the

⁹⁵ For the text of the Minsk Declaration, See, The New York Times, 9 December 1991, p. A 4.

creation of CIS did not decelerate the transition from centralist planned economy to many national economies indicating different rates of transition to free market.⁹⁶ The clear fact was that the Soviet Union ended through a disintegration process, which created new independent states.

Following the disintegration of the USSR, Azerbaijan attained its independence on August 30, 1991, Kazakhstan on December 16, 1991 and Turkmenistan on October 27, 1991. The newly independent countries started to implement distinct economic policies soon after the disintegration of the USSR. First of all, Russia, Belarus, Armenia, Uzbekistan, Kazakhstan and Tajikistan signed a treaty of ruble zone on 7 September 1993. Nevertheless, the restrictions of the ruble zone forced the members to introduce their own national currencies.⁹⁷ After the introduction of ruble as the national currency of these countries, the amount of ruble in Central Asia and Caucasus started to increase. Consequently, the rising pressure of inflation invoked certain countries to create their national currency instead of ruble.⁹⁸ Within this context, Azerbaijan, Kazakhstan and Turkmenistan considered the introduction of their national currencies as a development which could decrease their dependence on Russia. That is to say, the introduction of national currency was seen as a significant condition of economic independence. Azerbaijan has introduced its national currency manat on November 1992. Turkmenistan introduced its national currency manat on 1 November 1993. Kazakhstan introduced its national currency tenge on 15 November 1993.⁹⁹

In its broadest sense, Azerbaijan, Kazakhstan and Turkmenistan started to take their place among the developing countries, suffering from certain similar inadequacies in other post-colonial countries.¹⁰⁰ The basic problem is the lack of certain infrastructures needed not only for the development of industry,

⁹⁶ See, "Gregory Gleason Inter-State Cooperation in Central Asia from the CIS to the Shanghai Forum" Europe-Asia Studies, 01 November 2001.

⁹⁷ See, Lynda, Maillet "New States Initiate New Currencies" Transition, 9 June 1995, pp. 44-49.

⁹⁸ Begmetcan, Maksudoğlu "Türkistan'da Geçmişte ve Günümüzde Para Reformu", Yeni Forum, April 1994, p. 59.

⁹⁹ See, Maillet, pp. 44-49.

¹⁰⁰ See, Shirin Akiner, "Social and Political Reorganization in Central Asia: Transition from Pre-Colonial to Post-Colonial Society" in Atabaki and O'Kane, J. (eds.) Post-Soviet Central Asia, Leiden, Amsterdam, The International Institute for Asian Studies, 1998, pp. 1-34.

agriculture and services, but also for the implementation of economic, political and social policies through democratic institutions. Nevertheless, the situation of the post-socialist countries fundamentally differ from that of other post-colonial countries in Asia, Africa and Latin America. The former socialist policies have already created a certain framework that is present in every aspect of life. Not only the economy but also the political and social customs, regulations, norms and values were built upon the socialist understanding.

Azerbaijan, Kazakhstan and Turkmenistan are transition economies. That is to say, they share the similar problems with other transition economies, where the socialist framework is being reconstructed on the basis of liberal regulations. It should be mentioned that the so called civil society of these countries lack the essence of their western counterparts, which are being identified by the presence of market relations and democratic values. Naturally, this is true for the transition economies of the newly independent states of the Caspian Sea, where the relations between the state and society gained a very interesting characteristic in the aftermath of the disintegration process. This can be best explicated by corresponding the actual developments with the theoretical perspectives mentioned above.

First of all, the Soviet system attributed a very special significance to the state by imposing a structure in which state assumed a sort of supremacy.¹⁰¹ There is a tradition of strong state in Azerbaijan, Kazakhstan and Turkmenistan in which policies such as state subsidies, state intervention and state production had always been very familiar. To be more concrete, the Soviet state assumed most of the responsibilities in almost every domain such as production, transportation and services. Consequently, the state was present in every aspect of life. The idea of strong state of the Soviet regime turned out to be a tradition, which has perpetuated in the aftermath of the disintegration of the former USSR. Currently, the societies of Azerbaijan, Kazakhstan and Turkmenistan are very familiar with the omnipresence of the state.

¹⁰¹ See, Jacques Sapir, Feu le système soviétique 2, Paris, La Découverte 1992.

In addition to this, the supremacy of the state has been widened in the aftermath of the dissolution of the former USSR, which concretized the state as the only agent that could assume certain responsibilities such as national development. This role has enlarged state's domain of influence to a very broad range, which included economics, politics and culture. Therefore, the activities of the states of Azerbaijan, Kazakhstan and Turkmenistan have been expanded in order to implement national development projects in the aftermath of the disintegration of the former USSR.

Another specificity of the state comes from the characteristics of the governing elite. Most of the members of the former Communist Party are still effective in most of the post-socialist countries including Russia and the countries of Caspian region.¹⁰² The solitude of the state as the only agent of the economy offered the governing elite the chance of controlling every aspect that could be linked to the national development of their countries. The governing elite, who has the ability to disseminate their power by the virtue of their control over strategic places, did not fundamentally change after the disintegration of the former USSR. On the one hand, these cadres may be considered as experienced professionals, who have the potency to positively determine the development processes of Azerbaijan, Kazakhstan and Turkmenistan. On the other hand, the patronage relations among the *nomenklatura* may impede the vitalization of national development on the favor of personal interests.¹⁰³ These characteristics of the state may change if new cadres can find the very chances to penetrate into the critical positions of government. Nevertheless, it does not seem possible to attain such an upward mobility at least in the near future.

Azerbaijan, Kazakhstan and Turkmenistan share a dilemma that is common among other post-socialist countries as well. The rising impetus of globalization outdates closed economies based on nationalistic and mercantilist policies which are implemented by the centralist policies of the state. Ironically, the success of transition from post-socialism to market economy has become the

¹⁰² See, Joel S Hellman, Jones Geraint and Daniel Kaufmann Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition, EBRD and the World Bank, 2000.

¹⁰³ Ibid,

only way of sustaining economic growth while at the same time becoming a part of the world economy. State intervention is considered to be a factor which promotes corruption in transition economies. That is to say, the state while increasing its power in order to implement development programs, sooner or later, confronts with the pressures to voluntarily diminish its scope.

The minimization of the state is not very easy for the developing countries. Most of the governments of the developing world have the ability and will to directly control large segments of the national economy through production, distribution, and price fixing. The capacities of the state to regulate, define and enforce property rights, dispense law, and tax are extensive. These capacities become absolutely necessary for the transition economies that aspire to expand market relations. As a matter of fact, the problems of transition economies became an enigmatic issue. “Understanding how these capacities evolve, or fail to evolve, is crucial in understanding both initial patterns of government intervention in the economy and the current crisis in the Third World and in the command economies of eastern Europe and the former Soviet Union, where attempts to liberalize the national economy have repeatedly failed, such as the case of Chinese reforms which directly contradicted the neo-liberal emphasis on speed, comprehensiveness, and the incentives generating powers of private property.”¹⁰⁴ This is a very critical issue especially for Azerbaijan, Kazakhstan and Turkmenistan where the state is present in most of the aspect of economic life. As a matter of fact, diminution of state seems to be a very practical solution which not only impedes corruption, but also increases the economic efficiencies of certain enterprises.¹⁰⁵

It should also be mentioned that the transition from socialism to market economy tends to decrease the power of the *nomenklatura* in the long run. Issues such as implementation of relative and free prices for goods and services and privatization necessarily diminish the scope of the state, therefore the power

¹⁰⁴ Kiren Aziz Chaudry, “Economic Liberalization and the Lineages of the Rentier State”, *Comparative Politics*, October, 1994, p.3.

¹⁰⁵ See, Vito Tanzi, and Ludgeer Schuknecht, *Public Spending in the 20th Century*, New York, Cambridge University Press, 2000, pp. 169-170.

of the *nomenklatura*. In order not to lose its privileges, the *nomenklatura* seems to adhere to the socialist tradition, which helps to sustain the control over critical positions such as the energy industry, banking, finance etc. This process increases the power of certain cadres, who have organic relations with the strategic positions in the government. Attempts for the minimization of the state do not work properly even under extensive programs of privatization. Excessive differences do not appear between state and private ownership as far as the same cadres control the entrepreneurs with the same mentality.

All of these characteristics, to a large extent, designate the situation in most of the post-socialist countries, which turned into transition economies. When the characteristics of the post socialist countries are compared with each other along this perception, two issues should be mentioned. On the one hand, the post-socialist countries have steadily become transition economies as soon as they started to interact with the world economy. Within this sense, they have a common starting point. On the other hand, regional peculiarities of the post-socialist countries are effective in determining the essence of transition. That is to say, starting at the same departure point, they are now in different routes.

The emerging petroleum economies of the Caspian Sea can also be analyzed as post-socialist countries, who have entered in a transition process after the disintegration of the USSR. Being a post-socialist country can be considered as a significant specificity of Azerbaijan, Kazakhstan and Turkmenistan, which makes them a part of the transition economies.

The above mentioned characteristics of Azerbaijan, Kazakhstan and Turkmenistan can be summarized on the basis of two issues. First of all, these countries resemble to the other post-socialist countries, which are currently being categorized as transition economies because of the dialectal interaction between the socialist structures and liberal policies. It is explicit that the regional peculiarities of different countries affect the evolution of relations between the state and society. Nevertheless, it should also be mentioned that the transition of Azerbaijan, Kazakhstan and Turkmenistan fundamentally differ from other cases of the post-socialist countries because they are the only group

of countries, whose political economy has started to be drastically affected by the influence of the trade of hydrocarbons. Within this context, it should be mentioned that the rich hydrocarbon reserves constitute a common ground, which give a unique characteristics to Azerbaijan, Kazakhstan and Turkmenistan by fundamentally affecting the nature of the post-Soviet transition.

I.3.2. The post-Soviet Era: State and Hydrocarbons

Oil and gas have always been crucial factors that made Russians to be interested in Caspian. Consequently, Azerbaijan, Kazakhstan and Turkmenistan had to live under Russian hegemony for about 70 years. Despite their richness in natural resources these countries were challenged by economic, social and political problems since the very beginning of their independence.

It has already been mentioned that the state gained a certain amount of autonomy by the virtue of the socialist tradition during this period. Within this context, understanding the centralist characteristic of the Soviet regime *vis-à-vis* the trade of hydrocarbons of Azerbaijan, Kazakhstan and Turkmenistan appears to be a significant condition of elucidating the attitude of the states of these countries during the transition process.

It is explicit that the manipulation of the Soviet ideology by different cadres increased the power of the state, which gained a certain degree of autonomy from the society as the only central agent under the control of the Communist Party. As a part of the economy, the hydrocarbons were also under the strict control of the Soviet regime, which created different types of specialization in different countries according to their natural resources. Hydrocarbons were attributed special significance because of their being strategic tools for wealth and power. Within this context, it is possible to indicate a relationship between the general conjuncture and the policies of the Soviet regime concerning the hydrocarbons.

The Soviet regime charged the Ministry of Petroleum Industry as the only agent, who strictly controlled the exploration, extraction, refining, transportation and marketing of hydrocarbons.¹⁰⁶ As an ancestor of today's giant Russian companies Gazprom (specialized at gas) and Lukoil (specialized at oil), the Ministry of Petroleum Industry closely cooperated with the Soviet regime in order to create a structure that was compatible with the necessities of the actual regime.¹⁰⁷ The Soviet regime led to specialization among Azerbaijan, Kazakhstan and Turkmenistan through the policies, implemented by The Ministry of Petroleum Industry. As such, Azerbaijan and Kazakhstan were the main suppliers of oil, while Turkmenistan was the provider of natural gas.

The Ministry of Petroleum Industry (MPI) led to the creation of agents, which were functioning in Azerbaijan, Kazakhstan and Turkmenistan separately. These agents were working for the republics in order to develop exploration and production. Nevertheless, all of the strategies were decided by the Soviet regime through the MPI which acted on behalf of the interests of the Union; a policy around which Azerbaijan, Kazakhstan and Turkmenistan were deprived of their revenues.¹⁰⁸

To start with Azerbaijan, it should be mentioned that the first discovered reserves of this country were on the shallow regions, which did not necessitate the drilling of deep wells. Consequently, Azerbaijan, whose first oil production goes back to the end of 16th century, turned into a country of oil before the Bolshevik revolution.¹⁰⁹ During the Second World War, the Soviet Union produced about 31,500,000 tons of oil per annum, 70% of which was supplied by Azerbaijan.¹¹⁰

¹⁰⁶ See, V. Kryukov "Russian oil companies", Oil and gas law and taxation review, Vol. 13, August 1995, p. 393.

¹⁰⁷ See, Turan Aydın, Russia's Petroleum and Natural Gas Policy, Eurasian Studies, Vol. 1, No. 4, Winter 1995, p. 54-59.

¹⁰⁸ See, Brice M. Clagett, "Ownership of Seabed and Subsoil Resources in the Caspian Sea Under the Rules of International Law" Caspian Crossroads, Vol.1, No. 3, Fall 1995.

¹⁰⁹ See, http://www.kaspmornefteflot.baku-az.com/html/second_fleet.html

¹¹⁰ See, Aydın Ahmedov and Sinan Ogan, "Türk Dünyası Petrol Potansiyeli ve Üretim Arttırılması", Yeni Forum, June 1996, Vol. 17, No. 325, p. 18.

The oil industry of Azerbaijan steadily grew until 1970. During the 1980s, the oil investments started to decrease because the exhausted onshore reserves of Azerbaijan made Russia to focus on Siberia. In addition to this, Azerbaijan was selling its oil to Russia at prices, which were below the mineral water prices in the Soviet Union. Consequently, the production, which was about 22.5 million tons per annum during the Second World War decreased to 10.5 million tones in 1993. During this period, the investments of the Soviet regime gained two refineries around Baku which currently serves for the processing of Azeri oil.¹¹¹ The Soviet regime gave priority to Azerbaijan until 1950s, wherein the onshore reserves were started to be exhausted.

Kazakhstan attracted the attention of the Soviet regime during the war years. For instance, the oil production of Kazakhstan peaked during the First World War, which was 2.5 times more than the figure prior to the war. After the war, the Soviet regime attributed a special significance on the oil and gas of Kazakhstan because of two facts. First of all, there were rich reserves of hydrocarbons which offered the Soviet regime to extract revenues through the oil and gas of Kazakhstan. Secondly, Kazakhstan was very close to Russia, which facilitated transportation towards North. Consequently, Kazakhstan was a supplier of hydrocarbons at cheap prices to Russia, who processed oil and gas at its refineries.¹¹² Kazakhstan was not able to refine the oil (despite the fact that there have been three refineries in Pavlodar, Atyrau and Shymkent) because the capacities of these refineries were not sufficient even for the domestic need of Kazakhstan. In addition, the Soviet regime neglected these refineries because it did not have any idea about the rich reserves in the deeper sections of the Caspian Sea. This misinformation was a consequence of inadequate studies of exploration, which was very limited prior to disintegration of the USSR.¹¹³

The situation of Turkmenistan was also similar to Azerbaijan and Kazakhstan in the sense that enormous natural gas reserves made this country an important

¹¹¹ See, Ibid,

¹¹² See, <http://www.kz/www.html>

¹¹³ See, United States Energy Information Administration.
<http://www.eia.doe.gov/emeu/cabs/caspian.html>.

provider of natural gas for the energy needs of other members of the USSR such as Russia, Ukraine, and Kazakhstan. The Soviet regime constructed a network of pipelines in order to transport the Turkmen natural gas to other members of the former USSR, leaving no other outlet to Turkmenistan. Under this structure, Turkmenistan sent its natural gas to Russia who transmitted the gas to other republics. Most of the times, Turkmenistan was not able to receive money through this relation. On the contrary, the Soviet regime did not allow the development of this country, considering it as a rural region, whose only function was limited to providing cotton and the natural gas for other Soviet republics.¹¹⁴ The Soviet regime led to the construction of two oil refineries in Turkmenistan: today's Turkmenbashi refinery, where most Turkmen oil is being refined to meet domestic needs in petroleum products, and the Chardzou (currently Seidi) refinery, which is currently running at 50% of its capacity.¹¹⁵

The central planning of the Soviet regime led to the rise of a certain level of industry of hydrocarbons. Nevertheless, it does not seem possible to talk about a direct influence of Caspian hydrocarbons on the evolution of the state during the Soviet era. On the contrary, the influence of hydrocarbons was very limited in this period where the socialist tradition was more effective. The socialist approach that took different forms under different leaders, who commonly adhered to the centralism of the state, was the main factor which shaped the structures of these countries.

It is possible to suggest that, the commerce of hydrocarbons during the Soviet era created an anochracy between the structural transformation and sectoral evolution of Azerbaijan, Kazakhstan and Turkmenistan. This anochracy becomes more clear, when the consequences of hydrocarbons are analyzed by referring to the structural and sectoral aspects. The commerce of hydrocarbons had an explicit effect on the sectoral transformation of these countries. The

¹¹⁴ See, Turkmen Oil and Natural Gas: The Viability of Delivering Prosperity to Global Markets.

<http://www.american.edu/projects/mandala/TED/TURKMEN.HTM>.

¹¹⁵ http://www.state.gov/www/about_state/business/com_guides/1999/europe/Turkmen99_05.html.

Soviet regime promoted the rise of a certain amount of energy industry in the Caspian region until the exhaustion of the onshore reserves. On the contrary, the development of the non-petroleum sectors and the structural evolution of Azerbaijan, Kazakhstan and Turkmenistan were not determined by the revenues that were extracted from the hydrocarbons. These countries could not benefit from the revenues of hydrocarbons, which were transferred to Russia. The structural evolution of Azerbaijan, Kazakhstan and Turkmenistan were independent from the commercialization of hydrocarbons because the fiscal and monetary policies of these countries were determined by the Soviet regime, who manipulated the revenues of hydrocarbons.

The basic characteristics of the effects of the commerce of hydrocarbons during the Soviet era can be described as follows:

- 1- The commerce of hydrocarbons did not directly affect the monetary and fiscal indicators which were imposed by the Soviet regime.
- 2- The rise of the oil and gas industry was very explicit until the exhaustion of the onshore reserves.
- 3- The expansion of the services which were designated and provided under the socialist tradition can not be considered as the outcome of the influx of revenues.

The commerce of hydrocarbons between Russia on the one hand and Azerbaijan, Kazakhstan and Turkmenistan on the other, led to the rise of the industry of oil and gas. The other factors were vitalized by the centralist policies of the Soviet regime. In other words, Azerbaijan, Kazakhstan and Turkmenistan were the producers of hydrocarbons, who could not attain external revenues during the Soviet era. Within this sense, it is possible to point out that the Caspian hydrocarbons were effective in creating a Caspian energy industry under the Soviet regime. On the contrary, the hydrocarbons did not fundamentally affect the development of non-petroleum sectors as well as the monetary and fiscal situation of Azerbaijan, Kazakhstan and Turkmenistan who were deprived of the revenues of hydrocarbons.

The disintegration of the USSR fundamentally changed the role of the state concerning the trade of hydrocarbons which in turn started to affect directly the transition of Azerbaijan, Kazakhstan and Turkmenistan in the post-Soviet period. This arises from the fact that the hydrocarbons, which were underestimated by the Soviet regime due to inadequate exploration became important in the aftermath of the disintegration of the USSR.

The reserves of these countries which have been discovered by the exploration studies of the foreign companies in deeper sections of the Caspian indicate to what extent their structures will be under the effect of oil revenues in the near future.¹¹⁶ It is estimated that there are 36-45 billion barrels of oil and 46 Tcf of natural gas in Azerbaijan; 102-110 billion barrels of oil and 141-171 Tcf of natural gas in Kazakhstan; 82 billion barrels of oil and 257-314 Tcf of natural gas in Turkmenistan.¹¹⁷

These reserves allow Azerbaijan, Kazakhstan and Turkmenistan to acquire economic wealth through the trade of hydrocarbons. When the interaction between structural regulations and the sectoral evolution is analyzed, it may be suggested that the extraction of hydrocarbons creates an interesting situation, where the rise of production is not necessarily dependent of structural regulations. That is to say, the first aim of Azerbaijan, Kazakhstan and Turkmenistan seems to transform their hydrocarbons into petroleum revenues. As a matter of fact, many foreign companies have started their production activities long before Azerbaijan, Kazakhstan and Turkmenistan have involved in structural adjustments.

Azerbaijan, Kazakhstan and Turkmenistan have started to act with these companies not only to increase their productions but also to sell their oil and gas at the world markets.¹¹⁸ Therefore the attitude of the state about the oil and gas industry will be very critical in determining the evolution of the energy industry

¹¹⁶ “Les réserves d’hydrocarbures de la CEI sont fortement révisées à la hausse”, Pétrostrategies, 19 September 1994, p. 4.

¹¹⁷ According to US. Energy Information Administration (2001).

¹¹⁸ See, Associated Press, “Caspian Pipeline Decision Favors Oil Route in Russia”, The Washington Post, 8 October 1995.

of these countries. When the reserves of these countries are kept in mind, it may be suggested that these countries will start to benefit from an important amount of petrodollars in the future. The rising revenues should be considered as another factor, which tends to drastically affect the state policies. When all of the above mentioned factors are considered as the issues which are directly related to oil and gas, it may be possible to conclude that the transition of Azerbaijan, Kazakhstan and Turkmenistan is being determined by the interaction of the state with hydrocarbons. This interaction is characterized by the rising influence of natural resource rent as defined in Table 1.

In most of the market economies, the revenues extracted from hydrocarbons have two aspects. In terms of domestic aspect, the state imposes royalties and wellhead excise related to production but also additional profits tax. In addition, privatization revenues and consumption taxes are also domestically generated. With regard to external aspect, the state earns money through Production Sharing Agreements (PSAs) and a pure commerce of hydrocarbons with foreign partners.

Table 1- Types of Instruments Typically Used in Market Economies and Former USSR Members

	Tax instruments in market economies	Other instruments in market economies	Early emphasis in former USSR members
Natural resource rent	Production based -royalties -wellhead excise Profit based -additional profits tax	Production Sharing Agreements	Export duties Production based -royalties -wellhead excise Natural gas excise on city gate price in Russia
Monopoly rent	Lump-sum tax Additional profits tax	Franchise fee	
Natural monopoly transmission and transit	Transmission or transit tax/fee	Debt injection	Russia - oil pipeline fee
Consumption of petroleum products	Gasoline excise Diesel excise Road user charge Environmental tax		Small gasoline excise Small road user charge
Excess profits (from windfall gains, privatization or price rises)	Tax on windfall gains		

Dale F. Gray, Evolution of Taxes and Revenues from the Energy Sector in the Baltics, Russia and Other Former Soviet Countries, March 1998, p. 9.

The former socialist countries have focused on the external aspect of the issue by putting relatively small consumption taxes. The PSAs have not taken place because of not collaborating with western companies. Within this context, it is possible to indicate two sources of revenues for the state. First of all, the internally generated revenues refer to taxation and other activities of the state in terms of production and services. The internally generated revenues may be analyzed with regard to the petroleum and non-petroleum sectors. Similarly, the externally generated revenues can be analyzed in term of those related to hydrocarbons and other activities of the country independent from hydrocarbons.

This structure became the heritage of Azerbaijan, Kazakhstan and Turkmenistan in the aftermath of their independence. The revenues earned from the energy sector have a special significance for these three countries. The attitude of the state about the essence of revenues is critical. The states of these countries consider hydrocarbons as a tool, which tends to help them to hoard revenues without referring to non-petroleum sectors domestically and internationally. As a matter of fact, these countries, which have not been accustomed to taxation, attained the opportunity to quadruple their revenues through PSAs and pure commerce of hydrocarbons. That is to say, independence put these countries in between these two models by diverging the gap between externally and internally generated revenues on behalf of the first. In other words, Azerbaijan, Kazakhstan and Turkmenistan started to become more dependent on externally generated revenues because of their slowness about not only domestic taxation of energy, but also because of their inability to support the growth of non-petroleum sectors, a fact which tends to occur as a consequence of the rising role of externally generated revenues.

The rapid penetration of externally generated revenues may hamper the economy if certain preconditions are not taken for granted before the extensive commercialization of the natural resources. In most of the cases, the declaration of the natural resources appears to be first impetus which initiates the second phase by introducing the inflow of capital, the growth of the domestic demand, and the appreciation of the real exchange rate. The contingency of economic

recession is based on a negative relation between the prices of goods and the prices of assets. That is to say, the real exchange rate may remain below its equilibrium level at the short term under the negative effects of the difference between the low prices of goods and the high prices of assets. Consequently, the country loses its capability of competition, a fact, which may invoke economic recession.

The newly independent states of the Caspian Sea started to externally extract oil revenues. That is to say, their economies are becoming highly vulnerable to the consequences of the influx of oil revenues. They have a tendency to be confronted by the problems that are common in oil based economies.¹¹⁹ Within this context, it is possible to suggest that Azerbaijan, Kazakhstan and Turkmenistan may turn into rentier states similar to the certain Gulf states, who are currently crawling out of their own oil bust.¹²⁰ The oil and gas revenues, which have never been present in this region may lead to the incarnation of the Dutch disease by increasing the real exchange rates in an environment where the oil and gas industry has involved in a rapid growth.

There are two extreme tendencies, which may damage macroeconomic stability. On the one hand, the monetary policies may be congenial. In this case, monetary stability can be damaged if the central bank fails to sustain the balance of payments, which is endangered by the rising demand of money arising from the desire of certain cadres to benefit from the influx of revenues. The willingness of the central bank to control inflation becomes undesirable for these cadres. Nevertheless, the sterilization turns out to be necessary for restricting the excessive increase in the money supply and the rise of inflation. All of these actions gain impetus to the appreciation of the real exchange rate. On the other hand, the monetary policies may be very tight. In this case the nominal appreciation of exchange rate tends to steadily increase. The balance between the stability of the prices of goods and the nominal appreciation becomes a significant issue.

¹¹⁹ Hyman, Anthony, "Kuwait by the Caspian" Middle East, No.238, Oct 1992, p. 32.

¹²⁰ See, Pete W. Moore, "All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies" American Political Science Review, 01 June 2000.

These policies will be very vital for the economic future of Azerbaijan, Kazakhstan and Turkmenistan because the influx of the revenues will be more effective in the near future. As a matter of fact, the influx of revenues of hydrocarbons may hamper the development of these countries by creating not only the overvaluation of real exchange rates but also the expansion of oil and gas industry on the detriment of the non-petroleum sectors. Considering all of these characteristics it may be suggested that Azerbaijan, Kazakhstan and Turkmenistan tend to suffer from becoming rentier states in the second decade of their independence.

Development of the traditional sectors can be pointed out as a significant condition of balanced economic growth. First of all, it does not seem possible to renovate the human capital only through the oil sector. Employment in non-petroleum sector leads to the qualification of the labor and management. Secondly, the rise of non-petroleum sectors decelerates the rent seeking behavior in the economy. Thirdly, diversification of the non-petroleum sectors means the diversification of production and creation of alternative economic powers. Consequently, the non-petroleum sectors decrease the hegemonic tendencies of the groups who control the business of hydrocarbons. Fourthly, the producer countries become less vulnerable to external shocks so far as their range of exports are diversified. Finally, the excessive valuation of real exchange rates necessarily hampers the manufacturers in other sectors. Encouragement of non-petroleum sectors help these manufacturers to survive.

These issues give Azerbaijan, Kazakhstan and Turkmenistan a unique characteristic. Consequently, it turns out to be impossible to analyze these three countries merely in terms of a transition economy or by merely conceptualizing them as transition economies or oil/gas based economies. The term, “transition through hydrocarbons” seems to be more relevant for the case of Azerbaijan, Kazakhstan and Turkmenistan, whose transformation process is being determined by the interaction between external liberal pressures and internal socialist structures that are being shaped along the issues related to hydrocarbons.

As a matter of fact, the characteristics of the relations between the state and society should be analyzed within the vista of this model, which reflects the two aspects of the development processes of Azerbaijan, Kazakhstan and Turkmenistan. To concretize, “the role of the state in transition through hydrocarbons” appears to be the most crucial issue, which characterizes the content of the relations between state and society, consequently the specificity of the market relations.

It should also be underlined that diminishing the scope of the state in the case of Azerbaijan, Kazakhstan and Turkmenistan is not easy because of the hydrocarbons. The governing cadres who had once been associated with the former Communist Party perpetuated their privileged positions in the aftermath of the disintegration process of the USSR. There were two reasons for this maintenance. The first reason, which has been discussed earlier, arose from the patronage relations among the members of the Communist Party. In other words, the people who had controlled strategic positions by the virtue of their closeness to Communist Party had already gained a sort of supremacy, which helped them to continue their status in the post-Soviet era.

The new era differed from the previous one in the sense that they became autonomous from the pressures coming from the Soviet regime. In one perspective, this autonomy has a positive sense because they may respond to the necessities of their republic with no other concerns. As a matter of fact, implication of development projects and optimum allocation of resources may be sustained. In another perspective, this autonomy can be considered as starting a deviation of the governing cadres. That is to say, the cadres who have long been responsible towards the Soviet regime, not to public, can feel as if they are independent totally in terms of holding power. This deviation tends to gain impetus by the influence of hydrocarbons, which offer the governing elite to manipulate revenues for populist purposes in order to sustain their status. In this case, it is clear that the state will have enormous power against citizens.

Within this context, it is possible to suggest that, the moderation of the scope of the state is much more difficult in the newly independent countries of the Caspian Sea when compared to other transition economies. Even though the transition economies aspire to overcome these problems, the lack of financial resources not only decelerates their probability of being successful but also decrease their bargaining capacity with the IMF and the World Bank. The transition economies, which do not have financial power, involve in liberalization programs, that are being imposed by the IMF and the World Bank. Consequently, the state feels the necessity of minimizing itself, at least through privatization, in order to acquire financial support from international organizations. On the contrary, Azerbaijan, Kazakhstan and Turkmenistan have very rich reserves of hydrocarbons, through which it seems possible to attain a certain amount of wealth by rapidly solving most of the fiscal problems. Within this context, the oil revenues may help the states of these countries to resist the neo-liberal policies, which are currently being imposed by international actors. Besides fiscal capabilities, the newly independent countries of the Caspian Sea have the chance of transforming their hydrocarbon reserves into sectoral reformation. In addition, they have the chance of implying their macroeconomic programs with the least possible dependence on the IMF and the World Bank. Nevertheless, becoming a petroleum economy in their transition period may bring other problems that are peculiar to these countries. Instead of implying development programs, these countries may involve in extravagant consumption with inadequate savings and sectoral renovation. Structural adjustments may be retarded because of their not being dependent on the financial support of the IMF and the World Bank.

The commercialization of hydrocarbons have two faces. First of all, the richness extracted from natural resources may allow the producer countries to involve in rapid economic growth and development. Second, the state may prefer to reallocate the revenues through populist policies in order to legitimize the existence of the governing elite. This point has a critical significance for the newly independent countries of the Caspian Sea where the state officials, who have found the opportunity to strengthen themselves during the Soviet period, now obtained the opportunity to manipulate the hydrocarbon revenues.

Azerbaijan, Kazakhstan and Turkmenistan may attain development if the state uses these revenues for sectoral reconstruction such as industrial and agricultural renovations, which are supported by appropriate structural adjustments such as prevention of strong national currencies in order to increase exports. The state may also consider these revenues as a source of legitimization, which may help to perpetuate the power of governing elite without implementing any national development project.

Considering the fact that the governing elite is constituted by the *nomenklatura*, who decides about the national policies, it may turn out to be possible to suggest that the development processes of Azerbaijan, Kazakhstan and Turkmenistan will be shaped by the attitude of the states about transition from socialism to market economy and the valuation of the revenues of hydrocarbons in this transformation. Currently, the states of the newly independent countries of the Caspian Sea are at crossroads of choosing their policies concerning the role of hydrocarbons in transition from socialism to liberalism. There are several directions, which can be best summarized by underlining three distinct paths:¹²¹

1- The first strategy is to accept higher prices and continued dependence but move to make national use of energy more efficient and exports more competitive. This approach can be called competitive accelerated adjustment.

2- The second strategy lets markets work. This third strategy may lead to lowered oil import dependence or to changes in trading patterns, but the government itself does not directly shape outcomes. Where the government must get involved actively, it disassembles barriers to the market, so the strategy can be called defensive market response.

¹²¹ These strategies were mentioned by Ikenberry in his analysis of the responses of the oil producer countries to the shocks of 1970s. To the extent that the states now know the dangers that may come with a shock it is possible to consider these strategies as a starting point which indicate certain policy options of states. John Ikenberry, "The Irony of State Strength: Comparative Responses to the Oil Shocks of the 1970s" International Organization, Vol. 40, 1986, pp. 110-111.

3- The third strategy is to reduce petroleum dependence by closing off imports and moving to meet energy needs through domestic production. This approach, which can be called neo-mercantilist adjustment, addresses the problem of national control over foreign energy resources.

These definitions developed by Ikenberry seem useful in the sense that they offer a good basis for regional analysis. Nevertheless, it does not seem possible to argue that these three paths are the definite descriptions of the policy options.¹²² Nowadays, the oil producer countries prefer to implement preventive strategies in order not to be jeopardized by a shock, which may arise because of price fluctuations, political problems etc. Indeed, regional peculiarities play significant roles in the development of alternative policy options. Therefore, these strategies need to be reconsidered with regard to the regional peculiarities of Azerbaijan, Kazakhstan and Turkmenistan. Indeed each of these countries' inclination coincides with the general characteristics set out by the above mentioned strategies. However, the regional peculiarities bring the necessity of making a more specific definition of these policy options.

The regional peculiarities of Azerbaijan, Kazakhstan and Turkmenistan, which are currently being manifested by the policies of the state, indicate that the routes of these countries differ from each other even though their starting point is common. Each of these countries tend to choose among neo-mercantilist adjustment, competitive accelerated adjustment and defensive market response or a hybrid form of path that takes place in between these distinct lines. Hence, clarifying the differences among these lines may help to understand the policy options of Azerbaijan, Kazakhstan and Turkmenistan.

Competitive accelerated adjustment tend to create semi-rentier states where the oil revenues help the governing elite to perpetuate their domination while sustaining a certain degree of economic growth accompanied by quasi-liberal policies. In this case, the interaction between domestic economy and external

¹²² See, John Ikenberry, Reasons of State: Oil Politics and the Capacities of American Government, Cornell University Press, 1988.

actors mainly focus on energy issues with partial acceptance of services. Foreign direct investments are generally made in the field of energy and energy products. Nevertheless, it should also be mentioned that the regulations of government in order to attract foreign direct investment in the field of energy indirectly promote the flow of foreign capital to other sectors. The reduction of trade restriction for the energy sector may lead to the cuts off in trade barriers, which concern other sectors.

Defensive market response necessarily takes place with liberal policies which work on behalf of the market by encouraging the development of autonomous society. Nevertheless, policies such as privatization decreases the scope of the state. In this case, the producer countries are positioned somewhere between semi-rentier state and non-rentier state. To the extent that the state has been historically a very strong agent in most of the transition economies, it is more likely to turn into semi-rentier state even in the situation where the government follows the strategy of defensive market response. A non-rentier state will come into life if the government successfully implies liberalization program, which favors the emergence of market.

The neo-mercantilist adjustment will definitely create closed economies with limited foreign direct investment. If the producer country becomes able to commercialize its hydrocarbons while applying a neo-mercantilist adjustment, then it is likely to become either a pure rentier state or a centralist state, which aspires to realize national development through giant projects. In the first case, a very huge state allocates oil revenues through populist policies, which expand the domain of services on the detriment of industry and agriculture. In the second case, if the state realizes national development, then a relative growth in industry and/or agriculture can be sustained. Nevertheless, this is a very rare contingency because the rise of new social groups through industrialization and/or agricultural development may endanger the regime viability of the governing elite by creating alternative powers such as bourgeoisie.

Before analyzing the different paths of Azerbaijan, Kazakhstan and Turkmenistan, specificity of trade of oil and gas should be emphasized. The international companies necessarily take part in the exploration, production and marketing of oil and gas because of their technological capacities. Their power has arisen from the fact that they could have realised their vertical integration at the very beginning. In other words, these companies possess an extensive control over the political economy of oil, because they have an extensive capability in the following stages of oil business; exploration, production, refining, and marketing. Consequently, every stage of vertical integration indicates an organic relation with the counterparts of the oil companies. First of all, the production phase necessarily makes the producer countries to be dependent on these companies. The nationalization attempts of the oil producer countries are not likely to be successful because of the fact that rough oil with no distribution, refining and marketing means nothing more than a mere commodity. In addition to this, the producer countries can not escape from the control of the companies because the production and refining processes can be realized by the virtue of the high technology of these companies, which strictly control the distribution and marketing processes as well.

The states of Azerbaijan, Kazakhstan and Turkmenistan involved in their distinct paths of development after they gained their independence. They all turned to their hydrocarbons in order to create the necessary financial resource for the implementation of their economic programs. As a matter of fact, their initial point is the same as the other transition economies but with different routes. Within this context, Azerbaijan, Kazakhstan and Turkmenistan have started to differ from one another by the typical policies of the cadres, who hold the state apparatus. Currently, the state, as the most crucial agent, decides about these paths to determine the characteristics of transition through hydrocarbons. The choice of the state will not only determine the characteristics of economic growth, but also affect the relation between the state and society by designating the essence of the market. In other words, the evolution of the autonomous society in the newly independent countries of the Caspian Sea is being shaped by the attitude of the state about the transition through hydrocarbons.

CHAPTER II

STATE HYDROCARBONS AND TRANSITION IN AZERBAIJAN

II.1. State and Hydrocarbons

II.1.1. The Role of Hydrocarbons in State's Attitude

The dissolution of the former USSR in 1991 led to several processes of disintegration and reintegration amongst its members. Consequently, Azerbaijan could attain its independence in 1991 after 71 years of Soviet rule.¹²³ Azerbaijan could prove to realize the minimum conditions of being a nation-state. First of all, it appeared to be a territorially distinct country, where a certain amount of people, who considered themselves as Azeris, combined around a common history, language, culture, religion and tradition lived. the Azeri state possessed the basic governmental capabilities. It also proved to be an element of the international system both politically and economically. The situation of the Azeris state differs from most of its counterparts in terms of its search for a model. In general, it is likely to notice that the political model of the former colonizer is being imitated after decolonization.¹²⁴ Azerbaijan has started to transform its legacy into a new form based on western standards. This does not seem an easy task because the regime has already created a robust structure characterized by the power of the carry-over of the former Communist Party.

¹²³ Russians had conquered Azerbaijan in 1806. Azerbaijan enjoyed a short period called “Years of Freedom” when Russian Czar Nicholas was overthrown. Between 1918 and 1920 The Azeris believed that they would be able to establish their own independent state under the Musavat government. But the Bosheviks ended this attempt and started a new era of oppression of more than 70 years (1920-1991) Mirvarid Dilbazi, A Century of Tears, in Azerbaijan International, Autumn 1999, Vol. 7, No. 3.

<http://azer.com/AIWeb/Categories/Magazinehtml/73.folder/73-articles/73-dilbazi.html>

¹²⁴ Fred W. Riggs, Ethnonational Rebellions and Viable Constitutionalism, Unpublished paper prepared for presentation at the IPSA Congress, Berlin, August, 1994, p. 7.

In the era of the Communist Party, a sort of discrimination escalated against ordinary citizens. Consequently, most of the strategic positions in the political and the economic systems were offered to either Russians or Russified locals with the condition of proving sound loyalty the Communist Party.¹²⁵ The specificity of the Soviet case can be summarized by referring to the two aspects of the regime. Firstly, the former USSR has long been managed by the interaction among the members of the Communist Party, which had also created a sort of privileged governing elite. Secondly, as it has been mentioned before, the secretary generals of the communist parties have been very influential during the Soviet era.

These two characteristics have perpetuated in Azerbaijan. That is to say, the members of the former Communist Party have become active in the state branches on the one hand, and the president has become a very potent personality on the other. Once collaborating with the colonial administration, the governing cadres have attained high social status and economic privileges. Remaining in power, their ultimate goal seems to keep the status-quo. In order to do this, they may follow authoritarian policies while claiming that they are democratic.

Just like other newly independent countries of the Caspian region, Azerbaijan had to rely on the governmental capabilities of the cadres, who have been carry-over of the members of the former Communist Party for its transition from socialism towards liberalism. Within a positive perception, these cadres can be considered as experienced and specialized people, who had long played significant roles in the management of the republic in accordance with the regime. Within a negative perception, it may be suggested that these cadres, who have already turned into a solid structure, tend to retard the transition from socialism towards liberalism. As a matter of fact, the transformation of the former structure, which had been shaped under the supremacy of the Soviet regime over the republics, appear to be a significant concern for Azerbaijan.

¹²⁵ William J. Foltz, "Ethnicity, Status and Conflict", in Wendell Bell and Walter E. Freeman, (eds.), Ethnicity and Nation-Building, California, Sage Publications, 1974, p. 113.

The reason, which made the state to assume such a significant role in this process, is clear. The socialist history of Azerbaijan has already promoted the state as the only agent, which had certain responsibilities towards society. This specificity of the state did not allow the evolution of other sectors in society, which could take initiatives in economic sphere. As a matter of fact, the state appeared to be the only agent that could realize the development of Azerbaijan while sustaining a smooth transition from socialism to market economy. The state has been faced with these problems with no other domestic assistance from private sector, which was totally absent in the first years of Azerbaijan's independence. The state was astounded because of trying to handle diverse problems in a very wide range covering economic, social and political issues.

To the extent that transition of Azerbaijan indicated the transformation of the Soviet legacy into liberal forms and norms, this concept has been a challenge for the state. Decisions such as privatization, reduction of state employees and diminution of the state activities constitute the basic premises of liberalism, which jeopardize its extensive presence in the post-Soviet countries. This dilemma is very interesting in transition economies, where the state had to decide about its future on behalf of liberal principles.

Transition from socialism to liberalism brings an enigmatic situation for the state, as it feels the necessity of promoting liberal values rather than Soviet values while finding the grounds which constitute its *raison d'être* on the heritage carried out by the members of the former Communist Party. The transition of Azerbaijan from such characteristics into a new form of its own should be considered as a process in which various dynamics have been interacting with each other.

The state necessarily takes place at the center of this interaction, which is being characterized by innumerable factors that are common in most of the transition economies. Within this sense, the Azeri state does not differ from the states of other ex-Soviet republics. Nevertheless, the natural resources of Azerbaijan turned into a source of pressure, which differentiated the situation of Azeri state from other transition economies other than the Caspian ones. On the one hand,

the characteristics of the Azeri state have been very explicit by the legacy of the Soviet regime, which had extensively determined its formation. On the other hand, issues related to the Azeri oil and gas have constituted another critical factor, which was apparent in the evolution of the state in the post-Soviet era. It is possible to detect an imposition of the issues related to hydrocarbons upon the legacy of the state, which is being forced to involve in certain policies.

When the evolution of the Azeri society is analyzed, the same approach may be relevant with a partial astray. This deviation arises from the fact that transformation of what is Soviet for the society seemed to be much more easier than the transformation of what is Soviet for the state. This was not so astonishing because of the lack of the private sector. In other words, there have not been any sectors other than the state whose transformation could endanger Azerbaijan's evolution. Consequently, and interestingly, the cadres of the state, whose *raison d'être* has been supplied by the Soviet legacy, attempted to transform what was Soviet into Azeri based on liberal principles.

It is very hard to suggest that the Azeri state necessarily tends to adhere to market principles in this process. The transformation of the characteristics of the Soviet state into a new formation of Azeri state was very difficult because the cadres, who seemed capable of assuming responsibilities, were completely composed of the members of the former Communist Party. In other words, the Azeri state necessarily inherited the cadres of the former structure, most of whom have long been under the influence of the interaction within the former Communist Party. This specificity of Azerbaijan led to a very interesting situation, in which the state members, most of who were from the former Communist Party are involved into transformation of social/political aspects into liberal values related to the concept of Azeri.

In terms of social/political aspect, Azerbaijan had to transform what was Soviet into Azeri, which imposed the necessity of defining the phenomenon of Azeri *per se*. The competition among Russia, Iran and Turkey to control the Azeri oil played a significant role at this process, because all these three countries were involved in many actions to affect the transition process on the criteria

compatible with their interests. The search of Azerbaijan for a political model has been complicated by the rivalry among Russia, Iran and Turkey. Consequently, the competition among these models constituted the cornerstone of the political transformation of Azerbaijan during the first years of its independence.

In addition to this, the state had the necessity of accepting liberal rules as an indispensable condition of integration with the global economy. Therefore, in terms of economic aspect, the Azeri state felt the necessity of abandoning the socialist principles in order to apply market rules not only under the guidance of the IMF and the World Bank, but also with regard to the demands of the foreign petroleum companies involved in production and marketing of Azeri hydrocarbons. To the extent that the models, which have been offered by Russia, Iran and Turkey were linked to a certain economic understanding, the competition in the political sphere had effects on the economic evolution of Azerbaijan. In turn, the economic issues related to hydrocarbons tended to drastically affect the transition of Azerbaijan. It seems possible to suggest that the decision of the state about the way of commercializing its hydrocarbons became effective on its economic evolution. Therefore, the hydrocarbons, which had an omnipresent role, imposed pressures upon the state in both political and economic spheres.

Related to the attitude of the state about hydrocarbons concerning its political and economic transformation, it is possible to suggest that a severe political competition has been effective in the first years of Azerbaijan's independence, where different external actors attempted to control the Azeri hydrocarbons. The decision of the state to involve in consortia with foreign companies ended the struggle over the production phase of hydrocarbons. The production projects have already been vitalized by partnerships between the state through State Oil Company of Azerbaijan Republic (SOCAR) and foreign companies such as British Petroleum (BP), Exxon Mobil and Chevron. Nevertheless, the competition concerning the transportation phase activated an antagonism of political influence of Russia, Iran and Turkey.

As time passes, the potency of hydrocarbons to drastically affect Azerbaijan's destiny is steadily increasing. As it has been mentioned before, the production of oil has started to increase by the contribution of the consortia. Consequently, the exports of Azerbaijan started to increase too. In the future, no matter where the pipelines are forwarded to, Azerbaijan will witness an influx of revenues, which impose the state to make vital decisions about economic evolution of Azerbaijan. Most of the decisions of the state concerning the issues of hydrocarbons affect its evolution. In other words, the attitude of the state about the issues related to oil and gas directly influence not only its formation, but also evolution in the case of Azerbaijan.

When the situation of Azerbaijan is compared with other former Soviet republics excluding the Caspian ones, it may be suggested that besides being a member of former Communist Party, the issues related to hydrocarbons, especially those of oil, appear to be another crucial factor, which is apparent in the formation of the state. Therefore, the attitude of the state and who takes place at the center of the transition process, should be analyzed with regard to the issues related to oil and gas. The attitude of the state has two aspects in this process the commonground of which has been constituted by the issues related to hydrocarbons.

With regard to the political aspect, the state has to cope with a severe competition amongst various actors, who aspire to benefit from the commercialization of Azeri hydrocarbons. This issue is critical for Azerbaijan, who aims to reach at world markets by new partners concerning the production and marketing of hydrocarbons. The political problems, which jeopardized Azerbaijan seem to be imposed, to a large extent, by the activities of the external actors mainly, the petroleum companies and certain countries such as Russia, Iran and Turkey.

With regard to the economic aspect, the Azeri state has to cope with the consequences of the rise of energy industry and a contingent influx of revenues on the Azeri society. This aspect seems to be critical for the future of Azerbaijan

because the economic issues tend to determine the characteristics of the transition of Azerbaijan in the post-Soviet era. In other words, the attitude of the state about the management of the externally acquired assets through the marketing of oil and gas will not only indicate the wealth of this country, but also its evolution in economic and social terms.

When both aspects are analyzed together, it may be possible to suggest that issues related to oil and gas have imposed almost all pressures that the state has faced. Interestingly, the formation of the state *per se* has been fundamentally affected by the issues that are related to the Azeri oil. Within this sense, it seems very useful to first define the Azeri state, then indicate the emerging regime of oil and gas in the post-Soviet era with regard to the reserves as well as production and transportation projects. Since then, it may be possible to elaborate how hydrocarbons have been very influential firstly in politics of Azerbaijan, then in its economy. Elaboration of the attitude of the state concerning the political and economic pressures arising from the issues of hydrocarbons can help to understand the role of the state in transition of Azerbaijan.

II.1.2. The Characteristics of the Azeri State

The governing cadres of the Azeri state have been largely consisted of the carry-over of the former Communist Party, with partial exception of the ex-president Abulfeyz Elchibey. When the administrative structure of the state is analyzed, it may be suggested that besides benefiting from the legacy, the state has legitimized itself through not only legal elections of the government, but also attaining the support of different regions of Azerbaijan.

Azerbaijan Republic's administrative structure is constructed on the basis of divisions composed of 59 rayons (rayon), 11 cities (sahar) and 1 autonomous

republic (Naxcivan Muxtar Respublikasi).¹²⁶ These regions can be indicated as the places, where there exists a certain amount of local identity. Different ethnic groups live in different regions of Azerbaijan. 1-1.5 million of people from various ethnic roots such as Tats, Talishes, Lezgis, Avars, Kurds and Jews constitute the 17% of the population.¹²⁷ In addition, it should also be mentioned that about 300,000 Azeris live in Georgia, 250,000 of them in a compact settlement; 200,000 Azeris inhabited Armenia before their deportation, more than 100,000 of them were living near lake Sevan; 150,000 Azeris are currently living in Daghestan; approximately 500,000 Armenians are living in Georgia 400,000 of them compactly in certain districts, approximately 20,000 Georgians, 40,000 Kurds, 200,000 Lezghins live compactly in Azerbaijan, as do 450,000 Russians, 50,000 Jews and various other minority ethnic groups.¹²⁸ In this highly mixed structure the current ethnic composition of Azerbaijan is constituted by Azeris (90%), Dagestani Peoples (3.2)%, Russians (2.5%), and others (2.3%). Most of the Armenians live in the separatist Nogorno Karabakh region, where ethnic Armenians asked for secession from Azerbaijan.¹²⁹

The traditional structure of power is not yet replaced by a modern one in Azerbaijan. That is to say, in addition to the fact that power is held by the carry-over of the former Communist Party, it should also be mentioned that, the

¹²⁶ Abseron Rayonu, Agcabadi Rayonu, Agdam Rayonu, Agdas Rayonu, Agstafa Rayonu, Agsu Rayonu, Ali Bayramli Sahari, Astara Rayonu, Baki Sahari, Balakan Rayonu, Barda Rayonu, Beylaqan Rayonu, Bilasuvar Rayonu, Cabrayil Rayonu, Calilabad Rayonu, Daskasan Rayonu, Davaci Rayonu, Fuzuli Rayonu, Gadabay Rayonu, Ganca Sahari, Goranboy Rayonu, Goycay Rayonu, Hacıqabul Rayonu, İmisli Rayonu, İsmayilli Rayonu, Kalbacar Rayonu, Kurdamir Rayonu, Lacin Rayonu, Lankaran Rayonu, Lankaran Sahari, Lerik Rayonu, Masalli Rayonu, Mingacevir Sahari, Naftalan Sahari, Naxcivan Muxtar Respublikasi, Neftcala Rayonu, Oguz Rayonu, Qabala Rayonu, Qax Rayonu, Qazax Rayonu, Qobustan Rayonu, Quba Rayonu, Qubadli Rayonu, Qusar Rayonu, Saatli Rayonu, Sabirabad Rayonu, Saki Rayonu, Saki Sahari, Salyan Rayonu, Samaxi Rayonu, Samkir Rayonu, Samux Rayonu, Siyazan Rayonu, Sumqayit Sahari, Susa Rayonu, Susa Sahari, Tartar Rayonu, Tovuz Rayonu, Ucar Rayonu, Xacmaz Rayonu, Xankandi Sahari, Xanlar Rayonu, Xizi Rayonu, Xocali Rayonu, Xocavand Rayonu, Yardimli Rayonu, Yevlax Rayonu, Yevlax Sahari, Zangilan Rayonu, Zaqatala Rayonu, Zardab Rayonu See, CIA, The World Fact Book, 2001...

¹²⁷ Nihal İncioğlu, “Yeni Türk Cumhuriyetlerinde Toplumsal Bölünmeler, Siyasi Güçler ve Yeni Siyasal Yapılanma”, in Büşra Ersanlı Behar (ed.) Bağımsızlığın İlk Yılları, Ankara, TC Kültür Bakanlığı Yayınları, 1994, p. 114.

¹²⁸ Numbers reflect the situation in 1993, See, Jeyhun Mollazade, “The Legal Aspects of the Karabakh Conflict”, Azerbaijan International, Vol. 1, No. 1, Winter, 1993.

¹²⁹ The numbers belong to 1998 (est.), See, CIA, The World Factbook, 1999-Azerbaijan. <http://www.odci.gov/cia/publications/factbook/aj.html>

characteristics of the relations among these ethnic groups take a critical place in the politics of Azerbaijan. The traditional power structure of Azerbaijan can be best summarized as a formation composed of the former members of *nomenklatura* and their relations with Azeri and non-Azeri population. To the extent that, the governing elite has extensive control over the state and therefore, the republic, it seems of utmost significance to identify the basic characteristic of these cadres.

The Popular Front of Elchibey had come to power one year after the declaration of independence by the Azeri Parliament 1991. Later, The Popular Front incarnated different political parties such as the National Independence Party, the Musavat Party, the Social Democratic Party.

Under Elchibey government's domestic policy, about 110 laws were adopted, and only 40 of them were related to the economy. The rest were on political parties, the media, and other issues. The government could not prove success because of certain problems such as the Nagorno-Karabakh conflict, the lack of experience of some government officials, the instability of the region as a whole, and Russia's negative attitude against Elchibey, who had been imprisoned for 3 years for anticommunist activities at Baku University in 1974, a time when Haydar Aliyev was the first secretary of the Communist Party of Azerbaijan.

Russia was hoping to bring the ex-president, Ayaz Muttalibov, who was pro-Russian from Moscow back to Azerbaijan through a coup d'état against Elchibey. Nevertheless, instead of Muttalibov, Aliyev came to power by his ability to sustain the support of Russian and Azeri side simultaneously.¹³⁰ The replacement of Elchibey by Aliyev indicated how being a member of *nomenklatura* is significant on the one hand, and how the role of hydrocarbons is critical on the other.¹³¹ Currently, Aliyev seems to be successful at

¹³⁰ Jayhun Molla-Zade, Azerbaijan and the Caspian Basin: Pipelines and Geopolitics In Caucasus and the Caspian Seminar Transcripts, Cambridge, MA, Strengthening Democratic Institutions Project, 1996.

¹³¹ The role of petroleum countries and Russia will be elaborated in next paragraphs

compromising the national interests of Azerbaijan with those of Russia and petroleum companies. Nevertheless, it is impossible to foresee what lies in the future when the interests of these parties do not coincide with each other.¹³²

The executive branch of the republic is headed by president Aliyev, who replaced Elchibey on 18 June 1993. The replacement of Elchibey by Aliyev can be considered as an example, which proves that being an ex-member of the former Communist Party is an essential fact in Azeri politics. Elchibey has been one of very few leaders, who had no communist background among all of the post-Soviet republics. Nevertheless, this did not last so long because he would be substituted by Aliyev, who has been a former member of the Communist Party and had a significant career that had made him the chief of the former KGB of Azerbaijan. Therefore, the only exception of the newly independent states of the Caspian region was fit to the post-socialist governing tradition, which imposed the ex-members of the former Communist Party to strategic positions.

The changing of presidency was very critical because the constitutional and practical capabilities of Aliyev would affect the political economy of the Caucasus region. The president attained enormous power because of his executive superiority over the government, the head of which is Prime Minister Artur Rasizade since 26 November 1996. Aliyev has the capability to manage almost all sorts of issues. This arises from the fact that the president is elected by popular vote for a five-year term. The prime minister and the first deputy prime ministers are also being appointed by the president after the confirmation of the National Assembly. In the last elections, held on 11 October 1998, Aliyev was elected as the president by popular vote by 77.6% of votes which outnumbered Etibar Mamedov (11.8%) and Nizami Suleymanov (8.2%).¹³³ The elections legitimized the power of the cadres of the state. The period until the elections indicated that Aliyev has not totally been under the influence of Russia

¹³² See, Mollazade

¹³³ Elections for *Milli Mejlis* was lastly held between 12 and 26 November 1995. Seats by party; NAP and allies 115, APF 4, PNIA 3, Musavat Party 1, vacant 2. Legislative branch is unicameral National Assembly or *Milli Mejlis* (125 seats; members serve five year terms) CIA [The World Factbook](http://www.odci.gov/cia/publications/factbook/aj.html), 1999-Azerbaijan. <http://www.odci.gov/cia/publications/factbook/aj.html>

despite his communist background. On the contrary, Aliyev could manage to balance the national interests of Azerbaijan with those of Russia by also accounting the external pressures coming from the IMF, the World Bank and foreign petroleum companies. This can be considered as one of the reasons, which increased popular support for Aliyev.

Despite the fact that it is Aliyev who decides about the destiny of Azerbaijan, it seems of utmost significance to refer to the legislative branch in order to indicate the structure of the state as a whole. The legislative branch is being consisted of the unicameral National Assembly named as Milli Mejlis. All of the 125 seats are reserved for the members, who are being elected by popular vote for a five year term. According to the results of the elections which were held on 4 November 2000 (next to be held in November 2005) the seats were partitioned as follows: New Azerbaijan Party and allies 108 (Aliyev is the Chairman of NAP), Azerbaijan Popular Front 6, Civic Solidarity Party 3, Party for National Independence of Azerbaijan 2, Musavat Party 2, Communist Party of Azerbaijan 2, APF "traditionalist" 1, Compatriot Party 1.¹³⁴

The victory of New Azerbaijan Party and allies had indicated the power of Aliyev because he has been the chairman of this party.¹³⁵ The current trend indicates that Aliyev will linger his power so far as he does not resign for private reasons. On its broad terms, it can be emphasized that being a member

¹³⁴ Ibid,

¹³⁵ Political parties and leaders in Azerbaijan can be pointed out as follows: Alliance for Azerbaijan Party [Abutalyb SAMADOV]; Azerbaijani Democratic Party or ADP [Sardar JALAL]; Azerbaijani Independent Democratic Party or AMDP [Leyla YUNUSOVA]; Azerbaijan Popular Front or APF [Ali KERIMOV, leader of "reform faction"; Mirmahmud FATTAYEV, leader of "traditionalist" faction]; Civic Solidarity Party or CSP [Sabir RUSTAMKHANLY]; Civic Union Party [Ayaz MUTALIBOV]; Communist Party of Azerbaijan or CPA [Ramiz AHMADOV]; Communist Party of Azerbaijan or CPA-2 [Firudin HASANOV]; Compatriot Party [Mais SAFARLI]; Democratic Enlightenment Party [Mammadhanifu MUSAYEV]; Democratic Party for Azerbaijan or DPA [Ilyus ISMAILOV and Rasul QULIYEV, co-chairman]; Democratic World Party of Azerbaijan [Mamnad ALIZADE]; Liberal Party of Azerbaijan [Lala Shvkat HAJIYEVA]; Motherland Party [Fazail AGAMALI]; National Congress Party of Azerbaijan [Ihtiyar SHIRIN]; National Movement Party [Samir JAFAROV]; National Statehood Party [Sabir TARIVERDIYEV]; Musavat [Isa GAMBAR, chairman]; New Azerbaijan Party or NAP [Heydar ALIYEV, chairman]; Party for National Independence of Azerbaijan or PNIA [Etibar MAMMADOV, chairman]; People's Democratic Party of Azerbaijan or PDPA [Rafiq TURABKHANOGLU]; Social Democratic Party of Azerbaijan or SDP [Zardusht ALIZADE, chairman] See, CIA, *The World Fact Book*, 2001 <http://www.odci.gov/cia/publications/factbook/>.

of the former Communist Party played a significant role in Azeri politics by directly affecting the state formation process. Nevertheless, it should also be mentioned that issues related to the Azeri oil lied behind the events, which had determined the above mentioned process of state formation.

Within this context, it is possible to conclude that there exists a close relation between the formation of the state and the issues related to Azeri oil. In addition to this, it should also be mentioned that the role of hydrocarbons tends to increase in the near future allowing the state to manipulate the revenues extracted from the trade of oil for sustaining the survival of the governing cadres. This liability arises from the concerns of the state in the aftermath of disintegration process.

The viability of the regimes in the newly independent states arises from their ability to legitimize their existence. “The legitimization of modern state in the periphery depends on two pillars in principle: Its capacity to maximize economic, political, strategic sovereignty and autonomy as well as the cultural-social formation similar to that of the world system.”¹³⁶ The state of Azerbaijan has been attempting to maximize economic, political and strategic autonomy since the first day of its independence. In order to strengthen its position, the state will likely manipulate the revenues of oil for populist policies creating a harmonious environment among different groups, who constitute the Azeri society. Within this context, it is clear that oil, which was very influential at the very beginning of the post-Soviet era by directly determining the leadership, will increase its role by affecting the future policies of the state.

Therefore, it is possible to point out that, the Azeri state differs from most of the transition economies in terms of the natural resources it possesses. Hydrocarbons have been the factors, which gained a peculiar characteristic to the attitude of the state in Azerbaijan’s transition process. Oil and gas tend to make important contribution to the economy of Azerbaijan by not only gaining impetus to the rise of energy sector, but also by offering the state a certain

¹³⁶ Ali Kazancıgil, “Paradigmes de la formation de l’Etat moderne dans la périphérie.”, in Ali Kazancıgil, (ed.), L’etat au Pluriel, Paris, UNESCO, 1985, p. 160.

amount of petroleum revenues. This aspect of hydrocarbons is apparent because of the direct influences on the evolution of economy. Nevertheless, it should also be mentioned that issues related to hydrocarbons implicitly shape the transition of Azerbaijan by affecting the attitude of the state implicitly and drastically.

It may be affirmed that the most interesting specificity of the Azeri case arises from the fact that oil plays a significant role in every aspect of Azerbaijan's interaction with other actors. It will not be an exaggeration to suggest that oil lies behind almost all policy of the state by directly or indirectly affecting its attitude. Issues related to Azeri hydrocarbons have started to be effective even at the very beginning of the new state, that is to say during the process of its formation in the aftermath of the disintegration of the USSR.

II.1.3. The post-Soviet Regime of Azeri Hydrocarbons

Before elaborating why the Azeri state has been influenced by a severe competition among different actors, it seems necessary to tackle the extent of the rivalry concerning the control of hydrocarbons. The intensity of the competition among the actors is highly related to the amount of the reserves possessed by Azerbaijan. In addition to this, the production and transportation projects should be referred in order to understand the positioning of the actors, mainly Azerbaijan on the one side, and petroleum companies and countries such as Russia, Iran and Turkey on the other. The pressures imposed upon the Azeri state are being determined within this context. In addition to this, the reserves and the projects of production and transportation are also important in the sense that they indicate the capabilities of the state in terms of economic growth.

Understanding the scope of the reserves of Azerbaijan may help to indicate the extent to which the issues related to hydrocarbons will be effective in the post-Soviet formation of the country. Soon after independence, it has become clear that this country possessed very rich reserves in the offshore sections of the

Caspian Sea. The discovery of oil and gas raised the impetus of the competition not only by increasing the initiatives of the actors to control the hydrocarbons, but also by introducing new players for the game of the century.¹³⁷

Azerbaijan's estimated oil reserves vary between 3.3 and 8 billion barrels, about 2.1 billion barrels of which is assumed to be offshore.¹³⁸ According to certain sources, the reserves of Azerbaijan are very limited because most of the land reserves are exhausted, and it is unfeasible to refer to deeper reserves. These sources estimate that there exists about 3-3.5 billion barrels of oil reserves.¹³⁹ Meanwhile, the estimated amount of oil in Azerbaijan is 8 billion barrels according to Turkish Foreign Affairs Department.¹⁴⁰ These are proven reserves, which have already been discovered through seismic surveys. Nevertheless, it is also imperative to indicate the reserves which are not proven but likely to be proved in the near future. Within this sense, the United States Energy Information Administration (US EIA) estimates that the oil reserves of Azerbaijan may vary between 31 and 40 billion barrels, while its gas reserves amount about 35 trillion cubic feet.

Table 2- The Hydrocarbon Reserves of Azerbaijan

	Oil Proven (bbl)	Oil Possible (bbl)	Oil Total (bbl)	Gas Proven (Tcf)	Gas Possible (Tcf)	Gas Total (Tcf)
EIA	3.6 - 12.5	32	36 - 45	11	35	46
BP	6,9	27	33,9	30	34,956	64,956

Source: The US EIA, BP

There are two facts, which strengthen the approach of the US Energy Information Administration. First of all, the foreign petroleum companies which have involved in various projects through oil consortia and joint ventures accelerated their work for exploration and production. Secondly, the

¹³⁷ See, Mekhtiyev, Aidyn, "U.S. Fully Supports 'Contract of the Century'" The Current Digest of the Post Soviet Press, 2 November 1994.

¹³⁸ Most of the offshore oil is in Neft Dashlari, Guneshli and Karabakh region. About 1 billion barrels of oil is estimated to be found in Karabakh region. See, Michael Rotenberg and Glen Howard, "Azerbaijan Oil Industry" Russian Oil and Gas Guide, July 1993, Vol. 2, No. 3, p. 34.

¹³⁹ "Once Major Province Looks to Caspian for Its Comeback", Petroleum Economist, March, 1996, p. 8.

¹⁴⁰ See, Azerbaycan Ülke Raporu, Ankara, TİKA, 1995, pp. 15-17.

competition among the actors steadily rose in order to control the transportation of Azeri hydrocarbons. Both of the factors indicate that it is more likely to believe that Azerbaijan has extensive amounts of hydrocarbons.¹⁴¹

As a matter of fact, many foreign companies have involved in production projects in various regions of Azerbaijan. These companies deserve further attention because they have become one of the significant actors, who directly effect the Azeri state by not only becoming a partner of SOCAR but also by becoming influential in the political economy of Azerbaijan. The Azeri state has involved in negotiations with these companies in order to be able to sell its hydrocarbons at world markets. These negotiations resulted in consortia composed of different companies from different countries.¹⁴²

Table 3- Major production projects of Azerbaijan

Project	Operator	Year of production (estimated / peak)	Peak production (est. thousand barrels/day)	Estimated investment (est. billion \$)	Status
Mega	BP-Amoco	1998-2028 / 2010-2020	800 (oil) / 50 (gas)	13	active 2.5 million tons in 1998
Shah-Deniz	BP-Amoco	2003-2033 / 2015-2025	400 (oil) / 100 (gas)	3.5 - 4	pits are being drilled
NAOC	BP-Amoco	2003-2033 / 2010-2020	140 (oil)	1.5-2.5	unsatisfactory reserves
Inam	BP-Amoco		200 (oil)	1.5-2.5	seismic survey completed
Absheron	Chevron	2005-2035 / 2015-2025	500 (oil) / 330 (gas)	8	active
Oguz	ExxonMobil		60 (oil)	1.8	pits are being drilled
Nakhcivan	ExxonMobil		180 (oil) / 80 (gas)	2-2.5	pits are being drilled
Karabakh	Pennzoil	2003-2032 / 2011-2020	200 (oil)	1.5-3	unsatisfactory reserves
Lenloran-Deniz	Talysh TotalFinaElf	2006-2036 / 2011-2020	300 (oil)	1.5-2	pits are being drilled
Yalama	Lukoil-BP	2002-2032 / 2012-2016	110 (oil)	2	pits are being drilled
JNOC	Japex		140 (oil)	2	agreement ratified
Total *			3000 (oil) / 700 (gas)	39.8 - 46.3	

* Includes other projects as well

Source : Petroconsultants, EIG, Interfax, Neftecompass and Russian Petroleum Investor op. Cit. A. Necdet Pamir, Bakü-Ceyhan Boru Hattı : Ortaasya ve Kafkasya'da Bitmeyen Oyun, Ankara, ASAM, 1999.

¹⁴¹ See, Sabit Bagirov, "Azerbaijani Oil: Glimpses of A Long History", *Perceptions*, Ankara, 1, 2, June-August 1996.

¹⁴² See, BBC Monitoring Service, CIS *Azerbaijani President's News Conference on Caspian Oil Deal* BBC Monitoring Service, 23 September 1994.

On September 20, 1994, SOCAR signed a Production Sharing Agreement (PSA) with a consortium, which acquired a concession for the extraction of oil from three major oil fields in the Azeri coasts of the Caspian Sea named as Azeri, Chirag and Güneşli. Azerbaijan International Operating Company (AIOC) was formed after the ratification of the agreement by Azeri Parliament on December 12, 1994. AIOC has been attended as the executor in collaboration with SOCAR and the Azeri government. The members of the consortium have been constituted by BP Amoco 34.14%; Lukoil 10%; Unocal 10.05%; SOCAR 10%; Statoil 8.56%; ExxonMobil 8%; TPAO 6.75%; Ramco 2.08%; Itochu 3.92%; Pennzoil 4.82% and Delta 1.68%. Representatives from UK, US, Russia, Norway, Japan, Turkey and Saudi Arabia, as well as SOCAR, Azeri government and foreign oil companies constituted the Steering Committee which was responsible for the work program as well as the budget of AIOC.¹⁴³ BP, who has been the operator of the consortium declared that the seismic surveys indicated the existence of about 6 billion barrels of oil and 6 Tcf of natural gas in Azeri, Chirag and Guneshli fields, the development of which would cost about 12 billion dollars.¹⁴⁴

The discovery of rich natural gas reserves led to another critical project for Azerbaijan. The Shah Deniz Project, which has been ratified by the government in 1996, authorized BP to operate the consortium consisted of BP Amoco 25.5%; Statoil 25.5%; SCA SOCAR Commercial Affiliate 10%; LUKAGIP 10%; OIEC Oil Industries Engineering and Construction 10% and TPOC 9%. The BP led consortium estimates that there are 2.5 billion barrels of oil and 25 Tcf of gas in this region. It is projected that the total investments made on this field will amount about 4 billion \$.¹⁴⁵

¹⁴³ The AIOC estimates that the recoverable reserves of the fields are 4.6 billion barrels (620 million tons) of oil and 99 billion cubic meters of associated natural gas, which Azerbaijan gets for free. Estimated investment is 10 billion \$. See, Tamam Bayatly, "AIOC Celebrates 5 Year Anniversary", Azerbaijan International, Vol. 7, No. 3, Autumn 1999.
<http://azer.com/AIWeb/Categories/Magazinehtml/73-a.../73-aioc.htm>

¹⁴⁴ See, <http://www.BP.com>.

¹⁴⁵ "Shah-Deniz Results Presented", Azerbaijan Newsletter, Embassy of the Republic of Azerbaijan – Washington, D.C. – 10 March 2000.

BP, not only as the owner of the greatest stakes in these projects, but also because of being the operator of the biggest consortia, gained a significant supremacy which allowed itself to be influential in the transition of Azerbaijan by both deciding about the investments in this region and affecting the attitude of the state. In addition to AIOC and Shah Deniz Consortia, which are the most significant projects of Azerbaijan, many projects have been put into life by the involvement of foreign companies. In order to better indicate the influence of BP, it may be useful to refer to two additional projects, which are being operated by this company. BP operates the consortia composed of various companies in the Abikh Project (The fields of Alov, Araz and Sharg) as well as the Inam Project. Besides BP, Ramco is another British company, who has involved in Azerbaijan by operating the Muradkhanli Project.

There are also renowned American companies, who have been operating other consortia. For instance, ExxonMobil operates the consortia, who are located in Oguz, Nakhcivan, Zafer-Mashal, and Lerikdeniz. Meanwhile the block of Kursangi-Garabaghli is being operated by Salyan Oil Ltd; the Block of Ashrafi Dan Ulduz by the consortium of North Absheron Operating Company (NAOC) led by Unocal. Chevron is the operator of an other consortium working in Absheron.

There are also other companies such as Agip Eni of Italy, that is the operator of the project of Kur Dashi. Agip also works with Lukoil of Russia in the Karabakh Field under a new company named Lukagip. Lukoil also operates the field of Yalama and Zigh-Hovsan. Commonwealth Oil and Gas Ltd. (Canada) operates the Southwest Gobustan fields and Total Fina Elf of France has the biggest stake in Lenkoran Deniz and Talysh Deniz Field and Japex from Japan operates the consortium of Atashgah.

When the stakes of these companies are measured in terms of the magnitude of the projects, which they operate, it may be suggested that BP is very influential in the hydrocarbons of Azerbaijan. American companies such as ExxonMobil is also effective. Nevertheless, BP has an undeniable superiority by controlling most significant projects in Azerbaijan. As it has already been mentioned

before, BP should be attributed a special significance amongst these companies because of its ability to explicitly dominate the oil and gas of Azerbaijan by controlling the most critical fields where there exists significant amounts of reserves. It may be suggested that BP has become an influential counterpart of the Azeri State concerning the issues related to hydrocarbons.

The most crucial contribution of the consortia becomes apparent in the increasing production of Azerbaijan.¹⁴⁶ The World Bank has developed three scenarios in 1992 concerning the projection of oil production in Azerbaijan.¹⁴⁷ The Base-Case Scenario assumed that the parties of the oil business would reach at consensus on most key aspects of the agreements until 1994. The Delayed Production Scenario had proposed developments accounted for the possibility that substantial oil extraction would be delayed significantly, due to a failure to implement appropriate legislation, to strengthen local negotiating capabilities by obtaining suitable advisors, or to implement the export pipeline project. A two year delay to the Base-Case Scenario has been estimated in this case. Meanwhile, the final scenario concerned with the possibility of low oil production. Consequently, The Low Oil Production Scenario assumed a governmental policy in terms of restricting oil production. Each of the scenarios have been developed by referring to different independent variables. However, the current developments indicated that Azeri government does not have specific plans such as restricting oil production or increasing the future reserves. Rather, it intends to start the production as soon as possible. The oil production may be low, not because of governmental policies, but due to some technical difficulties. In addition, many factors such as the influence of Russia, Iran and Turkey, the Nagorno Karabakh conflict, technical difficulties in constructing offshore platforms and financial problems postponed vitalization of certain projects. Nevertheless, the current trend indicates that Azerbaijan entered a very optimistic period, which tends to realize a steady growth.

¹⁴⁶ "Azerbaijan's Squabbles are Spooking Big Oil" *Business Week*, 5 July 1993, p. 67.

¹⁴⁷ See, *Azerbaijan: From Crisis to Sustained Growth*, (A World Bank Country Study) Washington DC, World Bank, 1992, p.132.

Table 4- Alternative Oil Development Scenarios

	Base Case				Delayed Investment - (Low Oil Production)			
	1992	1995	2000	2005	1995	2000	2005	
Oil Production (million tons) (30.5)		11.1	9.7	25.6	45.2	9.1 (9.7)	17.4 (17.0)	39.3
Net Oil Exports (million tons) (25.0)		2.6	4.7	20.8	39.7	4.1 (4.7)	12.6(12.2)	33.8
Net Gas Imports('000MMCM) (11.4)		4.3	8.0	10.5	9.2	9.6 (8.0)	11.3(11.4)	10.6
En. Trade Balance (US\$ bil.) (2.6)		0.1	0.1	2.1	4.7	-0.1 (0.1)	0.9(0.9)	3.8
Cum. Oil Invest. (US\$ bil.) (9.5)		0.0	1.5	9.6	12.2	0.6 (1.3)	7.5(7.4)	11.6

Source: Based on the World Bank data, See, *Azerbaijan: From Crisis to Sustained Growth*, (A World Bank Country Study), Washington DC, World Bank, p. 132.

Besides production, transportation was an urgent concern of the Azeri state, as it wanted to decrease the dependence of Azerbaijan on Russia.¹⁴⁸ Within this perspective, the government started to negotiate with the neighboring countries in order to reach the world markets without Russian involvement. The companies, which have been involved in the above mentioned projects and finally the neighboring countries proposed different projects, each of which represented the will Russia, Iran and Turkey.

Table 5- Transportation Projects for Azeri Oil

Name of the Project	Destination	Crude Capacity (b/d)	Length (km)	Investment (dollars)	Status
AIOC Baku-Tbilisi-Ceyhan	Turkey	1 million	1,726	2.4-3.4 billion	Agreement 1999
AIOC Baku-Supsa	Georgia	0.115 - 0.21 million	880	590 million	Active since 1999
AIOC Baku Novorossisk	Russia	0.3 million	1,397	600 million	Active since 1997
AIOC Chechnia-Novorossisk	Russia	0.12 – 0.16 million	328+railroad	140 million	Active since 2000
Baku-Tebritz Pipeline	Iran	0.2 - 0.4	Unclear	500 million	Proposal
Khasuri-Batumi	Georgia	70,000 - 140,000	232	70 - 100 million	Agreement 1999
Gardabani-Batumi	Georgia				Renovation of existing line

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

¹⁴⁸ See, Clark, Bruce and Steve LeVine, "Compromise Deal Today Over Caspian Oil Route", *The Financial Times*, 9 October 1995.

The pipelines between Baku-Supsa, Baku-Novorossisk and Baku–Chechnia-Novorossisk are under the control of Russia. In fact, these pipelines have been the part of Russian transportation system, which was renovated by the consortia in the post-Soviet period.¹⁴⁹ The foreign companies prefer these lines in order to transport the early oil to Black Sea. Nevertheless, they intend to construct alternative pipelines because the current system will become inadequate in the near future by the effects of rising production. Amongst the proposals, the Baku-Ceyhan line is the most critical one, which can fundamentally change the dynamics in the region by completely outdating Russian influence.

Table 6- Transportation Projects for Azeri Gas

Name of the Route Project		Capacity (per year)	Length (km)	Investment (USD)	Status
Baku-Tbilisi-Erzurum	Azerbaijan-Turkey	175-565 bcf	280	682-782 million	Feasibility
Transcaspian (Baku-Ceyhan)	Kazakhstan-Azerbaijan-Turkey				Feasibility
Transcaspian (Turkmenbashi-Erzurum)	Turkmenistan-Azerbaijan-Erzurum	1.1 Tcf	1696	2-3 billion	Feasibility

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

There are three projects concerning the transportation of natural gas from Azerbaijan towards Turkey. The first project aims to transport the gas of Shah Deniz to Erzurum. This project, which has the most probability to be constructed, aims to supply the domestic need of the Erzurum district of Turkey. In its true sense; this is the only natural gas project which tend to be vitalized in the near future. The Transcaspian project, which aims to construct a pipeline between Kazakhstan and Turkey by passing through Azerbaijan will be fed by both Azeri and Kazakh gas. The third project also aims to pass through the Caspian by connecting Turkmenistan, Azerbaijan and Turkey. This project also necessitates two providers, Turkmenistan on the one hand, Azerbaijan on the other. Even though these two projects do not only involve Azerbaijan, they may be important for this country once the construction is completed.

¹⁴⁹ See, BBC Monitoring Service, CIS Oil Pipelines Spill 3M tonnes a Year, BBC Monitoring Service, 10 February 1995.

II.2. State versus Political Pressures Related to Hydrocarbons

II.2.1. Political Pressures Related to Hydrocarbons

The geopolitical location of Azerbaijan has made this country suffer from the competition of different powers, who aimed to acquire the control of Caucasus. “Azerbaijan, as part of the Caucasus region and Central Asia, has been over many centuries a kind of arena for confrontation and was the object of disputes and wars between many powers, especially the three regional powers, Iran, Turkey and Russia.”¹⁵⁰

It was not the first time that oil and gas were playing the main role in this competition. Nevertheless, it was the first time that Azerbaijan had to cope with these problems by itself as an independent country.¹⁵¹ First of all, the competition among oil companies has been significant for Azerbaijan, who has to decide about its partners in the business of oil and gas. Second, the competition among Russia, Iran and Turkey has been very severe, because the control over the transportation of the hydrocarbons would supply a very appropriate environment for becoming a regional power, who would be influential in Caucasus. The rivalry amongst the actors gained impetus in the post-Soviet era, wherein issues related to hydrocarbons have started to be effective in Azerbaijan’s destiny. Within this context, it seems possible to suggest that the incidents in the first decade of independence proved that the Azeri hydrocarbons somehow had influences on many aspects, which put significant burdens on Azerbaijan.

¹⁵⁰ Jayhun Molla-Zade, “Azerbaijan and the Caspian Basin: Pipelines and Geopolitics”, in Caucasus and the Caspian Seminar Transcripts, Cambridge, MA, Strengthening Democratic Institutions Project, 1996.

¹⁵¹ See, Daniloff, Ruth, “Oil and Blood in the Caucasus, The Washington Post, 1 October 1995.

The problems have started at the very beginning of Azerbaijan's post-Soviet independence history. That is to say, the state was faced with political pressures and intervention during its first negotiations about the production of oil. Within this sense, the Azeri case demonstrates how natural resources of a country may become effective in the destiny of a nation, not only by determining its economic growth but also its evolution as a whole.

The most significant incident related to the issues of hydrocarbons, which also drastically affected the evolution of Azerbaijan, was the war with Armenians. The Nagorno Karabakh conflict went beyond a mere post-colonial ethnicity problem.¹⁵² On the one hand, there were problems related to administration of this region. The local government failed to meet the expectations of the population in the republic and the actors of the 'black economy' gained a further impetus to increasing inter-ethnic tension in such places as Alma Ata, The Ferghana Valley, Andijan-Osh and Nagorno-Karabakh.¹⁵³ On the other hand, oil appeared to be a factor which exacerbated the ethnic conflicts between Azeri and Armenian population. The Azeri government led by the nationalist feelings of Elchibey has been very ardent about eliminating Russian influence on Azerbaijan. The trade of oil at the world markets with no involvement of Russia could accelerate this process. Nevertheless, the security of the routes towards Black Sea has been ceased by the ethnic mess in Nagorno-Karabakh and Chechnia. The protest against the secessionist and irredentist movement in Nagorno-Karabakh actually brought people to the streets, and this became the smaller part of a larger cause for the Azerbaijani people, that was independence. At the beginning, it was more like a return to the roots, culture and language of

¹⁵² With regard to post-colonial aspect, it should also be pointed out that, congruous to most of the incidents in the post- era, the developments in the Nagorno Karabakh region can be related to the nationalities policies of the former Soviet Union. Not surprisingly, the developments in this region indicate a similarity to the process between Lenin and Gorbachev that was mentioned above. The dormant Armenian claims surfaced once again in the late 1980s, with the glasnost policy of Mikhail Gorbachev, which allowed more openness in the political atmosphere of the Union.

¹⁵³ See, Olga A. Vorkunova, "Management of Inter-Ethnic Conflicts in the Union", in Kumar Rupasinghe, Peter King, Olga Vorkunova, (eds.) Ethnicity and Conflict in a Post-Communist World, p. 81.

the people. Later on, the issues of control over oil, and therefore destiny.¹⁵⁴ In other words, the differences have turned into issues of conflict by the intervention of the external factors arising from their concern of taking more gains from the commercialization of Azeri oil. “Thus the number of sporadic incidents between the two communities, having occurred even during the Brezhnev era, grew quickly from 1987 onwards; letters demanding reunification started flowing in to the Moscow authorities, Armenians refused to accept an Azeri Kolkhoz director, and numerous events of this kind started to increase and to appear in the lightened political and media atmosphere of the Union.”¹⁵⁵ This refusal was the beginning of serious incidents, which would lead to clashes between Armenians and Azeris. “During the war, Karabakh Armenians declared independence and seized almost 20% of the country's territory, creating some 750,000 Azerbaijani refugees in the process. Both sides have generally observed a Russian mediated cease-fire in place since May 1994.”¹⁵⁶

Issues related to Azeri oil had played crucial roles in rising ethnic conflicts which jeopardized the territorial integrity of Azerbaijan. It can even be suggested that the Azeri hydrocarbons shaped the state formation of Azerbaijan in the post-Soviet era because the issues related to oil have played a significant role in the replacement of Elchibey by Aliyev. It was clear that Russia would prefer someone with a communist background in the post of presidency, rather than a nationalist leader, who would undermine the interests of Russia and the patronage relations among the *nomenklatura*. The attitude of Elchibey about the production and transportation of hydrocarbons gave superiority to the national interests of Azerbaijan; a fact which explicitly led to the discontentment of the actors, who were influential in the political economy of the region.

¹⁵⁴ Jayhun Molla-Zade, “Azerbaijan and the Caspian Basin: Pipelines and Geopolitics” In Caucasus and the Caspian Seminar Transcripts Cambridge, MA, Strengthening Democratic Institutions Project, 1996.

¹⁵⁵ See, Svante Cornell, “Undeclared War The Nagorno-Karabakh Conflict Reconsidered” Journal of South Asian and Middle Eastern Studies, Vol. 20, No. 4, Fall 1997.

¹⁵⁶ CIA, The World Factbook 1999-Azerbaijan.
<http://www.odci.gov/cia/publications/factbook/aj.html>

Above all, the proposals of Elchibey about the transportation of Azeri oil were not coincident with Russian interests. Elchibey aimed to decrease the dependence of his country on Russia by creating alternative routes towards Mediterranean markets. Nevertheless, Russia was insisting on the usage of the existing system, which was connecting the oil to Russia. Russia was not content about Elchibey, who did not have a communist background and dared to imply a contradictory oil policy with the Russian interests.¹⁵⁷

In addition, the attitude of Elchibey was not harmonious with those of BP who intended to have more shares in the Production Sharing Agreements concerning the Azeri oil. BP has attributed a special significance to oil, found in the Azeri sector of Caspian Sea because of three reasons. Firstly, the reserves were proved to be very rich. Secondly, the oil found in this region was very high qualified. Thirdly, production in this region could be an alternative source of oil especially for the emerging markets around the Caspian. Consequently, BP wanted to sustain stability, which seemed difficult to attain with nationalist approach of Elchibey, who was at odds with Russia and Armenians. That is to say, there were significant reasons for BP to replace Elchibey by someone, who could sustain stability by not hurting its interests.¹⁵⁸

In 1993, there was a coup d'état against Elchibey, about which Turkish Press made interesting comments by emphasizing that BP was the power behind the incidents which seemed to be realized by the initiatives of Russia. Consequently, Elchibey was replaced by Aliyev. Aliyev proved to be a good choice, as he was experienced enough to constitute an equilibrium amongst the national interests of Azerbaijan, the concerns of Russia and the will of BP. Within this sense, Aliyev quickly signed the PSA of AIOC, which would be operated by BP right after he came to power.¹⁵⁹

¹⁵⁷ See, Nihal İncioğlu “Yeni Türk Cumhuriyetleri'nde...”, pp. 114-115.

¹⁵⁸ “Darbeyi Petrol Devleri Yaptı” Sabah, 27 March 2000.

¹⁵⁹ Mekhtiyev, Aidyn “British Petroleum Will Develop Caspian Oil”, The Current Digest of the Post Soviet Press, 30 March 1994.

The formation of the state has been compatible with the necessities of the post-Soviet regime of the Caspian hydrocarbons. The foreign companies, which were involved in production projects started to extract oil and gas. At this point, the state faced new problems, which arose from the concerns about the transportation of the oil and gas. To the extent that transportation would involve the neighboring countries, among which Russia, Iran and Turkey claimed to be the regional powers interested in Azerbaijan, there occurred a very dense competition. This was not so surprising because the rivalry among these three countries goes back to the old days.

Russia, Iran and Turkey wanted to become regional powers by enhancing their sphere of influence towards Caucasus through the control of Azeri hydrocarbons. In order to reach at this goal, they involved in many actions. There were two aspects of this competition. On the one hand, they attempted to promote the above mentioned projects, that could help them to increase their control. On the other hand, they tried to use historical, cultural and political devices in order to gain competitive advantage.

The first strategy was very critical because once the transportation facilities come into life in a stable environment, it would be impossible for those who stayed out of this process to benefit from the trade of oil and gas. As a matter of fact, Russia started to focus on the transportation phase in order not to lose its former domination. Nevertheless, Iran and Turkey were also paying a special attention on this phase in order to expand their area of influence. Consequently, the issue of transportation was very significant for these actors, who have been expecting two benefits. First of all, the transit country would earn significant amounts of revenues for the oil passing through its lands. Secondly, and more significantly, the relevant country would have an extensive control over the political economy of the region.

Each of the incumbents, who offered different state models, supported different routes for the pipeline projects, which aimed to transport the Azeri oil to world markets. "Russia has been a chief competitor for the proposed deal and had

been trying to persuade Azerbaijan to agree on a pipeline through Russia. Iran had favored an oil swap deal in which Azerbaijani oil would be sold in northern Iran, and oil from fields in southern Iran would be sold on Azerbaijan's behalf. That deal would have saved transportation costs for both countries.”¹⁶⁰ Turkey offered a long term project which would completely change the composition of oil flow from Azerbaijan.¹⁶¹

The competitors seemed to be in consensus, arguing that the starting point of the pipelines was Baku. What seemed to be the most critical issue was the route of the pipelines. Within this context, Russia, Iran and Turkey supported alternative projects for the transportation of Azeri oil. That is to say, the Azeri government and the consortia had to choose amongst the Russian-backed projects of Baku-Novorossisk and Baku-Supsa; the route towards Persian Gulf passing through Iran; and the proposal of Turkey, the Baku-Ceyhan Pipeline.

In order to gain advantage, Russia, Iran and Turkey were involved in a Caucasian politics by using cultural, historical and political tools. “Traditional geopolitical rivalries with Turkey and Iran, and Caspian oil were two of a number of compelling factors that focused Moscow's attention on reestablishing its dominance of the Caucasus.”¹⁶² In other words, Russia, Iran and Turkey started to attribute a special attention to the second concern that could help them to become regional powers influential around Caspian.¹⁶³ As an impact of the rivalry among Russia, Iran and Turkey, Azerbaijan found itself suppressed by Soviet legacy, Islamic identity and a western model.¹⁶⁴ Within this sense, the effect of regional power incumbents on the emerging model of Azeri state

¹⁶⁰ “Turkey, Georgia and Azerbaijan Sign Oil Pipeline Deal”, Washington Post, 19 November 1999, p. A 40.

¹⁶¹ Ibid,

¹⁶² Fiona Hill, “Pipeline Dreams in the Caucasus”, in Caucasus and the Caspian Seminar Transcripts. SDI Project, 1996.

¹⁶³ The Chechen and the Kurdish problems of Russia and Turkey, as well as the ethnic clashes in Azerbaijan, clearly indicated the extent that can be brought upon by the competition amongst these states. There have been many Turkish volunteers fighting for Chechniya. Meanwhile Russia is supporting the Kurdish activities while Iran give assistance to Islamic fundamentalism. Interestingly, the solution of each of the problems will offer the relevant country a certain amount of advantage over the other, in terms of supplying the security of the planned pipelines.

¹⁶⁴ Etienne Copeaux, “Les 'Turcs De L'exterieur' Dans Türkiye: Un Aspect Du Discours Nationaliste Turc”, C.E.M.O.T.I., No. 14, June-December, 1992, p. 39.

should be mentioned as a structural problem, which was promoted by external pressures. The policies of these countries in turn had direct effects on the transition process of Azerbaijan, who was confused as a result of the Russian activities, Islamic influences coming from Iran and the secular model imposed by Turkey.¹⁶⁵ The political activities of the actors created significant consequences for not only Azerbaijan but also the Caucasus region.

To start with Russia, it is imperative to emphasize that this country appeared to be the former hegemon, who was trying to sustain a certain amount of influence by using the Soviet legacy. It has already been stated that Azerbaijan had long been dominated by Russia, which made it unable to follow policies that could have been compatible with the necessities of the Azerbaijan Republic. Rather, Azerbaijan had been forced to produce and sell according to the necessities of Soviet Russia.

The production projects in which Azerbaijan was involved after independence, started to decrease the domination of Russia over this region. In other words, the corporation of Azerbaijan with foreign companies and other countries ended the hegemony of Russia, not only on the Azeri oil and gas but also on Azerbaijan *per se*. Therefore, it is possible to point out that the new projects in which Azerbaijan is involved with foreign countries other than Russia lead to the decline of Russia as a regional power.

Even though the Azeri state aims to decrease the dependence of Azerbaijan on Russia, there are significant impediments. It is obvious that Azerbaijan is attempting to attain full independence both politically and economically. On the one hand, Azerbaijan has started to develop its political and economic system to meet the western demands in terms of democratization and liberalization. On the other hand, it has to rely on Russian support in order to perpetuate regime viability as well as stability. This dilemma is also discernible *vis-à-vis* the attitude of Azerbaijan towards oil and gas. The present pipelines are under the control of Russia not only in terms of management, but also in terms of their

¹⁶⁵ See, Hill

routes. Russia's military power is another crucial factor that impedes Azerbaijan to follow independent policies. Moreover, the CIS differentiates the Caspian case because it represents a sort of re-integration movement between the former colony and the colonizer.

The advantages of Russia can be considered as an outcome of the Soviet legacy. Russia seems to be an inheritor, who prefers to spend what it has, rather than earning more. This is very clear especially *vis-à-vis* the facilities of oil and gas. Russia, who had not preferred to make investments in the Caspian region is now jeopardized by the increasing activities of foreign companies, who are able not only to renovate the existing structure but also construct new ones. Russia has not been able to extract the hydrocarbons located in the deeper sections of the Caspian Sea because of its technological inferiority. This fact kept Russia out from most of the projects of production because there was no need for Russian companies other than political concerns. In addition to this, it should be mentioned that there are various disadvantages of Russia especially about its transportation system. The transportation phase became more important for Russia after being excluded from most of the production projects.

"In September 1994, with the "Contract of the Century" signed and new Caspian oil scheduled for production, Caucasian instability became a major international problem for the first time."¹⁶⁶ The "deal of the century" which vitalized the PSA of AIOC gained impetus to the Russian activities in order not to lose its former privileged situation.¹⁶⁷ First of all, Russia suggested that the existing pipeline system towards its own land would be sufficient for the transportation of the rising production through pipelines, railways and the ports along the Black Sea.

¹⁶⁶ Hill

¹⁶⁷ Russia did not only attempt to impede the implementation of the Baku-Ceyhan project but also worked to gain far greater control of both the licensing fees and the spigot if Kazakh oil flows along the existing pipeline from the landlocked Caspian Sea through a Russian-controlled Cechnya to the West. Kazakhstan, Russia and a Western consortium led by British Gas agree on developing the giant Karachaganak natural gas field in Kazakhstan. Russia aims to attain at least equity participation in all energy export deals by its former republics. See, Andrew Meier, "What does Russia see in Cechnya? Oil", Chechen Republic Online, <http://www.amina.com/article/wha-oil.html>.

There have been two pipelines which connected the oil of Baku to the Black Sea ports of Novorossisk and Supsa. During the negotiations with the oil consortia, Russia ardently supported the idea that Novorossisk port would be appropriate for the transportation of oil from Azerbaijan to the world markets. According to Russia, the existing pipelines would be upgraded and new pipelines would be constructed. AIOC was very positive about the port of Novorossisk at first because the consortium needed to transport the early oil which it started to produce in 1998.

This system, which meant dependence of Azerbaijan on Russia could be logical only under close economic relation among the CIS members. Nevertheless, Russia was not able to perpetuate the former characteristics of the economic relations because Azerbaijan has been very attentive to reach at world markets by not referring to Russia. In addition to the political concern of Azerbaijan, which has also been shared by the US and Turkey, there were technical problems that decreased the possibility to use the port of Novorossisk.¹⁶⁸

First of all, as a consequence of inadequate investment, the pipelines have been built with least possible prevention against corrosion. Not surprisingly, the facilities are currently exhausted because of unqualified infrastructure. Even though this problem may be overcome by additional investments, which include renovation of the existing system, Russia does not seem able to realize this aim without the support of foreign companies.

Secondly, there exist problems about the loading capacity of Novorossisk. The current capacity, which is adequate for the transportation of early oil of AIOC, will remain insufficient with the rising production of oil consortia. Russia has started to build additional terminals and facilities in order to maximize the loading capacity of this port. Nevertheless, new offshore terminals are also needed along Novorossisk in order to allow ships to come in and take out the crude in higher volumes.

¹⁶⁸ The disadvantages of Novorossisk port has been discussed in Necdet Pamir, Bakü-Ceyhan Boru Hattı, Ortaasya ve Kafkasya'da Bitmeyen Oyun, Ankara, ASAM, 1999.

Thirdly, and most importantly, the weather conditions in Novorossisk make it difficult to load and cruise during winters, which may even continue more than four months. This is a problem that can not be solved through technological investment. This fact is crucial because there will be a need for huge storage facilities, imposing not only additional investments but also increased costs. Above all, the consortia would never want to store their oil during winter, where the prices tend to increase.¹⁶⁹

These issues invoked the consortia to refer to other options such as swapping with Iran and constructing the Baku-Ceyhan pipeline. The swap options with Iran did not have a drastic consequence for Russia. Nevertheless, the Baku-Ceyhan project turned out to be a significant jeopardy for Russian presence in the region. The completion of this project would lead to a total exclusion of Russia from the Azeri hydrocarbons. Therefore, being aware of the trend, Russia started to impede, or at least decelerate, the vitalization of Baku-Ceyhan project by using its political influence.

Russia attempted to impose its influence under CIS at least in economic sense. Nevertheless, the changing characteristics of the post-Soviet trade relations left Russia out. As a matter of fact, the only strategy left for Russia was the manipulation of the ethnic heterogeneity of the region on the one hand, and sustaining the support of the former members of the Communist Party on the other. Russia believed that this strategy could make it possible to outdate the transportation projects, which have been proposed by Iran and Turkey. The former hegemonic domination of Russia has been very effective because an ideological imposition accompanied with economic exploitation offered the Caspian countries an Orthodox framework. Consequently, Russia did not hesitate to take every possible action in order not to lose its privileged situation in this region.¹⁷⁰ Within this context, Russia supported the separatist movements of Armenians in Azerbaijan in order to avoid the approval of the Baku-Ceyhan Pipeline Project. Furthermore, it must also be remembered that Russia

¹⁶⁹ Jack, Carter "The Great Game: The Struggle for Caspian Oil", In Caucasus and the Caspian Seminar Transcripts, SDI, 1996.

¹⁷⁰ See, Ibid,

overthrew Elchibey who has been the first president in the former USSR that did not have a communist background.¹⁷¹ Nevertheless, Aliyev also did not underestimate the national interests of Azerbaijan, which decreased the power of Russia. In addition, Russia aimed to create separatist movements by collaborating with the Lezgis in north and Talishes in South.¹⁷²

The attitude of Iran differs from Russia in terms of the pressure implemented upon the Azeri state. Iran has considered the oil and gas of Azerbaijan as an opportunity with two aspects. First, increasing bilateral trade relations between Azerbaijan and Iran could be beneficial for both sides. "As for the southern part, Baku, there is an exception to the Iran policy that permits on application and in limited short-term events something called "swaps," where you can take some oil, say from Baku, ship it to the south, in the northern part of Iran, and then Iran would ship something similar out at some other exit port, and there would be an adjustment for the amount that would be in transport, although the oil would be transported and you net back whatever it is."¹⁷³ Secondly, the new relations could decrease the contingency of ethnic tensions, which could arise from the twenty million of ethnically Azeri Iranian citizens living in southern parts of the country. For Azerbaijan, involving in profitable relations with Iran would not only bring bonuses, but also decrease its dependence on Russia. Swapping would be very profitable for Azerbaijan, who could find the chance to reach the Persian Gulf with least possible investments in the shortest time. Swaps could also be strengthened by pipelines in the future. The Iranian refineries were also a chance for Azerbaijan, who could process its rising production in this country. In addition, it would guarantee the safety of its southern borders shared with Iran.

Under normal conditions, Iran would be the best partner for the trade of oil and gas. Nevertheless, the attitude of the US against Iran and Turkey's growing fear of Islamic fundamentalism obscured the involvement of Iran in economic

¹⁷¹ See, A. Suat Bilge, Commonwealth of Independent States and Turkey, *Eurasian Studies*, Vol. 1, No. 4, Winter 1995, p. 91.

¹⁷² See, İncioğlu, pp. 114-115.

¹⁷³ See, Carter,

relations with Azerbaijan.¹⁷⁴ This fear was based on rather strong evidence, because Iran mostly referred to Islamic connections, which could bring the two countries closer. Despite the suppression of religion during the Soviet era, the role of Islam in the transition process of Azerbaijan would be very critical. Islam had always been one of the most crucial elements of social life in Azerbaijan. In spite of the attempts of the former Communist Party to eradicate the significance of Islam, it managed to perpetuate throughout the years. However, this does not necessarily mean that Islam possesses the same importance for the Azeri elites and the former members of the Communist Party, who were very influential in Azeri politics and who would prefer a secular definition of state. This arises from the fact that most of the members of the state institutions have long remained in their position by the virtue of their being adhered to the principles of Communist Party. As a matter of fact, the rise of Islam as the source of identity may lead to the vitalization of new powers, which may jeopardize the status-quo of these cadres. Within this perspective, the state promotes the idea of being Azeri by referring to the concept of citizenship, which is related to language and culture in its western definition. The idea of a titular nation under a certain territory was a good choice for the Azeri state, who wanted to develop secularism in its western meaning.

The secular standing of the Azeri state was an advantage for Turkey, who aspired to be a regional power by increasing its influence in the Caucasus and the Caspian. Turkey has supported the evolution of Azerbaijan as an independent country from the very beginning. Turkey recognized the independence of Azerbaijan soon after its declaration by the Azerbaijani parliament. This recognition was *per se* a source of trouble for Russia, who was afraid of a rapprochement between Turkey and Azerbaijan. Sharing similarities such as language, culture, history and even religion, these two nations could prefer to act together in political and economic spheres. The most significant collaboration of these two countries could be about the transportation of Azeri hydrocarbons. In fact, Azerbaijan and Turkey have been supporting the vitalization of a formula, which could decrease the dependence of Azerbaijan on

¹⁷⁴ Daniel, Speckhard, "The Politics of Caspian Oil" In Caucasus and the Caspian Seminar Transcripts, SDI, 1996.

Russia by transporting the hydrocarbons to Mediterranean with no reference to Russian transportation system. This formula was also supported by the US, who was trying to impede the rise of Russia on the one hand, Iran on the other. The Baku-Ceyhan line was developed within this logic among Azerbaijan, Turkey and the US. Turkey proposed the construction of a pipeline, which would start at the Caspian shore along Baku, pass through Caucasus (probably Georgia, but possibly Armenia) and bring the Azeri oil to the Mediterranean Sea, Ceyhan. This plan, which was supported by Turkey, Azerbaijan and Georgia, created problems for Russia who was trying to impose the Novorossisk and northern lines. Just like Russia and Iran, Turkey also attempted to realize this project in terms of two aspects. On the one hand, Turkey tried to convince AIOC about the feasibility of the project. The length (1,726 km.) and cost (between 2.4 to 3.4 billion dollars) of this pipeline constituted the impediments which made AIOC hesitate. Beside the issues of finance, a certain amount of time would be needed for the construction of this pipeline. Nevertheless, it was also clear that once this pipeline was constructed, a safe continuous flow to Mediterranean would be sustained. Reaching at Mediterranean was a significant incentive for AIOC because it would be easy to reach at every market around this sea. This was a superiority against Novorossisk, from where the transportation is being continued by ships which pass through the Turkish straits.

On the other hand, Turkey wanted to develop its relations with Azerbaijan by emphasizing the cultural and linguistic ties and under a model identified by a secular understanding of the state in search of liberalism. The model which was presented by Turkey was considered appropriate by the Azeri state. Such a secular understanding of the state was convenient with the interests of the governing elite, who was trying to hold on to their strategic positions. In addition to this, transition to liberalism was a main condition of the oil consortia, which wanted their rights and privileges guaranteed by a democratic regime. Finally, the US also promoted Turkey as a model against Russia and Iran.

II.2.2. The Attitude of the State against Political Pressures

In Search of a Model for State

Soon after its proclamation of independence, the Azeri state found itself messed with political problems, which were exacerbated by the issues related to hydrocarbons.¹⁷⁵ In terms of its relations in the international arena, the Azeri state was very cautious in trying to balance the interests of Russia and Turkey while not involving in relations with Iran in order to prevent the reaction of the US. This was the basic policy concern of Aliyev as an experienced leader.

This commitment had more meaning for Azerbaijan than a mere search of an ally in the international arena. The competition among Russia, Iran and Turkey to control the Azeri oil had a significant role in exacerbating conflicts such as those related to minorities. Therefore, the state had to involve in certain activities in order to cope with the problems, which could jeopardize the stability of the republic by the provocations of the external actors, who aimed to impose their domination on the Azeri oil.

The main strategies of the Azeri state during this period can be best summarized as a strong commitment for commercialization of oil and gas through collaborating with foreign companies and other countries with least participation of Russia (which necessarily makes Turkey a significant ally); sustaining the status-quo in terms of the patronage relations among the members of the former Communist Party (which helps Russia to perpetuate its diminishing power); attaining the support of the US and Turkey by a commitment to secular and liberal understanding of state with no rapprochement with Iran unless the approval of the US is sustained (which appears to be an advantage for Turkey while decreasing the probability of Iranian option).

¹⁷⁵ See, Speckhard,

The state was involved in many initiatives in order to adhere to these strategies. First of all, it took part in many consortia, which allowed foreign companies not only to explore, extract, produce and sell hydrocarbons, but also to impose certain responsibilities such as the development of the fields, construction of new facilities and the renovation of the existing ones. To the extent that the stakes of Russia through Lukoil has been very limited in the production projects of Azerbaijan; the significance of transportation phase increased. At this level, the Azeri state acted in common with oil consortia, which did not underestimate the Russian and the Iranian options. As a matter of fact, in addition to the existing Russian lines, two new pipelines were constructed for the transportation of early oil to Black Sea through Russian system. Meanwhile, the Azeri state involved in not only close bilateral relations with Turkey, but also a commitment for liberalization under a secular understanding of the state.

Under normal conditions, this attitude could be considered as an indicator of a smooth political process, in which the state balances different pressures, which are expected to ease through time. Nevertheless, the issues related to oil did not diminish these pressures. On the contrary, external actors such as Russia, Iran and Turkey have attempted to influence the content of the state by using their political powers.

To start with, it may be useful to identify the root of the problem by indicating how the state model could serve for the interests of regional powers such as Russia, Iran and Turkey. The term model here refers to choice of the state for itself. Considering the fact that the content of the state transition process is of utmost significance for the competing actors such as Russia, Iran and Turkey, it becomes more understandable why the choice of model was a very critical question for the state. The decision of the state would offer competitive advantage to one of the countries among Russia, Iran and Turkey in their attempt to take more stakes from the trade of Azeri hydrocarbons. The way, how the state chose its path among being a former Soviet state, Islamic state and secular state has been central, which directly influenced Azerbaijan's transition process.

Identification with being a former Soviet state adhered to the Soviet tradition would serve for Russia, who has intended to sustain its former domination especially on Azeri oil. The choice for Islamic state could favor the Iranian interests. A secular state would promote closer relations with Turkey; leading to a process, which seems compatible with the policies of Turkey. These issues came together with the concerns of Russia, Iran and Turkey about Azeri oil and created a severe competition among the actors, the consequences of which had direct effects on Azerbaijan's transition process.

Russia, who preferred an orthodox type of the state did not propose a definite model for Azerbaijan. Russia was more interested in the cadres of the state through which it could control the state apparatus. The coup d'état against Elchibey was a consequence of this concern of Russia, who wanted to see governing cadres that were mild towards its demands. Despite the fact that Russia had advantages arising from the patronage relations among the members of the former Communist Party, the governing cadres of the Azeri state were not fully complied with the demands of Russia concerning the essence of the state apparatus. On the one hand, Russia has been successful in leading the replacement of Azeri nationalist Elchibey and his cadres, with a former Communist Party member Aliyev and his cadres, with the hope of having more influence on Azeri hydrocarbons.

Within this context, it was so clear to see that Russia considered the Azeri state as a tool, which could help the implementation of the policies compatible with its interests. This policy has long been implied upon Azerbaijan Republic of the Soviet Union through the Communist Party of the republic. Nevertheless, things have changed after independence. Consequently, Russia was surprised to notice that Aliyev, as a former communist, has not obeyed the Russian demands blindly. Rather, Aliyev was very successful at following national interests of Azerbaijan with least possible irritation that could arise at Russian side. Within this sense, the overthrowing of Elchibey can be considered as a failed attempt of Russia to manipulate the Azeri state in order to gain more stakes from the trade of Azeri oil and gas. This was not surprising because Azerbaijan has considered

the elimination of its dependence on Russia as a state policy, which lingered from the beginning of its independence until now with no regard to changes in the government.

The influence of Iran on the Azeri state has always been limited because of the problems between these two countries, especially concerning the 20 million Azeris living in the northern Iran as well as their different claims about the status of the Caspian Sea. Because of these issues, Iran was afraid of ethnic upheaval among the Azeri population on the way of secession and unification with Azerbaijan. In addition to this, Islamic regime of Iran has always been a source of anxiety for the state members most of whom have been committed to an orthodox understanding of the state under the influence of the Communist Party tradition. Consequently, the Azeri state has been suspicious about the Iranian initiatives, while Iran considered its Azeri minority as a potential danger open to manipulation. It seems difficult to see a transition to Islamic regime in Azerbaijan so far as the existence of the *nomenklatura* perpetuate. It is explicit that the rise of Islam will lead to incarnation of new powers based on religious tribes and sects. Therefore, Islamic regime can not be considered as a model which fits to the necessities of the governing elite. Interestingly, the trade relations with Iran could be very profitable for Azerbaijan whose inferior infrastructure was complementary with the Iranian facilities. Nevertheless, the state did not prefer to improve its trade relations with Iran, not because of being afraid of the imposition of an Islamic model, but because of the pressures coming from the US and Turkey, who were committed to impede the influence of Iran for strategic reasons.

The situation of Turkey differs from those of Russia and Iran because of its obvious claim to offer a state model for Azerbaijan. Turkey attempted to promote itself by suggesting a secular understanding of the state based on liberalization. Turkey was hoping to improve its relations with Azerbaijan so far as the characteristics of the state could be transformed into western standards with no possible rise of Islamic influences. Such a rapprochement could offer

Turkey a competitive advantage especially concerning the transportation of Azeri oil. The influence of Turkey on the Azeri state has been more than Iran, but interestingly, less than Russia. Even though Turkey successfully used the devices such as culture, language, history etc. in order to improve its efficiency on Azerbaijan, the Azeri state insisted on not undermining basic Russian interests. This fact becomes more clear on the realization of the Novorossisk projects for the early oil while the Baku-Ceyhan has been postponed various times. It is of course possible to attribute a certain amount of success to Turkish initiatives because of the involvement of Azeri state in secularism and liberalization.

It should also be mentioned that a secular understanding of the state was compatible with the interests of the state cadres, while liberalization was an indispensable condition of attracting foreign direct investments, which was necessary for the commercialization of Azeri hydrocarbons with least influence of Russia. Within this sense, it is possible to underline that the communist background of the *nomenklatura* was the real cause which kept the influence of Russia to a certain extent. Under this scheme, the concern of Azeri state to acquire the real value of its oil and gas can be considered as the main leitmotiv, which pushed itself to liberalize under a secular scheme. Otherwise, it would be impossible to attract foreign direct investments in the oil and gas sector through which it became possible to decrease dependence on Russia and acquire significant amounts of petrodollars.

The developments in the 1990s showed that Azerbaijan has been trying to transform the Soviet state into a secular one, by not damaging the privileges of the governing elite. This transformation is very interesting because the governing elite prefers to imply policies compatible with Russian interests not as a consequence of their concern for closer relations with Russia, but as a consequence of their concern to perpetuate power. This attitude has led to a sort of equilibrium, in which post-Soviet state attempts to become secular/liberal by not damaging the interests relations among the members of *nomenklatura*.

Within this sense, the choice of Azeri state for a secular and liberal state model arises from the characteristics and strategies of the state, rather than the pressures coming from external actors. In other words, the state proved its success to resist against political pressures coming from external powers to the extent that an equilibrium amongst the national interests of Azerbaijan and the demands of foreign companies, Russia, Iran and Turkey has been sustained.

In Search of Democratization

The state had to choose from among different models, in order to strengthen the regime viability by not endangering the territorial integrity and decelerating the commercialization of hydrocarbons in the world markets. The content of the state has become clear, soon after independence. The members of *nomenklatura* were now in charge of the secular and liberal state. Having made this choice, the state could balance the pressures coming from external powers. Nevertheless, there were also certain problems arising from domestic pressures, which have been provoked by the activities of the external actors in search of control over Azeri hydrocarbons.

This transformation, which was open to external intervention was very critical for the state, who represented a very mixed ethnic structure. In this sense, it was not very clear to what extent the state would be able to sustain its legitimacy, while holding the territorial integrity of Azerbaijan without damaging its regime viability. The ethnically mixed structure of Azerbaijan turned into a source of conflicts in an environment, where a certain amount of solidarity lacked under the provocations coming from external actors, especially Russia.

The ethnic heterogeneity of Azerbaijan has indicated that conflicts based on ethnic separatism had the potency to jeopardize the existence of the state.¹⁷⁶ Therefore, the state needed to promote the concept of Azeri by not damaging the existence of other groups, who somehow had certain affiliations with other

¹⁷⁶ Nadir Devlet, "The Historical, Geographical and Ethnic Problems of the Borders of the Independent Turkish Republics", Eurasian Studies, Vol. 1, No. 4, Winter 1995, p. 30.

identities based on ethnic, religious, tribal or cultural factors. Ethnicity, language, religion and culture seemed to be the crucial factors competing for defining the Azeri identity. The state had to decide its policies towards certain phenomena such as language, culture, ethnicity and religion. In other words, Azerbaijan had to choose the elements, which could promote the supra-national (Islam and Turkic), national (Azeri) and sub-national (clans and tribes) identities. The choice of the state would not only affect the formation of Azeri identity but also determine its partners in the international arena due to the fact that each of the identity models have been represented by three countries (Russia, Iran and Turkey) who wanted to increase their power in the region because of economic concerns especially arising from the control of Caspian hydrocarbons.

As it has been mentioned above, the state has been jeopardized by the problems with minorities especially with those who had Armenian roots before being able to strengthen the Azeri identity in terms of the concept of citizenship.¹⁷⁷ It was explicit that people of this region possessed an ethnic identity of their own. Nevertheless, the Azeri state has been very determined about sustaining the territorial integrity of the republic. According to the official point of view “there is an independent state-the Republic of Armenia-which is a member of the United Nations, the OSCE, the World Bank Institutions, etc. Has there ever been a single nation having two separate states (excluding those countries which have been historically split such as Korea, Germany, Yemen, etc.)? Secondly, what is the Azerbaijani population of Nagorno-Karabakh supposed to do? Desist? Or are they to proceed along the same "logic" of self-determination and create another Azerbaijani entity within an "independent Nagorno-Karabakh?" Such an absurdity leads only to deadlock or is the right to self-determination only available to the Armenians of Nagorno-Karabakh?”¹⁷⁸

¹⁷⁷ See, Barbara A. Anderson and Brian D. Silver, “Population Redistribution and the Ethnic Balance in Transcaucasia” in. Grigor Suny (ed.) Transcaucasia, Nationalism, and Social Change: Essays in the History of Armenia, Azerbaijan, and Georgia, Ann Arbor, The University of Michigan Press, 1996, pp. 481-506.

¹⁷⁸ See, Yashar Aliyev’s statement in Azerbaijan International, Vol.6, No. 4, Winter, 1998.

The Azeri state emphasizes the legal aspect of the conflict. Armenians of Nagorno Karabakh claim that they constitute a minority group. According to the Azeri thesis, there is already a country of Armenians, that is to say Armenia. Therefore, the Armenians of Nagorno Karabakh can pursue their rights and freedoms as a minority group who lives in the republic of Azerbaijan.

The danger mainly arises from the fact that, minorities and regional allegiances of tribes and clans may prefer to go on their way unless they do not consider themselves inseparable parts of Azerbaijan. The problem of self-determination, and subsequent secession, is a very complicated question, especially in such areas as the Caucasus, where the state borders do not coincide with ethnicity. In a situation, in which Nagorno Karabakh secedes from the republic of Azerbaijan, other minorities who are living in the region may also ask their right of self determination. This may put the whole region into a perpetuating turmoil.

The Nagorno Karabakh conflict has gained an impetus to the escalation of nationalist feeling among Azeris. The danger lies in the fact that the attitude towards other minorities may be oppressive with the fear that they may also attempt to get some concessions from Azerbaijan. In addition, the Nagorno Karabakh conflict not only jeopardizes Azerbaijan's national integrity but also makes the Azeris suspicious about other minorities. This may create xenophobia. It is explicit that the Azeri nationalism is rising. However, it is not clear whether the rise of Azeri nationalism will lead to some nationalist demands such as unification with the Azeri population living in northern Iran.

The rise of nationalism may play the role of a legitimizing tool for authoritarian tendencies. Nationalism in terms of race and/or religion may create severe consequences for these minorities. This may happen if Azerbaijan identifies the situation of other minorities with the Nagorno Karabakh case. In this case, Azerbaijan may shift towards an authoritarian line in order to keep stability. The minorities may be considered as dangerous elements for the regime viability and national integrity. Consequently, they may be accepted as threats

for the safety of the Azeri population. In this process, the differences between the natives and the rest may be crystallized. Those, who are different in terms of ethnicity, language and religion, may face oppression. This is actually what happened in many post-Soviet countries such as Tajikistan and Uzbekistan.¹⁷⁹ These scarce rewards will not be worth of the costs in Azerbaijan. Hence, it is possible to conclude that authoritarianism will not be capable of bringing viable solutions to the minorities problem of Azerbaijan. Hence, Azerbaijan must not undermine the rights and freedoms of other ethnic groups such as Tats, Talishes, Lezgis, Avars, Kurds and Jews. The state has to differentiate the legal and illegal demands of the minorities.

This necessitates the state to be democratic concerning the basic rights of minorities. If Azerbaijan can not sustain its national integrity through democratic means, the whole region may be threatened. Consequently, the minorities issue should be negotiated in terms of their legal status. It is clear that the approach of the governing elite towards the constitutional and institutional arrangements is crucial. Meanwhile, the reaction of the population to the new identity in terms of citizenship is also of high importance. The rapprochement of the domestic and the world systems may lead to the building of a national identity accompanied by appropriate constitutional and institutional arrangements. “This calls for clear-sighted activism, taking account of the differences produced by history, not in order to perpetuate them, but to ensure that they wither away.”¹⁸⁰ Therefore, a liberal constitution is assumed to be one of the most significant, though not sufficient condition of transition to democracy with the least possibilities of ethnic clashes. In addition to the constitutional amendments, the individuals must be able to express their rights and freedoms. “This is the only way to bring about a truly humane society in which differences will no longer be imposed by a blind tradition, but will stem from the self-fulfillment freely achieved by each individual.”¹⁸¹ However, it

¹⁷⁹ Philip Goldman, Gail Lapidus and Victor Zaslavsky, “Introduction: Federalism its Origins, Evolution and Demis”, in Goldman, Lapidus and Zaslavsky, (eds.), From Union to Commonwealth: Nationalism and Separatism in the Republics, Cambridge, Cambridge University Press, 1992, p. 7.

¹⁸⁰ Cem Eroğlu, “Minority Rights or Integration?”, Perceptions, Vol. 1, No. 1 March-May 1996, p. 95.

¹⁸¹ Ibid,

must also be pointed out that, attaining a liberal constitution that leads to a genuine democracy appears to be a very hard task for Azerbaijan. Moreover, besides the constitutional regulations, practical rights must also be taken for granted. If the legal regulations were sufficient bringing peace to the Nagorno Karabakh conflict, this might have never turned into a turmoil. Consequently, the minorities must be free to practice their constitutional rights and freedoms. It seems of utmost significance for Azerbaijan to sustain a democratic regime that is respectful to the rights of minorities.

Nevertheless, the newly independent states do not usually show tolerance toward the political organizations of the minorities. The minorities may tend to increase their demands so far as they believe that the government lacks a certain amount of strength. Centralized regimes sustain stability via severely limiting the political activities and rights of the opposition including the ethnic groups. This provisional solution leads to clandestine opposition that manifests itself illegally. Not surprisingly, this kind of opposition may turn out to be a rebellion against government. The ethno-national rebellion may occur when the minority groups feel that there is no other way of survival, or when they believe that the benefits of such a rebellion will exceed their losses. Azerbaijan prefers a strong central authority in order to avoid the rise of such rebellion especially in terms of the Nagorno Karabakh conflict. Nevertheless, this does not necessarily mean that the basic rights of other groups are underestimated.

In this sense, the government decided to give certain rights to the minorities being aware of the fact that Russia was trying to impede the construction of pipelines by promoting the nationalist feelings of Lezgi and Talysh population. The Decree of the president of Azerbaijan Republic on the Protection of Rights and Liberties guaranteed the basic economic, political, social and cultural rights of the minorities.¹⁸² Currently, besides the Armenians, Talishes, Sadvals, Lezgins and Kurds have organized around political groups.¹⁸³

¹⁸² See, The Decree of the President of Azerbaijan Republic On the Protection of Rights and Liberties, State Support of the Development of Language and Culture of National Minorities, Small Nations and Ethnic Groups Living in Azerbaijan Republic, 16 September 1992.

¹⁸³ For the political pressure groups and leaders, See, CIA, The World Factbook, 1999-Azerbaijan, <http://www.odci.gov/cia/publications/factbook/aj.html>.

The representatives of Talish Peoples Party, Lezgi Democratic Party, and Kurdish Unity Party suggest that, the minority groups do not aim to secede from the republic. Hence, their situation fundamentally differs from the Nagorno Karabakh case. However, they also state that they are anxious about a contingent rise of racist and/or religious feeling amongst Azeris. In short, they aim to have equal opportunities with the natives, while sustaining their peculiarities in terms of language and culture.¹⁸⁴ Currently, the Azeri state officials know that they have to develop a common understanding of citizenship in order to cope with the demands of its minorities. Every citizen of Azerbaijan should, first of all, possess equal constitutional and cultural rights without restrictions arising from culture, language, or religion. Secondly, they must manifest their peculiarities freely. The most efficient way of keeping national integrity with no oppression of one ethnic group by another is a democratic regime. Within this context, Azerbaijan has to guarantee the democratic rights of the other ethnic groups such as Tats, Talishes, Lezgis, Avars, Kurds and Jews. The democratic regime should be able to convince these minorities that it is more beneficent for them to support their rights within rational and legal limits.

It is clear that the ethnic minorities will not respond to the provocations coming from external powers interested in Azeri oil, as far as they live contented with the system, which necessarily recognizes the basic rights of these groups. It seems of utmost significance that these groups feel as if they are represented through the government. Even though the majority vote within a democratic regime should be attributed a special significance, it is not the best method of reaching politically just decisions in practice. A democratic political system should be capable of both applying the majority vote and protecting the social, economic and political rights of the minorities at the same time. Within a democratic regime, the minorities may share the same constitutional and cultural rights with the Azeris while keeping their peculiarities arising from their distinct culture, language, ethnicity or religion. Transition to democracy implies that some of the groups may be deprived of their privileges. “Thus the

¹⁸⁴ For the interviews with the party leaders, See, Incioğlu, pp. 114-115.

rights and identity issues became closely intertwined. A liberal democratic system, based on individuals' merit and competence, guaranteeing equal rights to all citizens regardless of ethnic membership, began to be considered detrimental to the interests of politically strong but economically disadvantaged ethnic groups.”¹⁸⁵ A democratic environment, wherein these minorities find chances to manifest their demands through legal political organizations, will strengthen Azerbaijan's situation in international arena. Otherwise, the ethnic Armenians of Nagorno Karabakh will claim that ethnic rebellion was the last chance of sustaining their identity. In this case, the relations between the Azeris and the other minorities may also deteriorate. Ethnic consciousness may turn into active mobilization when these ethnic groups believe that they are jeopardized with a decrease in their rights and freedoms. These groups will lose their belief in the legitimacy of the Azeri regime when they are not treated as equals with no regard to their origins.

Besides the differences such as language, culture and religion, there may exist disequilibrium of individual status due to ethnic origins. This issue will become more apparent in the near future when Azerbaijan will start to earn significant amounts of petrodollars. Hence, a contradiction can be discerned. The issues of hydrocarbons which have exacerbated the ethnic problems of Azerbaijan by imposing a confusion of identity brought by the rivalry among Russia, Iran and Turkey may turn into a commonground for consensus by satisfying the material demands of these groups. The allocation of petrodollars may decrease the discontentment of various groups making them believe that being an Azeri citizen will offer them high living standards. In this process, ethnic, linguistics, cultural differences may be eased. The groups may become less vulnerable against provocations of Russia, Iran and Turkey or other countries because of being happy within the status, which offer them certain amount of bonuses. If the state fails to allocate the revenues among different groups, social, economic and political inequalities along the ethnic lines may turn into a source of conflict that is open to be abused along the oil game in the international arena.

¹⁸⁵ Anatoly M. Khazanov, “The Ethnic Problems of Contemporary Kazakhstan”, Central Asian Survey, Vol. 14, No. 2, 1995, p. 244.

II.3. State versus Economic Pressures Related to Hydrocarbons

II.3.1. Economic Pressures Related to Hydrocarbons

In the first years of its independence most of the problems, especially the economic ones, have been imposed upon Azerbaijan as a burden of the war with Armenians. In other words, the Nagorno Karabakh conflict not only jeopardized the territorial integrity of Azerbaijan, but also created deterioration in Azerbaijan's economy. It is even possible to suggest that the Nagorno Karabakh conflict was the most crucial reason for the decline of economy even after the cease fire. Naturally, Azerbaijan spent most of its energy first on sustaining its territorial integrity by solving the Nagorno Karabakh conflict, second on trying to mend the economic traces of the war.

It is quite normal to indicate a deterioration of economy during the war years, which tend to be characterized by decreasing production in non-military goods and services. The production of Azerbaijan also decreased during the war with Armenians. The military spending increased the state expenditures. Above all, the oil industry of Azerbaijan has been damaged by two facts. Firstly, the decreasing production led to less oil earnings. Nevertheless, it should also be mentioned that the war ceased the acceleration of Azerbaijan's economic development, as the country wanted to sell its oil and gas at world markets rather than through Russia. That is to say, the most significant burden of war was the postponement of commercialization of Azeri oil and gas through partnerships with foreign companies and countries other than Russia.

To shortly concretize in economic terms, the Gross Domestic Product (GDP) of Azerbaijan decreased more than 50% between 1990 and 1995. The inflation was more than 1,600% in 1994. The oil production, which was 13,1 million tons per annum in 1989, decreased to 12.5 in 1990; 11.7 in 1991; 11.2 in 1992; 10.3 in 1993; 9.6 in 1994 and 9.1 in 1995. The foreign direct investments were below the estimated figure remaining at 15 million dollars in 1993.¹⁸⁶

¹⁸⁶ See, Enhanced Structural Adjustment Facility, Policy Framework Paper, 1999-2001, IMF and World Bank, 08 January 1999.

The end of the war brought a certain amount of economic growth, which has been characterized by the rise of overall production. In 1998, most of the economic indicators of Azerbaijan have already inclined towards a positive direction. The growth of GDP was 10% while the annual inflation has been stabilized nearly at less than 1%. The rapid expansion of the economy was a consequence of the rising foreign direct investments in oil and gas industry in the stable environment of the post-war period. In 1998, the foreign direct investments have reached 1 billion dollars mainly in the field of oil and gas, which constituted 20% of GDP in the same year.¹⁸⁷

Table 7- Basic Economic Indicators of Azerbaijan

	1994	1995	1996	1997	1998	1999
The growth of GDP (%)	-19.7	-11.8	1.3	5.8	10	7.4
External sector						
exports	682	680	789	808	678	1025
imports	845	955	1338	1375	1724	1433
Government (% GDP)						
revenues	33.8	17.6	17.6	19.1	17	19.4
expenditures	45.9	22.5	20.3	20.8	21.1	24.9
fiscal equilibrium	-12.1	-4.9	-2.8	-1.6	-4.2	-5.4
Average inclination (manat/\$)	1.433	4.417	4.3	3.983	3.869	4.126
Sectoral growth (%)						
oil sector	-6.7	-6	-1.6	-3.6	23.1	20
non-oil sector	-22	-14.3	1.8	7.8	7.5	4.7

Source: IMF

It is possible to point out an apparent positive correlation between the foreign direct investments and the improvement in the economic indicators. It is clear that foreign direct investments in the oil and gas sectors contributes to Azerbaijan's economy. To concretize, the inclination of the GDP has been associated to foreign direct investments, which led to a growth of 1.3% in 1996; 5.8 in 1997, 10% in 1998 and 7.4% in 1999. The end of the war decreased the expenditures of the state from 45.9% of GDP to 17.6% in 1995. Since then, the expenditures have started to vary between 20 – 25% of the GDP. Meanwhile the state revenues have taken place between 17 –19% of the GDP.¹⁸⁸

¹⁸⁷ See, Ibid and IMF Concludes Article IV Consultation with Azerbaijan, IMF Public Information Notice, No. 98/62, Washington, 17 August 1998.

¹⁸⁸ IMF Public Information Notice, No 99/72, 9 August 1999.

The economic summary of Azerbaijan indicates that hydrocarbons have an undeniable influence in its evolution. The contribution of the oil and gas sectors can be explicated by referring to the growth of the oil sector, which has increased to an average of 20% per annum starting at 1998 from negative values of the period between 1994 and 1997. When the growth of the oil sector is compared with the non-oil one, an overwhelming superiority of the development of oil and gas industry is discernible. In contrast to the non-oil sector, whose rate of growth tend to decrease (and indeed decreased from 7.8% in 1997 to 4.7% in 1999), the oil sector has grown more than 20% both in 1998 and 1999. It is obvious that the growth of Azerbaijan is not balanced because in contrast to the oil sector, which has expanded 20% in real terms in 1998 and 1999; the rest of the economy has grown by about 6% in real terms during the same period.¹⁸⁹

The figures indicate that the oil sector has already started to grow on the detriment of the non-oil industry by the contribution of the foreign direct investments. Azerbaijan has already started to benefit from the rising production of oil and gas, which was brought by the rapid rise in foreign direct investments. The growth of the oil and gas industry has direct effects on the changing composition of production. This is especially explicit in changing rates of the offshore and onshore production. It has already been mentioned that Azerbaijan was a significant producer for the former Soviet Union because of the rich reserves found on the onshore section of the Caspian Sea. The technological inferiority of the Soviet oil industry impeded the exploration and/or production in deeper offshore sections. Consequently, in contrast to the decreasing onshore production, there exists a rapid rise in the production in the offshore sections of the Caspian.

¹⁸⁹ Petri Martin, Günther Taube, Aleh Tsyvinski Energy Sector Quasi-Fiscal Activities in the Countries of the Former Union, IMF Working Paper, March 2002, pp. 19-20.

Table 8- Oil and Gas Production in Azerbaijan

	oil (offshore)	oil (onshore)	oil (total)	gas (total)
1981	9.4	4.7	14.1	
1982	8.2	4.7	12.9	
1983	8.4	4.3	12.7	
1984	8.4	4.1	12.5	
1985	9.2	3.9	13.1	
1986	9.4	3.9	13.3	
1987	10.1	3.7	13.8	
1988	10.3	3.4	13.7	
1989	10.1	3	13.1	
1990	9.9	2.6	12.5	
1991	9.5	2.2	11.7	8.6
1992	9.2	2	11.2	7.9
1993	8.3	2	10.3	6.8
1994	7.8	1.8	9.6	6.4
1995	7.5	1.6	9.1	6.6
1996	7.5	1.6	9.1	6.3
1997	7.6	1.6	9.2	6
1998	12.2	1.6	13.8	5.6
1999	17.1	1.5	18.6	6

Oil in million tons / Gas in billion cubic meters

Source: IMF, Azerbaijan Republic: Selected Issues and Statistical Appendix, IMF Country Report No. 02/41 March 2002, Washington, p. 18.

The production, which has decreased to 9.1 million tons of oil because of the negative consequences of war, increased to 18.6 million tons in 1999 by the contribution of foreign direct investments. The offshore production of the Soviet regime had peaked by reaching at a production of about 10 million tons per annum between 1987 and 1989. Since then, it had started to decrease steadily. Between 1990 and 1992, the production was about 9 million tons per annum. The production of the offshore reserves, which were 8.3 million tons in 1993 appeared to be about 7.5 million tons per annum between 1994 and 1997. In 1998, the production of AIOC steadily increased the offshore production, which reached 12.2 million tons in 1998, and 17.1 million tons in 1999. In contrast to the offshore production, the onshore production has constantly decreased during the same period. The onshore production has decreased from 4.7 million tons in 1981 to 2.2 million tons in 1991. The oil consortia could not contribute to the onshore production, which had a negative inclination and fell to 1.5 million tons in 1999. This was a natural consequence of the fact that most of the onshore reserves have been extracted during the Soviet times. The overall calculation

indicates that the total production of Azerbaijan, which has decreased to 11.7 million tons in 1991, started to increase by the rising offshore production of the oil consortia.¹⁹⁰

The production of gas during the Soviet period was very limited. The incapability of the Soviet petroleum industry about exploration and production in deeper sections can be pointed out as the main reason of this situation. Consequently, the gas production, which was very limited under the Soviet regime started to decrease in the post-Soviet period. The production of gas decreased to 6 billion cubic meters in 1999 from 8.6 million tons in 1991. Nevertheless, it should be mentioned that the reserves of Shah Deniz have not been extracted yet. This field will help Azerbaijan to rapidly increase its gas production in the near future. The main concern of Azerbaijan is to first become a self sufficient country in terms of gas, then becoming an exporter as soon as possible.

With regard to long term projection, it seems as if the oil and gas production will start to suddenly increase once the issues of transportation become clear. This arises from the fact that oil consortia have arranged their production plans around the possibilities concerning the transportation projects mentioned above. It is the oil, which will allow Azerbaijan to acquire big amounts of revenues through exportation. The oil production of Azerbaijan will likely take place in between 30.5 and 45.2 million tons per annum starting at 2005. This will approximately correspond to oil investments between 9.5 and 12.2 billion US \$. Consequently, the trade balance will vary between a surplus of 2.8 and 4.7 billion US\$. No matter, whether be it Base Case, Delayed Investment or Low Production, the process between 2000 and 2005 will endow Azerbaijan with a very sudden influx of oil revenues.¹⁹¹

¹⁹⁰ IMF, Azerbaijan Republic: Selected Issues and Statistical Appendix, IMF Country Report No. 02/41 March 2002, Washington, p. 18.

¹⁹¹ Based on the World Bank data, See, Azerbaijan: From Crisis to Sustained Growth, (A World Bank Country Study), Washington DC, World Bank, p. 132.

The transition of Azerbaijan is being determined by the growth of oil and gas industry by the contribution of the foreign direct investments. Azerbaijan currently possesses much more freedom about choosing its trade partners. Not only the US and Turkey, but also the western companies, who have been involved in the oil business by their extensive shares in the oil consortia, will likely to promote a certain level of liberalization in order to guarantee their investments and transfer of revenues. As a matter of fact, Azerbaijan involved in a certain amount of liberalization. Besides being an incentive for liberalization, the significant role of foreign direct investments in rising production is undeniable.

The rise of foreign direct investments contribute to Azerbaijan's economy in many ways. AIOC, the biggest consortium working in Azerbaijan, summarizes the benefits of Azerbaijan *vis-à-vis* Azeri and deep-water Chirag fields as follows:¹⁹²

- 1) Commercial Benefits: About 2.4 billion \$ has already been invested in the implementation of the AIOC contract since the ratification of the PSA in 1994. In addition, the PSA will offer not only bonus payments to Azerbaijan, but also a share of profit oil, taxes, free associated gas, upgrade of existing SOCAR infrastructure, lease payments, payments to employment and social funds totaling up to 900 million \$. Every single dollar spent by AIOC is estimated to attract another 2-3 \$ of additional investment. In addition, it should also be emphasized that AIOC has previously spent 324 million \$ on local goods and services and continues to be a major purchaser of goods and services from the local community.
- 2) Technology Transfer: The multinational companies introduced directional drilling technology, which enables them to locate well targets to a considerable distance from the platform, thereby increasing recovery. In addition, they use high angle (near horizontal) drilling technology, which provides the opportunity

¹⁹² See, Tamam Bayatly, (Media and Government specialist of AIOC), "AIOC Celebrates 5 Year Anniversary", Azerbaijan International, Vol. 7, No. 3, Autumn 1999.

to complete wells with a large formation thickness, thereby increasing the production rates. Moreover it became possible to get higher production rates while controlling the amount of sand being produced by the help of completion technology such as gravel packs, screens, high density perforating, large diameter tubulars and well equipment,

- 3) Training and Development: Since 1994, over 19 million \$ has been spent on training national staff both in Azerbaijan and overseas. Training and development of national staff has resulted in a 43% reduction of expatriate staff. There are over 65% Azeri staff in professional positions throughout the organization.

When we consider the fact that the oil production of Azerbaijan will likely to take place in between 30.5 and 45.2 million tons per annum in 2005, we can argue that the impetus of the oil revenues will duplicate the above mentioned benefits. Within this context, it seems as if it is possible to suggest that Azerbaijan is lucky because it has the opportunities to accumulate a certain amount of capital in the near future. The figures seem to strengthen the argument that the state has the chances to use oil revenues effectively leading to a sustainable growth accompanied by liberalization.

It seems as if oil and gas offer Azerbaijan not only economic contribution in the form of foreign direct investments, the growth of oil and gas sector, the rise of production, but also opportunities that arise from the influx of revenues, which appear to be a tool of development as far as they are successfully transformed into structural adjustments and sectoral restructuring.¹⁹³ Within this perspective, the state appears to be a lucky agent, who found itself endowed with various opportunities strengthened with a surplus of revenues. That is to say, the state has a significant bonus which lacks in most of the transition economies.

¹⁹³ See, Ibid,

Nevertheless, we also need to indicate, how the rise of energy industry and a sudden influx of oil revenues may create negative consequences on the structural and sectoral evolution of Azerbaijan. In other words, the economic pressures, which come from the issues related to oil and gas upon the Azeri state should be elaborated in order to better understand how the state is being confronted by certain threats arising from the economic influence of the issues related to hydrocarbons.

First of all, the rapid growth of the energy sector by the impetus gained from direct foreign investments is creating a huge oil and gas industry, which tends to decelerate the growth of other sectors in agriculture and industry. It is explicit that the international price fluctuations have always favored the oil prices against agricultural products. Within this sense, agricultural investments will appear unfeasible when compared with the investments in industrial sectors and services. In addition, the influx of revenues, which will become a major economic determinant in the future, has an inclination to drastically hamper the growth of Azeri economy. The excessive surplus of foreign currencies hoarded in the country tend to increase the real foreign exchange rates on behalf of the national currency of Azerbaijan, manat. The overvaluation of manat will explicitly decrease the non-oil exports of Azerbaijan by creating expensive goods and services, which in turn lead to the deterioration of Azerbaijan's competitiveness against other countries. This circle tends to decelerate the growth of the non-oil sectors.

That is to say, there exists a complex correlation between the economic growth through oil revenues with no transformation, and the relations of the state with society. With regard to social stratum, it is possible to indicate that the civil society will not develop as far as the state prefers distributing the oil revenues through services and high salaries. Under these circumstances, the relations between state and society will gain a peculiar characteristic. First of all, the dependence of citizens on the state, as a nucleus of authority, assistance and support, will suddenly increase. Secondly, the Azeri state will become highly dependent on oil revenues not only in terms of political and economic stability,

but also in terms of supplying the consumer goods. Thirdly, Azerbaijan will become dependent on external factors such as foreign direct investments and oil prices. This scenario seems to fit to the Azeri state, who is becoming dependent on external factors.

In order to indicate whether Azerbaijan's infrastructure will be adequate for the creation of a sustainable growth process, we need to analyze the sectoral data, that belong to the post-1990 period. "In 1990 the distribution of GDP was as follows: Agriculture and Fishing 1.4 billion \$, Industry 7.7 billion \$, Construction 1.5 billion \$, Trade 2.2 billion \$, Communication and Transportation 1.1 billion \$, Services 9.2 billion \$, Total 23 billion \$." ¹⁹⁴

The most interesting outcome of these figures is the huge share of the service sector. This may be considered as a consequence of the policies of the former Communist Party, which imposed the state as the only agent responsible for the evolution of the republics. Nevertheless, despite the fact that Russia had long profited through Azeri oil, the Russian led policies have also created a certain amount of industrial and agricultural sectors. ¹⁹⁵ Even though, these sectors have not grown effectively, there exists a framework, which may be very beneficiary in the near future. Amongst all, agricultural facilities offer Azerbaijan a very good opportunity in terms of self sufficiency. Azerbaijan has very fertile agricultural lands and rich mineral resources. There are about 1200 state and cooperative farms. Since independence the share of private sector in agriculture has been increasing. 15-20% of agricultural production belongs to the private sector, which has mainly specialized on vegetable, fruit and livestock production. Nevertheless, the overall agricultural production has declined because of not only the adverse weather conditions, but also the loss of output in the Nagorno Karabakh region. ¹⁹⁶

¹⁹⁴ Füsün Dinçer, Zahide Yılmaz, Ayşe Çınar, "Batı Türkistan ve Azerbaycan Cumhuriyetlerinin Sosyo-Ekonomik Yapısı (I)", Türk Dünyası Araştırmaları, İstanbul, April 1993, p. 149.

¹⁹⁵ Ibid,

¹⁹⁶ See, Vildan Serin, "The Economic Transformation Of The New Turkish States Of The Former USSR - Benefits And Obstacles", Türk Dünyası Araştırmaları, August 1994, İstanbul, pp. 16-24.

Unfortunately, not only agricultural but also industrial production (with the partial exception of energy production) has considerably declined between 1990 and 1997. In spite of the fact that the indirect taxes have remained nearly unchanged, the shares of the other branches have increased during this period.¹⁹⁷

It is possible to indicate that the oil sector has started to grow steadily, while the growth of non-oil sector has remained very limited. The inclination of the oil sector has indicated negative values such as -6.7% in 1994; -6 in 1995; -1.6 until 1996 and -3.6 in 1997. There was a drastic expansion which started in 1998 leading to a growth rate of 23.1% in 1998 and 20% in 1999. When the inclination of non-oil sector, that includes agriculture and industry is analyzed a fundamental fall amounting -22% can be discerned. This was a consequence of the war. Nevertheless, the decrease of the growth rate of non-oil sector continued even after the war, by indicating -14.3% in 1995; 1.8% in 1996; 7.8% in 1997; 7.5 in 1998 and 4.7% in 1999.¹⁹⁸

At first sight, the oil and gas of Azerbaijan appear to be a source of wealth, through which it is possible to offer citizens high qualified life, where most of the services are provided by the state for free or at reasonable prices. Within this context, it seems as if it is not possible to talk about strains, which might be imposed upon the state by the issues related to hydrocarbons. Nevertheless, the above mentioned analysis of the contingent influences that are being brought by the commercialization of oil and gas indicate that a contrary trend might also occur. As a matter of fact, it did not take so long for state to be challenged by the contingency of becoming rich in a very short time.

The economic pressures that the state faces can be categorized in two groups, which interact with each other. First of all, the influx of revenues tend to raise the real exchange rates, which in turn decreases the competitiveness of the non-oil sectors. Secondly, the rapid rise of the oil sector, which has been brought by

¹⁹⁷ See, European Commission, Economic Trends Quarterly Issue-Azerbaijan (April-June 1998) Brussels, September 1998.

¹⁹⁸ TACIS, Economic Trends Quarterly Issue Azerbaijan April-June 1998, TACIS, Brussels, pp. 23-24 and IMF, Azerbaijan Republic: Selected...

the foreign direct investments, fundamentally affect the sectoral composition of Azeri economy by endangering the growth of non-oil sector. This is vicious circle, which tends to create a rentier state.

The appreciation of real exchange rates should be attributed a special significance because of its presence in all economic deterioration tendencies. As a matter of fact, the state needs to ease the appreciation of real exchange rates by reducing the demand for foreign capital and limiting domestic demand pressures and/or by raising domestic saving. With regard to public sector, tight fiscal policies are necessary for sustaining not only net savings but also just repayment of external debt and achieving budget surpluses. Household saving is also a critical issue, though it seems a difficult goal to attain under the protective characteristics of the state. Nevertheless, extension of value-added taxes (VATs) and excises, reformation of the pension system, and establishment of a sound banking system tend to promote household savings. Attentive wage policies and reduction of enterprise profit taxation are the factors that are assumed to increase net business sector savings. Liberalization *vis-à-vis* capital accounts tend to contribute to economic development by avoiding the transfer of savings abroad and reduce appreciation pressures. The mentality, in which these measures are taken, determines the success. That is to say, promoting imports may fail so far as the imports are consisted of luxury goods and services. The rent seeking behavior may be retained so far as the investors prefer to earn money from money whether be them through domestic banks or not.¹⁹⁹

With regard to short-term adjustment, the state should be aware that Azerbaijan tends to be vulnerable to short-term recession arising from three facts. First, the real exchange rate has appreciated more than other transition economies. Second, there has been a nominal appreciation. Third, monetary conditions have recently tightened due to the weakness in banking system. In order to preserve macroeconomic stability, the government's medium-term monetary policy aims to reach low inflation with a target of 5–6% maximum. The growth of broad

¹⁹⁹ See, Enhanced Structural Adjustment Facility, Policy Framework Paper, (Prepared by the Azerbaijan authorities in collaboration with the staffs of the Fund and the World Bank) Washington, IMF, 08 January 1999.

money should be restricted within a slow rate for avoiding too strong a reserve accumulation and excessive domestic credit expansion. Otherwise, Azerbaijan may be faced with problems arising from these issues, which have been typical indicators of Dutch disease that was apparent in Ecuador, Indonesia, and Nigeria in the 1970s.²⁰⁰

The state allowed appreciation of manat in nominal terms as a consequence of the authorities' concern about inflationary tendencies. As a result, the central bank sells foreign exchange, when there occurs anticipated inflows in order to limit growth of the monetary base. A search for a non-inflationary monetary policy has constituted the base for the fiscal policy, which addressed to state expenditures. Oil signature bonuses (payments by oil companies when they sign PSAs), external loans, and sales of treasury bills offer the tools for reduction of the budgetary deficits.²⁰¹

With regard to the sectoral development, it should be mentioned that the state should be able to balance the boom of the oil sector by sustaining the rise of non-oil sectors. The non-oil sectors tend to be significant especially for human capital formation. In addition to this, it is explicit that the accumulation of wealth in one sector leads to rent-seeking behavior and extravagant spending, which promote the rise of service sector. Thirdly, a certain amount of diversity in its export sector may help Azerbaijan to minimize its revelation to external shocks such as a drastic fall in world petroleum prices or an agitation of the actors about oil transportation routes. Fourthly, the so called real economy of the non-oil sectors, the manufacturing shortly, may be fundamentally hampered as far as the appreciation of the real exchange rates continue.

The jeopardy, which is being imposed by unbalanced growth based on oil boom, can be eased by implying appropriate macroeconomic and structural policies while avoiding distortive microeconomic intervention, such as imposition of tariff protection or subsidies. Nevertheless, this reality *per se*

²⁰⁰ See, Christoph B. Rosenberg and Tapio O. Saavalainen, "Dealing with Azerbaijan's Oil Boom", Finance and Development, Vol. 35., No.3, September 1998.

²⁰¹ Ibid,

creates a dilemma of the state who is the only agent to carry out the initiatives. That is to say, avoiding the negative consequences of a contingent oil boom can only be realized by the state intervention because there exists no time to raise a private sector that can assume certain responsibilities under market rules. In this sense, it may be useful to designate the musts of the state first, and then its attitude. However, the danger lies in the fact that the state does not have a wide range of options in order to realize these policies. The carry-over of the Communist Party does not tend to impose heavy economic burden to non-public sectors with the hope of acquiring their support. The society, which is very much used to a protective state, tends to ask free and cheap services that are offered by the state.

Besides the negative consequences in terms of economy, it should also be underlined that a rentier state economy model in Azerbaijan will likely to use authoritarianism as a means of legitimacy. Oil revenues may offer Azerbaijan the very chances to reach sustainable development within a democratic environment. It must also be emphasized that oil may turn out to be a catalyst of Azerbaijan's problems, if it does not use the oil revenues effectively. The rentier state economy model does not designate the inexorable destiny of Azerbaijan. Nevertheless, it must be mentioned that oil revenues may lead to drastic consequences as far as they are not used efficiently.

It is clear that Azerbaijan's political economy will be effected by the influx of the oil revenues in the near future. In order to create a sustainable growth model, Azerbaijan has to forward the oil revenues to industry and agriculture. We have argued that Azerbaijan's agricultural framework was very appropriate to develop. Nevertheless, the industry is mainly constituted by the energy sector. Hence, the Azeri state has to transmit the funds to other industrial sectors that is appropriate to the dynamics of the region. The need for a shrewd and honest state is undeniable in this process.²⁰²

²⁰² See, Kiren Aziz Chaudhry, "Economic Liberalization and the Lineages of the Rentier State", Comparative Politics, October, 1994, p. 2.

Azerbaijan has the chances not only to attain a certain amount of wealth, but also to develop its industrial and agricultural sectors while liberalizing its economy within a democratic environment. Its internal dynamics do not only offer a very appropriate framework for attaining at healthy growth, but also gives the Azeri state the very chances to overcome the traces of underdevelopment so far as the state *per se* can be successful at responding appropriately to the economic pressures, which have been imposed by the issues related to oil and gas. Reconstruction of the government, simplification of tax code, privatization and land reforming are the policy options, which affect the extent of the state. Shortly, minimization of the state has been an other goal in a situation where there is an urgent need for appropriate state intervention. In other words, Azerbaijan needs a relatively small but effective state that is committed to a sound transition characterized by development of non-oil sectors by the contribution of the oil sector.

II.3.2. The Attitude of the State against Economic Pressures

Macroeconomic Policies

Azerbaijan's economy suffered from serious macro-economic imbalances which can be best measured through the decline of real GDP around 60% between 1991 and 1995, where high inflation had eroded real incomes, the exchange rate had weakened and international reserves were nearly used up. That is to say, the Azeri state has been suppressed by the negative consequences of the war, which worsened the problems that are assumed to exist in transition economies.

After the war, the state, first of all had to negotiate with the IMF and the World Bank because it was too early to talk about direct contribution of hydrocarbons on the economy. The foreign companies have ceased their investments under the vagueness of the post-war period. Liberalization seemed to be inevitable because of two main facts. On the one hand, the IMF and the World Bank imposed certain structural measures for liberalizing Azerbaijan's economy. On

the other hand, liberalization seemed to be a precondition of attracting foreign companies, who were interested in Azeri hydrocarbons.

Soon after the signing of the PSA of AIOC on September 1994, the Azeri authorities started a comprehensive stabilization program of the IMF, supported by a structural transformation facility in early 1995. That is to say, the state became involved in a stabilization program as soon as the most significant oil project started to be vitalized. The government tightened fiscal and credit policies, and introduced structural adjustments mainly in the areas of exchange and trade liberalization. The results were positive because the nominal exchange rate against the dollar was stabilized, monthly inflation rates were reduced from more than 50% in late 1994 to low single digits in the second half of 1995, and GDP indicated recovery in 1996. This amelioration has been accompanied by a three year arrangement under both the extended fund facility and the enhanced structural adjustment facility (ESAF) signed in 1996. The World Bank also supported this program by offering structural adjustment credit.²⁰³

1997 was the year, in which oil exports from the new projects, mainly that of AIOC, have been started. Structural reformation gained a further impetus since then. The adjustments until 1998 included first a significant strengthening of banking supervision and changes in prudential regulations for commercial banks. Secondly there was a full liberalization of the trade regime. Thirdly came the passage of legislation to improve tax collections. Fourthly, there were the measures to improve accountability in government purchases.²⁰⁴

In addition to these initiatives, the state was asked to complete the restructuring of the four state owned banks, as well as reduction in public sector employment. Improvement of provision of health and education services, transparency of the privatization process and acceleration of large scale privatization were the other issues at hand.²⁰⁵

²⁰³ See, IMF Concludes Article IV Consultation with Azerbaijan Public Information Notice (PIN) No. 98/62, 17 August 1998, Washington, IMF.

²⁰⁴ Ibid,

²⁰⁵ Ibid,

The state had to cooperate with the IMF and the World Bank because it was deprived of the revenues, which were expected from the trade of oil. Azerbaijan involved the policies recommended by the IMF and the World Bank with the hope of attaining the support of foreign companies in order to sell his oil and gas at world markets as soon as possible. As a matter of fact, the liberalization program, which started exactly in the aftermath of the vitalization of the PSA of AIOC, helped Azerbaijan to convince foreign companies that an appropriate environment was coming.

Despite these policy implications, there were certain aspects of the state, which did not coincide with the general demands of the IMF and the World Bank. Azerbaijan has developed internationally accepted definitions of general government as a basis for defining fiscal activity. However, it is very difficult to distinguish the activities of the private and public sectors because of the omnipresence of the state activities. Many government agencies have engaged in commercial activities. In addition, there are many state-owned enterprises that perform both commercial and regulatory functions leading to conflicts of interest, particularly in the areas of mining, transport, and energy. A major restructuring of government is being planned in order to eliminate and/or privatize those non-commercial activities in nature, and to consolidate the regulatory functions that remain within the government.

The intervention of government in the private sector is very far reaching. It is not possible to talk about an adequate clarity and/or transparency of regulations. The public and private sector enterprises, as well as the foreign and domestic enterprises are not treated as equals. The public sector employees consider regulations and licensing as a source of rent, despite a presidential decree in 1999 against intrusive inspections by police and prosecutors. The Law on Police and the Law on Prosecutors, which passed in 1999, are not sufficient to protect businesses from unwarranted investigations.²⁰⁶

²⁰⁶ Report on the Observance of Standards and Codes (ROSC) Azerbaijan Republic, prepared by the IMF Fiscal Affairs Department, IMF Publications, 13 November 2000.

In spite of these problems, it seems possible to talk about the emerging division of responsibilities between different levels of government. Azerbaijan is passing through a process in which the state is trying to establish municipal governments. The laws concerning the responsibilities of the municipal governments do not clearly define their responsibilities or sources of revenue. The Draft Law on Municipal Property indicates the properties of municipal governments. The 1999 Law on Financial Principles of Municipalities (LFPM) identifies the relation between the budgeted expenditures and other items such as local social protection, socioeconomic development, or environmental protection. LFPM also defines local budget revenues, which will include subventions from the state budget. Nevertheless, the criteria for determining the size of the transfers are not provided. Finally, municipalities are given the right to short or long-term credit from domestic financial institutions. However, LFPM also emphasizes that the government will bear no responsibility for covering the obligations of municipalities to credit institutions.²⁰⁷

The vagueness of the issues related to the capacities of the state arise from the fact that the legislative framework does not exactly define the fiscal management roles of government agencies. The current government has a tendency to prepare a budget code that will comprehensively define the fiscal management roles of all concerned agencies. The future role of the newly created Tax Ministry (formerly the State Tax Inspectorate) in the area of tax policy does not seem very clear.²⁰⁸ In contrast to the vagueness of the division of responsibility among other branches of government, the strong power of the executive branch with decision making power concentrated in the Cabinet of Ministers and the president is very clear. The parliament has the power to reject the entire budget, with the condition that the budget does not differ from the one that is proposed by the president. There is a need for developing clear mechanisms for the coordination and management of budgetary and extrabudgetary activities. There is a reserve fund for contingencies (around 1% of the budget) which is controlled by the Cabinet of Ministers. The treasury records how these funds are spent. Three extrabudgetary funds (EBFs) have

²⁰⁷ Ibid,
²⁰⁸ Ibid,

their own budgets which are simultaneously approved with the annual budget. The independence of the Azerbaijan National Bank (ANB), who continues to play a significant fiscal role, is based on The National Bank Act (revised in 1996). This act established the basis for coordination of fiscal and monetary policy, and it does not allow ANB to provide deficit financing. However, the Central Bank provides temporary financing to the government at below market (treasury bill) rates. There is not any transparency concerning the financial relationship between the Central Bank and the Ministry of Finance (MOF). The MOF pays on its debt to the Central Bank with no interest. Similarly, the Central Bank does not pay interest on the government's accounts, including on the account that collects oil-related revenues.

Privatization

Considering Azerbaijan's enigmatic structure, the IMF and the World Bank insisted on the very basic premises of neo-liberal approach, that is to say minimization of the state mostly through privatization. The most critical issue arises from the organic relations in which the state has involved with foreign petroleum companies as well as the IMF and the World Bank. That is to say, whatever the state implies, needs to be compatible with the neo-liberal approach of these actors. Ironically, just like many other issues, the president has been endowed with extreme power concerning the privatization issues. In other words, it is the president who is potent enough to lead to privatization of many strategic enterprises through presidential decrees.

With regard to the neo-liberal pressures of the IMF and the World Bank, it is possible to suggest that the state did not show resistance with the hope of accelerating commercialization process of Azeri hydrocarbons. As a matter of fact, the state involved in progressive initiatives concerning privatization of state owned entities with two concerns. Firstly, the state hoped to answer the demands of foreign actors who imposed neo-liberal regulations as the precondition of unification with the world markets. Secondly, the state planned

to get rid of certain problems such as corruption, mismanagement, inefficiency etc. through selling its entities to private sector.

The first liberalization program had envisaged the privatization of 65% of the assets of the state. 13,000 small enterprises have been sold through cash auctions. More than 500 medium-scale enterprises have been privatized through voucher auctions. That is to say, the program has not been completed because about 80% of medium and large-scale enterprises have remained unprivatized. The slowness of the privatization program was considered to be a consequence of the lack of an appropriate legal framework. The Law of State Property Privatization and the Program of State Property Privatization, was not approved until the end of 1999. At last the parliament accepted the above mentioned privatization program in 2000.²⁰⁹

The current attitude of the government *vis-à-vis* the pressures about privatization has been manifested through “The Second State Program of Privatization of the State-Owned Property”. These programs have been prepared in accordance with the Law of Azerbaijan Republic on Privatization of the State-Owned Property and other legislation acts of Azerbaijan. This program aims to implement privatization of the state-owned property in line with the Law of Azerbaijan Republic on Privatization of the state-owned property, to increase efficiency of the domestic economy through structural amelioration in order to create a competitive environment, to create appropriate strata of private ownership as a basis of transition to market economy, to develop the economy by putting incentives for national and foreign investments, to sell state-owned property in exchange of privatization vouchers to involve maximum number of entrepreneurs in privatization process, and to accomplish the privatization of enterprises and entities included in the privatization programs.²¹⁰

The president led to the creation of Ministry of Economic Development (MED) through a presidential decree activated on April 30 2001, in order to increase the

²⁰⁹ World Bank, <http://www.worldbank.org/html/extdr/regions.htm>

²¹⁰ Ministry of Economic Development of Azerbaijan Republic (MEDAR)
<http://www.economy.gov.az/>

efficiency of the tasks carried out by the liquefied agents such as Ministry of State Property, Ministry of Economy, Ministry of Trade, State Committee for Antimonopoly and Entrepreneurship Support, and Agency of Foreign Investments. This ministry started to carry out the functions of above mentioned agents including the privatization issues.²¹¹

MED categorized the state owned entities in order to accelerate the privatization process. The state-owned properties, enterprises and entities were categorized in four groups, which were compatible with the Law on Privatization. According to this scheme, the property prohibited to be privatized are defined at the first place. Secondly, there are state owned properties, which will remain as such, until a decision about privatization is stated. Thirdly, the properties, which may be open to privatization through a decree of the president are indicated. Finally, the properties that can be privatized through a decision of the Ministry for State Property are shown.²¹²

In accordance with the general political environment, the president is attributed a sort of superiority on privatization issues. As a matter of fact, the president has the power to initiate the privatization process of many strategic enterprises through presidential decrees. This group, which includes the enterprises related to oil and gas business, has been identified as follows:²¹³

- 1- Enterprises and entities serving civil defense and mobilization purposes
- 2- State owned social and cultural facilities, institutions and entities
- 3- Enterprises of popular handicraft, enterprises and facilities of Azerkinovideo
- 4- Production Incorporation and institutions and enterprises of the Academy of Science of Azerbaijan Republic which operate on commercial principles (self financing).
- 5- State owned educational establishments (with exception of state-owned secondary general educational establishments).

²¹¹ Ibid,

²¹² Ibid,

²¹³ Ibid,

- 6- State-owned healthcare institutions and organizations irrespective of source of financing (with exception of institutions and entities prohibited to be privatized and enlisted in the paragraph 2.3. 19 of the State Program II).
- 7- Institutions and enterprises (with exception of healthcare institutions and facilities prohibited to be privatized) of medical industry (including pharmaceutical and enterprises and facilities producing medical-biological substances).
- 8- Engineering infrastructure of towns and regions (including power, heating, gas, water supplies and sewerage system, towns lighting), as well as enterprises for maintenance of this infrastructure.
- 9- Irrigation and amelioration facilities (with exception of amelioration and irrigation facilities of the national importance), facilities for their operation and maintenance, as well as specialized enterprises and institutions involved in their construction.
- 10- Ports, ports facilities and entities.
- 11- Specialized cold-storages, storage facilities providing permanent storage of state and mobilization reserves.
- 12- Enterprises of the fuel-energy sector, including enterprises producing and processing electric energy, oil, natural gas, and oil products distribution centers.
- 13- Gas facilities of national importance, as well as maintenance facilities.
- 14- Chemical, petrochemical and biochemical enterprises.
- 15- Communication facilities, state information and telegraph agencies.
- 16- Television and radio transmission centers.
- 17- Air, sea and river transport enterprises.
- 18- Ferrous and non-ferrous metallurgy, machinery, and metal processing industry, including metal recycling facilities.
- 19- Polygraphic enterprises and printing houses.
- 20- Fisheries, well-bred animals and seeds facilities.
- 21- Construction and construction materials enterprises and facilities of national importance.
- 22- State-owned property beyond the borders of the Azerbaijan Republic.

The state enterprises specialized at oil and gas are within this group, which can become open to privatization by presidential decrees. The privatization of energy enterprises tend to lead fundamental consequences for the state because vertical integration and high degree of government control can be pointed out as the most significant characteristics of the energy sector of Azerbaijan. The government controls three significant energy companies: the State oil Company of Azerbaijan (SOCAR), the power company (Azerenergy), and the gas distribution enterprise (Azerigaz). The government implicitly uses these company as the instruments of policy implementation.²¹⁴ Considering the huge role of these energy companies in Azerbaijan's economy, it may be concluded that the attitude of the state towards these companies will likely to determine the future role of the state concerning not only the energy issues but also the economy as a whole.

As a result of the pressures coming from the IMF, the World Bank and foreign companies, the enterprises which have become open for privatization by presidential decrees included not only those of SOCAR, but also those of AzeriGaz Joint Stock Company (JSC), AzerEnergy JSC, AzerChemistry JSC, Machine-Building Industry, Ministry of Communications, Ministry of Press and Information, "Azerkontrakt", Azerbaijan Airlines, Ministry of Culture, Academy of Sciences, "Azerbalyg" (fish) Concern and "Azneftkimyamash" (AzerOilChemistryMachinery). Amongst all, the privatization of SOCAR enterprises should be attributed a special significance because of their strategic roles for domestic economy as well as commercialization of hydrocarbons. SOCAR grouped the enterprises open for privatization under eleven groups:²¹⁵

1. On Shore Oil- and Gas-Extracting Production Union:

Azerneftlayihetikinti Union, Azerneftlayihetikinti Trust, Repair-Construction Administration, Azerneftenerjiqurashdirmaavtomatika Administration, Workers Supply Union, Pipe Repair Base, Ali Bayramli Pipe Instruments Base, Administration on Exploration of Automobile Roads, Azeroil Automation Enterprise.

²¹⁴ See, Martin, Taube and Tsyvinski, p. 20.

²¹⁵ MEDAR,

2. Off-shore Oil- and Gas-Extracting Production Union:

Central Base of Production Service, Normative-Research Center, "Shelf Oil and Gas Automation" Center.

3. Machine-building Production Union:

Baku Machine-Building Factory "Neftgazmash", Garadag Machine-Building Factory, Azerbaijan Gas Processing Factory, Baku Oil-Mines Instruments Factory, Baku Machine-Building Factory for Oil Equipment, "Neftmash" Repair Factory, Baku Heavy Constructions Factory, Baku Steel-Rope Factory.

4. Azerneftejehizat Union:

Baku Oil Base, Agdam Oil Base, Agstafa Oil Base, Agjabedi Oil Base, Berde Oil Base, Gazakh Oil Base, Dashburun Oil Base, Ali Bayramli Oil Base, Zagatala Oil Base, Imishli Oil Base, Yevlakh Oil Base, Kyurdemir Oil Base, Ganja Oil Base, Goranboy Oil Base, Leki Oil Base, Lenkeran Oil Base, Nakhichevan Oil Base, Base of Oil Products Acceptance and Dispatch, Novogolovka Oil Base, Sabirabad Oil Base, Salyan Oil Base, Tovuz (Govlar) Oil Base, Ujar Oil Base, Khazmaz Oil Base, Horadiz Oil Base, Shemkir Oil Base, Sheki Oil Base, Repair-Construction Administration, Administration of Central Material-Technical Security and Construction Completion.

5. Azerneftyagh Production Union:

Sumgayit Additives Factory.

6. Azerneftyanajag Production Union:

Self-financing Repair-Construction Administration.

7. Oil Pipelines Production Union:

Repair-Construction Administration, Central Base of Production Service.

8. Geophysics and Engineering Geology Production Union:

Special Design Office for Geophysical Instrument Making.

9. On Khazardenizneftsosialtikinti Trust:

Construction-Installing Administration No.1.

10. Azerneftkimyazavodtemir Trust:

Repair-Construction Administrations (No.1,2,3.,4,5,9), Specialized Installing-Maintenance Administration, Specialized Mechanization Administration, Production-Technological Complete Administration, Laboratory for Control of Quality of Welded Joints and Building Materials Auxiliary services.

11. Complex Adjusting and Automation Administration

In addition to SOCAR, the other two state companies AzeriGaz JSC and AzerEnergy JSC announced that certain enterprises have been opened for privatization.²¹⁶ On the one hand, the enterprises of AzeriGaz open for privatization have been stated such as: "Azergazsazlama" Subsidiary Joint Stock Company, "Bakgazmash" Factory, "Gazelektromashsazlama" Administration, Production Unit of Enterprises (in Balakhany Settlement), Ganja Machine-Building Factory, "Negliyyat" Subsidiary Joint Stock Company, "Seyyarmekhgaztikinti" Subsidiary Joint Stock Company (in Garadag Settlement), "Azerigaznegl" Production Union. On the other hand, the enterprises of AzerEnergy open for privatization have been declared as follows: Specialized Azerenergy Network Construction Trust, Azercable Factory (in Mingachevir City) and Building Constructions Factory.

The enterprises of energy sector open to privatization have strategic significance for Azerbaijan. The danger lies in the fact that Azerbaijan does not have an adequate private ownership, which has developed managerial skills.²¹⁷ This inadequacy makes the state stumble between two alternatives both of which seem convenient in the long run. First of all, the state may prefer to develop a private ownership by encouraging it through certain economic incentives.

²¹⁶ Ibid,

²¹⁷ For the consequences of inadequate managerial skills, See, Wiladimir, Andreff "Le contrôle des entreprises privatisées dans les économies en transition: une approche théorique" Revue économique, No. 3, Mai 1995, p. 764.

Nevertheless, lacking managerial skills, the domestic private ownership will remain open to mismanagement and abuse of incentives. Secondly, the state may prefer to increase the stake of foreign companies. This choice may help the state to earn money through privatization while increasing the efficiency of the ex-state enterprises. However, the domestic economy of Azerbaijan will be dominated by foreign capital in this option. This dilemma can be considered as an explanation of slowness of the privatization process despite the above mentioned challenging program.

It is explicit that the state has been oppressed by the pressures invoked by foreign companies and the international organizations such as the IMF and the World Bank. Within this sense, the state did not have much chances to implement development projects because of concerns such as sustaining stability under a certain amount of growth with low inflation, increasing foreign direct investments, and minimizing the state through privatization.

State Revenues

The Azeri state has been looking forward to acquiring an influx of oil revenues since the very beginning of Azerbaijan's independence. It is explicit that the state did not have much policy options other than forwarding some of the revenues coinciding with the pressures coming from the IMF and the World Bank. Nevertheless, it should also be mentioned that the state may acquire a broader range of capacity as far as it may hoard the oil revenues for the purpose of attaining a sound development process. With regard to this policy option, which here refers the valuation and/or manipulation of oil revenues, it is possible to point out that the state has more freedom than the first category mentioned above. When the characteristics of the oil revenues of Azerbaijan are analyzed, it can be pointed out that bonuses earned from foreign companies constituted most of the total revenues extracted from the oil sector. The role of domestic producers and strategic export tax is very limited. Other domestic taxes are also relatively small when compared with the bonuses. To the extent

that the production of Azerbaijan will be carried out by these companies, it seems possible to conclude that the state prefers to put emphasis on externally generated oil revenues.

Table 9- Revenues of Azerbaijan from the Oil Sector (In% of GDP)

	1994	1995	1996
1-Sector specific taxes			
a- Bonuses from foreign companies	0	12.2	3.7
b- Domestic producers			
Royalty	0	0	0
Strategic export tax	0	1	0.5
Surrender requirements	2.1	0	0
c- Excises on petroleum products	0.5	0.6	1.3
Road tax	0	0	0.2
2- General taxes			
Income	0.7	0.7	2.2
Value added tax	0.5	0.3	0.5
Total revenues (including bonuses)	3.8	14.8	8.4
Total revenues (excluding bonuses)	3.8	2.6	4.7

Source: Ministry of Oil and Gas; Ministry of Finance; IMF staff: op. Cit. Dale F. Gray, Evolution of Taxes and Revenues from the Energy Sector in the Baltics, Russia and Other Former Soviet Countries Washington, IMF, March 1998, p. 36.

The state, oppressed by the concerns of different actors, started to gain a sort of autonomy by the help of oil revenues. Within this context, the oil revenues have a special meaning for the governing cadres. Firstly, the state will become capable of realizing its responsibilities by referring to the oil revenues. If Azerbaijan's dependence on tax revenues (*vis-à-vis* oil and non-oil sectors) falls, this will explicitly mean a sort of autonomy gained from the society. Secondly, the state will be able to use these revenues as far as it does not damage the intents of the foreign companies, the IMF and the World Bank. This fact indicates that Azerbaijan tends to involve in a pseudo-liberalism, which leads to structural reforms that are convenient with the demands of foreign companies and international organizations with inefficient sectoral transformation accompanied by perpetuation of power through legal elections.

In contrast to this pessimistic scenario, the state may also choose to transform the externally generated revenues for developing non-oil sectors while sustaining a certain degree of liberalism in accordance with the IMF and the World Bank. It may be possible to forecast the transition of Azerbaijan by elaborating the meaning of oil revenues for the state. Therefore, the second policy option of Azerbaijan indicates the direction towards which the Azeri state is determined to take the economy. In order to better use the oil revenues, the government set up a fund at a special account of the government at the National Bank of Azerbaijan in 2000 by the initiative of Aliyev, the financial source of which has been constituted by 270 million dollars provided by SOCAR. In addition to the payments made by SOCAR, this fund will benefit from oil royalties, signing bonuses and taxes from the oil companies.²¹⁸

The creation of an oil fund is a significant step, which facilitates the implementation of development projects.²¹⁹ Nevertheless, to what extent this fund will provide financial source for public interest is a vague issue.²²⁰ At the first step, this fund can be considered as an impediment, which decelerates overspending. This contribution of the oil fund is very clear in a time where the state is not used to flow of currencies. In addition, a legal status for the fund decreases the possibility of abuse of the revenues for personal interests. Nonetheless, it should also be mentioned that this fund may turn into a source of conflict between Central Bank and government. The functions of Central Bank may be distorted when the president, as the ultimate manager of this fund, may allow outflows, which may affect the issues such as floating of manat. The

²¹⁸ Justin Burke, Azerbaijan Daily Digest, 03 January 2001.

²¹⁹ The Ministry of Economic Development states the development programs of Azerbaijan as follows: The program on development of ferrous metallurgy industry in Azerbaijan (draft); The program on development of machine-building industry in Azerbaijan (draft); The program on development of motor-car construction industry in Azerbaijan (draft); The program on development of light industry in Azerbaijan (the draft is being prepared); The program on development of chemical and petrochemical industries in Azerbaijan Republic for 2002-2006 (draft); The program on development of oil refining industry in Azerbaijan Republic for 2002-2006; The program on development of agrarian-industrial complexes 2002-2005. In addition these programs there are also other draft programs which aims to promote canning industry, tea industry, sugar-beet and sugar production, wine-growing and wine-making, cotton-growing, silkworm breeding, water supply and sewage sectors, development of gas supply and electric energy supply of population in municipal economy of Azerbaijan between 2002 and 2006.

²²⁰ Ugo Fasano, Review of the Experience with Oil Stabilization and Savings Funds in Selected Countries, IMF Working Paper, June 2000.

relation of this fund with budget is also another critical question. In real terms, this fund is a part of the budget, which imposes a crossroads for the state between reduction of taxation and expansion of public consumption and investment or both.²²¹

The state tends to prefer to increase expenditures and investments because Azerbaijan's infrastructure is in a very poor condition. The choice about making investments will indirectly help the government to restrict the appreciation of the real exchange rates by introducing the petrodollars to the market, due to the fact that expenditures on physical capital formation tend to be more import-intensive than expenditures on consumption.²²² Expenditures, whether in the form of consumption or investment, implies an implicit tendency towards mismanagement. That is to say, even if the state decides to implement an industrial development program, the efficient use of revenues can not be guaranteed unless a certain transparency of the fund is sustained. The more the public is aware of the way the revenues are being spent, the more likely it is to complete effective projects. Currently, it is very difficult to talk about a public consciousness about the future effects of the oil revenues, because the citizens, who are used to the idea of strong state, approve state's autonomy as the carry-over of the Soviet regime. Therefore, the state needs to increase the transparency of the fund as far as it is asked by the IMF and the World Bank. Within this context, the transparency of the state about oil revenues is not a concern for a responsible state. Rather, it is an obligation imposed by international organizations.

The Azeri government considers this fund as a part of the budget, which offers the chances to accelerate and ameliorate fiscal reforms. The state emphasizes its commitment to publish not only regular reports on the execution of the state and oil fund budgets, but also detailed reports on tax and customs revenue collections. The government managed to concretize the regulations on the oil

²²¹ "Azerbaijan grappling with prospect of oil wealth dilemma" *The Oil and Gas Journal*, 18 June 2001.

²²² See, Kornelia Krajnyák and Jeromin Zettelmeyer, *Competitiveness in Transition Economies: What Scope for Real Appreciation?*, Washington, IMF Working Paper, 1997/149.

fund budget and a memorandum of understanding between the Oil Fund and the Ministry of Finance through a presidential decree. This decree sustained a closer coordination between oil fund and state budgets in terms of preparation, execution, audition and reporting. The recent approval of a revised law on the Chamber of Accounts, giving it authority to audit all government bodies, including all budgetary and extra-budgetary funds also contributed to the well management of the oil fund.²²³ Restriction of the exchange rates, development of non-oil sectors and prevention of rent seeking behavior can be sustained by the projects, which are financed by this fund. Nevertheless, there also exists a possibility in which the fund may turn into a mechanism for the manipulation of oil revenues for personal interests, where the regime is being legalized by a sheer allocation of resources through populist policies. Corruption of certain tax and customs officials seems to be a critical problem. The government tries to reduce the scope of illegal activity.²²⁴ Within this context, it attempts to ameliorate the transparency of tax administration. The qualification of the staff is being increased by the replacement of the less qualified ones.

II.4. Azerbaijan: State's Competitive Accelerated Adjustment

The Azeri case demonstrates, how issues related to oil and gas have been drastically effective in the destiny of a country by shaping not only the politics, but also the economy as a whole. The state, who has been oppressed by the problems of the Soviet legacy, found itself in an enigmatic web of incidents in which hydrocarbons are the central theme. The main concern of the state was realizing Azerbaijan's transition process through trade of oil and gas, with least possible Russian domination.

If the state had decided to continue the idea of closed economy with few trade partners such as Russia, then it would be difficult to talk about liberalization in terms of both democracy and economy. Nevertheless, the will of Azeri state to

²²³ See, Letter of Intent of the Government of Azerbaijan, submitted to the IMF on 06 February 2002.

²²⁴ See, IMF's Report on the Observance of Standards and Codes...

decrease Azerbaijan's dependence of Russia invoked a closer relationship between government and international actors such as petroleum companies, the IMF and World Bank. Interestingly it is also these actors, which impose a necessity of liberalization upon Azerbaijan with the goal of sustaining an appropriate environment, in which it may be possible to integrate the oil and gas of Azerbaijan with the world markets.

The Azeri state considers hydrocarbons as a tool, which not only decreases its dependence on Russia, but also promotes economic growth. This approach of the state has become very explicit by its policies for increasing oil production by attracting foreign direct investments. Consequently, the initial structural reforms have been formed by a relatively liberal perspective with the hope of preparing an appropriate environment for foreign companies, that were involved in projects in 1995 and production in 1997.

The rising production started to bring other pressures to the state, who was trying to cope with the problems exacerbated by the issues related to hydrocarbons since the very beginning of Azerbaijan's independence. On the one hand, the state tried to resist external pressures by balancing the national interests of Azerbaijan with the demands of foreign petroleum companies and countries such as Russia, Iran and Turkey. This attempt has especially affected the political policies of the state. On the other hand, the state attempted to restrict the negative consequences of an oil boom on domestic economy within the infrastructure imposed by the IMF and the World Bank. Naturally, economic policies of the state were shaped along the will of the state to acquire petrodollars, while restricting the negative influences of the influx of revenues with respect to the demands of the IMF and the World Bank.

The state adhered to oil and gas in order to realize its goals. Conversely, it was asked to minimize itself through macroeconomic adjustment accompanied with privatization which closely interested the oil and gas industries. Consequently, the state, which aspired to attain oil revenues as soon as possible while

decreasing Azerbaijan's dependence on Russia had no other way than involving in policies compatible with the demands of multinational companies, the IMF and the World Bank.²²⁵

This dilemma of the state indicates that the interaction between the socialist legacy of the state and the external pressures determines the attitude of the state about transition through hydrocarbons.²²⁶ All the issues of this period show that it is very imperative to characterize the attitude of the state concerning the transition of Azerbaijan through hydrocarbons in order to understand the path in which Azerbaijan Republic has entered in the aftermath of the disintegration of the former USSR. That is to say, the manner of the Azeri state needs to be characterized along contingent attitudes, which constitute the responses against a possible oil boom. It is possible to conclude whether the Azeri state's attitude is congruous with neo-mercantilist adjustment, defensive market response or competitive accelerated adjustment.²²⁷

The attitude of the state obviously can not be identified with neo-mercantilist approach because of its will to reach at the world markets by collaborating with foreign companies and other countries. On the contrary, the state wishes to replace the closed trade structure of the former Soviet Union by an open economy strengthened with low barriers and tariffs. The state has entered into a period in which democracy and liberalization have started to be relatively reinforced when compared with the past.

Nevertheless, it should also be mentioned that the state, which has been suppressed by the interaction among national interests, the demands of foreign companies and the pressures coming from international organizations as well as Russia, did not have much chance to implement its projects freely. In other words, the attitude of the state can not be considered as defensive market

²²⁵ IMF Concludes 2001 Article IV Consultation with the Azerbaijan Republic, Washington, Public Information Notice No. 02/24, 08 March 2002.

²²⁶ For the domestic responses to external shocks see, Eduardo Engel and Patricio Meller, (eds.) *External Shocks and Stabilization Mechanisms*, Washington, John Hopkins University Press, 1995.

²²⁷ See, Ikenberry, "The Irony of State..." pp. 110-111.

response because the state agents intervene in the economy in order to make certain adjustments. There exist significant amounts of subsidies. Both of the policies result as a consequence of the post-Soviet characteristic of the state, which invokes it to stray from the neo-liberal demands of the IMF and the World Bank.

Nonetheless, it will be an exaggeration to refer to the state as an insubstantial agent which is responsive to the demands of external powers with less regard to national concerns. Rather, these initiatives have been a concern of the government, Aliyev more truly, to sustain a balance among the national interests of Azerbaijan, external pressures and Russian interests. Within this sense, the attitude of the Azeri state can be summarized as an attempt to make oil exports more competitive under Azerbaijan's continued dependence on external actors, which referred to the replacement of Russian domination by multinational companies under the guidance of the IMF and the World Bank. To the extent that the government wanted to accept higher prices while trying to make national use of energy more efficient, the state's strategy can be called as competitive accelerated adjustment.

The market orientation of Azerbaijan from competitive accelerated adjustment will be shaped along the state's relations with the IMF and the World Bank. As a matter of fact, in its letter of intent submitted to the IMF, the government expressed the positive will of the state to act in common with the staff of the IMF, World Bank and the European Bank for Reconstruction and Development (EBRD) by adopting a comprehensive program designed to strengthen financial discipline in the energy sector. This program was very ambitious by including critical issues such as sustaining transparency about the subsidies previously provided by SOCAR to the electricity and gas utilities through reports on the consolidated government budget, the identification of consumption ceilings for budgetary organizations, with instruction given to the utility companies to disconnect service after the ceiling has been reached, the use of payment cards for utility payments, the provision of adequate compensation in the state budget for needy citizens previously entitled to discounts on utility fees, and the

elimination of all preferential tariffs for utility and transport services, measures to increase the efficiency of the electricity plants, and full switch of thermal power plants to the most economical fuel source, the restructuring and privatization of the utility companies, the restructuring of SOCAR, the gradual elimination of the spread between the domestic and export prices for oil and natural gas, and the analysis, and revision as necessary, of tariffs.²²⁸

The Azeri government indicated its will of realizing an incorporation between subsidies previously provided by SOCAR to the utility companies and state budget starting at 2003. 2002 is considered as a starting point for efficient use of oil revenues and its transparency. Within this context, the government wants to recognize these subsidies which are outcomes of the policies of SOCAR, who receives tax credits for any fuel provided to the utility companies but not paid for by them. In order to increase transparency, these subsidies and tax credits will be included in quarterly public reports describing how the consolidated government budget is being managed. In addition, the government purged the preferential tariffs for utilities and transport. In order to overcome the collapse of certain enterprises, subsidies from the state budget have been provided.

All these issues indicate that Azerbaijan tends to move a more market oriented path. Nevertheless, it should also be mentioned that the attitude of the state may be limited with competitive accelerated adjustment by the influx of oil revenues which will offer the government a more flexible policy option with less regard to the demands of the IMF and the World Bank.

The state's initiative concerning competitive accelerated adjustment may impose a semi-rentier understanding, where the oil revenues help the governing elite to perpetuate their domination while sustaining a certain degree of economic growth accompanied by quasi-liberal policies. The government's initiative to create an oil fund in order to restrict the negative consequences of a possible influx of oil revenues, may help the state to expand its area of mobility. It is not clear to what extent the revenues will be used for the rise of non-oil

²²⁸ Letter of Intent of the Government of Azerbaijan, 06 February 2002.

sectors without being manipulated for personal interests. The norms and regulations, which are accepted as the main pillars of western type of democracy do not completely exist in Azerbaijan, where the carry-over of the former Communist Party has extensive control over politics and economy by the virtue of the socialist legacy strengthened by the contribution of oil revenues. This is a natural consequence of the amalgamation between the state power and domination of energy issues in almost every aspect of life.

Indeed, the interaction between the state power and energy issues became evident by the proposal of new constitution that has been approved by a popular referendum in August 2002 by 97% of the voters.²²⁹ The new constitution aimed to increase the capability of the president about two issues. On the one hand, the presidency expanded its capabilities about involving in international agreements which facilitated the implementation of certain policies concerning the relations with foreign petroleum companies. On the other hand, the president acquired the right to appoint his successor in certain circumstances such as illness. Shortly, the new constitution was arranged in order to strengthen the regime viability of Aliyev while accelerating the process of international agreements.²³⁰

The tendency of Aliyev to consolidate power has become more clear by proving that there are certain differences not only between the government and the opposition but also among the members of the governing elite. The will of Aliyev to guarantee a certain space for not sharing the power with other sects inside and outside the government can be considered as a natural outcome of his distrust. Aliyev, who managed to balance the national interests of Azerbaijan with competing external actors, involved in certain amendments in constitution for guaranteeing his regime's viability in the future. That is to say, Aliyev tries to consolidate power in the domestic arena despite the commitment of the government to minimize the state under the pressures coming from the IMF and the World Bank. If the government completes its privatization program, and

²²⁹ Despite the opposition's objection about unfairness of this referendum the international observers claimed the opposite. See, "Aliyev Referandumundan Ezici Evet Çıktı" Hürriyet, 26 August 2002, p. 16.

²³⁰ See, "Azerbaycan'da Halk Oylaması" Cumhuriyet, 25 August 2002, p. 11.

manages to implement the policies, which were mentioned in its letter of intent submitted to the IMF, then the minimization of the state will be sustained. Meanwhile, the president is steadily increasing its autonomy by consolidating power through presidential decrees and popular votes. This contradictory situation proves that the current cadres of the state is trying to sustain their existence by consolidating power in the domestic arena while acting harmoniously with foreign petroleum companies, the IMF and the World Bank, even though such collaboration necessities minimization of the state through privatization and macroeconomic adjustments. This trend, which indicates a smaller but stronger state, is being carried out successfully under Aliyev's regime by not underestimating the national interests of Azerbaijan through a competitive accelerated adjustment that coincides the interests of all the concerned parties. Nevertheless, Azerbaijan's commitment to market oriented reforms take place with the rising power of the presidency as the sole source of authority. The absolutist characteristics of the state raises a certain amount of vagueness about the post-Aliyev period, which might be defined as the lack of balance between Azerbaijan's national interests and the concerns of external actors such as foreign petroleum companies, the IMF and the World Bank.

CHAPTER III

STATE HYDROCARBONS AND TRANSITION IN KAZAKHSTAN

III.1. State and Hydrocarbons

III.1.1. The Role of Hydrocarbons in State's Attitude

The independence of Kazakhstan was proclaimed later, when compared with the other Soviet republics. Kazakhstan was acting incongruous with Russia in order to sustain the territorial integrity of the USSR prior to the disintegration process. This coincidence was apparent especially in the harmonious cooperation between Nazarbayev and Gorbachev for the implementation of the reforms while keeping the Soviet Union together. Consequently, Kazakhstan has been the last Soviet republic, who proclaimed its independence on 16 December 1991 only after the hopes for a possible reintegration were eradicated by the nationalist movements in the Baltics and the Caucasus. It is explicit that Russia was, and tends to be, a significant actor who directly affects the attitude of the governing elite both internationally and domestically. There are many reasons, which bind Kazakhstan and Russia together. Politically, the Soviet supreme was very effective in Kazakhstan by the closeness of the Kazakhstani elite to Russia under the patronage relations of the *nomenklatura*.²³¹ Prior to the disintegration of the USSR, Kazakhstan has already turned out to be an example of success in which Russia could sustain a close loyalty of a Soviet republic by manipulating certain cadres through the Communist Party. After the disintegration of the USSR, the state of Kazakhstan was the carry-over of the former Communist Party, the members of which had been very familiar with the patronage

²³¹ See, Saule Baycaun, "Bağımsızlıktan Günümüze Kazakistan İç Politikası ve Demokrasi Yolundaki Gelişmeler", Avrasya Dosyası, Vol. 7, No. 4, Winter 2001-2002, pp. 70-72.

relations of the *nomenklatura*.²³² Within this sense, the Kazakh state resembled to the other post-Soviet cases where the patronage relations among the carry-over of the former Communist Party were very effective in shaping the general environment.

Economically, Russia was, and still is, the biggest trade partner of Kazakhstan as an importer of the natural resources in exchange of almost all types of goods and services. Before the disintegration of the USSR and during the first years of 1990s, the economic dependence of Kazakhstan upon Russia has forced this Central Asian republic to provide not only most of the industrial goods from Russia but also import about 60% of its basic goods such as meat, milk, grain etc. from other Soviet republics (mainly Russia). Kazakhstan forwarded its resources to other republics under the price policies of the Soviet regime, which was favoring industrial production rather than energy input products such as oil and gas.²³³ In fact, Kazakhstan was sending its oil and gas to Russia who was not only supplying the domestic demands of other Soviet republics but also selling to East European countries.

Many problems specific to Central Asia exist in Kazakhstan.²³⁴ Along with the essential economic and political dependence of Kazakhstan on Russia, the ethnically mixed structure of this central Asian country increases the role of its former metropolis. The situation of the Kazakh state differed from the neighboring Central Asian republics by the presence of the Slavic population, which intensified the Russian effect on the government.²³⁵ Hence, the Slavic

²³² Ibid,

²³³ Anar Somuncuoğlu, Kazakistan ve Özbekistan Ekonomileri Geçiş ve Büyüme Stratejileri, Ankara, Asam, 2001, pp. 44-50.

²³⁴ See, Pınar Akçalı, “Orta Asya Türk Cumhuriyetlerinin Bağımsızlık Dönemi Temel Sorunlarına Genel Bir Bakış,” in Emine Gürsoy Naskali and Erdal Şahin (eds.) Bağımsızlıklarının 10. Yılında Türk Cumhuriyetleri, Netherlands, SOTA Publications, 2002, pp. 17-33.

²³⁵ The majority of the population has been consisted of non-kazakh population in the aftermath of the independence of Kazakhstan. The population has been constituted by Kazakhs 44%; Russians 36%; Ukrainian 5% ; others 15% Reports on the Central Asian States, TICA, Ankara, 1994.

population of Kazakhstan turned out to be a very significant factor, which perpetuated the economic and political influence of Russia in this region. The members of the *nomenklatura* influenced by the Russian culture and the Slavic population familiar to the Russian culture were among the basic factors, which invoked the government not to ignore certain interests of Russia in the international domain and certain rights of the minorities in the domestic domain. The state was aware of the fact that any ignorance of the basic interests of Russia, especially concerning the energy issues, could exacerbate the ethnic conflicts among the Slavic population who were living in the northern region.

Within this structure, the issues related to hydrocarbons have started to shape directly the attitude of the state since the first day of Kazakhstan's independence. Firstly, energy issues led to the first initiative of the Kazakh government to negotiate with the multinational companies. In other words, new actors started to become effective on the state attitude. The state started to make bargains with Chevron, who had long ago indicated its interest in the giant Tengiz field by negotiating with the Soviet regime during the 1980s.²³⁶ The agreement between Kazakhstan and Chevron concerning the development and exploitation of the Tengiz field was vitalized in 1993.²³⁷ The government and Chevron have cooperated harmoniously with respect to vital issues such as not only the rights and responsibilities of Chevron but also about not damaging the basic Russian interests.²³⁸ The projects of Karachaganak and Kashagan have also been vitalized within the same perspective, which offered mutual benefits to Kazakhstan and the multinational companies while not hampering the basic interests of Russia. Since then the concerns of many actors to commercialize the Kazakh hydrocarbons became very effective in the general political and economic environment of Kazakhstan.²³⁹

²³⁶ Lisovsky, Nickolie N., Gognenkov, G.N., Petzoukha, Yuri A., "Soviet Union's Tengiz Field: a Pre-Caspian depression giant oil, gas accumulation," *Oil and Gas Journal*, Vol. 88, 17 September 1990, pp. 88-94.

²³⁷ See, Richard H. Matzke, (President, Chevron Overseas Petroleum, Director & Vice President, Chevron Corporation) *Caspian Oil: Cooperation or Competition?* Paper presented at the Caspian Oil & Gas Summit, Centre for Global Energy Studies, London, England, 4 November 1998.

http://www.cai.ch/COT/indoc_EPR981104.htm

²³⁸ Ibid,

²³⁹ Ibid,

This was the beginning of a new era in which multinational companies started to become more influential. In terms of the state, cooperation with multinational companies had a special meaning. Firstly, the trade of oil and gas at the world markets could decrease the dependence of Kazakhstan on Russia. In addition, Kazakhstan could become a prosperous country by the influence of foreign direct investments and the revenues of hydrocarbons. In order to attract foreign direct investments, Kazakhstan was obliged to implement a liberalization program concerning the legal framework, privatization and minimization of the state. In other words, the neo-liberal policies of the international organizations such as the IMF and the World Bank started to spread in Kazakhstan by the concern of the state to commercialize the natural resources at the world markets by cooperating with the multinational companies. Selling the hydrocarbons at the world markets was bringing the necessity of a very subtle attitude of the state in which all the concerned parties needed to be satisfied. To concretize, the state had to fill its commitments not only to the multinational companies and non-governmental organizations but also to Russia and Kazakhstani citizens.

The intention of the state to cooperate with the multinational companies imposed upon Kazakhstan new responsibilities. On the one hand, the state seemed eager to liberalize Kazakhstan both economically and politically. On the other hand, the state *per se* needed to restrict liberalization from time to time in order not to endanger its existence. The transition from socialism to liberalism appeared to be a very difficult task for the state, who aimed to sustain a balance among the demands of Russia and multinational companies, the neo-liberal pressures of the IMF and the World Bank, and the national necessities. That is to say, along with the necessity to balance the Russian demands and the neo-liberal pressures, the governing elite had to acquire a certain amount of popular support in order to guarantee its existence through democratic elections. The state had to compromise the national interests with the demands of Kazakhs and Russians who constituted the two main ethnic groups of Kazakhstan. The state had constructed a national identity based on Kazakhstani citizenship. In addition, the state had to sustain a certain amount of progress towards welfare in order to perpetuate its popular support of different ethnic groups. The state

could cope with these problems by sustaining its role as a central agent. Consequently, the government has attempted to consolidate its power despite the neo-liberal pressures in order to create a balance among different actors. First, the cadres who were controlling the state apparatus legalized their power through national elections. This has been indispensable not only for gaining international support but also for proving legitimacy to the Kazakhstani citizens composed of different ethnic groups. Secondly, the lack of the bourgeoisie increased the role of the state as the only agent who could sustain economic growth and democratization. The absence of other agents offered the chance to sustain its operational capabilities despite a wide range of privatization program.

These concerns of the state can be considered as the reflection of its extended responsibilities in the post-Soviet era. The power of the state has started to increase in an era in which transformation of the socialist structure into liberalism was minimizing the domain of the state. The positioning of the state should be analyzed with regard to two aspects. First, the equilibrium among the demands of Russia, multinational companies, the neo-liberal pressures and the domestic necessities explicitly offers the governing elite to perpetuate its regime legitimately. Secondly, the cadres who control the state apparatus are aware of the fact that disequilibrium among these poles results in a decrease of their power eventually.

Under normal conditions, it could be extremely difficult to compromise the demands of the external actors and the neo-liberal pressures with the Soviet legacy while sustaining the domestic support through national elections. Nevertheless, the Kazakh state could not only sustain a balance between external demands and various pressures but also intensified its power even under an extensive program of privatization. In other words, the physical structure of the state started to diminish while its domestic power and capabilities were increasing. The state contained a sort of weakness in the international arena by offering concessions to Russia, multinational companies and non-governmental organizations such as the IMF and the World Bank. Domestically, the state who is considered the main engine of the socialist

economy continued to be the most potent agent of the economy in the transition period by consolidating its political power. This has become possible by the ability of the state to wisely manipulate the rich natural resources of Kazakhstan. Nevertheless, this manipulation should not be interpreted in terms of corruption and/or personal interests. Rather the state could answer the demands of Russia and multinational companies, the neo-liberal pressures and the domestic necessities by benefiting from the natural resources mainly from oil and gas.

It is possible to suggest that Kazakhstan differed from the other transition economies by the virtue of its rich reserves of hydrocarbons, which turned out to be the tool of the state. In terms of the international aspect, the oil and gas have become the devices of the Kazakh government in its negotiations. This was a significant weapon of Kazakhstan to use in its bargains with Russia and other external actors. In addition, the state could fill the gap formed by the neo-liberal pressures by using the revenues of hydrocarbons. In other words, externally generated revenues helped the government to overcome the economic problems created by extensive liberalization within a socialist understanding. With regard to the domestic aspect, the government knew that the expectations of citizens could be satisfied by increasing the quality of life and/or by realizing the hopes of becoming a prosperous country in the future while not exacerbating the differences among the ethnic groups (especially between the indigenous Kazakhs and the Slavic population). The contribution of the hydrocarbons in the form of direct foreign investments and revenues obtained from the trade of oil and gas served on behalf of the state by creating a sort of domestic support.

Within this context, the government started to manipulate the issues related to oil and gas as a device to optimize the interests among Russia, other external actors and the domestic necessities. The influence of hydrocarbons on the positioning of the state in an environment characterized by the interaction among the demands of Russia and the multinational companies, the neo-liberal pressures and the domestic necessities are becoming more apparent in coincidence with the expansion of the energy sector through direct foreign

investments in the fields of oil and gas. It should be mentioned that the projects of production and transportation of oil and gas offer the governing elite the chance to strengthen its viability by sustaining equilibrium among the external actors and the domestic necessities. Currently, this policy of the government coexists with a rapid rate of liberalization when compared with the other transition economies. The state does not seem to be afraid of the neo-liberal policies, which tend to minimize its scope by knowing that its power will be condensed by the contribution of hydrocarbons. In fact, the government has involved in an extensive program of liberalization, which included a large-scale privatization, the reconstruction of the banking system and the flourishing of private ownership. These neo-liberal reforms have been necessary for attracting the foreign direct investments in the energy sector. The demands of Russia could also be eased by offering this country stakes from the projects of production and transportation. With regard to the domestic necessities the contribution of the direct foreign investments and revenues of oil and gas could ease the burden of the IMF led policies. Having fulfilled these obligations through a balance of powers strategy, Kazakhstan quickly became an attractive opportunity for foreign investors when compared with other oil producing CIS members. Kazakhstan proved better indicators when compared with the bureaucratic quagmire and excessive taxes of Russia, political vagueness and unsatisfactory results obtained from exploratory prospects of Azerbaijan, inconsistent oil and gas policy as well as isolationist regime of Turkmenistan.²⁴⁰

The success of the government did not arise from its ability to implement the recommendations of the IMF and the World Bank, but rather its ability to sustain equilibrium among the demands of Russia and multinational companies, the neo-liberal pressures and the domestic necessities. This equilibrium has also impeded the regional power incumbents to interfere in the domestic affairs of Kazakhstan with the partial exception of Russia. In other words, Kazakhstan has not been confronted by the negative consequences of the competition among external actors such as Russia, Iran and Turkey to control the Caspian

²⁴⁰ Kurt S. Abraham, "Kazakhstan more energetic than most of FSU" World Oil, 01 November 1999.

hydrocarbons because of its commitment not to underestimate the Russian interests while adhering to the necessity of liberalization for the commercialization of hydrocarbons at the world markets. Consequently, Kazakhstan has become one of the most successful transition economies not only in terms of its level of liberalization but also in terms of its relation with Russia and multinational companies.

III.1.2. The Characteristics of the Kazakh State

Most of the members of the Soviet governing elite in Kazakhstan perpetuated their power by transforming their former posts into new positions in coincidence with the necessities of the emerging post-Soviet republics. Similarly, the members of the former Communist Party could manage to retain their strategic positions in the state branches of Kazakhstan after the disintegration of the USSR. Firstly, these cadres used their power coming from being a member of the former Communist Party. Secondly, there were no other technocrats, who could fill the positions of the Soviet governing elite. This structure enabled the Soviet governing elite to fill the post-Soviet cadres not by a process of replacement or reconstruction but through a move from socialism towards liberalism. Consequently, the power scheme during the first years of Kazakhstan's independence resembled to that of the Soviet period with the exception of the general elections. The governing elite felt the necessity of consolidating its existence by referring to the results of general elections. Legal national elections were necessary for the legitimacy of the government not only in terms of a basic democratic rule, but also in terms of a necessity arising from the ethnically mixed structure of the country, where a considerable amount of Slavic population have been living together with the indigenous Kazakhs.

14 oblasts (oblystlar) and three cities (qala) constitute the administrative structure in which the state executes its activities by serving to citizens from

different ethnic origins.²⁴¹ These regions differ from one another in terms of their ethnic structures: the Slavic people live on the northern parts, while the native Kazakhs live in southern Kazakhstan. Within this scheme, the administrative structure has been based on a regional distinction composed of the Southern Kazakhstan (The Greater Juz²⁴²), Northern and Central Kazakhstan (The Middle Juz) and Eastern Kazakhstan (The Smaller Juz). The Greater Juz has been constituted by the nomadic Kazakhs, whose nationalistic feeling seem to be stronger.²⁴³ This part is relatively less developed than the other regions because of its rural characteristics. The Middle Juz, which lies along the Russian border, has been more developed than the other regions with its urbanized characteristics. Most of the Slavic people, who live in this region, increase the average level of income, employment, etc. of this region. The Smaller Juz, which lies in the eastern part of Kazakhstan, is characterized by a dual structure. Despite its being poorest region of Kazakhstan it contains the richest reserve of hydrocarbons.²⁴⁴

The most significant specificity of the administrative structure arises from the fact that the Slavic citizens, who comprise almost half of the population live in the rich north by controlling the strategic positions in industry and trade. On the contrary, the native Kazakh citizens take place in poorer regions, which are essentially rural.²⁴⁵ Although there are rich hydrocarbon reserves along the Caspian Sea, the southern part remained undeveloped by the policies of the central regime that preferred to industrialize the northern regions and considered

²⁴¹ The name of the Administrative divisions and their administrative centers are the same (exceptions have the administrative center name following in parentheses) Administrative divisions: 14 oblystar (singular - oblysy) and 3 cities (qala, singular - qalasy)*; Almaty, Almaty (qalasy – city), Aqmola (Astana), Aqtobe, Astana(qalasy – city), Atyrau, Batys Qazaqstan (Oral), Bayqongyr(qalasy – city), Mangghystau (Aqtau; formerly Shevchenko), Ongtustik Qazaqstan (Shymkent), Pavlodar, Qaraghandy, Qostanay, Qyzylorda, Shyghys Qazaqstan (Oskemen; formerly Ust'-Kamenogorsk), Soltustik Qazaqstan (Petropavl), Zhambyl (Taraz; formerly Dzhambul) in 1995 Kazakhstan and Russia have entered into an agreement whereby Russia would lease for a period of 20 years an area of 6,000 sq km enclosing the Baykonur space launch facilities and the city of Bayqongyr (Baykonyr, formerly Leninsk) See, CIA The World Fact Book, 2001.

²⁴² Juz: Horde

²⁴³ Roland Dannreuther, Creating New States in Central Asia, ADELPHI, Paper 288, London 1994, p. 44.

²⁴⁴ Ibid,

²⁴⁵ See, Patrick Conway, "Kazakhstan: Land of Opportunity", Current History, Vol. 93, No. 582, April 1994.

the south as a rural area whose main function was to provide the inputs. As a matter of fact, the oil and gas have been transported towards north and towards Black Sea.²⁴⁶

On the one hand, this dichotomy based on ethnic lines appears to be a potential danger, which could increase the discontentment among the native Kazakhs by exacerbating nationalistic feelings. On the other hand, it should be mentioned that the ethnic composition of Kazakhstan might become an advantage of the government if it manages to create a liberal idea of citizenship, which comprises both of the ethnic groups by decreasing the regional inequalities. The Soviet tradition seems to be a common ground, which eases the differences among the ethnic groups. The traditional power structure of Kazakhstan did not change in the aftermath of the disintegration of the USSR. The former members of the Communist Party were reelected as the governing elite by getting most of the popular votes.²⁴⁷ In other words, regardless of their ethnic origins, the Kazakh citizens explicated their trust and/or need for these cadres. The relations of the former members of the *nomenklatura* and the population at large constitute the carry-over of the traditional power structure of Kazakhstan. Even though the maintenance of the traditional power structure seems to deviate from the generally accepted democratic norms, it should be mentioned that these cadres were used to govern the republic by not manipulating ethnic origins.

Having identified the general characteristics of the administrative structure and its interaction with the regional differences concretized along ethnic lines, it now seems necessary to refer to the basic characteristics of the governing cadres, who dominate the state apparatus and therefore the republic. The president, who possesses essential capabilities, is elected by popular vote for a period of seven years. Being a member of the former Communist Party was also a significant condition of the presidency in the Kazakh case. Known as an ardent defender of the Soviet Union, Nursultan A. Nazarbayev was appointed by Mikhail Gorbachev as Communist Party leader of Kazakhstan in late 1988.

²⁴⁶ CIA...

²⁴⁷ See, Central Asia Newsfile, Vol. 2, No. 2, February 1994, p. 29.

Nazarbayev, who was the former chairperson of the Supreme Soviet in 22 February 1990, turned into the president through the results of the national elections held on 1 December 1991.²⁴⁸

A national referendum organized on 30 April 1995, extended the presidency of Nazarbayev until 2000. This referendum also allowed the president to appoint the prime minister and the first deputy prime minister. The last elections organized on 10 January 1999, one year earlier than its normal schedule, have already offered Nazarbayev to consolidate his power for another seven years until 2006. According to the results, Nazarbayev has been reelected as the president by getting the 81.7% of the votes while the rest of the votes have been partitioned among the opposition as Serikbolsyn Abdildin 12.1%, Gani Kasymov 4.7% and others 1.5%.²⁴⁹

A presidential decree extended the power of Nazarbayev by allowing the president to make constitutional amendments, to appoint and dismiss the government, to appoint and dismiss the administrative heads of regions and cities and to dissolve the government. Consequently, Nazarbayev appointed not only the Prime Minister Kazymzhomart Tokayev but also the cabinet formed by the Council of Ministers. The executive power of the president was also extended by his supremacy over the legislative branch. The Senate and the Majilis constitute the bicameral Parliament. The president appoints seven of the 47 senators, the rest are elected through popular elections. Each of the former oblasts and the former capital Almaty elect two senators to serve for a period of six years. The 77 seats of the Majilis are popularly elected to serve a period of five years.

Currently, the bicameral Parliament is consisted of representatives, who were determined according to the results of the elections for the Senate and the Majilis in 1999 on the one hand, and according to the appointments of the

²⁴⁸ CIA...

²⁴⁹ Ibid,

president on the other.²⁵⁰ The president has organic relations with most of the members of the Parliament. The independents have 34 seats. Nevertheless, it should also be mentioned that the enterprises and the institutions, which have direct connections with the government, support most of the independent candidates.

The political evolution in the first decade of the independence of Kazakhstan indicated that the president was increasing his power despite the implementation of neo-liberal policies. In other words, the liberalization of Kazakhstan should be analyzed in terms of two aspects. On the one hand, the state started to consolidate power by the operational capabilities of the president through presidential decrees. Although there exists a large range of political activities, the president seems to hoard almost all the power.²⁵¹ On the other hand, a large program of liberalization concerning privatization, and reconstruction of financial system including the banks was vitalized. Therefore, there exist important differences between the levels and essence of political and economic liberalization. This contrasting situation is one consequence of the policy of the government in its attempt to sustain equilibrium between the Soviet tradition and the neo-liberal pressures. As a matter of fact, the state who had to accept the neo-liberal recommendations of the multinational companies, the IMF and the World Bank in order to attract foreign direct investments especially in the energy sector, referred to the Soviet tradition and consolidated power in order to sustain its viability which in turned favored the vital Russian interests.

²⁵⁰ The seats of the Majilis have been partitioned as follows: Independents 34, Otan 23, Civic Party 13, Communist Party 3, Agrarian Party 3, People's Cooperative Party 1. See, CIA...

²⁵¹ Active political parties and their leaders can be pointed out as follows: People's Unity Party or PUP [Nursultan A. NAZARBAYEV]; Agrarian Party [Romin MADENOV]; Alash [Soverkazhy AKATAYEV]; AZAMAT Movement [Petr SVOIK, Murat AUEZOV, and Galym ABILSIITOV, cochairmen]; Civic Party [Azat PERUASHEV, first secretary]; Communist Party or KPK [Serikbolsyn ABDILDIN, first secretary]; Forum of Democratic Forces [Nurbulat MASANOV, Deputy Chairman of the Republican People's Party of Kazakhstan (RNPk); Amirzhan KOSANOV, RNPk activist; Seidakhmet KUTTYKADAM, Orleu Movement; cochairmen]; Labor and Worker's Movement [Madel ISMAILOV, chairman]; Orleu Movement [Seidakhmet KUTTYKADAM]; Otan [Sergei TERESCHENKO, chairman]; Pensioners Movement or Pokoleniye [Irina SAVOSTINA, chairwoman]; People's Congress of Kazakhstan of NKK [Olzhas SULEIMENOV, chairman]; People's Cooperative Party [Umirzak SARSENOV]; Republican People's Party of Kazakhstan or RNPk [Akezhan KAZHEGELDIN], See, CIA...

The result was a peculiar type of Kazakh state: weak in the international arena and strong in the domestic domain. This two dimensional state is common in most of the petroleum economies of the developing world. What gives the Kazakh case a peculiar characteristics arises from the fact that the state was consisted of the former members of the Communist Party trying to involve in a certain degree of liberalization in order to strengthen their existence while trying not to ignore the vital interests of Russia and Kazakhstani citizens. As a result, the Kazakh state gained a four dimensional characteristics: Weak in the international arena, strong in the domestic affairs, liberal in the economic sense, quasi-liberal and even autocratic in the political sense. This was a perhaps a compulsory formulation to compromise the demands of diverse actors, while guaranteeing the power of the traditional governing elite in an emerging country, where issues of hydrocarbons have started to be effective in almost every aspect of politics as well as economy.

III.1.3. The post-Soviet Regime of Kazakh Hydrocarbons

The competition among different actors to control the oil and gas of Kazakhstan was intensified soon after it became clear that this country had extensive reserves of hydrocarbons. These reserves had different meanings for different actors. The external actors such as multinational companies and the regional power incumbents were considering the Kazakh oil and gas as an opportunity not only for earning money but also for controlling the Caspian region. The expectations of the Kazakh state from these resources were different from the other actors. The rising rivalry among various actors could be an obstacle for the realization of the dreams of Kazakhstan about attaining wealth. Nevertheless having balanced the interests of the external actors the state could lead to the flow of foreign direct investments especially in the energy sector. It is obvious that the amount of the reserves have direct affects of the future richness of Kazakhstan on the one hand, and the characteristics of its international cooperation with the external actors on the other. When the reserves are analyzed it can be concluded that they were rich enough not only to attract the

investments of multinational companies but also to compete with the neighboring states who aimed to benefit from the transportation of Kazakh oil and gas. Therefore understanding the extent of the reserves may facilitate the elaboration of the basic indicators, which have started to determine the post-Soviet regime of the Kazakh hydrocarbons.

There are different estimations about the oil and gas reserves of Kazakhstan, made by different organizations. According to BP the total hydrocarbon reserves of Kazakhstan are about 93 billion barrels of oil (8 proven, 85 possible) and about 152.8 trillion cubic feet of gas (64.9 proven, 87.9 possible)²⁵² U.S. Department of State has argued that the proven reserves of Kazakhstan have been as less as 10 billion barrels in 1997.²⁵³ Nevertheless, it should be mentioned that the possible reserves and the increasing amount of proven reserves in compliance with the successful exploratory wells show that this number tends to increase rapidly.

Table 10- The Hydrocarbon Reserves of Kazakhstan

	Oil Proven (bbl)	Oil Possible (bbl)	Oil Total (bbl)	Gas Proven (Tcf)	Gas Possible (Tcf)	Gas Total (Tcf)
US EIA	10 - 17.6	92	102 - 110	53 - 83	88	141-171
BP	8	85	93	64,9	87,9	152,8

Source: US EIA, BP

According to US EIA, the proven oil reserves of Kazakhstan are more than 10 billion barrels and likely to reach to 17.6 billion barrels. When 92 billion barrels of possible oil reserve is considered, it may be suggested that the total oil reserve of Kazakhstan tends to reach 110 billion barrels. The optimistic approach of the US EIA also indicates a similar trend for the Kazakh gas. Within this perspective, the proven gas reserves of Kazakhstan may be between 53 and 83 trillion cubic feet of gas. When the proven and the possible reserves

²⁵² BP Statistical Review of World Energy, 2001.

²⁵³ U.S. Department of State, Caspian Region Energy Development Report, delivered to Congress as required by H.R. 3610, April 1997.

are calculated together, the total gas reserves of Kazakhstan increase to somewhere between 141 and 171 trillion cubic feet.²⁵⁴

These contrasting estimations reflect the interests of different actors. By considering the foreign direct investments of the multinational companies as well as the extent of the competition in order to control the Kazakh hydrocarbons, it may be concluded that the evaluation of the US EIA reflect the most precise estimation about the reserves of Kazakhstan. Indeed, when the production projects of Kazakhstan are analyzed, it becomes explicit that multinational companies, especially Chevron, have started their activities by involving in huge production projects.

Table 11- Major Production Projects of Kazakhstan

Project	Operator	Year of production (estimated / peak)	Peak production (est. thousand barrels/day)	Estimated investment (est. billion \$)	Status
Tengiz	TCO	1993-2030 / 2010-2020	700	10	phase I active, phase II under construction
Karachaganak	KPO	1995-2030 / 2010-2030	400	6	active, pits are being drilled
Kashagan	OKIOC	2000-2040 / 2015-2025	400-700	10-20	exploration wells are being drilled
Karazhanbash	Karazhanbasmunai	2000-2015 / 2015 - 20120	45		active, pits are being drilled
Akshabulak	Kazgermunai	2000-2015 / 2015 - 2020	75	300 million	active, pits are being drilled
Uzen	Uzenmunaigaz	2000-2015 / 2015 - 2021	200	1	active, pits are being drilled
Aktobe	CNPC-Aktobemunaigaz	2000-2015 / 2015 - 2022	300	4.1	

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

There are many multinational companies, which have been functioning in Kazakhstan. Chevron, Philips Petroleum, Exxon-Mobil, BP, Shell, Inpex, ENI, British Gas, Statoil and TotalFina can be pointed out as the most influential firms. Among these companies Chevron should be attributed a special significance not only because of its being the first company, which attempted to exploit the hydrocarbons of Kazakhstan but also because of its controlling the biggest share in the giant production projects in the fields of Tengiz and Karachaganak.

²⁵⁴ US EIA

The Tengiz-Chevroil joint venture, signed in 1993 with Chevron, should be emphasized not only as the first major contract but also as largest project with a foreign partner anywhere in the former Soviet Union.²⁵⁵ In addition to Chevron, who has a 50% stake of the Tengizchevroil joint venture, ExxonMobil has a stake of 25% while the stakes of Kazakhoil and Lukarco are 20% and 5% respectively. By the contribution of these companies, the Tengiz field has turned out to be the most significant project of Kazakhstan, which would contribute to its economy fundamentally.²⁵⁶ Along with its positive impetus to the oil and gas exportation of Kazakhstan, Tengiz-Chevroil joint venture started to attract huge amounts of investments. In 1999 alone, the total economic contribution of the Tengiz project to Kazakhstan was more than 500 million dollars. The project and its contractors together support more than 8,000 jobs, held mostly by Kazakh citizens. The small-and-medium-sized enterprise program has already granted loans to more than 200 new businesses. The Caspian pipeline over its lifetime is expected to contribute 33 billion dollars to the Russian central and regional governments.²⁵⁷ Until 2000, seven years after when the 40-year, 20 billion dollars deal was signed, Tengizchevroil has increased production capacity from 60,000 barrels of oil a day to well over 200,000 barrels a day. At the same time, the joint venture not only cut the unit production cost to less than a third of what it was when the project began, but also recently achieved a safety milestone of 7.7 million man-hours without a lost-time incident.²⁵⁸ In other words, the joint venture managed to increase productivity while decreasing unit costs with more favorable prices for labor and higher care for nature.

²⁵⁵ Oil and Gas in the Caspian Sea: Economic and Political Ramifications, Paper presented at the policy forum of International Research & Exchanges Board (IREX), Washington, DC, 5 May 1999.

<http://www.irex.org/publications/policy-papers/oil-gas.htm#azerbaijan>

²⁵⁶ Ibid,

²⁵⁷ Richard H. Matzke, (Vice Chairman of the Board Chevron Corporation) From Great Game to Great Gain: The Unfolding Story of Caspian Oil, paper presented at the Houston World Affairs Council Houston, Texas, 19 September 2000.

<http://www.chevron.com/news/speeches/frame.html>

²⁵⁸ Peter J. Robertson, (President of Chevron Overseas Petroleum Inc) Role of the Middle East and Caspian Regions in the 21st Century Energy Picture Chevron's Perspective Paper presented at the American Association of Petroleum Geologists 2000 Annual Convention, New Orleans, Louisiana, 17 April 2000.

<http://www.chevron.com/news/speeches/frame.html>

ChevronTexaco also operates another big project by its 20% of share. Agip (32.5%), BG (32.5%), and Lukoil (15%) are the other members of this consortium. The Karachaganak project, which aims to develop the fields in the northern Kazakhstan, has suffered from a slowdown due to payment problems from sales to Russia. Despite these problems, the Karachaganak partnership plans to continue its 1.8 billion dollars development program,²⁵⁹ the investments of the consortium of Karachaganak field has been 2.5 billion dollars until 2002. The members of the consortium plans to spend another 2 billion dollars on the second development phase between 2002 and 2006 for the development drilling and infrastructure improvements to allow production to reach 300,000 barrels per day of liquids and 2.47 billion cubic feet of daily gas from the production of 50,000 barrels and 250 million cubic feet of gas per day.²⁶⁰

Offshore Kazakhstan International Operating Company (OKIOC) can be pointed out as another significant consortium of Kazakhstan. Philips Petroleum (7.14%); Exxon-Mobil (14.28%); BP AMOCO (9.52%); Shell (14.28%); Inpex (7.14%); ENI (14.28%); British Gas (14.28%); Statoil (4.76%) and TotalFina (14.28%) have started to develop the Kashagan field. Kazakh authorities describe as potentially one of the world's largest oil production sites, has still to be fully gauged, but the most cautious estimates point to some 10 billion barrels, according to the Wall Street Journal, though as much as 20 billion USD may need to be invested in order to bring the field on stream.²⁶¹ Despite its high cost of investment, this field tends to be developed by the consortium who considers the extensive reserves, which will be extracted in the future.

It is explicit that the multinational companies are increasing their influence by the projects of production and transportation of oil and gas. With regard to the production phase, the foreign direct investments and the technical assistance of the multinationals have started to increase the production.²⁶² The oil production,

²⁵⁹ Statement by project director of the Karachaganak project Vincenzo di Lorenzo, cited in Richard, H. Matzke (President, Chevron Overseas Petroleum, Director & Vice President, Chevron Corporation) Caspian Oil: Cooperation or Competition? Paper presented at the Caspian Oil & Gas Summit Centre for Global Energy Studies London, England, 4 November 1998. http://www.cai.ch/COT/indoc_EPR981104.htm

²⁶⁰ Alec, Mikhalyants, "A roaring comeback continues", World Oil, August, 2001.

²⁶¹ "Kazakhstan: Totalfinaelf Doubles Stake In Kachagan", Europe Energy, 29 June 2001.

²⁶² Matzke, From Great...

which was 460,000 barrels per day in 1996, increased to 520,000 in 1998 and 700,000 in 2000. It is estimated that the oil production will reach 2 million barrels per day in 2010. There is a positive trend for the gas production, which was 215 billion cubic feet in 1996, 268 billion cubic feet in 1998, 378 billion cubic feet in 2000. The trend indicates that the gas production will be about 1.1 trillion cubic feet in 2010.²⁶³

Table 12- Oil and Gas Production in Kazakhstan and Projection for 2010

Kazakhstan	1996	1998	2000	2010
Oil (barrels per day)	460000	520000	700000	2000000
Gas (billion cubic feet)	215	268	378	1100

Source: US EIA and BP

The need of Kazakhstan for alternative ways of transportation has started to increase in coincidence with the rising production.²⁶⁴ The projects of Kazakhstan can be analyzed in terms of two groups each of which reflects a different approach of the state. On the one hand, the state has aimed to reach at the world markets by conciliating the interests of Russia with the demands of the multinational companies in a way that was compatible with the national interests. On the other hand, the Kazakh state has aimed to reach at the world markets by decreasing Kazakhstan's dependence on Russia.²⁶⁵

The project of Caspian Pipeline Consortium (CPC) reflects the first concern of the state. Novorossisk has always been a significant destination for the flow of Caspian oil. Russia was supporting the realization of this project in order not only to control the transportation of Kazakh oil but also in order to increase its earnings from the transportation tariffs. The multinational companies led by Chevron were also very positive about this project, which could enable them to reach at the world markets very soon with low transaction costs.

²⁶³ US EIA...

²⁶⁴ See, "Kazakhstan aims to tap Caspian oil and gas", Oil and Gas Journal, Vol. 91, 10 May 1993, pp. 32-33.

²⁶⁵ Ibid,

Turkey appeared to be the most active opponent of this project by claiming that the oil storage capacity at Novorossisk was not sufficient to handle enormous amounts of Russian, Kazakh and Azeri oil. The tanker loading capacity of 32-million-ton was being used by Siberian crude. In addition, the bad weather conditions obscure loading in winters. That is to say, the facilities needed rehabilitation and upgrading required drastic expansion.²⁶⁶ In addition, Turkey urged certain environmental claims by emphasizing that increased use of Novorossisk would impose heavy oil tanker traffic through the Turkish straits. In 1936 when Montreux Convention designated the rules of navigation in and through the Straits, only a few hundred vessels were navigating through the Straits. The current annual number of 40 000 vessels include vessels with enormous tonnages which may be as long as 300 meters.²⁶⁷

Despite the attempts of Turkey, Russia, Kazakhstan and multinationals were determined to use the Novorossisk port by passing through the Turkish straits and or by bypassing Bosphorus through the new pipelines starting at the Black Sea coast of Balkans.²⁶⁸ The commitment of the Kazakh state for the realization of this project can be considered as a very prudent action. Rather than insisting on alternative projects, which excluded Russia, the state preferred to accomplish a pipeline, which could serve for the benefits of all of the parties.²⁶⁹ Indeed, the expectation of Kazakhstan to increase its production to 1 million b/d between 2000 and 2002 would be realized by the contribution of multinationals, which considered Novorossik as the most appropriate option.²⁷⁰

²⁶⁶ Middle East Economic Digest, 8 July 1994, pp. 32-33 op. cit. Süha Bölükbaşı, "The controversy over the Caspian Sea mineral resources: conflicting perceptions, clashing interests" *Europe-Asia Studies*, 01 May 1998.

²⁶⁷ See, Suha Bölükbaşı, "The controversy over the Caspian Sea mineral resources: conflicting perceptions, clashing interests", *Europe-Asia Studies*, 01 May 1998.

²⁶⁸ See, "Rusların pışkinliği biz herşeyi hesapladık boğazlara bir şey olmaz", *Hürriyet*, 30 March 2001.

²⁶⁹ See, Mustafa Aydın, "New Geopolitics of Central Asia and the Caucasus Causes of Instability and Predicament" paper presented at Ministry of Foreign Affairs <http://www.mfa.gov.tr/grupa/sam/20.htm#02>

²⁷⁰ See, Middle East Economic Digest, 28 April 1995, pp. 1-4.op. cit. Bölükbaşı...

Table 13- Transportation Projects for Kazakh Oil

Name	Destination	Crude Capacity (b/d)	Length (km)	Investment (dollars)	Status
CPC Tengiz-Novorossisk	Kazakhstan-Russia	0.56 – 1.34	1,500	6.6 billion	Phase I 2001 Peak 2010
Transcaspian Aktau-Baku (Ceyhan)	Kazakhstan - Azerbaijan	Unclear	595	2 billion	Feasibility 1998
Aktuibinsk - Xinjiang	Kazakhstan-China	0.4 - 0.8	2,880	3 - 3.5 billion	Feasibility 1999
Central Asia Pipeline	Kazakhstan - Pakistan	1 million	1,650	2.5 - 3 billion	Memorandum
Atyrau-Samara	Kazakhstan - Russia	0.21 - 0.31 million	695	37.5 million	Upgrading started in 1999
KTI	Kazakhstan-Turkmenistan-Iran	0.5 – 1	1,496	1.2 - 1.6 billion	Proposal

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal

The second approach of the state, concern to decrease its dependence on Russia, has led to the proposal of the projects such as Transcaspian, Aktuibins-Xinjiang, Central Asia Pipeline and the line of KTI. These projects could decrease the dependence of Kazakhstan on Russia.²⁷¹ Nevertheless, they were long-term projects with expensive investment costs. Therefore, the state preferred to develop the Russian route in order to commercialize the actual production.²⁷² The long terms projects tend to be realized after 2010 as a consequence of the rising production of Kazakhstan. Kazakhstan has also followed a similar strategy for its gas. Rather than putting too much attention on the project of Trans-Caspian, the government preferred to ameliorate the existing structure under the control of Russia. In fact, the gas of Kazakhstan will be transported to Europe through the Russian transportation system as it had once been under the Soviet era.

Table 14- Transportation Projects for Kazakh Gas

Name of the Project	Route	Capacity	Length	Investment	Status
Central Asia-Russia-Europe	Turkmenistan-Kazakhstan-Russia	3.5 Tcf			development of existing routes
Transcaspian (Baku-Ceyhan)	Kazakhstan-Azerbaijan-Turkey				feasibility 1998

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal

²⁷¹ See, Bölükbaşı

²⁷² Matzke

Kazakhstan may use the Central Asia, Russia, Europe line by which the Turkmen gas is transported. Currently the capacity of this pipeline is not filled because Turkmenistan wants to sell some of its gas to Iran and other markets. Consequently, Russia may refer to Kazakhstan if Turkmenistan continues to sell less than 3.5 trillion cubic feet of gas to Russia. Even though the transcaspian line may become advantageous for Kazakhstan, it has already become clear that the demand of Turkey will be satisfied from Russia, Azerbaijan and Iran. Consequently, the possibility of realizing this project seems less than the vitalization of other options.

III.2. State versus Political Pressures Related to Hydrocarbons

III.2.1. Political Pressures Related to Hydrocarbons

As a newly independent state, who had rich natural resources, Kazakhstan has become an attractive place for many external actors wishing to enlarge their zone of influence. In addition to Russia, countries such as Turkey and Iran started to attribute a strategic importance to this region as soon as Kazakhstan gained its independence. They involved in many activities in order to increase their stakes from the trade of hydrocarbons in the post-Soviet era. The control over the hydrocarbons of Kazakhstan was a significant condition to dominate the energy traffic of the Caspian and therefore the political economy of the region.

The demands of Russia as the former hegemon, the claims of Turkey and Iran to become regional powers, the impositions of multinationals to commercialize the oil and gas as soon as possible, and the neo-liberal pressures of the organizations such as the IMF and the World Bank have appeared to be the factors, which intensified the political pressures compelled upon the state. It is possible to analyze the pressures of these actors in terms of two categories. First, the demands of Russia as the former hegemon and the claims of Turkey and Iran to become regional powers have started to create a competition among

these actors just like anywhere else in Central Asia and Caucasus. Second, the need for huge investments in order to bring the Kazakh oil and gas to the world markets made the multinational companies to ask from the government to sustain an adequate level of liberalization. The recommendations of the IMF and the World Bank accelerated the liberalization of Kazakhstan harmoniously with the expectations of the multinationals. There is an interaction between these two factors because the multinationals have preferred to cooperate with Russia in the transportation phase rather than expulsing it.

To start from the first category, it should be mentioned that the situation of Kazakhstan differed from the other Central Asian countries due to the overwhelming superiority of Russia. Even though ethnic roots and Islamic traces could be the advantages of Turkey and Iran respectively, there was an undeniable Russian influence in Kazakhstan. During the first years of Kazakhstan's independence, mainly between 1991 and 1994, there were great hopes for Turkey to include Kazakhstan to its influence zone. Turkey and Kazakhstan signed a bilateral agreement of friendship and cooperation in the fields of politics, commerce, economy and education in March 1991. In September 1991, the presidents of Turkey and Kazakhstan have signed another document to expand the political and economic cooperation. In October 1994, these agreements have been strengthened by an extensive agreement of friendship and cooperation.²⁷³ Following this hopeful period it became clear that the rapprochement of Kazakhstan with external actors other than Russia would be severely opposed. Despite the mutual understanding and bilateral agreements in terms of closer cooperation, Kazakhstan, and other Central Asian States, have stated explicitly that they were not intended to accept the rise of external actors in Central Asia. This intention became more explicit during the negotiations of the presidents of the Turkic republics held in Bishkek (1995) and Tashkent (1996).²⁷⁴

²⁷³ See, Dosım Satpayev, "Kazakistan-Türkiye İlişkilerinin Dinamizmi: On Yıllık Deneyim", *Avrasya Dosyası*, Winter, 2001-2002, Vol. 7, No. 4, p. 114-116.

²⁷⁴ Ibid, pp. 122-126.

In other words, the hopes of Turkey and Iran to become regional powers were fundamentally hampered by the overwhelming superiority of Russia in Kazakhstan. When the activities of other incumbents of regional powers, such as Turkey and Iran, are considered, it can be suggested that they could not be successful in creating political pressure upon the Kazakh state neither in the international nor in the domestic platforms. With regard to the international aspect, Kazakhstan has been closer to the CIS zone rather than alternative formations. With regard to the domestic arena, the groups emphasizing ethnic and Islamic issues could not be as successful as the Slavic ones. The activities of this kind of groups such as Alash and the Kazakh League of Muslim Women, have led to less intense consequences because of the absence of public support, which also created financial problems.²⁷⁵ Even though these groups have extended the practices of Islam and the ethnic consciousness of the Turkic Kazakhs to a certain extent, it does not seem possible to conclude that their activities have offered a competitive advantage to neither Turkey nor Iran in their struggle to control the transportation of Caspian hydrocarbons. Turkey and Iran were not able to influence the policies of the Kazakh state by manipulating ethnic, cultural and religious issues. Within this sense, the overwhelming superiority of Russia seemed to limit the influence of alternative powers.²⁷⁶

The realities of Kazakhstan imposed Russia as the most significant actor by excluding Turkey and Iran from being regional power incumbents for Central Asia. Russia appeared to be the most potent actor, who has started to impose political pressures upon Kazakhstan by the virtue of its organic relations with this country. Therefore, the influence of Russia should be attributed a special significance for the elaboration of the political pressures related to hydrocarbons and vice versa. This enormous supremacy referred to many factors. Kazakhstan is the only Central Asian state that shares a common border with Russian Federation. The Russian population living in the northern Kazakhstan constitutes a significant common ground between these two countries. The close relations among the *nomenklatura* have turned into new forms of relations

²⁷⁵ See, Shirin Akiner, The Formation of Kazakh Identity, London, The Royal Institute of International Affairs, 1995.

²⁷⁶ See, Satpayev,

between the governing elite most of whom have been consisted of the members of the former Communist Party. In addition, Kazakhstan had, and still has, a special meaning for Russia in terms of its natural resources, which made these two countries important trade partners. The economic structure of Kazakhstan is very dependent on Russia, who is the main buyer of energy products in turn of basic commodities and services.²⁷⁷

Russia had vital interests in Kazakhstan, which could be sustained by the manipulation of the above-mentioned factors. Russia needed to earn money from the trade of Kazakh oil and gas with new partners. Kazakhstan had no choice other than transporting its hydrocarbons through the Russian system. At this point, the attitude of the multinationals played a key role. It was clear that Russia would not hesitate to increase its political pressures if its basic interests concerning the Kazakh hydrocarbons were not guaranteed. The multinational companies were closer to the Russian option because of the high costs of the new pipeline projects. Consequently, in addition to the above-mentioned factors, Russia perpetuated its overwhelming superiority upon Kazakhstan by the choice of the multinationals to use and improve the Russian transportation system. That is to say, there was no alternative left for the Kazakh state other than cooperating with Russia and multinational companies. Therefore, the Kazakh state has been very cautious about not damaging the vital interests of Russia in the trade of oil and gas knowing that many issues were increasing the political power of Russia.

Nevertheless, it should be mentioned that this attitude of the state did not become clear overnight. On the contrary, the state passed through a short period in which the positioning of Kazakhstan *vis-à-vis* external actors was not very clear. Within this context, the years between 1991 and 1994 should be indicated as the era in which the energy policy and the general attitude of the state was not very explicit. Interestingly, this era coincides with the hope period in which Turkey was

²⁷⁷ See, Emmanuel van der Mensbrugghe, Paul Mathieu, Paul Ross, Romuald Semblat, Alexander Lehmann and Istvan Szekely, Republic of Kazakhstan Selected Issues and Statistical Appendix, Washington, IMF, January 2001, pp. 70-72.

dreaming of a zone of influence in Central Asia while Iran was trying to find allies in this region. The government stumbled between an euphoria aroused by the winds of independence. Within this perspective, Kazakhstan started to dream about replacing Russia, by the multinationals in the production phase and by Turkey, Iran, and even China and Pakistan in the transportation phase. It seemed as if this dream of Kazakhstan would turn into a reality in a few years because many companies started to negotiate with the government in order to explore, extract and sell the Kazakh reserves. Parallel to these negotiations, Kazakhstan also started to discuss with Turkey and Iran in order to search alternative ways for transportation.

At this point, Russia gave the first signals that the Slavic population in Northern Kazakhstan and patronage relations among the *nomenklatura* could turn into a source of conflict if the vital Russian interests in the trade of Kazakh oil and gas were not guaranteed. “This kind of threat might come from two sides; first from the Russian government in Moscow with which Kazakhstan still has very close ties and secondly from the Cossack groups settled in the area close to the Kazakh-Russian border region.”²⁷⁸ In other words, ethnic differences turned out to be a potential danger aroused by issues related to hydrocarbons at it has been in Caucasus. In fact, the Slavic population congregated at the northern regions offered Russia a device of political pressure.²⁷⁹ 62% of this region was constituted by Russians, leaving 19% for Kazakhs and an other 19% for other ethnic groups. Indeed, the Russians are overwhelmingly majority in the major cities of North Kazakhstan such as Qostanay (47% Russian, 18% Kazakh), Kokchetav (40% Russian, 30% Kazakh), Aqmola (46% Russian, 23% Kazakh), Pavlodar (45% Russian, 30% Kazakh) and Qaragandy (53% Russian, 19% Kazakh). In addition to this, it should also be mentioned that the Russians constitute the majority in East Kazakhstan (65% Russian, 28% Kazakh, 7% other).²⁸⁰

²⁷⁸ Meryem Kırımlı, “Emerging Nationalism or the New Strategy of Independent Kazakhstan” *Eurasian Studies*, Vol. 2, No.2, Summer 1995, p. 4.

²⁷⁹ Ibid,

²⁸⁰ Ibid, p.11.

Not surprisingly, the Slavic people of the northern Kazakhstan (Cossacks) have started to ask for autonomy and even unification with Russia during the first years of Kazakhstan's independence. In other words, the ethnic discontentment was exacerbated between 1991 and 1994 when the Kazakh state was trying to increase its relations with the regional power incumbents such as Turkey. Claiming that there was ethnic discrimination, the Cossacks put their wish to attain autonomy by a letter presented to the president Nazarbayev.²⁸¹ This was considered as a significant concrete signal of the tendency of the Cossacks to secede from the republic. In addition to secessionist movement of the Cossacks, the legal movements of The Slavic Movement (Lad) and The People's Congress Party of Kazakhstan put political pressure upon the government concerning the rights and freedoms of the non-indigenous Kazakh citizens.²⁸²

These political movements expanded the fears of the state to involve in ethnic conflicts exacerbated by the issues related to hydrocarbons. Consequently, these factors became significant vectors, which directly influenced the choice of Kazakhstan about the production and transportation of oil and gas. The secession of the northern region could create vital consequences for Kazakhstan, whose industry has been dependent on the production of this region. Indeed, the Russian majority in these cities had a strategic significance. First of all, there were rich reserves of hydrocarbons along the Caspian Sea in the north. Secondly, the existing pipelines were routed to north. Thirdly, the oil facilities such as the Pavlodar refinery were in this region. Despite Kazakhstan's being a significant oil producer the demand of this region was being satisfied from Siberian Tyumen region of Russia. The oil was being brought to Pavlodar to be refined.²⁸³ Consequently, the economy of Kazakhstan could collapse by the secession of this region through political movements.

²⁸¹ Central Asian Newsfile, Vol. 2, No. 5, May 1994, p. 1.

²⁸² See, Central Asia Newsfile, Vol. 2, No. 2, February 1994, pp. 1-2, and "Kazakhstan April 93", Istanbul, SIAR, 1993, pp. 4-5.

²⁸³ See, Central Asian Newsfile, Vol.2, No. 2, February 1994, p.10.

In addition to the geopolitical spread of the Russian population, their hold of strategic positions widened Russia's domain of influence. The Kazakh *nomenklatura* has been consisted of mainly the Slavic population, who in turn acquired socio-economic superiority to the indigenous Kazakhs. The system favored the social upward mobility of Slavs and/or Russified intellectuals by imposing Russian as the state and education language.²⁸⁴ In fact, the governing elites were either Slavs or Russified Kazakhs. These cadres have been chosen along the intellectual Slavic and/or Russified Kazakhs who proved their loyalty to the former Communist Party. This relationship had offered them certain privileges with the condition of not damaging the Soviet type of status-quo. That is to say, the patronage relations among the members of the *nomenklatura* were offering Russia a significant tool of influence because the Russian *nomenklatura* not only had organic relations with the Kazakh elite but also indicated a sort of superiority as a historical consequence of the former relations. These cadres were experienced enough to know that in order to sustain their power they had to cooperate with multinationals and Russia simultaneously concerning the production, transportation and marketing of the Kazakh hydrocarbons.

All of these factors have turned into the devices of Russia, who was aspiring to sustain its control over the hydrocarbons not only in order to earn as much money as possible but also in order to hold the region in its domain of influence. As a result, the activities of the Slavic population, the organic relations among the members of the *nomenklatura* and the economic compatibility between Russia and Kazakhstan led to political pressures, which forced the Kazakh state to be milder about the rights and freedoms of these ethnic groups and Russian interests. Considering these factors, the Kazakh state made a shrewd choice by giving primacy to its relation with Russia in terms of two aspects. On the one hand, Kazakhstan did not damage the basic interests of Russia concerning the trade of oil and gas. On the other hand, the government implemented domestic policies by considering the role of the Slavic population in the country.

²⁸⁴ See, Füsün Dinçer, Zahide Yılmaz, Ayşe Çınar, "Batı Türkistan ve Azerbaycan Cumhuriyetlerinin Sosyo-Ekonomik Yapısı", Türk Dünyası Araştırmaları, İstanbul, June 1993, p. 33.

The Kazakh case is interesting because the multinational companies preferred to cooperate with Russia in order to sell the oil and gas at the world markets as soon as possible. Within this sense, along with Russia, the multinational petroleum companies constituted a second source of political pressure which forced the state to constitute a new attitude balanced by the vital interests of Russia, the demands of multinational companies and the recommendations of the IMF and the World Bank. The second category of pressures has been also very effective by supporting the vital interests of Russia. Consequently, the harmony between the multinationals of the Kazakh consortia and Russia left no space neither for Kazakhstan. In other words, Kazakhstan found itself in a situation in which the underestimation of Russian interests meant to be the underestimation of the multinationals such as Chevron.

The compatibility between the demands of the multinationals and international organizations such as the IMF and the World Bank are understandable to a certain extent because all of these actors somehow tend to promote neo-liberal policies in Kazakhstan.²⁸⁵ The conformity between the activities of multinationals and vital interests of Russia is a little bit thorny issue, which deserves further analysis. Under normal conditions, it should have been more likely to notice a contradiction between the neo-liberal pressures coming from the multinationals and the international organizations on the one side, and the patronage relations between the Russian and Kazakh *nomenklatura* on the other. Neo-liberal policies such as privatization, minimization of the state activities reconstruction of the banking system etc. could endanger the interests of the governing elite of Russia and Kazakhstan by decreasing the power of the members of the former Communist Party. Within this perspective, it could be concluded that Russia does not tend to allow liberalization of Kazakhstan in order to perpetuate its control through the organic relations among the members of the *nomenklatura*. There could be clashing interests between the multinationals, who asked more liberalization in order to secure a safety

²⁸⁵ See, The Letter of Intention of the Government of Kazakhstan, submitted to the IMF 22 November 1999 and IMF Concludes Article IV Consultation with Kazakhstan, Washington, IMF Press Information Notice, No 98/47, 01 July 1998.

environment for their investments and profits on the one hand; and Russia who tended to refer to the loyalty of a certain group, whose existence could be endangered by liberalization on the other. On the contrary, “ the CPC became a catalyst for American, Kazakh and Russian oil companies to learn how to work effectively just as Western companies have found a welcome home in Kazakhstan”²⁸⁶.

Within this sense, the reason why the multinationals have acted congruously with Russia should be understood. Chevron and Russia have started to negotiate about the development of the Tengiz field long before the disintegration of the USSR. The Soviet engineers discovered the rich reserves of the Tengiz in 1979. Nevertheless, the Soviet industry was not adequate for the exploitation of the Tengiz hydrocarbons lying in deeper sections of the field. Consequently, Chevron and the Soviet regime negotiated about the conditions of the development of the Tengiz field throughout the 1980s.²⁸⁷ These negotiations helped Chevron not only to keep in touch with the Russian officials but also to understand the organic unity between Russia and Kazakhstan. During the first negotiations with the Soviet regime, Chevron not only expanded its knowledge about the geological specificity of the oil and gas fields but also increased its experience concerning the Soviet type of power relations.²⁸⁸ As a matter of fact, Chevron could manage to create the Tengizchevroil (TCO) as the first major consortium of the Caspian region in April 1993, two years after the independence of Kazakhstan.²⁸⁹ This promptness was a consequence of the harmonized interests between Chevron and Russia, which led to the development of the biggest field discovered in the last thirty years. Mobil and LukArco were also included in the consortium reflecting the cooperation between the Anglo-Saxon and Russian companies with Kazakhstan. “The

²⁸⁶ For the statement of the president of Chevron Overseas Petroleum Inc. Richard H. Matzke, See, Building The Caspian Oil Industry: Five Steps To Success Paper presented at Kazakhstan International Oil & Gas Exposition, Almaty, Kazakhstan, 7 October 1998.

<http://www.chevron.com/news/speeches/frame.html>

²⁸⁷ See, Kenneth T. Derr (Chairman of the Board and Chief Executive Officer Chevron Corporation) Commitment in the Caspian: A Chevron Perspective on Energy and Economic Development, Paper delivered to Asia Society, New York, 20 October 1998.

<http://www.chevron.com/news/speeches/frame.html>

²⁸⁸ See, Ibid,

²⁸⁹ Ibid,

members of the Tengizchevroil knew that as petroleum executives of the Soviet regime they were the ones who discovered the giant Tengiz Field, the ones who drilled the wells, who started up the first plant, before Tengizchevroil even existed. It was a truly remarkable accomplishment; one that stands as a monument to the proud 100-year history of Kazakhstan's petroleum industry.²⁹⁰

TCO since then not only developed this legacy, but also enlarged the possibilities to start a harmonious cooperation among Kazakhstan, Russia and multinational companies. First of all, TCO asked the Kazakh government to give stake to Lukoil in the production projects. Secondly, TCO convinced Kazakhstan to use the existing Russian transportation system, which was bringing the Kazakh oil to the Russian Port of Novorossisk. Indeed, until 2001 TCO has spent 2 billion dollars in order to finish the construction of a pipeline between Tengiz and Novorossisk with a capacity of 560,000 barrels per day and the option of doubling the capacity until 2014.²⁹¹ In addition, TCO is very cautious about forwarding extra bonuses for Russia such as the creation of more than 6,500 new jobs per year. The Russian Academy of Science estimates that the Caspian pipeline will indirectly support more than 100,000 jobs annually in Russia and will add \$22 billion in direct government revenue.²⁹² In addition, the consortia, which invest in Kazakhstan, contribute to the Russian economy by the goods and services they use. Tengizchevroil alone spent more than 260 million dollars on Russian goods and services since 1993, and Russian economists say that for every Tengizchevroil dollar, another two are generated for Russian GDP.²⁹³ Finally, and most importantly in terms of Kazakhstan, the demands of the multinational companies about the liberalization and democratization of Kazakhstan invoke the government to guarantee the citizenship of the Cossacks. The instability of the northern Kazakhstan could decelerate the realization of the main projects of the oil consortia that have

²⁹⁰ For the remarks of the Managing Director of Tengizchevroil, Kenneth E. Godard See, Remarks by Kenneth E. Godard, Paper presented at Kazakhstan International Oil & Gas Exposition, Almaty, Kazakhstan, 8 October 1998.

<http://www.chevron.com/news/speeches/frame.html>

²⁹¹ Kenneth T. Derr, Commitment in the Caspian...

²⁹² Ibid,

²⁹³ Matzke, Caspian Oil: Cooperation or Competition?...

envisaged a sound cooperation with Russia and Kazakhstan. Just like anywhere else in the world, the multinational companies were favoring liberalization and democratization in order to attain a stable and favorable environment for their direct investments.²⁹⁴ This demand of multinationals has been a factor, which increased the capabilities of the IMF and the World Bank *vis-à-vis* the resistance of the state not to accept the neo-liberal policies.²⁹⁵

In the case of Kazakhstan, the political pressures coming from the multinational companies have supported not only the basic Russian interests but also the neo-liberal impositions of the IMF and the World Bank. The national interests of Kazakhstan are also favored by this policy of the state through which it started to explore, produce, transport and sell oil and gas as soon as possible.²⁹⁶ Disequilibrium among these actors would decelerate the commercialization of the Kazakh hydrocarbons at the world markets, which would in turn create a domestic discontentment. Therefore, as it has been mentioned above, the rising foreign direct investments create new domains of job by positively affecting the oil related business on the one hand, and increase production on the other hand. The mutual interests among the actors have also indirect contributions. To better illustrate, it may be useful to think of a situation wherein the basic interests of Russia and/or other actors are jeopardized. Russia would probably attempt to sustain its domination by using the Soviet legacy through imposing political pressure upon the governing elite as the carry-over of the Communist Party. In addition, the Slavic population in the north would offer Russia another tool. In this situation, it could be possible to see the rise of ethnic problems especially between the native Kazakhs and the Slavs. Less attention on the interests of the multinational companies would also lead to severe problems. The multinationals would definitely suspend their activities until their basic interests are guaranteed by favorable conditions for their direct investments and cash transfers. To

²⁹⁴ See, Godard,

²⁹⁵ See, The Letter of ...

²⁹⁶ See, Derr,

under-estimate the demands of the IMF and the World Bank could not only decelerate the flow of credits but also hamper the positive attitude of the multinationals about investing in Kazakhstan.²⁹⁷

It is explicit that most of the political pressures have been imposed upon the state by external powers. The lack of civil consciousness can be pointed out as the reason for the lack of domestic pressures during the first decade of Kazakhstan's independence. Most of the domestic pressures have been affiliated with ethnic issues, which can be affiliated with external activities. Nevertheless, it should be mentioned that an environmentalist consciousness has become a partial exception of this trend.²⁹⁸ Therefore, in addition to these two categories (the competition among the regional power incumbents such as Russia, Iran and Turkey on the one hand and the pressures coming from the multinationals and non governmental organizations on the other) there has been a third source of political pressure upon the state with no affiliation to ethnic, religious and oligarchic affiliations.

The environmental disaster in Kazakhstan had already created a sort of public consciousness among the citizens regardless of their ethnicity. Within this perspective, the Nevada-Semipalatinsk movement could manage to create an environmentalist public consciousness, which appeared to be more influential, though not as efficient enough to shape the energy policies of the government, than the Turkic-Islamic groups. Led by Oljas Suleimenov, the anti-nuclear activities of the Nevada-Semipalatinsk movement has emerged from the disastrous consequences of 500 hundred nuclear tests, which have been committed by the Soviet regime in the Semipalatinsk region of Kazakhstan.²⁹⁹ In addition to Nevada Semipalatinsk, Ecocentre in Karaganda focuses on biodiversity issues; Central Asian Sustainable Development and Information Network's Centre (CASDIN) emphasizes sustainable development; Greenspace in Temirtau aims to increase awareness particularly about industrial pollution

²⁹⁷ See, The Letter of...

²⁹⁸ See, BBC Monitoring Service, CIS. Russian Environment Minister Criticizes Plans to Develop Caspian Oilfields, BBC Monitoring Service, 21 October 1994.

²⁹⁹ See, Dannreuther, p.15.

and Green Salvation in Almaty contend that their primary goals are to place environmental issues on the policy agenda and to encourage the government to promulgate environmental protection legislation.³⁰⁰

Therefore, it is possible to suggest that the activities of the oil companies in the Caspian Region could be a significant factor for the rise of civil environmental consciousness in Kazakhstan. First, it is possible to talk about a widespread awareness about the environmental risks associated with developing oil reserves in the Caspian Sea. Second, local environmental and political activism in countries such as Nigeria, Ecuador and the United States has served as a rallying cry for foreign energy exploration in countries owing to the reserves.³⁰¹

The environmental groups could impose upon the government political pressures the consequences of which could be contradictory with the Russian interests and the demands of the multinational companies about the extraction and transportation of the Kazakh oil. This movement could increase the attention of the actors of the energy business on the environmentalist issues forcing them to intensify their preventive measures. On the one hand, such a movement could slow down the activities of the multinational petroleum companies in the Kazakhstani sector of the Caspian where the sulphureous oil found in the deep sections of the Caspian Sea necessitated the activities of extraction and production not favorable with nature. On the other hand, the plans of Russia and TCO to transport the oil from Novorossisk to world markets by passing through the Bosphorus could be retarded. It is well known that the Turkish side opposes to the realization of the CPC line by claiming that the rising traffic of vessels passing through Bosphorus would lead to serious ecological costs.

Nevertheless, the environmentalist groups were not effective in Kazakhstan's political scene. "Several Western oil company representatives working along Kazakhstan's Caspian coastline and in nearby oil fields since independence

³⁰⁰ See, Pauline Jones Luong, Erika Weinthal, "The NGO Paradox: Democratic Goals and Non-democratic Outcomes in Kazakhstan", *Europe-Asia Studies*, 01 November 1999.

³⁰¹ Ibid,

remarked that they had not yet witnessed any activism on the part of local non-governmental organizations (LNGO) around the Caspian. Nor did they cite any incidents of local activism *vis-à-vis* Caspian Sea development in Almaty, Kazakhstan's previous capital and most politically active city.”³⁰² With regard to the production phase in the Caspian, the investments of the multinationals were not slowed down by the activities of the environmentalist movements because the petroleum companies were very careful about public relations as well as the protection of nature.³⁰³ It soon became clear that the techniques of the multinational companies were not creating the hazards, which had once been created by the Soviet petroleum industry.³⁰⁴

The external actors, especially Turkey could manipulate the environmental issues. The cooperation of Kazakhstan, Russia and the multinational companies under the scheme of CPC has started to increase the number and magnitude of the vessels passing through the Bosphorus.³⁰⁵ Two vessels were passing by Bosphorus in 1936 when Montreux Agreement determined the legal status of the marine transportation. In 1997 more than 50,000 vessels, 4303 of which have been giant petroleum vessels passed through the Bosphorus, creating not only hazardous consequences for biological diversity of Bosphorus but also a big danger for Istanbul.³⁰⁶ Indeed, there have occurred 300 significant accidents since 1948.³⁰⁷ TCO plans to increase its production more than ten times until 2010. In other words, the vessels transporting Kazakh oil will increase more than ten times. The CPC has been successful at guaranteeing the safety passage.³⁰⁸ Nevertheless, preferring to put emphasize on ethnic-cultural affiliations, the Turkish side did not seem very successful at coordinating a

³⁰² Luong and Weinthal,

³⁰³ See, Yuri Eidinov, “Ecological Aspects of Offshore Operations”, Oil and Gas of Kazakhstan, No. 6, November 1997, pp. 23-27.

³⁰⁴ See, Andrei Shoumikhin “New Developments Related to Caspian Oil” Perspectives on Central Asia, Vol. 1, No. 9, December 1996.

³⁰⁵ For the connection between environment, ecology and Bosphorous Transportation See, Aydın, “New Geopolitics...”

³⁰⁶ Ceren Bilgin, Gemi Kökenli Petrol Kirliliğinin Biyolojik Yöntemlerle Giderilmesi, MS thesis submitted to Marine Technology Engineering Department of Istanbul Technical University, İstanbul, May 2003, pp. 15-18

³⁰⁷ See, Osman Nuri Aras, Azerbaycan’ın Hazar Ekonomisi ve Stratejisi, Der Yayınları, İstanbul 2001, p. 105.

³⁰⁸ See, Hacıoğlu, “Rusların...”

well-planned environmentalist action.³⁰⁹ Naturally, the Turkish side has failed to interact with the environmentalist groups of Kazakhstan.

Consequently, neither the activities of the environmentalist groups, nor the attempts of Turkey to impede the realization of the CPC line by emphasizing environmentalist claims were successful at creating political pressures, which could be effective in the state's attitude. Hence, it may be suggested, that the environmentalist activities did not create a big pressure upon the state. Their presence has been limited to being the indicators of democratic consolidation though they did not lead to practical contribution to Kazakhstan.

III.2.2. The Attitude of the State against Political Pressures

In Search of a Model for State

Kazakhstan resembles to other transition economies, who have been attempting to replace their Soviet structure by liberal norms and values in order to integrate with the world economy. The state has two aspects each of which arises from being the carry-over of the *nomenklatura*. First, the cadres of the state have earned an extensive experience during their years in the Communist Party. Within this sense, they have developed good skills of negotiation and compromise. Second, their experience has been intensified only by their interaction with the centralist Soviet regime. Therefore, they have been confronted by severe problems because of their lack of experience to interact with the world actors such as the IMF and the World Bank especially during the first years of the independence of Kazakhstan.

The interaction with the world actors was something new for almost all of the transition economies, which created new problems. Nevertheless, the political pressures of Kazakhstan have differed from most of the other Caucasian and

³⁰⁹ See, Suha Bölükbaşı, "Ankara's Baku-Centered Transcaucasia Policy: Has It Failed?", The Middle East Journal, Vol. 51, No. 1, Winter 1997, pp. 80-94.

Central Asian republics in the sense that this country has not been jeopardized by intensified problems related to ethnic conflicts and regime viability. The relatively stable political environment of Kazakhstan can be considered as the success of the government, the members of which have been consisted of the carry-over of the former Communist Party. The state has promptly constituted its model according to the necessities brought up by the external pressures and domestic needs.

The Kazakh population is used to the idea of strong state. The Soviet system created a very strong state by expanding its domain to a level, which covered not only politics and economy but also social and individual life. The newly founded Kazakh state inherited this structure and sustained its power in the domestic arena. Nevertheless, the post-Soviet era forced the Kazakh state to interact with diverse actors in order to involve in commercial relations with the world economic actors especially concerning its natural resources. The solid structure of the state has been endangered not only by the interaction among the regional power incumbents (Russia, Iran and Turkey) and multinationals but also neo-liberal pressures, which have already started to ask the governing elite to minimize the scope of the state through policies such as privatization, reduction of state employees, diminution of the state activities etc.

Since the first day of Kazakhstan's independence, the state was aware of the fact that its choice of model would necessarily be in coincidence with the necessities of the global economy, which at the same time would be compatible with the vital Russian interests. In other words, the state was trying to answer the question of what kind of a state model could facilitate unification with the world economy by not endangering its relations with Russia. The state felt the necessity to act very carefully because Russia, Iran and Turkey were ready to emphasize the Soviet links, Islam and Turkic roots respectively in order to gain a competitive advantage in their competition to control the Caspian hydrocarbons. In addition, the state had to consider the demands of multinational companies and the recommendation of the IMF and the World Bank.

At a large conference in Almaty in May 1993, Nazarbaev fleshed out the main goals and elements of a new Kazakhstani state ideology by emphasizing the necessity to combat every chauvinism, nationalism and separatism which could be done by the inculcation of Kazakhstani patriotism.³¹⁰ In other words, the state would oppose extreme poles with no regard to their origins. Whether be it Kazakh chauvinism, Slavic nationalism or Islamic extremism, the movements, which could jeopardize the territorial integrity and regime viability, would be eased by the state ideology based on a secular understanding of patriotism in terms of Kazakhstani citizenship.

Another landmark in Nazarbaev's thinking on nation building and ethnic integration was his remarkable speech to the Kazakhstani Supreme Soviet on 9 June 1994 in which he subjected the actual nation-building practices pursued by his own state apparatus to devastating criticism and attacked as simplistic the conventional Kazakh view that Russians were leaving the country for economic reasons only.³¹¹ The state was claiming to represent all of the ethnic groups equally regardless of their origins. In addition, the state was supposing that the people(s) of Kazakhstan considered, or tended to consider themselves as the parts of the republic sharing a common sense of citizenship. This consciousness, whether be potential or active, should be understood as independent from economic and political reasons. Indeed, belonging to the same republic with the same state assumed itself as the common ground that could lead to the Kazakhstani identity.

Nazarbayev's approach necessitated a secular and liberal model for the state. Apart from this positioning, the responses of the state to the political pressures should also be examined because the answers of the state to these pressures led to a peculiar understanding of secular liberalism in Kazakhstan. Indeed, the characteristics of the Kazakh state can be understood by referring to the interaction between the Soviet legacy and the liberal transition accompanied by

³¹⁰ Pal Kolsto, "Anticipating demographic superiority: Kazakh thinking on integration and nation building" *Europe-Asia Studies* 01 January 1998.

³¹¹ Ibid,

commercialization of Kazakh hydrocarbons. The choice of the Kazakh state for a model has started to shape along the antagonism between the Soviet legacy under the influence of Russia and the external pressures coming from the international actors such as the regional power incumbents on the one hand; multinationals, the IMF and the World Bank on the other.³¹²

It has already been mentioned that the choice of the Kazakh state for a model has a close correlation with the competitive advantage of the regional power incumbents such as Russia, Turkey and Iran.³¹³ The characteristics of the former Soviet state would increase the benefits of Russia, who has been aspiring to linger its former domination especially on the Kazakh hydrocarbons. The choice for Islamic state could promote the Iranian interests while fundamentally hampering the relations with Russia by arousing ethnic conflicts; and with Turkey by exacerbating its fears about the rising influence of Islamic fundamentalism. A secular state would ease the anxiety of Turkey while not damaging the essential interests of Russia and Iran. In addition, a secular and liberal state would facilitate the transition process of Kazakhstan from socialism to market economy.

Within this context, the Kazakh state did not hesitate to be explicit about secularism. This was natural because Islam has always been considered as a potential threat for the regime viability of the Soviet Union. As a matter of fact, the carry-over of the former Communist Party continued the same approach by referring to a secular definition of the state. At first sight, the choice of Kazakhstan seems to be compatible with the secular model of Turkey, which it tried to promote in Central Asia in order to gain a competitive advantage against Russia and Iran.³¹⁴ Nevertheless, rather than considering this option as a success of Turkey to export its model to Central Asia, it should be argued that a secular model of state was an obligation for the Kazakh state. The state did not prefer to

³¹² See, The Letter...

³¹³ See, Kemal Karpat, The Socio-political Environment Conditioning the Foreign Policy of Central Asian States, paper presented at SAIS, Washington, 21 March 1994.

³¹⁴ Ibid,

make its definition by referring to ethnic or Islamic roots in order not to create alternative powers in the domestic arena. Consequently, the state preferred a secular understanding strengthened by a certain degree of liberalization.

In addition to secularism, economic liberalism and political autocracy were the compulsory choices of the state, who hoped to cope with the external pressures.³¹⁵ This complex structure can be understood by analyzing the influence of Russia, the demands of multinational petroleum companies and the neo-liberal external pressures *vis-à-vis* the attempts of the actors to control the Kazakh hydrocarbons. It is explicit that the political pressures related to hydrocarbons have been imposed upon the Kazakh state most intensely by Russia and the multinational petroleum companies. The state could sustain its viability by conciliating the Russian interests with the demands of the multinational petroleum companies by trying not to neglect the national interests of Kazakhstan. Indeed, when the interaction between the companies such as Chevron and the Kazakh state is analyzed, a harmonious relationship can be detected.³¹⁶ This arises from the fact that Kazakhstan was very ardent about the implementation of the IMF recommended liberalization program, which led to the creation of a favorable environment for the foreign direct investments. In other words, the positive attitude of Kazakhstan about the presence of multinational companies has created a relationship based on mutual benefits.

The Kazakh state has favored the interests of the multinational companies by selling them most of the significant oil and gas concessions. In addition to this, the state has engaged in an intense liberalization program, which included a wide scale of privatization, reconstruction of the banking system, creation of an appropriate legal environment for foreign direct investments etc.³¹⁷ That is to say, the Kazakh state has favored the interests of the multinational companies in

³¹⁵ See, Nursultan Nazarbayev, A Strategy for the Development of Kazakhstan as a Sovereign State, Washington, Kazakh Ministry of Foreign Affairs and Mercator Corporation, 1994.

³¹⁶ For the statement of the President of Chevron Munaigas Inc., Philip R. Meek, See, From Shared Success to Parallel Progress: A Chevron View of the New Caspian Oil Industry, Paper presented at International Conference on Kazakhstan Oil and Gas: Managing Reserves to Maximize Economic Benefits, London, England, 29 April 1998.

³¹⁷ See, Nazarbayev...

two ways. First of all, these companies have purchased the majority of the most critical oil and gas projects of Kazakhstan. Secondly, the neo-liberal recommendations of the IMF and the World Bank have been put into life.

The rising influence of the multinational companies necessarily decreased the Russian domination in the region. Normally, Russia should have been more negative about the cooperation of Kazakhstan with the new external actors. The most interesting issue remains to be answered is, how Kazakhstan could conciliate the interests of the multinational companies with those of Russia. Normally, the interests of the multinational companies and Russia about the Caspian hydrocarbons are expected to be mutually exclusive. In addition, Russia has only few stakes in the consortia with a 5% of the Tengizchevroil shared by Arco through Lukarco, and 15% of the consortium of Karachaganak through Lukoil. That is to say, the extensive presence of the multinational companies in the production phase could hamper the balance among the interests of Russia, the demands of the multinational companies and the domestic necessities. The multinationals and Kazakhstan eased the concerns of Russia by deciding to transport the Kazakh oil mainly through Novorossisk by realizing the projects of CPC.

The consensus among the Russian interests and the demands of the multinational companies in order to take more stakes from the Kazakh hydrocarbons has appeared to be the key for attaining political stability within this model. In fact, the vague attitude of the state (1991-1994) was replaced by a clear policy starting at 1994 by the rising influence of the multinational companies, who preferred to guarantee the vital Russian interests especially concerning the transportation phase. From 1994 onwards, the basic characteristics of the state model started to be shaped. In order to guarantee the reconciliation of its relations with Russia, the multinational companies, and non-governmental actors such as the IMF and the World Bank the Kazakh state have chosen a unique model characterized by secularism, economic liberalism and titular democracy under an autocratic government. In other words, the political pressures related to hydrocarbons created a peculiar Kazakhstani state

model, which can be best defined by referring to tight secularism, extensive economic liberalism and autocratic regime, which led to a titular democracy. The choice of the state for secularism can be considered as an outcome of the Soviet tradition. The neo liberal pressures brought the extensive economic liberalism and quasi-democratization. The demands of multinationals and other international actors such as the IMF were forcing government to apply liberal policies especially in the economic sense. A secular and quasi-liberal model of state was also favoring the interests of the multinational companies, who were searching stability and liberalism as the conditions for their direct investments. The multinational companies have already acquired significant stakes from the production and transportation of Kazakh oil and gas. Their priority would be economic liberalization, which could guarantee the foreign direct investments and the transfer of profits. These companies supported the government, who has implied a wide range of privatization, reconstruction of banking system and other liberal structural adjustments. Within this sense, the external actors were contented with the attitude of the state, which has already started to consolidate power in the domestic arena. Liberal policies of the state were acting on behalf of the actors, which have been influential in the trade of the oil and gas of Kazakhstan.

Furthermore, the state was fulfilling its commitments about the neo-liberal recommendations of the IMF and the World Bank.³¹⁸ All of the actors, including the state *per se*, were satisfied about the minimized but domestically strong state. The scope covered by the state was diminishing as a consequence of the increasing influence of the multinational companies and Russia in the energy sector. Extensive privatization was diminishing the scale of the public sector. Nevertheless, the state was increasing its power through presidential decrees giving executive and judicial powers to the president. The state, which has been very weak against external actors such as Russia, multinational petroleum companies as well as international organizations such as the IMF and the World Bank could manage to perpetuate its authority in the domestic arena

³¹⁸ See, The Letter...

by first guaranteeing the basic rights and freedoms of the minorities and then consolidating power through autocratic policies. That is to say, the state was becoming weak in the international arena while consolidating its power domestically.

In Search of Democratization

The political scene of Kazakhstan witnessed the rising number of parties and interests groups as soon as disintegration process started. Between 1986 and 1990 the Green Front (currently the Nature), Jetisu, Nevada Semipalatinsk, Justice (Adilet) and Muslim League of Kazakh Women, Jeltoksan, Azat and Jer (Uyruk) emerged. They were affiliated with different interest groups, which attempted to increase their rights and freedoms by benefiting from the libertarian winds of perestroika. Between 1990 and 1994, new political groups came to life with the hopes of becoming effective in the national political outcomes. In 1990, Azat Party and Social Democratic Party of Kazakhstan were established in order to compete in the elections for the cadres of the government. In 1994, there were four political parties and two important societal movements: People Congress Party, Republican Party, Socialist Party, People's Unity of Kazakhstan Communist Party, The Engineer Unity of Kazakhstan, and Pekolniye (Generation).³¹⁹

After 1994 the political scene in Kazakhstan started to become more consolidated. On the one hand, there was Nazarbayev and his supporters who represented the carry-over of the former Communist Party. On the other hand, there was an opposition block composed of Socialist Party, Kazakhstan Communist Party, Alash and Azat. The Law about Political Parties (1996) led to new political groupings such as People's Unity Party for Kazakhstan, Democratic Party, People's Cooperative Party, Rebirth Party, Workers Party, Lad (Slavic Movement), Workers Movement, Liberal Movement etc. Between 1998 and 1999 new parties and movements such as Kazakhstan Citizenship

³¹⁹ T. B. Umbetaliyeva, "Kazakistan'daki Siyasal Gelişmeler" Avrasya Dosyası, Winter, 2001-2002, Vol. 7, No. 4, pp.87-90.

Party, Republican People Party, Democratic Azamat Party, Agriculture Party, Motherland Party, Justice Party, Towards Fair Elections Movement, Towards 2030 Movement, were founded.³²⁰ The increasing number of political parties and movements did not indicate a positive correlation with the influence of the opposition in the political scene of Kazakhstan. On the contrary, the presidency was consolidating power through presidential decrees and early elections.

This trend is also valid for other local non-governmental organizations (LNGO), which had no affiliations with ethnic, religious, tribal and elitist affiliations. Kazakhstan has inherited a fairly well developed environmental LNGO sector after gaining its independence. Notable LNGOs at that time included Nevada-Semipalatinsk, Almaty's Green Salvation, Green Cross and Crescent International, and the Association for Ecological Enlightenment.³²¹ Since 1991, a new trend increased the sheer number of LNGOs while decreasing their sizes. Firstly, large-scale or populist-type movements have essentially disappeared from the political arena. Instead, most LNGOs have a membership that only hovers around the high single or low double digits: many, in fact, contain less than 10 members. Second, in devising their goals and strategies, many of these LNGOs have become increasingly apolitical and focused on global rather than local issues.³²² That is to say more LNGOs, which were referring to global problems such as biodiversity and desertification rather than the local problems, came into life. The LNGOs preferred to focus on global issues (such as vogue issues), which could offer them reputation, rather than messing with state by emphasizing local problems.

The transition from single party rule towards a multi-party system accompanied by newly emerging pressure groups is a fact, which indicates that the democratic consolidation has started in Kazakhstan. Nevertheless, the reasons why the government allowed the rise of alternative groupings should be analyzed carefully. Among other reasons, the role of hydrocarbons should be attributed a special significance because the Kazakh oil and gas were the two

³²⁰ Ibid, 87-90.

³²¹ Luong and Weinthal,

³²² Ibid,

crucial goods which accelerated the interaction of Kazakhstan with external actors such as Russia, Iran and Turkey on the one hand, multinational companies, the IMF and the World Bank on the other.

The democratization process of Kazakhstan has been shaped under the influence of the competition of various actors to acquire more stakes from the commercialization of Kazakh hydrocarbons. The interaction between external actors and the domestic affairs have started to affect the evolution of democracy as well. Evolution of Kazakh democracy and transition to multiparty system should be analyzed by the influence of hydrocarbons on the idea of Kazakhstani citizenship, the increasing power of the state and emerging opposition.

The affiliation of Russia with Slavic population, Iran with religious groups and Turkey with indigenous Kazakhs forced the state to be very cautious about not creating a feeling of discrimination among the distinct identity groups. In addition, the influence of multinationals and the non-governmental organizations made a positive effect in terms of Kazakhstan's democratization to a certain level. The state first managed the balance of interests *vis-à-vis* the commercialization of Kazakh hydrocarbons among Russia, multinationals and domestic necessities by excluding Iran and Turkey from being the regional power incumbents. Domestically, the state is involved in democratization in order to ease the differences among the indigenous Kazakhs, Slavic population and others and in order to prevent a possible manipulation of external actors. Sustaining the consensus of the Slavic population was a must in order to prevent the secessionist movements, which could arise from the activities of Russia to acquire more from the Kazakh hydrocarbons. Secularism, which coincided with the idea of democracy, was indispensable in order to end the dreams of Iran to become a regional power. Ethnic chauvinism based on Turkic consciousness could be promoted by the euphoria of Turkey to expand its influence zone. The last two factors could raise the discontentment of Slavic population, which could in turn legalize Russian activities. Therefore, the state had to be secular and democratic in order to sustain the territorial integrity and create a Kazakhstani citizenship. The external pressures coming from multinationals, the

IMF and the World Bank also strengthened this policy. The companies which already started to commercialize the Kazakh hydrocarbons and territorial integrity of Kazakhstan became significant for them. Therefore, democracy in Kazakhstan could create a stable environment for their investments and profit transfers. Meanwhile, nongovernmental organizations such as the IMF and the World Bank were also imposing neo-liberal policies, which included democratization as well.

Under this scheme, the democratization process of Kazakhstan had a two-fold characteristic. Firstly, democracy started to work by the general elections for presidency and the parliament. The state was promoting the idea of Kazakhstani citizenship in order to secure that the ethnic differences would not be a reason for discrimination, suppression and oppression. The Kazakhstani citizenship could also impede the manipulative activities of Russia, Iran and Turkey concerning ethnicity, language and religion. Political parties representing the interests of different groups started to act within the political system. Civil society organizations started to develop by trying to affect the national political outcomes. The adaptation of liberalism was a strategy, which could balance the Russian influence at a reasonable level while guaranteeing the rights and freedoms of different ethnic groups practicing a wide range of religions such as the Orthodoxy, Islam and Judaism etc. This inclination towards democratic consolidation was also in coincidence with the neo-liberal recommendations of international organizations, mainly the IMF and the World Bank.³²³

Secondly, the president started to strengthen his powers through presidential decrees, which allowed Nazarbayev to consolidate power. By the help of these decrees, the president not only increased its operational capabilities but also had the chance to fill strategic positions by the reliable cadres. Therefore, despite the multitude of political actors in the political structure of Kazakhstan, the president strengthened its positioning. Russia, multinationals and nongovernmental organizations did not oppose the consolidation of power by

³²³ See, The Letter...

the president, who has already sustained a balance of interests among the external actors. Nevertheless, the state also knew that too much political liberalization could lead to the replacement of the members of the *nomenklatura* with the new cadres. As a matter of fact the president involved in certain precautions in order to sustain its perpetuation of power.

On the one hand, Slavic population was allowed to participate in political formations such as Lad as well as the Yedinstvo Movement, which included various Slavic groups. On the other hand, the state attempted to indicate the borders of these movements. In order to reach this goal, the government tried to ease the separatist activities of the Russian Society by arresting its leader, Boris Spruyunuk who was charged because of his activities against the national interests of Kazakhstan.³²⁴ In addition, the government decided to make Kazakh the state language despite the fact that the common language used in daily life, television channels, radio stations and newspapers was Russian.³²⁵ The determined attitude of the state about sustaining its territorial integrity could lead to a sort of anti-Slavic movement by arousing the nationalistic feeling of indigenous Kazakhs. The history of Kazakhstan has witnessed the oppression of Kazakhs by Russians many times.³²⁶ Just like Cossacks who were abused by external manipulation, the indigenous Kazakhs could be used as a tool of intervention by the abuse of certain concepts such as ethnicity, language and religion. This was true especially for certain movements such as Azat idealizing the indigenous Kazakh unity, Alash referring to the idea of unified Turkestan, and Jeltoksan emphasizing Kazakh nationalism with a negative attitude towards Russians.³²⁷ The Islamic Renaissance Party appeared to be a movement which put a special emphasis on religious consciousness in terms of a supra-national identity.³²⁸

³²⁴ See, Central Asian Newsfile, Vol. 2, No. 5, May 1994, p. 1.

³²⁵ See, Kırımlı,

³²⁶ Martha Brill Olcott, The Kazakhs, California, Hoover Institution Press, 1987, p. 550.

³²⁷ See, Akiner,

³²⁸ See, Pınar Akçalı, "Islam and Ethnicity in Central Asia: The Case of the Islamic Renaissance Party," Mediterranean Quarterly, Vol. 9, No 1, Winter, 1998, pp. 126-150.

On the one hand, these movements could contribute to the consolidation of democracy. On the other hand, the primordial feelings could turn into a ground of harassment by the manipulative intervention of the actors competing for controlling the Caspian region. The state acted very determined about the political movements, which could be affiliated with separatist movements regardless of their natural affiliation. That is to say, the government did not allow any clandestine opposition, which claimed to be a threat for the state. In order to avoid the discontentment of the various groups, ethnic minorities were allowed to represent themselves in the parliament. The 1995 elections allowed non-Kazakhs to represent themselves in the parliament to a certain degree while letting the president to acquire more power. Kazakhs, who have not been majority in terms of population, could constitute 48% of the delegates leaving a 42% for Russians. The rest allowed the representation of about 30 different ethnic groups.³²⁹ Meanwhile, Nazarbayaev acquired the right to appoint important cadres such as prime minister and the first deputy prime minister through a presidential decree.³³⁰

The elections of March 1995 created a constitutional crisis because the parliamentary elections of March 1994 has given 106 seats to Kazakhs, 49 seats to Russians, 10 to Ukrainians, 3 to Jews, 3 to Germans and 6 to others.³³¹ Nevertheless, it should also be mentioned that the 1995 constitution included some significant semantic changes, which Russophone activists had been clamoring for a long time. The phrase defining Kazakhstan as “the form of statehood of the self-determining Kazakh nation” was deleted, as was the special fight of the Kazakh diaspora to hold dual citizenship. Russian was elevated to a status of an official language to be used on a par with the state language in state organs and in organs of local administration.³³²

³²⁹ See, Kazakistan Ülke Raporu, Ankara, TİKA, 1995.

³³⁰ Bhavna Dave, “A New Parliament Consolidates Presidential Authority”, Transition, Vol. 2, No. 6, 1996, pp. 33-37.

³³¹ Sally Cummings, “Politics in Kazakhstan: The Constitutional Crisis of March 1995”, FSS Briefing, No. 3, London, RIIA, August 1995, op. cit. Akiner, p. 71.

³³² See, Konstitutsiya Respubliki Kazakhstan, Mysl, (The Constitution of the Kazakhstan Republic) 1995, 10, pp. 3-22, articles 1, 7, 10 and 11.

The attitude of the state was clear. With regard to the civil domain, the rights and freedoms of nonindigenous populations were taken for granted by the idea of Kazakhstani citizenship. With regard to the political domain, it started to become more difficult to affect the national policies of the government. The state cadres were afraid of being replaced by Slavic technocrats, who are claimed to be under Russian influence. In order to prevent the rise of Slavic influence in the government Nazarbayev became more cautious about the new cadres. This political influence also affected the civil domain. For instance, 30 Kazakhs as against only three Russians, two Uighurs and one Azeri are working in the Language Committee. And this was an agency which aimed to deal with the development of all languages spoken in Kazakhstan.³³³

This situation can be best summarized by referring to the issue of hydrocarbons. The state was afraid of ethnic clashes exacerbated by the manipulation of the external actors to control the Caspian hydrocarbons. The choice of Kazakhstan to sustain a balance among Russia, multinational companies and national interests have helped itself to manage to ease the ethnic differences through quasi-democratic policies which aimed to satisfy indigenous Kazakhs and non indigenous population as well as the neo-liberal demands of certain NGOs in the international arena. This process was also working on behalf of the state who found the chance to consolidate power by increasing the operational capabilities of the presidency. Nevertheless, the socio-economic discontentment became the main reason of growing opposition against the state, mainly Nazarbayev.

Eventhough the state managed to sustain the territorial integrity of Kazakhstan by a balanced policy both internationally and domestically, it was faced with growing domestic discontentment. The source of this discontentment was not affiliated with ethnicity but economic and social problems. In 1997, the reasons for growing opposition have been stated as: 76% for decreasing living standards of the society, 70% for the corruption in the state structure, 60% for insufficient

³³³ Kolsto,

social domain, and 48% for inefficient executive branches.³³⁴ Knowing about the growing domestic discontentment, Nazarbayev felt the necessity to legalize and strengthen his presidency by the elections organized in 1999; 1 year earlier than the normal schedule. According to the results, Nazarbayev managed to extend his presidency until 2006.

Meanwhile, the presidency acquired the right to make constitutional amendments, to appoint and dismiss the government, to appoint and dismiss the administrative heads of regions and cities and to dissolve the government by presidential decrees during this period. It is suggested that the president had close relations with most of the members of the Parliament and the 34 independents have seats that are supported by the enterprises and the institutions, which have direct connections with the government.³³⁵

The extension of presidency of Nazarbayev was a precaution against the emerging discontentment among the opposition. Having eased the ethnic, religious and tribal polarization, the state was now challenged by growing socio-economic discontentment among the *Kazakhstani* citizens. At this point, it became clear that the governing elite might sustain their political power if they become able to lead to an improvement in the economic indicators of the Kazakh citizens. This seemed possible because Kazakhstan started to benefit from the commercialization of hydrocarbons in 1994. The rising foreign direct investments and the petroleum revenues could offer the governing elite another chance to perpetuate their existence while sustaining a considerable amount of economic growth.

³³⁴ Sabit Jusupov, Baurjan Jusupov, "Kazakistan'daki Muhalefet: Gerçek ve Perspektifler", *Tsentralnaya Aziya İ Kavkaz*, No. 9, 1997 p. 57 op. cit. Baycaun, p. 78.

³³⁵ CIA...

III.3. State versus Economic Pressures Related to Hydrocarbons

III.3.1. Economic Pressures Related to Hydrocarbons

During the first years of its independence, Kazakhstan's economy was jeopardized by problems of transition. The attitude of the state during this period reflects that transformation of socialist structures to liberal ones can not be identified only with certain structural adjustments. In addition to this, a major importance should be attributed to the evolution of the institutions, which refer to the state's attitudes in the Kazakh case. Indeed, the economic policies of Kazakhstan have been formed along the institutional evolution of the state. On the one hand, the cadres with communist backgrounds continue to control the determinant institutions, which were determinant in the economy. On the other hand, the attitudes of these cadres started to change by the influence of new external actors who started to be influential in the post-Soviet era. In other words institutional evolution gained another impetus in the post-Soviet era. Therefore, the attitude of the state can be best described by differentiating the response of the state to the issue of interdependence emerging from the disintegration process itself, from the attitude of the state about neo-liberal pressures that have become necessary for attracting foreign direct investments mainly for the purpose selling the hydrocarbons at the world markets.

To refer to the first attitude of the state, it should be mentioned that the Soviet economic structure imposed one type of pressure upon the republics. Within this sense, the governing elite's mission was easier during the Soviet period. Loyalty to the programs and principles of the centralist Soviet regime while sustaining the consensus among different ethnic groups appeared to be the key for holding power. The state inherited this loyalty as an institutional specificity in the aftermath of the disintegration process. In fact, the replacement of socialist practices with a market system was more complicated than other examples. The state, as a post-Soviet institution, perpetuated its loyalty to the idea of a sort of

Soviet unity. This was not only a sort of loyalty to the past but also a necessity arising from the interdependence among the economies of various Soviet republics. Indeed the state attempted to continue the older form of relations within the Soviet context.

Despite the interdependence of Soviet economies and the institutional Soviet heritage of the state, the neo-liberal pressures invoked contradictory policies. Consequently, the macroeconomic situation of Kazakhstan was vague until 1994. In this period, neither the Soviet legacy nor the necessity for market principles could be the determinant factor of the economy. The state was processing the liberal inputs by trying not to damage its relations with Russia for the purpose of sustaining an adequate level of interaction in order to meet the requirements of interdependence. Indeed the Kazakh state was trying to survive the Soviet Union in a new form along with Russia, Ukraine and Byelorussia. Therefore, a short period has been characterized by excessive Russian influence through the domination of Russian Central Bank over the ruble zone, which included Kazakhstan.

During this period, Kazakhstan has been the mostly negatively affected Soviet republic by the disintegration of the USSR. The decreasing Russian domination allowed Kazakhstan to acquire more benefits by its interaction with new actors. Nevertheless, the decomposition of the Soviet structure fundamentally damaged the economy, which was completely tied up with Russia. To concretize the magnitude of the problem the Russian influence can be referred in terms of two aspects.

Firstly, the interdependence strategy of the Soviet regime made Kazakhstan completely dependent on the primary goods and services of other republics. The former system of interdependence under a centralist regime was not working on behalf of Kazakhstan who was obliged to exchange its natural resources, mainly oil and gas, with almost all kinds of goods and services. Whether be it good or bad, this system was allowing at least the daily occurrence of the economy by the centralist policies of the command regime. Consequently, independence of

Kazakhstan led to drastic consequences for the economy because the new prices and partners interrupted the barter of goods and services, which emerged in the aftermath of the disintegration of the USSR.³³⁶ On the one hand, Kazakhstan became able to acquire more stakes from the oil and gas trade when compared with the Soviet era. On the other hand, the new composition of international trade imposed new problems such as decreasing competitiveness against CIS countries such as Russia as well as the decline of non-oil production.

Secondly, Slavs and Germans were completely holding the significant management positions in industry and trade. In other words, Kazakhstan's bourgeoisie under Soviet regime, was insufficient and composed of Slavs and Germans leaving to the indigenous Kazakhs agrarian and rural jobs. In fact, Kazakhstan's economy was challenged by a brain drain in the aftermath of the disintegration process. More than 1.5 million ethnic Germans and Slavs have left the country since 1991, making Kazakhs majority in their own land for the first time in half a century.³³⁷ In fact, in contrast to generally accepted belief, the Kazakh state under the presidency of Nazarbayev attempted to decelerate the impetus of the migration of Slavs and Germans in order to minimize the consequences of not being able to fill the positions left behind.³³⁸ Within this sense, it should also be mentioned that the indigenous Kazakhs have fears about future. "Many Kazakhs also worry that radical economic privatization and the transition to a market economy will hurt the descendants of pastoral nomads who do not have any tradition of commerce and free enterprise and will inhibit, rather than facilitate, the emergence of a strong Kazakh middle class."³³⁹

Kazakhstan's economic policies become more autonomous between 1993 and 1994 by the replacement of ruble by tenge and foundation of Kazakhstan

³³⁶ See, Somuncuoğlu, p. 44-50.

³³⁷ This movement created a structure in which the Soviet safety net has left 39% of the population living on \$23 or less per month for a family of five. See, Christopher Pala, "The jewel of Central Asian republics: double-digit growth, single-digit inflation, a reformed financial system and vast oil reserves have Kazakhstan poised to become a major player in the world economy", Insight on the News, 11 March 2002.

³³⁸ See, Nermin Güler, "Kazakistan'da Alman Azınlığı", Avrasya Dosyası, Vol. 7, No. 4, Winter 2001-2002, p. 174.

³³⁹ Anatoly M. Khazanov, "The Ethnic Problems of Contemporary Kazakhstan" Central Asian Survey, Vol. 14, No. 2, 1995, p. 255.

Central Bank (KCB). As a matter of fact, KCB started to follow its own monetary policies, which offered the state the chance to imply liberal policies. The economic indicators were positive starting at 1995. In other words, it seemed as if the replacement of Russian influence by new external actors led to Kazakhstan's economic recovery.

Table 15- Basic Economic Indicators of Kazakhstan

	1995	1996	1997	1998	1999
Real GDP					
(% of change)	-8,2	0,5	1,7	-1,9	1,7
Consumer prices					
(% of change)	60,4	28,6	11,3	1,9	18,1
Government revenue and grants					
(% of GDP)	16,9	13,2	13,3	18,3	18,6
Government expenditures					
(% of GDP)	20,1	18,6	20,1	26	24
Overall balance (cash basis)					
(% of GDP)	-2,7	-5,3	-6,9	-7,7	-5,3
Exchange rate (period average)					
(tenge per dollar)	61,1	67,8	75,6	78,6	118,9
GDP					
(in billions of tenge)	1,014	1,416	1,672	1,721	1,893
Inflation					
(%, end of the year)*	60,4	28,6	11,3	1,9	18,1

*2962% in 1992, 2169% in 1993 and 1160% in 1994

Source: IMF

This new era starts at 1995 and leads to better economic indicators than the previous one. Kazakhstan's real GDP has already fallen more than 30% until 1995, which witnessed another fall of 8.2%. In 1996 and 1997, the GDP started to grow at the levels of 0.5 and 1.7 respectively. With the partial acceptance of 1998 in which the change of GDP was -1.9%, the economy of Kazakhstan started to grow in 1999 by 1.7%. There was a similarity between the inclination of consumer prices and inflation. Indeed, in 1995 the consumer prices have increased 60.4% while the inflation has been 60.4%. The rates consumer prices increases and annual inflation rates have been 28.6% in 1996, 11.3% in 1997, 1.9% in 1998 18.1% in 1999. Since 1995, tenge started to appreciate against the

currencies of its trade partners such as the Russian ruble. The average exchange rate of tenge per dollar has been 61.1 in 1995, 67.8 in 1996, 75.6 in 1997, 78.6 in 1998 and 118.9 in 1999.³⁴⁰

It seems as if collaboration of the Kazakh government with the IMF has started to ameliorate the economic situation because the state has vitalized reforms in prices, real exchange rates, banking system and state entrepreneurs in this period. Nevertheless, apart from the IMF led reform program, it should be also mentioned that Kazakhstan started to benefit from the foreign investments in the energy sector. In other words, the foreign direct investments in the energy sector and the rising revenues of oil and gas exports appear to be significant factors of the Kazakh case.

The oil production of Kazakhstan has started to increase steadily by the activities of the oil consortia mainly in the fields of Tengiz, Karachaganak, Karazhanbash, Akshabulak, Uzen and Aktobe.

Table 16- Oil and Gas Production in Kazakhstan

	1991	1996	1997	1998	1999	2000
oil (million tons)	22	23	28.8	25.9	30.1	35.3
gas (billion cubic meters)	7.8	6.1	7.6	7.6	9.3	10.7

Source: BP Statistical Review of World Energy, 2001 and TİKA, Kazakistan Ülke Raporu, Ankara, TİKA, Haziran, 1995 p. 88

The oil production which was 22 million tons in 1991 increased to 23 million tons in 1996, 28.8 in million tons 1997, 25.9 million tons in 1998, 30.1 million tons in 1999 and 35.3 million tons in 2000. Similarly, Kazakhstan was also able to increase its natural gas production from 7.8 billion cubic meters in 1991 to 10.7 billion cubic meters in 2000. The gas production was 6.1 billion cubic meters in 1996, 7.6 billion cubic meters in 1997, 7.6 billion cubic meters in 1998, 9.3 billion cubic meters in 1999 and 10.7 billion cubic meters in 2000.³⁴¹

³⁴⁰ Van der Mensbrugghe, Mathieu, Ross, Semblat, Lehmann and Szekely, p. 4.

³⁴¹ BP...

The figures indicate that there exists an undeniable contribution of oil and gas production to the economy. This arises from the fact that Kazakhstan was able to commercialize its hydrocarbons at the world markets through its cooperation with multinational companies. The influence of oil on the growth of GDP is very discernible in 1997. At the eve of this year, both oil and natural gas production have already increased fundamentally.

Meanwhile, the consortium led by Agip develops the offshore field called Kashagan, which is the world's fifth-largest oil field. This field, which has been ignored by the Soviet officials after seismic soundings revealed in the 1970s, is twice the size of Tengiz. Agip KCO, the operating company, expects to be lifting 300,000 barrels a day by 2008. Oil experts believe that when Kashagan and its satellite fields mature, they will produce 2 million barrels a day.³⁴²

The economy of Kazakhstan will likely to be dominated by the influence of oil revenues in the near future. The state will increase its operational capabilities by the contribution of Kashagan field and the development of other fields. The trend indicates that Kazakhstan's oil exports should rise from 540,000 barrels a day to 3 million barrels a day by 2010 (equal to Russia's current exports), propelling it to the ranks of the world's top-five exporters.³⁴³ This raises confidence that, unless there emerges a collapse of world energy prices, there will be a significant rise in export receipts in the near future, as more pipeline capacity becomes available which at the same time ensures continuing growth of export receipts over the following ten years.³⁴⁴

In addition to the rising amount of production of oil and gas, there is an explicit contribution of foreign direct investments to the Kazakh economy. Tengizchevroil indicates its positive impetus on Kazakhstan in many ways, which can be best categorized in terms of three groups:³⁴⁵

³⁴² Pala,

³⁴³ Ibid,

³⁴⁴ "Kazakhstan Foreign Currency Rating Raised to 'BB', Fitch IBCA; - Fitch IBCA Financial Wire " Newswire, 27 January 1998.

³⁴⁵ See, Richard H. Matzke, Helping to Build Inter-Dependence in the New Central Asia. Paper presented at Fifth Kazakhstan International Oil & Gas Exposition Almaty, Kazakhstan, 2 October 1997.

1) Commercial Benefits: Multinationals pay royalties, taxes, cash distributions, pipeline-and-rail fees and payroll on the one hand, and contribute to funds such as Tengizchevroil's Atyrau Bonus Fund on the other. The joint venture's \$50 million Atyrau Bonus Fund has assisted improvements in housing, medical care and schools as well as construction of a 50-ton-per-day bakery, a new boiler plant and a new water treatment plant. The joint venture will construct a medical clinic in Atyrau. The foreign direct investments lead to significant benefits as well. Only Tengizchevroil's investments have been more than 2 billion dollars. It is expected that another 1 billion dollar will be invested for every three year until the peak of production. This figure does not cover the investments of other multinationals. Tengizchevroil directly employs 3,300 people 80% of whom are Kazakh citizens. Many more local jobs are created as well, because of the many contractors needed to support the operations. It is estimated that every one of these direct dollars generates another dollar-and-fifty-cents of value for the Kazakhstan gross national product. It should also be mentioned that Tengizchevroil spent more than 145 million dollars in Russia from 1994 through 1996. The continuation of this trend means that as much as 100 million dollars will be spent for Russian goods, services, transportation and technical support for every 3-4 years.³⁴⁶

2) Technology Transfer: The Soviet oil industry remained relatively inferior to that of Western multinational companies. Indeed the multinationals introduce not only advanced methods for exploration but also for extraction. The Kazakh oil industry is becoming accustomed to methods such as directional drilling technology, high angle drilling technology, completion technology etc. In addition, the construction of pipelines also allows Kazakh engineers to expand their know-how.

3) Training and Development: Multinationals provide intense training for their employees both in terms of technical and managerial skills. For instance until 1997, employees of TCO have received more than 170,000 hours of training at a cost of \$6 million. This enriched both the project and the regional labor pool as

³⁴⁶ Ibid,

well. Safety and environmental protection at Tengiz Field have been vastly improved. The training and development of employees of multinationals continues. In addition, TCO is also working with the government to support economic and business education of non-TCO employees who are generally employed by the Kazakh state and Kazakh entrepreneurs.

The effects of the rising role of hydrocarbons in Kazakhstan's economy should be analyzed in two aspects. On the one hand, the foreign direct investments and revenues extracted from oil and gas allow the state to ameliorate the basic macro economic indicators accompanied by a certain degree of economic liberalization. On the other hand, the state finds the opportunity to realize the neo-liberal policies recommended by the IMF and the World Bank, and does not follow an appropriate policy regarding production. Kazakhstan's economy is getting sound virtually by the effect of growing GDP, controlled inflation, stabilized prices and real exchange rates. Underneath of the positive figures, there exist structural problems, which tend to jeopardize the healthy formation of the post-Soviet economy in Kazakhstan.

Within this sense, it should be mentioned that the capital inflows and subsequent real exchange rate appreciation creates the decline of the non-resource tradable sector which in turn restricts the international competitiveness. This is exactly what seems to occur in Kazakhstan. "Both real exchange rate indices and relative unit wages rates suggest that Kazakhstan has lost competitiveness *vis-à-vis* Russia, the largest destination for Kazakhstan's exports."³⁴⁷ The decreasing competitiveness against Russia may create drastic consequences upon Kazakh economy by damaging the exports towards Russia. Within this sense, it is possible to suggest that the commercialization of Kazakh hydrocarbons by the contribution of multinationals completely changes the traditional composition of exports. The replacement of Russia by new actors creates positive consequences in terms of oil and gas. Nevertheless, the non-oil sectors are being hampered by the post-Soviet composition of international trade.

³⁴⁷ Van der Mensbrugghe, Mathieu, Ross, Semblat, Lehmann and Szekely, p. 38.

The negative influences of the rising oil and gas exports are more discernible in the inclination of non-oil exports. The nominal growth of non-oil exports was 11.1% in 1996, 3.8% in 1997, -19.3% in 1998 and -6.4% in 1999 by constituting 83.3% of total exports in 1995, 80% in 1996, 75.8% in 1997, 71.9% in 1998 and 65.9% in 1999.³⁴⁸ Kazakhstan is hoping to overcome the decline of non-oil goods by increasing its international trade relations. Nevertheless, this does not seem to be an easy task. As it has been mentioned above, Kazakhstan has started to lose its competitiveness against the CIS members, mainly Russia, by the rapid rise of oil sector on the one hand, the appreciation of tenge on the other.

Even though there is a large-scale privatization, the lack of bourgeoisie and the idea of private entrepreneurship force the state to overcome this problem by finding new trade partners outside the CIS zone. Although China seems to be an emerging market, Kazakhstan does not tend to be a good supplier for this country because of rising prices of the traditional export goods. At this point, the state attempted to ameliorate its relations with the European Union, which also gives a strategic significance to Kazakhstan. Nevertheless, it does not seem possible to consider the EU as a profitable trade partner for Kazakhstan at least in the near future. This arises from the fact that the EU does not need non-oil Kazakh goods, which in turn allows it to increase the barriers for the goods and services other than hydrocarbons. Indeed The EU does not allow Kazakhstan's demand for similar treatment to Russia and China on anti-dumping, which means recognition as a market economy. In addition, Kazakhstan wants to sell more steel to the EU, so is looking for progressive liberalization of trade in steel products, but this will take place only in parallel with the introduction of open competitive conditions in Kazakhstan's steel sector. Fish and caviar could be significant non-oil exports to EU because of the potential in the Caspian Sea.³⁴⁹ These issues indicate that more liberalization is at stake in order to convince the EU to enhance its trade relations concerning the non-oil Kazakh export goods. This is indeed in coincidence with the demands of multinational oil companies

³⁴⁸ Ibid,

³⁴⁹ "Eu/Kazakhstan: Prodi and Nazarbayev Cautious on Fate of Central Asia", European Report, 1 July 2000.

for more liberalization mainly in the energy sector, as well as the neo-liberal pressures of the IMF and the World Bank concerning privatization, reconstruction of banking system and reconsideration of the fiscal issues.³⁵⁰

Within this context, it seems possible to talk about a vicious circle, which is characterized by the liberalization of the economy with no appropriate sectoral reformation. In other words, the state is faced by a pressure, which forces it to replace Russia with multinational companies in order to acquire the real value of its natural resources. At this level, the state is challenged by a more intense pressure, which imposes neo-liberal policies.³⁵¹ That is to say interacting with the actors of the global economy offers benefits to Kazakhstan while creating new problems. Indeed the state, which is forced to minimize itself through privatization, is also asked to prepare a suitable environment, which promotes and secures foreign direct investments. This would not be a problem if Kazakhstan had been accustomed to the idea of private entrepreneurship. The domain that is left by the minimization of the state cannot be fulfilled by the private sector, which at least lacks the managerial capabilities. The state adheres to oil and gas revenues in order to solve the problems, which had already been created by the issues related to the transition. Indeed, revenues related to hydrocarbons play the most significant role in the restriction of inflation, the improvement of the state budget, and the fulfillment of the state's main duties. The state seems to be aware of its increasing dependence on multinational companies, which allow Kazakhstan to earn money from the trade of gas and oil. The decline of non-oil sectors and decreasing international competitiveness are also explicit issues.

It is explicit that the state needs to balance the rapid growth of the oil sector by promoting the expansion of non-oil sectors, which indicates significance especially for human capital formation. This aspect of the non-oil sectors has a vital importance for Kazakhstan who has started to suffer from the absence of qualified cadres after the migration of Slavic and German population. The enormous growth of oil sector tends to strengthen rent-seeking behavior and

³⁵⁰ Ibid,

³⁵¹ See, The Letter...

extravagant spending. This is true for both the state and the society. With regard to the state, the revenues extracted from the revenues of hydrocarbons easily cover the government expenditures. The state does not feel the necessity to involve in structural improvement, which may lead to social discontentment during the transformation period. The state prefers to cover the inadequate aspects by injecting the petrodollars to the markets. With regard to the society, the citizens expect most of the services from the state. This is especially valid for Kazakhstan where people have already been accustomed to the multipresence of the state. Rent seeking behavior and luxury consumption expands by the influence of the petrodollars injected by the government. People become more hostile to the idea of production. Indeed, a vicious circle is created, wherein the idea of production is hampered by the state's attitude and citizen's responses.

It also becomes very difficult to increase international competitiveness of the non-oil products because the injected petrodollars lead to the rise of national money. This decreasing international competitiveness creates another strike, which hampers the evolution of the non-oil sectors. The economy becomes dependent on petroleum sector. The result is a desperate Kazakh state, which finds no other way than obeying the Western demands of neo-liberalization while trying to continue its trade relations with CIS members. The state expects to hoard liquid assets from the oil and gas exports. This in turn may help Kazakhstan to improve its standards of non-oil goods to the internationally accepted levels. It may even be possible to subsidize certain non-oil goods by the funds obtained from hydrocarbons. Nevertheless, these ideas contradict with the current trend, which minimizes the scope of the state. The subsidies and quasi-fiscal activities contradict with the program, which is being implied by cooperating with the IMF. Corruption is another problem, which at the same time gives the IMF the reason to impose certain policies such as minimization of subsidies and enlargement of privatization.

This scene that has been apparent in the oil producers of the developing world depicts exactly what happens in Kazakhstan. Kazakhstan's problems are even more serious than most of its counterparts because of being oppressed by the external pressures. Therefore, it becomes more difficult to ameliorate the domestic structure while trying to balance the interests of Russia and multinational companies with the demands of the IMF and the World Bank. To the extent that the underestimation of external pressures tends to create vital consequences, which may endanger the regime viability and territorial integrity of Kazakhstan, the state prefers to focus on its relations with Russia, multinational companies and certain international NGOs. The expectations of the society are fulfilled not through a sound restructuration program but through the allocation of revenues.

In fact, certain cadres, who control oil and oil related sectors, enjoy excessive accumulation of wealth. Unhealthy economy, extravagant consumption, rent seeking behavior become the basic indicators of the relations between the state and the society.

III.3.2. The Attitude of the State against Economic Pressures

Macroeconomic Policies

Kazakhstan's macroeconomic policies have been shaped along external influences. The Kazakh state did not seem aware of the consequences of the disintegration of the USSR during the first four years of its independence. More truly, the political disintegration of the USSR had been faster than the economic disintegration especially in the case of Kazakhstan. The Soviet type of interdependence was very intense *vis-à-vis* Kazakh economy. This structure explicates not only why and how Kazakhstan's economy entered a difficult time by the burden imposed by disintegration, but also why the state insisted on continuing Kazakhstan's economic relations with Russia. The state was obliged to refer to Russia and non-indigenous Kazakh citizens in order to make the economy work. The situation of Kazakhstan was interesting because although it

was organically dependent on Russia, it appeared to be the most ardent republic about transition from socialism to liberalism.

Within this context, the results of liberalization were serious for the economy, which was inherently based on Soviet type of command economics with a high degree of interdependence with other republics. During the first years of its independence, Kazakhstan was not able to manage the economic pressures imposed upon the republic. Instead of appropriate policies, Kazakhstan was forced to involve in contradictory strategies, which have been imposed by the Soviet legacy and Russia on the one side, external actors such as the IMF and the World Bank on the other. The economic problems of Kazakhstan resembled to other transition economies.

Nevertheless, the Kazak case gained peculiar characteristics by the attitude of the state that was ardent for the neo-liberal policies recommended by the IMF and the World Bank and faithful to the heritage of the Soviet system simultaneously. The Kazak officials attempted to compromise the external pressures of diverse actors rather than turning them into viable economic policies. The balance of powers has tuned out to be the strategy of the state not only politically but also economically. Just like its political approach, the state attempted to sustain equilibrium among the major actors, which imposed economic pressures. Nevertheless, in contrast to its political success, this strategy created negative consequences especially during the first years of Kazakhstan's independence. That is to say, acquiring positive outcomes through the strategy of balance of powers was relatively easy in the political sense, but extremely difficult in the economic one.

This was understandable because despite the fact that the governing elite had a long political experience under the Soviet system, which necessitated a complex structure of bargaining, compromise, patronage etc. they lacked liberal economic experience. A mixed structure of autocracy and democratization could be helpful for the consolidation of democracy and political maturity. Nevertheless, the mix of command and liberal economy could lead to hazardous

consequences and so it did. During the first years of independence, the Kazakh state could not make just decisions, especially in the economic sense, by trying to balance the demands of the IMF with its organic connection with Russian economy.³⁵²

The contrasting consequences of the balance of interests policy becomes more discernable, when the political and economic background of Nazarbayev, who appeared to be the most potent executive actor, is considered. In contrast to his long and deep political experience during the Soviet regime, Nazarbayev lacked economic background. Indeed Nazarbayev is a steel engineer with little knowledge of economics no matter whether be it socialist or liberal. The clear fact was his loyalty to the Soviet Union and its ideals. Within this perspective, even after the disintegration of the USSR Kazakhstan was following economic strategies in coincidence with the good of the whole, which was assumed to be the emerging economic union under the leadership of Russia. Nevertheless, Kazakhstan's first years have witnessed a steady economic deterioration in almost all sectors.

Nazarbayev preferred to use Russian ruble instead of creating national money, which brought hyperinflation that reached 1,600% in 1993.³⁵³ Being a part of the Russian ruble zone can be considered as one of the reasons of the economic deterioration. Meanwhile the real factor, which was negatively affecting the Kazakh economy was the lack of the CIS Central Bank despite its being envisaged during 1992 Tashkent Summit of CIS countries. The CIS Central Bank has never been constituted. Rather, the Russian Central Bank became effective in the ruble zone, which was constituted by the CIS members through the replacement of Soviet ruble by Russian ruble. That is to say, Russia continued to control the money supply towards the republics. Indeed the flow of ruble towards the republics started to steadily increase which in turn created inflationist pressures.³⁵⁴

³⁵² Pala,

³⁵³ Ibid,

³⁵⁴ See, International Monetary Fund, Kazakhstan: Economic Review, Washington, IMF Publications, 1992.

Meanwhile, the CIS members, including Russia itself, were interacting with external actors such as the IMF. As a matter of fact, this dualistic structure created vital consequences for Kazakhstan, who adapted very mild attitude to the IMF receipies while being totally under the monetary policy of the Russian Central Bank.³⁵⁵ Nazarbayev was involved in the economic restructuration program of the IMF because Russia had already started a shock therapy in coincidence with the IMF recommendations. Nevertheless, the consequences for Kazakhstan were severe because of the lack of a national monetary policy. In addition, the real sector, which was in close relation with the state apparatus, was opposed to privatization. In fact, the state companies continued to act inefficiently. Consequently, Kazakhstan's economic policy became irrelevant to the realities of the country. It was neither the Soviet type of command economics nor a will towards liberalism. The economy became a mixture, made up of the negative aspects of two contrasting composites. The result was extensive output decline accompanied by hyperinflation.³⁵⁶ As a result, output fell by some 40 per cent in the early 1990s and the currency lost most of its value.³⁵⁷

Interestingly, there were very few differences between Kazakhstan and Russia until 1994. The introduction of tenge on 15 November 1993 as the Kazakhstani national currency can be considered as one of the most significant response, which indicated that Kazakhstan was at the eve of a new era that would be characterized by new economic policies under the influence of neo-liberal pressures. The creation of Kazakhstan's National Bank was another significant development for its economic independence. To head the new central bank, the National Bank of Kazakhstan, Nazarbayev appointed a diminutive, gravel-voiced central planner and deputy prime minister named Daulet Sembayev.³⁵⁸ This appointment was realized through the concern of Nazarbayev to sustain his control on economy.

³⁵⁵ International Monetary Fund, Kazakhstan: Economic Review, Washington, IMF Publications, 1993, and International Monetary Fund, Kazakhstan: Economic Review, Washington, IMF Publications, 1994.

³⁵⁶ See, World Bank, 1993, Kazakhstan: The Transition to a Market Economy.

³⁵⁷ "Kazakhstan Foreign Currency Rating Raised to 'BB', Fitch IBCA; - Fitch IBCA Financial Wire", Newswire, 27 January 1998.

³⁵⁸ Pala,

Between 1990 and 1995, the decrease of total production was 39%, that of agriculture was 35% and that of industry was 56%. The capital investments were below one third of the figures of 1990.³⁵⁹ Consequently, Kazakhstan was obliged to interact with the IMF. Price liberalization, macroeconomic stabilization, and privatization, which were assumed to be the main pillars of shock therapy for the transition economies, would be the new policies of the state.

The stand by agreement with the IMF on January 1994 gained a significant impetus to liberalization of the economy. This agreement envisaged the restriction of inflation and accomplishment of structural reforms as two main purposes. The introduction of tenge instead of Russian ruble and the creation of Kazakhstan Central Bank (KCB) can be considered as two significant developments that helped the government to restrict inflation through the IMF oriented economic policies. Another critical reform package concerned structural reforms including a wide range of activities. At this level, it became clear that attracting foreign investors was a major policy choice of the state.

It is explicit that the private banking system is another crucial condition for a country who wishes to become attractive for foreign investments. Consequently, legal issues as well as the reconstruction of banking system would sustain a safe environment for investments and transfer of profits. In addition, strong banking system appears to be a condition for macroeconomic stability. Indeed, during the first years of independence Kazakhstan asked for high standards from the banks. “According to Marchenko, deputy governor of the central bank at the time, there was a lot of open resistance from the banking sector. Dozens of banks were closed when the central bank imposed strict capital requirements. But the president maintained strong political support, without which nothing was possible in Kazakhstan. Today there are 40 banks, all private except a state import-export bank and a state development bank.”³⁶⁰

³⁵⁹ Somuncuoğlu, pp. 36-40.

³⁶⁰ Christopher Pala, “The jewel of Central Asian republics: double-digit growth, single-digit inflation, a reformed financial system and vast oil reserves have Kazakhstan poised to become a major player in the world economy” *Insight on the News*, 11 March 2002.

The IMF's increasing influence forced the state to be careful about the balance among the external actors because the neo-liberal policies could jeopardize the rule of Kazakh governing elite on the one hand and basic Russian interests on the other. The state tried to develop alternative ways in order to solve the economic problems while not endangering the status-quo. There were two main strategies, which were in coincidence with interests of Russia, multinationals and the demands of the IMF. Firstly, the commercialization of hydrocarbons could be the most practical way for the recovery of the economy. Secondly, the state could solve fiscal problems through the implementation of a large-scale privatization program, which covered the energy sector.

Foreign direct investments in energy sector would have long-term contributions. Firstly, the foreign direct investments in the field of energy would lead to transfer of capital, labor and technology. Secondly, the revenues of hydrocarbons would accelerate the recovery of the economy. In order to reach this goal, the state became milder about neo-liberal pressures, which aimed to create stability as soon as possible. Shortly the creation of a suitable environment for the foreign investors became the main strategy of the state, which was suppressed by the transition problems. It was clear that, Kazakhstan would be deprived of the foreign direct investments and would not be able to sell its hydrocarbons at the world markets without implementing the IMF led neo-liberal policies.³⁶¹

In addition, large-scale privatization would be a further step for the fulfillment of neo-liberal impositions. Privatization would not only solve the efficiency problem of state enterprises but also increase the state revenues. Within this sense, most of the prices were liberalized until 1994, the tax reform was implemented in 1995, and the liberalization program was initiated in 1995. Both of the strategies were compatible with the demands of multinationals and recommendations of the IMF and the World Bank.³⁶² Therefore, it is possible to conclude that January 1994 was the month in which Kazakhstan entered a new

³⁶¹ Mark De Broeck and Kristina Kostial, Output Decline in Transition: The Case of Kazakhstan, Washington, IMF Publications, 1998 pp. 5-12.

³⁶² See, Pala,

period of implementing the neo-liberal policies of the IMF led economic program, which was strengthened by a stand by credit. This gained another impetus to the liberalization process, which started to be realized by the cooperation of the state with multinational companies. In other words, Kazakhstan started to get rid of its Soviet characteristics on behalf of neo-liberal reconstruction.

Privatization

To the extent that Kazakhstan has become the most ardent country about liberalization, the concept of privatization should be attributed a special significance. There are many reasons for this. Above all, it should be mentioned that, Kazakhstan would explicitly need a sound institutional reform in order to fill the gap left by the disintegration of the USSR. This gap had two aspects. Firstly, Kazakhstan needed to develop the skills for production of non-oil goods in order not to suffer from its complete dependence on external factors. Secondly, the minimization of the state left behind a space, which needed to be filled by private entrepreneurship.

In any case, it is clear that the government will need well-developed institutions under an effective management. The policies implemented by the managers should be compatible with those of the institutions, and public interest. The evolution of these institutions takes time as it took so long in Western countries. Having a transition economy, Kazakhstan suffers from lack of these institutions, which could help the state to accelerate a sound evolution towards market principles. Nevertheless, if the same patronage relations shape post-socialist institutions, then it is normal to see certain problems such as corruption and personal use of resources. In other words, there is no difference between socialist and post-socialist institutions, as far as corruption prevails. Indeed, this fact is the pretext of the IMF's neo-liberal pressures, which asks the state to privatize almost all the enterprises. This is assumed to be the way, not only for increasing efficiency, but also to impede corruption.

Nevertheless, in most of the transition economies *nomenklatura privatization* became a fact, which indicated the purchase of state enterprises by former high officials of the Communist Party at low prices of valuable assets of state.³⁶³ This *nomenklatura* privatization did not only hamper the essence of privatization but also created drastic changes in the distribution of income. Consequently, privatization did not lead to institutional improvement. On the contrary, certain institutional problems prevailed prior to and after privatization. In addition to this, it should be mentioned that most of the strategic and effective enterprises were opened to foreign investors. Consequently, privatization allocated the strategic enterprises to the foreign investments while the members of *nomenklatura* have shared the rest.

Within this perspective, it is very difficult to suggest that Kazakh privatization served the improvement of institutional capabilities of certain enterprises. Kazakhstan also suffered from the above-mentioned problems, which were common in most of the transition economies. A large-scale privatization program has been initiated in 1995 soon after price liberalization and macroeconomic stability were sustained. In 1995, Kazakhstan's foreign trade system was totally liberalized by the eradication of all types of tariffs and quotas. Barter was banned. State moved out of foreign trade even for strategic goods and services. The obligation of the exporters to sell certain amount of their gains to state was eradicated.

Within this context, it is possible to understand the reasons, which forced Kazakhstan to involve in a wide range of privatization. Having liberalized prices and sustaining macroeconomic stability to a certain extent, the conditions for privatization were ready not only for the state, who was expecting to acquire cash money as soon as possible, but also for foreign investors who were expecting to guarantee their investments and transfer of profits. Although the macroeconomic environment was very suitable, the state faced certain difficulties during the first years of privatization process. The execution of big plants and enterprises were given to professional managers under the program

³⁶³ Vito, Tanzi Transition and the Changing Role of Government, Finance and Development (A Quarterly Magazine of the IMF) June 1999, Vol. 36, No. 2.

of “trust management” of 1995. This was the first signal of the forthcoming large-scale privatization process. Foreign investors started to control 66 strategic enterprises of Kazakhstan in electricity, energy metallurgy, oil, gas and communication.³⁶⁴ Under normal conditions, privatization implies the replacement of state ownership by private sector. Kazakhstan executed the “trust management” program for many reasons. First of all, the public could be more accustomed to the idea of private ownership. Secondly, the efficiency of the enterprises could be sustained/increased prior to privatization. It should also be mentioned that the control of the management of the enterprise by future owners would facilitate certain procedures for the investors.

This preliminary initiative led to large-scale privatization, which included not only the Production Sharing Agreement created by the concessions sold to multinational companies, but also significant enterprises in Kazakhstan’s oil industry. A tendering competition was in progress in January for the sale of three Kazakh oil industry concerns. The enterprises up for sale were Aktyubinskneft (the state owned regional oil company in the western province of Aktyube), Yuzhnoneftgaz (a state oil and gas company which includes activities in the Kumkol region) and Shymkentnefteorgsyntez (a processing company based in the south of the country including the Shymkent oil refinery)³⁶⁵ Throughout 1996 the state continued to implement the privatization program. 2000 medium sized enterprises and organizations were included in the mass privatization program. 60% of these enterprises were privatized by three different applications. On average, one third of the shares were sold through coupon auctions, one third of the shares were sold in cash and one third of the shares were transferred to the employees.³⁶⁶

These were the positive aspects of starting privatization with an intense cooperation with the future owners. Nevertheless, Kazakhstan’s privatization process also suffered from certain policy options, which decreased the possible

³⁶⁴ Somuncuoğlu, p. 39.

³⁶⁵ “Tendering privatization for Kazakh oil companies”, Central Asia Newsfile, Vol.4, No. 1 January 1996, p. 10.

³⁶⁶ “Kazakhstan completes coupon privatization”, Central Asia Newsfile, Vol. 4, No. 2, February 1996, p. 6.

earning of the state from privatization. Market economies generally involve in debt injection or converting a significant part of enterprise equity into debt in order to increase the revenues that might be earned by the ministry of finance. Indeed, countries such as the United Kingdom attained about one-fifth of receipts from the privatization of utilities by converting the enterprise equity into debt before the privatization process was started. This is not a common method in transition economies. Within this context, Kazakhstan also started its privatization process without significant amounts of debt obligations as counterparts to their large assets. This method was favoring the non-state actors because the state was decreasing the actual value of the concerned enterprise about 20%, when the figures of UK are considered to be an indicator. In the oil and gas sectors of the former Soviet Union countries, low costs and the absence of debt have led to the generation of large rents.³⁶⁷

When the privatization of Kazakh enterprises, especially in the energy sector is analyzed, it may be suggested that state did not focus on such calculations.³⁶⁸ Consequently, part of the Kazakh oil sector was privatized using traditional cash sales of shares and investment tenders.³⁶⁹ The privatization of energy sector was a very significant issue for Kazakhstan because of its dependence on oil and gas revenues. Nevertheless, the state was determined about implication of the program, which led to the privatization of major energy enterprises with no regard to their strategic importance. Consequently, almost all large enterprises have already been privatized until 1998.³⁷⁰

Despite certain inadequacies in the privatization process, the state managed to reach its goals. The economy witnessed a positive inclination between 1994 and 1997, which has been characterized by decreasing inflation, appreciation of tenge, minimization of budget deficits and growth of the GDP. The contribution of privatization is undeniable for this scene because Kazakhstan has attained 1.3

³⁶⁷ See, Dale Gray, "Energy Tax Reform in Russia and Other Former Soviet Union Countries" Finance and Development (A Quarterly Magazine of the IMF) September 1998, Vol. 35, No. 3.

³⁶⁸ "Tendering privatization for Kazakh oil..."

³⁶⁹ Ibid,

³⁷⁰ See, Stanislav Zhukov "Adapting to Globalization" in Boriz Z. Rumer (ed.) Central Asia and the New Global Economy, New York, M.E. Sharp, 2000, pp. 157-158.

billion dollars of foreign investment during this period by the appropriate conditions of privatization.³⁷¹ Since then Kazakhstan's privatization process has been decelerated by the claim of opposition, which asked to further privatization especially in strategic sectors such as energy.

The delays in the privatization of *blue chip companies* took place with delays in the adoption of important fiscal sector measures, and stagnation in land and social sector reform. The government has already eliminated trade restrictions introduced at the outset of the Russian crisis and has converted most specific tariffs into ad-valorem tariffs. Nevertheless, a more cautious approach to the implementation of the IMF led policies brought further delay in the reform of the tariff regime. Some ad-hoc trade restrictions have been introduced to address perceived problems in domestic markets.³⁷²

Despite sales of the remaining state enterprises are being slowed, and there were some delays about the implementation of other structural reforms, it is explicit that the state was very ardent about the magnitude of privatization.³⁷³ Privatization was the key of the economic policies of the state, which was acquiring money by sustaining the contentment of multinational companies and certain NGOs. In addition to the IMF oriented privatization program, The Foreign Investors' Council (FIC) was created in June 1998 at the direction of Kazakhstan president Nursultan Nazarbayev who served as the Council's working chairman.³⁷⁴ FIC, which acts as a central authority, aims to create a synergy between privatization, foreign investments and other macroeconomic issues. Consequently, the state managed to attract important amounts of foreign investments.

³⁷¹ Ibid,

³⁷² See, IMF, IMF Concludes 2000 Article IV Consultation with Kazakhstan Public Information Notice (PIN) No. 00/109 Washington, IMF, 18 December 2000.

³⁷³ "Kazakhstan Foreign Currency Rating Raised to 'BB', Fitch IBCA; - Fitch IBCA Financial Wire " Newswire, January 27 1998.

³⁷⁴ The Council also includes Kazakhstan's Prime Minister Nurlan Balgimbayev, and Deputy Prime Ministers Kasymzhomart Tokaev and Oraz Jandosov and 11 CEOs and senior executives from leading European, Asian and American companies with substantial investments in Kazakhstan. See, "President Nazarbayev Presides Over Successful Interim Foreign Investor's Council Meeting; Progress Reported on a Variety of Issues Affecting Investment Climate in Kazakhstan" PR Newswire, 30 September 1999.

Kazakhstan's legal system, tax and fiscal regime and stability appear to be the incentives for large-scale privatization, which at the same time create a suitable environment for foreign investments. Indeed, state's positive attitude is the most crucial fact, which encourages accomplishment of big foreign investments. "According to 1999 survey of the International Tax and Investment Center (ITIC) almost 40% of investors surveyed are planning to make investments into the Kazakh economy in excess of \$500 million. By comparison, only 18% of contemplated investment projects exceed \$500 million in Russia, Kazakhstan is the second ranked country in the survey, which analyzed Azerbaijan, Kazakhstan, Russia, Ukraine, and Uzbekistan." ³⁷⁵

In 2000, the IMF urged the authorities not to consider the favorable economic climate to lead to complacency with regard to continuing structural reform and noted that a major impetus is required in pressing forward with a well-prepared program of privatization of large-scale enterprises. The Kazakh authorities were asked to open all sectors of the economy to international competition, eradicate all recent trade policy measures and take the necessary legal steps to strengthen property rights and land reform.³⁷⁶ Shortly the IMF was asking the state not to decelerate the impetus of the reforms by counting on the positive economic indicators.

Despite this optimistic feature and economic contribution of wide range of privatization, there are certain problems that remain unsolved. The decrease in agricultural production and a very large stock of inter-enterprise arrears are the two factors, which hamper agriculture, industry and trade. That is to say, foreign investors are apparent mainly in extraction industries, which mainly refer to oil, gas and precious metals. Within this sense, the external debt of Kazakhstan remains low relative to GDP by the contribution of export receipts most of

³⁷⁵ "Foreign Investors 'Cautiously Optimistic' on Kazakhstan; ITIC Survey Shows Trend By Investors Toward Larger Investments in Kazakhstan" PR Newswire, 28 May 1999.

³⁷⁶ See, IMF, IMF Concludes 2000 Article IV Consultation with Kazakhstan Public Information Notice (PIN) No. 00/109 Washington, IMF, 18 December 2000.

which have been sustained from extraction industries. In other words, production and exportation in agriculture and non-oil goods have remained limited.³⁷⁷ Therefore, privatization helped the state to acquire cash flow and increase productivity in extraction sectors. Nevertheless, the non-extraction sectors seem to be ignored not only by foreign investors but also by the state.

State Revenues

If attaining market economy is assumed to be the basic goal of the so-called transition period, then it may be suggested that transition should include at least two distinct phases. The first step includes liberalization of markets and trade, privatization of state enterprises, and withdrawal of government from major activities. The second step involves the basic measures such as development of public and private institutions in a way that is suitable for market economy and enforcement of state's capacity to raise revenues while providing only essential public services.³⁷⁸ That is to say, structural reforms should be strengthened by appropriate fiscal reforms by considering long term consequences on the real sector.³⁷⁹

State's capacity to increase its revenues is essential for Kazakhstan because of two facts. Firstly, the choice of state about its revenues is an institutional question, which is expected to be compatible with state's general approach about transition. Secondly, state's decision about allocation of revenues tends to determine the economic development of the republic.³⁸⁰ Kazakhstan has explicitly involved in a rapid transition from socialism towards market economy. It obviously accepted liberal principles especially in vital issues such as privatization. The codification of the tax law on more simple and clear terms

³⁷⁷ "Kazakhstan Foreign Currency Rating Raised to 'BB', Fitch IBCA; - Fitch IBCA Financial Wire " Newswire, 27 January 1998.

³⁷⁸ Julian Exeter and Steven Fries, "The Post-Communist Transition: Patterns and Prospects" Finance and Development, (A Quarterly Magazine of the IMF) Vol. 35, No. 3, September 1998.

³⁷⁹ See, Adrienne Cheasty and Jeffrey Davis, 1996, Fiscal Transition in Countries of the Former Soviet Union: An Interim Assessment, MOCT-MOST: Economic Policy in Transitional Economies, Netherlands, Vol. 6, pp. 7-34.

³⁸⁰ See, Gray,

can be considered as the first initiative of the government. The reforms in the taxation system were important especially for the foreign investors because the taxes for the input expenses of exporter sectors were omitted. That is to say, the investors' expenditures for the development of production and improvement were decreasing their taxes. Under influence of external actors such as the IMF, it is likely to notice the move of Kazakh state towards a liberal approach about tax collection through energy sector.³⁸¹

Nevertheless, the actual implications show that there exists a deviation of the state in terms of its fiscal structure. Within a liberal perspective, it may be suggested that there are two sorts of taxes, which may be imposed upon the private investors in the energy sector. The first arises from government's being the sovereign tax authority. Therefore, the government as the only tax collector has the chance to increase its revenues through taxes. The rents, which are acquired through energy taxation are surplus revenues, which allow a certain amount of return to the owner or investor after the costs are covered. These taxes may serve the government to decrease taxation in factors of production, non-oil goods and services as well as asset transactions. In other words, a sound taxation in the energy sector may give an impetus to the expansion of non-oil sectors. Secondly, the users and investors may be asked to pay an appropriate royalty or fee for the state resources that they use. These rents are generally extracted with no regard to the efficiency of the investor to value the state resources.³⁸² Indeed, even under certain circumstances in which the production of the investor decreases, these royalties are generally taken for granted.³⁸³ Furthermore, there exist many fiscal instruments to balance risk and profit between government and investors, which necessitates a certain degree of flexibility against volatility of energy prices. Value-added taxes and diverse profits taxes may be collected at the point of production, while fees of energy transportation may be regulated for prevention of monopoly pricing. Finally,

³⁸¹ See, David C.L. Nellor and Emil M. Sunley, Fiscal Regimes for Natural Resource Producing Developing Countries, Washington, IMF Paper on Policy Analysis and Assessment 94/24, 1994.

³⁸² Ibid,

³⁸³ See, Gray,

consumption of petroleum products may be a good source of tax revenues if they are used for reducing environmental deterioration, improvement of income distribution etc.

Along with Azerbaijan, Kazakhstan has been very ardent to adopt new fiscal regimes in order to become an attractive country for foreign investment. Production Sharing Agreements and taxation of additional profits can be considered as the new fiscal arrangements, which have not been common until the disintegration of the USSR. Within this context, Kazakhstan can be considered as successful for its rate of tax collection not because of a sound taxation system but rather by the virtue of foreign petroleum companies, which are generally careful about their statutory tax obligations.

In coincidence with the situation in Azerbaijan and Russia, about one-half to two-thirds of producers' liability, which here refers to estimated tax revenues calculated using statutory terms, are consisted of actual revenues from the oil and gas sector of Kazakhstan.³⁸⁴ Nevertheless, this success mainly arises from the nature of PSAs, which offers petroleum companies to exploit the rights of concessions in turn of the payments made to the state.

Kazakhstan's taxation system appeared to be relatively weak in downstream taxation of petroleum products when compared with other countries outside the former Soviet Union, where the taxation of petroleum products accounts for between 1 and 3.5% of GDP. Just like most countries of the former Soviet Union, taxes average less than 1% of GDP in Kazakhstan. It is estimated that increasing excise taxes on gasoline and diesel fuel by between 0.07\$ and 0.15\$ per liter could increase revenues by an estimated 0.5–1.5% of GDP.³⁸⁵ This taxation structure indicates that Kazakhstan is becoming dependent on oil revenues not only extracted through exportation but also through sector specific and general taxation of the producers.

³⁸⁴ Ibid,
³⁸⁵ Ibid,

Table 17- Kazakhstan: Revenues from the Oil Sector (In% of GDP)

	1995	1996
1-Sector specific taxes	0,62	0,54
a- Joint ventures	0,38	0,3
Bonuses	0,35	0,22
Royalty (TCO)	0,03	0,08
Excess profit tax	0	0
b- Domestic producers	0,25	0,24
Geology fund levy	0,12	0,11
Fixed rental payments	0,09	0,1
Export duty	0,03	0,03
Royalties	0	0
Excess profit tax	0	0
2- General taxes	0,95	0,88
Income	0,32	0,29
Value added tax	0,62	0,59
Subtotal specific and general taxes	1,57	1,43
3- Downstream taxes	0,18	0,75
Gasoline	0,13	0,25
Diesel	0,05	0,08
Road fund: user charge on gasoline	0	0,42
Total revenues (including bonuses)	1,75	2,17
Total revenues (excluding bonuses)	1,4	1,95

Source: Kazakh Ministry of Finance op. Cit. Dale F. Gray, "Evolution of Taxes and Revenues from the Energy Sector in the Baltics, Russia and Other Former Soviet Countries" March 1998, p. 28.

Another fact, which makes the state to become independent from the society but dependent on the external factors, arises from the quasi-fiscal activities that hampers the domestic taxation system. Quasi-fiscal activities arising from non-payments from the state enterprises and individuals also impose a burden upon the budget which at the same time contradicts with the idea of sound taxation. Nevertheless, like anywhere else in the region, the state also suffers from the old customs, which has made the idea of non-payment and barter very common. That is to say the domestic taxation, which has been weak since the very beginning of Kazakhstan's independence, becomes more vulnerable by the negative effects of quasi-fiscal activities, which here complies with a sort of unplanned subsidization.

The structure of the state revenues extracted from hydrocarbons is explicit. Foreign direct investments and hydrocarbon exports constitute a significant amount in state's income. On the contrary, the state does not expect much earning through domestic taxation. Indeed, weak tax administration and inappropriate taxation system are the significant factors, which make the state to become independent from the society. The trend indicates that the more export earnings are, the less the state will refer to domestic taxation. That is to say, energy has an inclination to become an indirect subsidy through inappropriate pricing and quasi-fiscal activities. This independence from the society indicates state's dependence on external factors. To the extent that state does not expect extensive tax revenues from the domestic arena, it stops to feel the necessity to support the growth of the real sector, which here coincides with the idea of production especially in non-oil sectors.

At this point, it may be interrogated whether the state uses the oil and gas revenues appropriately in order to lead to the growth of non-oil sectors. Up to now, it does not seem possible to suggest that state has managed to gain a significant impetus to the growth of non-oil sectors. Indeed, the neo-liberal pressures have already hampered this mission of the state. Nevertheless knowing the potential dangers of becoming dependent on external factors the state is involved in certain measures. The most significant of these measures was the creation of The National Fund for the Republic of Kazakhstan. Being vitalized in January 2001, this fund aimed to collect a certain amount of hydrocarbon revenues in a national account, which will serve for two distinct purposes.³⁸⁶ Firstly, this fund will be the insurance of the country against certain incidents such as fluctuation of oil prices, disputes that may endanger production and/or exportation and the exhaustion of reserves in the long run. Secondly, this fund will serve as Kazakhstan's national financial source for the socio-economic development. Nevertheless, it is too early to conclude if the state will be able to attain these goals. In any case, it is clear the Kazakhstan's

³⁸⁶ Van der Mensbrugghe, Mathieu, Ross, Semblat, Lehmann and Szekely, p. 18.

future will be shaped by the way how these revenues affect the economy. A healthy economy will be characterized by the development of non-oil sectors and healthy taxation system, which seems a difficult task to accomplish in the short term under the current trend.

III.4. Kazakhstan: State's Defensive Market Response

The Kazakh state did not assume a neo-mercantilist approach because of its desire to change the characteristics of former relations with Russia. The state aspired to commercialize its resources at the world markets by cooperating with multinational companies and other countries. A neo-mercantilist approach would perpetuate the close economy by imposing Russia the main trade partner who had significant fiscal problems. In addition, a close economy would make Kazakhstan deprived of the technology and capital of multinational companies without which it would be impossible to explore, produce, transport and commercialize the oil and gas. Within this sense, it is clear why the state did not prefer to imply neo-mercantilist policies. The neo-liberal receipt characterized by price liberalization, macroeconomic stability and privatization became a core policy for the state who wished to replace the closed trade structure of the former Soviet Union by an open economy strengthened with low barriers and tariffs.

At first sight, it may seem as if the main goal of the state was to involve in a competitive accelerated adjustment in order to make oil and gas exports more competitive by diversifying its dependence on Russia through cooperating with multinational companies. Under the guidance of the IMF and the World Bank, the state not only involved in price liberalization, structural adjustment and an extensive privatization program, but also tried to make national use of energy more efficient. Despite these initiatives, it does not seem possible to conclude that the state's attitude reflects a competitive accelerated adjustment. Rather, the state policies take somewhere between competitive accelerated adjustment and

defensive market response. More truly, the state's current attitude reflects its defensive market response, which at the same time implies certain adjustments to increase competitiveness.

The specificity of Kazakh state arises from its unique evolution, which fundamentally differed from the other cases of CIS. The Kazakh case indicates how the state may act shrewdly in order to sustain the viability of governing elite through a balance of interests strategy among external actors. This successful strategy has been an outcome of the strong state, who aimed to perpetuate its power through politically quasi-liberal, economically liberal policies in the domestic arena and balance of interests policy in the international arena. This policy option has been constituted in terms of three steps. Consolidation of power by the governing elite in the domestic arena, interaction with external actors through a balance of interests policy and liberal economic policies which facilitated foreign direct investments and accelerated privatization process. This circle reflects the defensive market response of the Kazakh state that has been blundered by significant problems and found no other way than to position itself under new market conditions.

Kazakhstan's new governing elite are the members of the former Communist Party who managed to keep their strategic positions in the state branches after the disintegration of the USSR. General elections helped the governing elite to legalize their hold of power. The state needed to be strong in order to imply vital policies both domestically and internationally. In other words, the governing elite felt the necessity of guaranteeing its position in order not to be endangered by the policy options during the transition period. Indeed the results of general elections allowed the state, mainly the presidency, to consolidate power by the help of presidential decrees, which gain enormous capabilities to the president.

Having guaranteed its domestic power, issues related to oil and gas have been the tools of the state, which enabled Kazakhstan to acquire the support of external actors by offering them different amounts of interests. Although this

policy brought certain problems especially to the domestic structure, it does not seem possible to evaluate a better policy option. With regard to international aspect, equilibrium among the external actors could be the best thing the Kazakh state could have done, as far as this strategy served for the commercialization of Kazakh hydrocarbons as soon as possible. Otherwise, the state could find itself in a mess characterized by the competition of actors to control hydrocarbons. It is clear that the complex ethnic structure of Kazakhstan could be a source of conflicts as it did in the Caucasus as far as state's approach were not considered to be satisfactory by external actors.

Within this sense, the state has been very successful at two points. Firstly, it managed to guarantee a certain amount of interests to multinationals and Russia concerning the commercialization of its hydrocarbons. Secondly, the state was involved in a relatively wider range of liberalization by implying the IMF oriented policies, which attracted huge amounts of foreign direct investments. When these factors are considered together, it is possible to suggest that the state attained political stability in a very fragile environment, accelerated the commercialization of hydrocarbons as soon as possible by a wise strategy which included cooperation with multinationals and Russia, attracted foreign direct investments through liberalization and improved its fiscal situation by the help of revenues extracted through commercialization of oil and gas.

The result was a peculiar state model, which was secular, politically quasi-liberal and economically liberal. In other words, the state has been successful at conciliating the interaction among Russia, multinational companies, international organizations by guaranteeing the viability of the governing elite. This model was also compatible with the strategy of the state to gain domestic popular support. On the one hand, this choice reflected a sort of respect to the non-indigenous population, who were adhered to their own values with no assimilation. On the other hand, the Kazakh citizens including the indigenous population were optimistic about the future of Kazakhstan under relatively more liberal political environment strengthened by the hopes for economic prosperity.

In one perspective, the state model of Kazakhstan can be found similar to that of the Asian tigers because in both of the cases there is extensive economic liberalism through political autocracy. In another perspective, the situation of Kazakhstan differs from this model because of the extensive dependence of the state on definite actors; mainly the multinational petroleum companies as well as Russia and international organizations. Therefore, it seems more appropriate to suggest that Kazakhstan has entered a period of transformation by the activities of the secular state, whose liberalization has been characterized by tutelary democracy accompanied by excessive economic liberalization.

Indeed, Kazakhstan cooperates with the IMF in order to expand economic liberalization by following policy options: pursue prudent macroeconomic policies, strengthen public finances to ensure their medium-term sustainability, implement an ambitious reform agenda. It is expected that these policies will improve profitability of private economic activity and, in turn, to induce a rebound of private investment. The state also expects to raise incomes and private sector earnings as well as private savings. Through these reforms, the state aims to strengthen economic growth and further improvements in external accounts in the medium and long term. In other words intensification of economic liberalization by implementing the IMF oriented reforms are considered to be the way to improve economy while decreasing Kazakhstan's vulnerability against external shocks.³⁸⁷ Nevertheless, there is no democratic maturity at the same level of economic reforms. On the contrary economic liberalization seems to be a compulsory choice of the state, which accelerates cooperation with Russia, other states, multinationals and NGOs in order to commercialize Kazakhstan's hydrocarbons while sustaining domestic status-quo.

³⁸⁷ Erzhan A. Utembaev (Deputy Prime Minister) and Grigori A. Marchenko (Chairman, National Bank of Kazakhstan) "Memorandum on Economic Policies of the Government of Kazakhstan and The National Bank of Kazakhstan Through 31 December 2002" Attachment to Letter of Intent of the government of Kazakhstan, submitted to the IMF on 22 November 1999.

In fact, Kazakhstan's attitude coincides with state's defensive market response, which allows markets work under an autocratic political regime. Kazakhstan started to decrease its oil dependency on Russia by changing trade patterns. Nevertheless, it is clear that the government did not have much option to shape the outcomes. Interestingly the state *per se* was involved in economy to lower barriers to the market and it became active. Nevertheless, policies such as privatization started to minimize the scope of the state. In order to prevent its loss of power in the economic domain, the state became stronger in domestic politics. This became easy because it was possible to benefit from the revenues extracted from direct foreign investments and commercialization of hydrocarbons for Kazakhstan's economic recovery. Nevertheless, it is not already clear whether state's defensive market response will lead to a healthy development process, which can be ideally defined as simultaneous growth of economy and democracy. Indeed, when the rising revenues of the state are considered, it may be suggested that there exists a sort of danger which may push the state towards somewhere between semi-rentier and non-rentier state.

CHAPTER IV

STATE HYDROCARBONS AND TRANSITION IN TURKMENISTAN

IV.1. State and Hydrocarbons

IV.1.1. The Role of Hydrocarbons in State's Attitude

In 1991 Turkmenistan gained its independence with most of the factors which are generally assumed to be the general characteristics of the non-western country in the aftermath of a decolonization process.³⁸⁸ As a former colony of Russia, Turkmenistan has become one of the least developed post-Soviet republics. Patronage relationships of certain groups have impeded the rise of individual rights. Most of the problems prevailed in the aftermath of the disintegration process.³⁸⁹ Just like other Central Asian republics, Turkmenistan had to define its identity under the tension of the dilemmas imposed upon them in the post-Soviet era.³⁹⁰ Being one of the successor republics of the former Soviet Union, Turkmenistan was faced with peculiar problems in the aftermath of the disintegration of the USSR. The Soviet legacy was the common ground of the difficulties, which have been imposed upon these countries. Naturally, the state, which had been the main pillar of every activity, turned out to be the major actor of transition, who had to cope with the problems in the post-Soviet era. The omnipresence of the state had been a legacy inherited from the tradition of the Communist Party, the members of which have been involved in close patronage relations for the perpetuation of their strategic positions.

³⁸⁸ See, Kohn, pp. 19-32.

³⁸⁹ See, Akçalı, "Orta Asya Türk..."

³⁹⁰ See, Pınar Akçalı, "Turkestan Reconsidered: Post-Soviet Dilemmas," in Ertan Efeğil (ed.) Geopolitics of Central Asia in the Post-Cold War Era, Netherlands, SOTA Publications, 2002, pp. 409-44.

The role of the state in this process was very apparent in the Turkmen case, which had further peculiarities. The former Communist Party members turned into the governing elite, whose survival depended on the traditional power relations. The support of the former members of *nomenklatura*, which coincided with the tribal structure of Turkmenistan was a significant condition for holding power.

Along with this traditional-socialist power relations underdevelopment was also another fact which continued to exist despite a changing essence. Economy was characterized by monocultures of cotton and extensive production of natural gas with not adequate production neither in industry nor in agriculture. Nothing changed with regard to the development of industry and agriculture. Nevertheless, by replacing the authority of the former Soviet regime, the state became the only agent deciding about the natural resources of Turkmenistan. Indeed cotton and gas became the two grounds, which helped the governing elite to allocate the resources in order to gain the support of subnational groups by offering them economic gains.

The replacement of Soviet regime by the Turkmen state should be attributed a special significance. It has already been mentioned that there was a tendency for the former colony to imitate the political and economic structure of its metropolis. To the extent that Turkmenistan has long been a part of the USSR there exists a certain amount of coincidence with the structures of this rural country and Soviet Russia. This is common for all of the post-Soviet republics. Consequently, when they attained their independence they turned into transition economies which meant the adaptation of the Soviet structure according to the necessities of the market principles under the influence of neo-liberalism. This transition process was generally characterized by liberalization of prices, macroeconomic stabilization and privatization. All of these implications were threatening the power of the state. Nevertheless, the state seemed to be obliged to implicate these policies in order to interact with the world economy.

The Turkmen case slightly differs from this rank. Turkmenistan has been the least touched country by the Soviet regime. In other words, this rural country has been an exception in the sense that the traditional structures had not been eradicated throughout the Soviet years.³⁹¹ The Russian migration had been relatively small. Indeed, the Russian population and Russian influence had been relatively limited in Turkmenistan. Within this structure, the traditional characteristics managed to survive throughout the Soviet years by cooperating the tribal interests with the demands of the Communist Party. The current governing elite who can be best defined as an amalgamation of tribal and Communist Party's affiliations, now tries to resist the neo-liberal pressures by not interacting with external actors. This is unique in the sense that Turkmenistan became the most determined country about not interacting with the actors of the world economy. Indeed Turkmenistan did not involve in a stand-by agreement with the IMF. The World Bank projects were considered to be a form of technical assistance rather than a step for acquiring credits. The penetration of multinationals have also been very limited.

In addition to this loneliness in the international arena, it should be mentioned that the attitude of the Turkmen state differed from other examples. Within this perspective, it is possible to suggest that becoming a nation state was different in Turkmenistan when compared with its counterparts. First of all, it may be suggested that there exist a disequilibrium on behalf of the state when the relations between the nation and the state are analyzed. In other words, as a natural consequence of the Soviet heritage, those who controlled the state apparatus gained a sort of supremacy against the rest. Under normal conditions, this should have not been so surprising. Like anywhere else in the former Soviet Union, the members of the Communist Party were involved in an interactive patronage relations, which led to a deviation from the society. Consequently, the Secretary Generals of the Communist Parties of the republics have been very influential in politics and economy by controlling most critical positions. These

³⁹¹ It is possible to categorize Turkmenistan with Uzbekistan, Tajikistan and Kyrgyzstan with regard to their traditional characteristics, which prevailed during and after the Soviet period.

characteristics turned out to be the Soviet legacy, which helped the members of the former Communist Party to adhere to their influential positions in the aftermath of the disintegration process. The tribal structure of Turkmenistan makes this country different from other post-Soviet republics.

In order to understand the specificity of Turkmen case, it is necessary to understand that various tribes of Turkmenistan appear to be the main ground of identity, which constitutes a strong sense of community.³⁹² Religion is of course another significant factor. It is possible to conclude that Turkmenistan was the most traditional Islamic state in Central Asia.³⁹³ Although Islamic sways were very explicit in Turkmenistan during Soviet times, the political power of Teke tribe appeared to be the most influential factor which increased its power by the opportunities acquired from the privileges of being a part of the Turkmenistan's Communist Party. It is explicit that the power of certain tribes led to the survival of traditional characteristics under the Soviet regime. This structure could increase its power by controlling the cadres in the Communist Party. In other words, the Turkmenistan Communist Party was being controlled by the people, who belonged to Teke tribe, who competed with the Salur tribe.³⁹⁴

The disintegration of the USSR imposed upon the new state an unpredicted mission of sustaining territorial integrity of the republic together with the regime viability of the Soviet governing elite. The governmental capabilities of the carry-over members of the former Communist Party became very significant for Turkmenistan's transition from socialism to liberalism. Currently as a carry-over of the Communist Party these tribal affiliations control the state apparatus and manage to resist neo-liberal pressures. Therefore, the Turkmen case has an intrinsic aspect. The tribal affiliations, who have once cooperated with Communist Party, now try to sustain their power under the rising influence of global factors, which by definition jeopardizes the tribal and socialist structures.

³⁹² See, David Nissman, "Turkmenistan (Un)transformed", Current History, Vol. 93, No. 582, April 1994, pp. 183-187.

³⁹³ Martha Brill Olcott, "Central Asia's Islamic Awakening" Current History, Vol. 93, No. 582, April 1994, p. 154.

³⁹⁴ Günay Göksu Özdoğan, "Sovyetler Birliği'nden Bağımsız Cumhuriyetler'e: Uluslaşmanın Dinamikleri", in Büşra Ersanlı Behar (ed.), Bağımsızlığın İlk Yılları, Ankara, T.C. Kültür Bakanlığı Yayınları, 1994 p. 69.

It was true that these cadres had extensive technocratic experience and significant management roles under the Soviet rule. Nevertheless, the state attributed a unique meaning to the transition from socialism towards liberalism. In fact, neither adherence to socialism nor transformation of socialist structures on the basis of liberal values and norms were appropriate for the Turkmen governing elites who were under the enormous influence of the president.

It is quite understandable that the Soviet legacy resists against neo-liberal pressures in this structure. This arises from the fact that the neo-liberalization of the state structure does not only minimize the scope of the state officials, but also tends to increase mobility of the cadres through democratic processes. In other words, the carry-over of the former Communist Party, who controls the state apparatus found itself, stumbling between an adherence to their background and a necessity to reconstruct the political and economic structures on a more liberal basis. The people, who had once come to power by proving their loyalty to the Communist Party, felt the necessity of involving in a certain amount of liberalization. This created a very interesting situation in which the governing elite had to act harmoniously with the Soviet legacy and the external pressures. That is to say, the job of the cadres has become more difficult in the aftermath of the disintegration of the USSR. The state adhered to socialist legacy in order to sustain its regime viability. Nevertheless, the state also attempted to abandon socialist values in order attain more practical autonomy from Russia. Ironically, the state also opposed extensive liberalism by assuming a sort of defensive attitude against multinational companies and nongovernmental organizations. Shortly, Turkmenistan involved in a nationalistic approach, which excluded all sorts of external influence as far as it did not coincide with the state's national policies.³⁹⁵ Under normal conditions, a

³⁹⁵ The state puts too much attention on the concept of "Turkmen" by promoting nationalist feelings through many activities such as the World Congress of Turkmens. At first sight this may seem as an outmoded nationalist strategy which does not coincide with the necessities of the current world. Nevertheless, it should be mentioned that just like other Central Asian countries Turkmenistan is newly independent state, which emphasizes national identity in order to gain the citizens the feeling of belonging. See, The Speech of Mustafa Aydın, "Bağımsızlıklarının Onuncu Yılında Türk Cumhuriyetleri-2" *Avrasya - Türkiye'den*, Part 51, 11 February 2001, Ankara.

<http://www.turkiyeden.metu.edu.tr/bolum/bolum051.htm>

nationalist state approach could create severe consequences such as economic deterioration and political discontentment as a result of isolation from the world. Nevertheless, the Turkmen case proved the opposite. The state could manage to sustain not only territorial integrity and regime's viability but also political stability and economic growth.

Politically, Turkmenistan became an autocratic county under the personality cult of president Niyazov who wanted to be called as Turkmenbashi, meaning the leader (father) of all Turkmen. On 1 October 1992 the Parliament endowed Niyazov the name of Turkmenbashi. This was a significant signal indicating that Niyazov not only controlled all of the political and cultural tools but also defined the Turkmen nation under his personality. In other words, Turkmen national identity emerged under the personality cult of Niyazov, who wanted to eradicate any kind of supranational identity, while controlling the subnational identities that could threaten the power of carry-over of the Communist Party, the members of which were coming from the Teke tribe. Therefore, nationalism was identified with Niyazov, who did not allow any kind of opposition after transforming his communist power into post-Soviet popular support. It is possible to sustain political stability through authoritarian measures. In this case, it is normal to indicate public discontent arising from the absence of democratic freedoms and rights. The Turkmen case takes at the opposite side of the scene. In other words, despite authoritarian/autocratic policies of Turkmenbashi the popular support for him continues. The factors, which promoted the idea of strong state also exist in Turkmenistan. The citizens are accustomed to see the state everywhere. The state is assumed to be the most potent actor providing for the society under a centralist regime. Therefore, it should not be so surprising to see the obedience of people to the idea of strong state. After consolidating domestic power, the state started to follow a nationalist attitude concerning its external relations. Having defined neutralism as a policy, Turkmenistan became aloof not only towards Russia but also towards other states, multinational companies as well as international

organizations. Turkmenistan accepted neutrality as a permanent status in 1995.³⁹⁶ Interestingly, Turkmenistan became an isolated island close to the strong winds created by neo-liberal pressures *vis-à-vis* the post-Soviet transition.

Turkmenistan resembled to other post-Soviet states in Cucasus and Central Asia with respect to economic problems. Nevertheless, the Turkmen state differed from them in terms of policy options. In order to better understand in which aspects the attitude of Turkmen state resembles and contrasts *vis-à-vis* the general attitudes of other post-Soviet states around the Caspian region, it may be useful to point out the general premises and show how Turkmenistan deviates from the rank. There are four general policies, which are followed by the post-Soviet states around the Caspian in order to develop their economic ties. First, direct foreign investments in the form of joint ventures and PSAs have been the most significant economic policy in order to decrease their dependence on the CIS zone while increasing production and exportation. Meanwhile Turkmenistan has been very skeptical about multinational companies and allowed only a few of them to enter in the oil business. Secondly, the governments in Central Asia and Caucasus have generally been positive about cooperating with multilateral agencies such as stand-by programs and loans of the IMF as well as World Bank credits. Their first goal was to acquire the support of these organizations in order to increase their credibility for project finance and rehabilitation loans. In contrast to this scene, Turkmenistan has been opposing the influence of the IMF and similar organizations. The state's hard-currency account surplus allows Turkmenistan to be aloof towards the IMF, World Bank and similar organizations. Thirdly, these countries attempt to get out of the interdependent structure of production and trade imposed by the centralist Soviet regime by establishing new relations with new economic partners. On the contrary, Turkmenistan is very slow in the initiative to involve in new economic relations with new actors, partly because of its being the most dependent country on the former Soviet system, partly because of its unfavorable geographical location, which increased transaction costs. Fourthly,

³⁹⁶ See, Süleyman Sırrı Terzioğlu, Türkmenistan Anayasası ve Türkmenistan Mevzuatından Metinler, Aşgabat, TİKA Yayınları, 1999, p. 52.

the states around the Caspian generally follow a multi track approach to developing and managing their economic relations. They pursue bilateral and regional approach on the one hand and cooperation through the framework of CIS on the other. Under the influence of its president, the Turkmen state prefers to handle its interaction through bilateral relations rather than serving the goals of CIS.³⁹⁷

The peculiar characteristic of the Turkmen case arises from the extensive popular support, which finds its roots in the Soviet heritage and nutrition from the oil and gas trade. All of these issues indicate that the carry-over of the former Communist Party the members of which have been chosen from a tribe managed to sustain territorial integrity, regime viability and even economic prosperity despite a loneliness in the international arena and insufficient development of agriculture and industry in the domestic arena. The strong roots of the state, that is to say the carry-over of the Communist Party, found the chance to consolidate power by the help of oil and gas revenues. This structure enabled Turkmenbashi to implicate his so called unique model which is a mixture of autocracy, nationalism and mercantilism under a structure characterized by political and economic immaturity. Therefore, the role of hydrocarbons in state's attitude becomes explicit both politically and economically.

The state considers hydrocarbons, mainly the gas, as an opportunity to consolidate domestic power by strengthening the amalgamation of Teke tribe within the former Communist Party. Indeed, the carryover of the Communist Party has started to increase its power by the personality cult of Niyazov. Turkmenistan plans to acquire significant amounts of revenues through the commerce of gas. Indeed the liquid assets of this country allows itself not to ask credits and loans from the IMF and the World Bank. Turkmenistan follows a prudent policy concerning the activities of multinationals because of its continuing gas trade with Russia.

³⁹⁷ For the generally accepted economic policies in the region See, Shafiqul Islam, "Capitalism on the Silk Rout" Current History, Vol. 93, No. 582, April 1994, pp. 158-159.

Although dependence on Russian transportation system is a critical issue, the state wants to continue trade with Russia in order to hoard hard currencies while developing alternatives such as the Iranian option. The gas revenues also allow the state to involve in populist policies not only in terms of gaining support from the citizens but also in order to make the governing members of other tribes contented about the rule of Niyazov. It is already too early whether the state will be able to shrewdly use the hydrocarbons in order to vitalize Niyazov's national development dreams with least possible interactions with external actors. Nevertheless it is explicit that the state considers the hydrocarbons as an opportunity to consolidate power, gain popular support, continue country's autonomy from the IMF, World Bank and multinational companies and start a national development process. However, it should also be mentioned that, Turkmenistan became a country of contradictions in terms of political and economic aspects. Politically Turkmenistan has been not only one of the most stable post-Soviet Republics of Central Asia and Caucasus but also the most authoritarian one. Economically, Turkmenistan started to become a wealthy country with no adequate industrial and agricultural development.

IV.1.2. The Characteristics of the Turkmen State

Turkmenistan had been the most peripheral Soviet republic since its constitution in 1924. Consequently, just like its economic inferiority, its political structure did not attain a mature level as compared with the evolution of other Soviet republics. In other words, the Soviet influence on the state structure of Turkmenistan has been relatively more limited than the other Soviet republics.

This structure has prevailed not only throughout the Soviet times but also in the aftermath of Turkmenistan's independence. The administrative structure, has been constructed on the basis of divisions composed of 5 provinces (*welayats*): The Ahal Welayaty (Ashgabat), Balkan Welayaty (Balkanabat), Dasoguz Welayaty, Labap Welayaty (Turkmenabat) and Mary Welayaty.³⁹⁸ These

³⁹⁸ CIA World Factbook,... 2002.

provinces included not only various tribes, but also other ethnic groups. When differences among the tribes are ignored, it may be suggested that Turkmenistan has a more homogeneous population than most of its post-Soviet neighbors. Indeed the population is consisted of Turkmens (77%), Uzbeks (9.2%), Russians (6.7%), Kazakhs (2%), and others 5.1%. About 89% of this population is Muslim, while Eastern Orthodox population constitutes 9% of the total leaving 2% for others. Turkmen is the most spoken language with 72% followed by Russian (12%), Uzbek (9%) and other (7%) The Turkmen population constitutes 77% of the total while Turkmen speakers are 72%. This arises from the influence of Teke dialect on Turkmen language. Consequently 7% of Turkmens speak their own dialect with no knowledge of the official language.³⁹⁹

The traditional power structure of Turkmenistan can be best stated as the amalgamation of the Teke elite within cadres of the Communist Party. Despite the Stalinist pressures which have been imposed upon Turkmenistan intensely between 1928 and 1948, the tribes have perpetuated their significance both in state and in society. The Soviet regime has also preferred not to oppress the tribes as far as they cooperated with the Communist Party in coincidence with the Soviet principles. Indeed, the tribal structure of Turkmenistan has been the basis for the cadre for Turkmenistan's Communist Party. On the one hand, the kolkhozes have been based on the traditional structure, which had already been present within the tribe system. On the other hand, the traditional power structure among the tribes have shaped the cadres of the Communist Party. Teke, Ersari, Yomut, Goklen, Salur were the five big tribes of Turkmenistan while Sarık and Chavdur were the small ones. The Teke tribe was controlling the Ashkabad region, while the Salur tribe had become the second powerful tribe by its control in Eastern regions.⁴⁰⁰

³⁹⁹ Ibid,

⁴⁰⁰ Günay Göksu Özdoğan, "Sovyetler Birliği'nden Bağımsız Cumhuriyetler'e: Uluslaşmanın Dinamikleri", in Büşra Ersanlı Behar (ed.), Bağımsızlığın İlk Yılları, Ankara, T.C. Kültür Bakanlığı Yayınları, 1994, p. 69.

Although there were other tribes proclaiming religious affiliations (such as Ata, Hodja, Seyid and Seyh) Teke and Salur were the two biggest tribes, which were influential in Turkmenistan by using community affiliations. This was a consequence of the policy option of the Soviet regime, who preferred to support Teke tribe in order to gain popular support, while avoiding religious affiliations.⁴⁰¹ Consequently, the members of the Turkmenistan Communist Party had been chosen among the members of Teke tribe. This coalition has increased the influence of Teke tribe not only in terms of politics and economics but also in terms of language, history and culture.

The current state is the carry-over of this amalgam, which feels secure about ethnic minorities by the superiority of Turkmen population, Turkmen language and Islam. The coincidence among the ethnic origins, spoken language, practiced religion and territory offered the state a very appropriate base, which is very rare along the Caspian region. The state could only be challenged by a rivalry amongst the tribes. Nevertheless, as an outcome of the Communist Party tradition, the state had already turned into a significant apparatus, which legitimized the absolute power of the governing elite. Infact, the state has become the strongest (and the only) authority under the leadership of the president Saparmurat Niyazov.

The maintenance of the former tribal-socialist amalgam becomes more clear, when Saparmurat Niyazov himself is analyzed. It is clear that Niyazov became the only authority in Turkmenistan long before Turkmenistan attained its independence. To the extent that the state is identified with his personality cult, it seems important to refer to his progress starting at a Soviet orphanage and reaching to the presidency by passing through Communist Party membership. Just like Uzbekistan's authoritarian leader Karimov, Niyazov spent his childhood in Soviet orphanages.⁴⁰² Sparmurat Niyazov became a member of the Communist Party in 1962 after completing his education in Polytechnical

⁴⁰¹ See, Alexandre Bennigsen and Enders S. Wimbush, Muslim National Communism in the Soviet Union, Chicago, Chicago UP.1979.

⁴⁰² Martha Brill Olcott, "Central Asia's Islamic Awakening" Current History, Vol. 93, No. 582, April 1994, p. 153.

Institute of Leningrad (St. Petersburg) as an energy engineer.⁴⁰³ He could attain the opportunity of social upward mobility within the cadre of the former Turkmenistan Communist Party, to which he first become the president and then the first secretary corresponding to the position of vice presidency.⁴⁰⁴

Saparmurat Niyazov won the presidential elections on 27 October 1990 by a popular support of 98.3%. He has been the chief of the state and the head of the government when Turkmenistan proclaimed its independence from the Soviet Union on 27 October 1991.⁴⁰⁵ In December 1991, Niyazov changed the name of the Communist Party into Turkmenistan Democratic Party. Since then he started to govern the country as the president, and the only authority because he was both the chief of state and head of government with excessive power. The last elections were held on 21 June 1992 and Niyazov was elected as the president for a five-year term by gaining the 99.5% of the votes with no opposition.

The president by definition holds enormous constitutional powers such as the appointment of Prime Minister, Council of Ministers and deputy chairmen of the cabinet of ministers. Nevertheless, it should also be mentioned that Niyazov's power goes beyond these measures. As an important member of the Communist Party who had been influential on the Teke tribe, Niyazov's operational capabilities were enormous. On 19 February 1994, the parliament proclaimed 19 February, the birthday of Turkmenbashi, as national holiday.⁴⁰⁶ In addition, Niyazov was unanimously approved as president for life by the Assembly (Majlis) on 28 December 1999 during a session of the People's Council (Halk Maslahaty).⁴⁰⁷ Since then it became more clear that Turkmenbashi was the state, the state was Turkmenbashi.

⁴⁰³ "Cumhurbaşkanlarımız" Türk Dünyası Dergisi, No. 102, June 1995, p. 33.

⁴⁰⁴ İrfan Ünver Nasrattinoglu, "Türkmenistan ve Türkmenbaşı" *Yesevi*, No. 4, February 1995, p. 13.

⁴⁰⁵ Nasrattinoglu, p. 13.

⁴⁰⁶ Esedullah Oğuz, "Türkmenbaşı Nedir? Ne Degildir?", *Yeni Forum* April 1994, pp. 55-56.

⁴⁰⁷ "Turkmenistan's Leader Is Voted President for Life" *The New York Times*, 29 December 1999, p. 10.

The Communist Party tradition and the tribal norms and values have offered to Turkmenbashi the chance to consolidate power until the disintegration of the USSR. Not surprisingly, Turkmenbashi was one of the most ardent leader in terms of perpetuating the former Soviet relations after the collapse of the Soviet Union. Turkmenbashi has managed to sustain his power by perpetuating the former characteristics in the aftermath of Turkmenistan's independence. Nevertheless keeping this power could be more difficult under the libertarian environment of the post-Soviet period, which had become open to the neo-liberal pressures and multinational demands.

At this point, Turkmenistan's natural resources, more specifically its gas, became a very significant tool of sustaining absolute authority. Ethnically homogeneous structure impeded the external manipulations, which could be exacerbated by other states and companies interested in the region. This was a very good chance, which did not exist in other countries because Turkmenbashi felt free about retarding certain projects, which could decrease his power. In other words, Turkmenbashi did not cooperate with multinational companies in order not to share the natural resources, an important part of his power, with other actors. In addition, he kept his country away from privatization especially in the energy sector. Turkmenbashi knew not only the energy business as an energy engineer, but also how things worked out as a former Secretary general of the Communist Party.⁴⁰⁸

Within this context, the choice of Turkmenbashi was clear: maximize the gas rents externally, allocate domestically. In other words, the state has been committed to become a rentier state by the will of Turkmenbashi who considered this transformation as a step towards a self-sufficient prosperous country. In other words the state, or Turkmenbashi, would be the protector of the citizens while offering them a continuous amelioration of living standards. In order to reach this goal, the state would first increase its wealth as much as possible through externally generated revenues, allocate them domestically in

⁴⁰⁸ For a short bibliography of Turkmenbashi, see, Türk Dünyası Tarih Dergisi, No. 102, June 1995.

order to gain popular support, consolidate its power and then achieve the national development program set by the president. That is to say, hydrocarbons were the key of this formula which offered the state to consolidate and perpetuate its power.

IV.1.3. The post-Soviet Regime of Turkmen Hydrocarbons

Turkmenistan's hydrocarbon regime did not change fundamentally since the demise of the Soviet Union. Similar to the slowness in Turkmenistan's transition, the replacement of Russia by multinational oil companies was very lethargic. Within this sense, Russia is the strongest actor who controls the flow of Turkmen gas through Gazprom's pipelines. The CIS members are still the biggest trade partners. The foreign direct investments and the role of multinationals in exploration, production and transportation is very limited when compared with Turkmenistan's neighbors. Before elaborating the reasons, which impeded the external influences upon the Turkmenistan's hydrocarbon regime it is very important to note that there are important amounts of oil and extensive amounts of natural gas in Turkmenistan.

Table 18- The Hydrocarbon Reserves of Turkmenistan

	Oil Proven (bbl)	Oil Possible (bbl)	Oil Total (bbl)	Gas Proven (Tcf)	Gas Possible (Tcf)	Gas Total (Tcf)
US EIA	1,7	80	82	98 - 155	159	257-314
BP	0.5	32	32.5	100.9	158.9	259.8

Source: The US EIA, BP

Turkmenistan is renowned by its enormous production of natural gas, which made it a significant gas supplier to other Soviet republics such as Russia, Ukraine, Georgia and Azerbaijan. This reputation lingered in the post-Soviet era because the authorities were well aware of the extensive potential in Turkmenistan's sector of the Caspian Sea. In addition to natural gas, oil would become another important product for Turkmenistan because it would be possible to transport oil through vehicles by bypassing Russia.

It should be mentioned that the estimations of US EIA about Turkmenistan's oil potential differs from the estimations of BP. According to BP, the proven oil reserves of Turkmenistan are about 0.5 billion barrels, while the possible reserves are estimated to be 32 billion barrels.⁴⁰⁹ Meanwhile the US EIA's estimations indicate three times greater figures. Within this perspective, the proven reserves are about 1.7 billion barrels while the possible reserves may reach 80 billion barrels.⁴¹⁰ The differences between US EIA and BP are understandable because US EIA's figures reflect the strategic importance attributed by the US upon the Caspian region. That is to say, US EIA prefers to indicate optimistic estimations while BP uses more moderate projections. It is interesting that there are striking differences between the proven and possible reserves. In other words, the differences between the proven and possible reserves are too big both in the evaluations of EIA and BP. This arises from the fact that multinational companies have not found much chances to explore oil in Turkmenistan. As a matter of fact the proven reserves are very small while the possible ones, which are affiliated with the natural gas production and other reserves, indicate bigger figures.

The evaluations about natural gas are more consistent than those of oil. Firstly, the data are more specific and clear about natural gas reserves. Secondly, the Soviet regime made more study on natural gas than exploration of oil in the offshore sections. In this sense EIA indicates that the proven gas of Turkmenistan is somewhere between 98 and 155 Tcf. The possible reserves are estimated to be about 159 Tcf which may bring the total up to somewhere between 257 and 314 Tcf. BP's moderate estimations are closer to the EIA's figures in the case of natural gas. Indeed, according to BP Turkmenistan's total natural gas deposit is estimated to be about 159.8 Tcf consisted of 100.9 Tcf of proven and 158.9 of possible reserves.⁴¹¹

⁴⁰⁹ BP...

⁴¹⁰ US EIA...

⁴¹¹ Ibid,

When the composition of production is analyzed, it can be concluded that the state has an extensive control. Turkmenneft, the state oil company, produces about 90% of the total production. The remaining part is shared by the state natural gas company, Turkmengaz, and a limited number of foreign oil companies such as Petronas (Malaysia) and Dragon Oil (United Arab Emirates) operating under PSAs.⁴¹² Turkmenbashi aspires to increase the production from 200,000 barrels per day to 1 million barrels per day through the 10-year program starting at 2000. Turkmenbashi has also significant plans about raising the natural gas production. The Amu-Dar'ya basin, located in the giant Dauletabad-Donmez field is the largest natural gas fields with half of the country's natural gas reserves. In addition, the Yashlar deposit in the Murgab basin became a significant area with the new discoveries. Finally, it should be mentioned that under the initiative of the Turkmen state Turkmenistan also has discovered 17 new natural gas deposits in the Lebansky, Maryinsky, and Deashoguzsky regions of the country. Under a presidential program, Turkmengaz also is making an exploratory work in the Karakum and Kyzylkum deserts.⁴¹³

Table 19- Major production projects of Turkmenistan

Project	Operator	Year of production (estimated)	Peak of production (est. thousand)	Estimated investment (est. billion \$)	Status
Dauletabad-Donmez in Amu-Dar'ya basin	State Company	2010	Not Available	Not Available	Production continues
Yashlar deposit in Murgab basin	State Company	2010	Not Available	Not Available	Production continues
Lebansky	State Company	2015	Not Available	Not Available	Newly discovered, pits are being drilled
Maryinsky	State Company	2015	Not Available	Not Available	Newly discovered, pits are being drilled
Deashoguzsky	State Company	2015	Not Available	Not Available	Newly discovered, pits are being drilled
Karakum and Kyzylkum	State Company		Not Available	Not Available	Exploration activities

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

⁴¹² US EIA

⁴¹³ Ibid,

State appears to be the only agent, which plans and executes the oil and gas business. Nevertheless, it is explicit that Turkmenistan does not have the necessary technical skills to explore and develop the hydrocarbons which are found in deeper sections. As a matter of fact, Turkmenistan needs to cooperate with multinational companies in order to realize the state's goal to increase oil production from 200,000 barrels per day to 1 million barrels per day. Currently, Turkmenistan does not seem interested in cooperating with multinational companies. The attitude of the state about natural gas is more cautious concerning the production and commerce of natural gas. Attributing a strategic significance on gas, Turkmenbashi does not share gas revenues with external actors. Indeed, the state companies explore and produce natural gas. The current potential production seems to be sufficient for the next ten years through which Turkmenbashi aspires to develop and/or hire the advanced technological skills for exploration and production.

Within this perspective, it is likely that the oil production will remain about 200,000 barrels per day as far as Turkmenistan does not cooperate with multinational companies. That is to say, the plan of Turkmenbashi may be realized only by activating new PSAs in which multinationals take place. Turkmenistan tends to increase its gas production from 1,547 billion cubic feet to 3,900 cubic feet between 2000 and 2010.

Table 20- Oil and Gas Production in Turkmenistan and Projection for 2010

	1996	1998	2000	2010
Oil (barrels per day)	80,000	120,000	140,000	200,000
Gas (billion cubic feet)	1,158	438	1,547	3,900

Source: US EIA and BP

It seems as if the natural gas production *per se* may allow Turkmenistan to acquire a significant amount of wealth until 2010. Nevertheless, it should be mentioned that Turkmenistan's current gas trade is totally dependent on Russia. The Turkmen gas can only flow towards Russia by Gazprom's pipeline. That is to say, Turkmenistan is not very strong during the negotiations about prices and

transportation tariffs. There have been many transportation projects in order to develop alternative markets for Turkmen hydrocarbons. Despite the first enthusiasms of the concerned parties, these projects did not appear to be profitable in the short run with the exception of Iranian option. Consequently, Turkmenistan started to send certain amounts of oil towards Iran. In addition, Turkmenistan and Iran have started to construct a new gas line. The gas trade with Iran is growing but the future of this route is not very clear because of Iran's isolation from the world economy.

Table 21- Transportation Projects for Turkmen Oil and Gas

Name of the Project	Route	Capacity	Length (km)	Investment	Status
Neka-Teheran Oil Swap line	Iranian Port of Neka - Teheran	370000 b/day	335	400 - 500 million	Active
Korpeje-Kurdkui (Gas)	Turkmenistan-Iran	283 bcf-1.1Tcf	145	190-590 million	Construction, partly active
Serakhs-Teheran (Gas)	Turkmenistan-Iran	1.8Tcf-2.1Tcf		1.2-1.5 billion	proposed
Turkmenistan-Iran-Turkey (Gas)	Turkmenistan-Iran-Turkey	1 Tcf	2172	3.8-4 billion	Suspended
Centgas (Gas)	Turkmenistan-Pakistan-India	700 bcf	2091	1,95 billion	Suspended
China Pipeline	Turkmenistan-China	1 Tcf	8045	10 billion	preliminary feasibility
Transcaspian (Gas)	Turkmenistan-Azerbaijan-Turkey	1.1 Tcf	1696	2-3 billion	preliminary feasibility
TransGeorgian line (Gas)	Russia-Georgia-Armenia-Turkey	425 bcf	201	250 million	suspended

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

The first decade of Turkmenistan's independence indicated that many things have remained unchanged concerning the oil and gas business. The only, and the essential, innovations is the strict control of Turkmen state and state companies which replaced Soviet Russia and Gazprom. There are two reasons, which perpetuated the former characteristics of Turkmenistan's hydrocarbon regime. On the one hand Turkmenistan's most significant natural resource is gas, which necessitates transportation through pipelines. Turkmenistan's geographical location decelerates the construction of alternative pipelines. The southern route is characterized by political instability which makes a very vast region between central Asia and Persian Gulf insecure. The eastwards direction seems to be a good emerging market when the growing demands of China and

Japan are considered. Nevertheless, this route imposes a very high burden of investments. The western route towards Turkey and Europe brings the necessity of cooperation among various countries such as Azerbaijan, Kazakhstan, Georgia, Turkmenistan etc. The realization of a pipeline towards this route is impeded by the fact that Azerbaijan and Kazakhstan have become the chief competitors of Turkmenistan since the rich discoveries of natural gas in the post-Soviet era. Within this context, the post-Soviet regime of the Turkmen hydrocarbons have been characterized by two facts. First, the state appeared to be the only actor in the commerce of oil and gas. Second, Turkmenistan finds no other way than perpetuating its relations with Russia by using the existing transportation system of Gazprom. Iran appears to be a profitable option in the short run, while the Chinese route remains as a dream for the long run.

IV.2. State versus Political Pressures Related to Hydrocarbons

IV.2.1. Political Pressures Related to Hydrocarbons

It was a century ago when the "Great Game" for control of the mountain passes into India has affected a wide region including Turkmenistan. This game is now being played for taking shares from oil and gas resources of the Caspian region. US, Russia, pro-U.S. Turkey and hostile Iran are competing for the control over the region. The new great game is more complicated and even enigmatic because a part from the competition of powers, it includes border disputes, awash in narcotics and separatist violence. This aspect puts Turkmenistan in the middle of the competition of the actors such as the US, Russia, Turkey and Iran on the one hand and the activities of militant Islamic groups aligned with terrorist leader Osama bin Laden and sheltered in Afghanistan by the conflicts between US led military forces and Taliban activists on the other. Islamic terrorism also pushes India to the region, who find no other way than developing security ties with Turkey, traditionally an ally of Pakistan.⁴¹⁴

⁴¹⁴ Jamie Dettmer, "The Great Game in Central Asia" Insight on the News, 12 June 2000.

Within this perspective, it can be suggested that Turkmenistan takes place at the heart of the competition characterized and intensified by different variables which not only includes the competition of the power incumbents to control the hydrocarbons but also other issues such as border disputes, narcotics, Islamic fundamentalism and terrorism. The rapprochement between Turkmenistan and Afghanistan may transfer the different interpretations of Islamic values into a common ground open to external manipulations.⁴¹⁵ Under normal conditions, Turkmenistan could find itself in a mess similar to the Caucasian one. Nevertheless, Turkmenistan was not oppressed by fundamental jeopardizes which could arise from one or more of the above mentioned factors. On the one hand, Turkmenistan became a close society by depending on its gas revenues which resulted in less interaction with other actors. On the other hand, hydrocarbons have become a reason which worsened Turkmenistan's relations with not only its traditional trade partners but also with new actors outside the CIS region.

The geopolitical location and ethnic homogeneity of Turkmenistan were the factors, which differentiated this country from its counterparts in the Caspian region *vis-à-vis* the correlation between political pressures and hydrocarbons.⁴¹⁶ First, Turkmenistan is a landlocked country, which does not have a common border with Russia. It is surrounded by Kazakhstan, Uzbekistan, Afghanistan and Iran. Second, Turkmenians constitute 77% of the total population leaving small portions to Russians and other ethnic groups. This structure has put Turkmenistan out of Turkey's competition with Russia in order to control the transport of Caspian hydrocarbons towards Europe and Mediterranean. In fact, it was more difficult for regional power incumbents to intervene in Turkmenistan because of these specificities of this country. Consequently, Turkmenistan has not been anxious about ethnic rivalries, which could be exacerbated by the competition of power incumbents to dominate the Turkmen gas.

⁴¹⁵ See, Pınar Akçalı, "İslam as a Common Bond in Central Asia: The Islamic Renaissance Party and the Afghan Mujahidin," Central Asian Survey, Vol. 17, No. 2, June 1998, pp. 267-284.

⁴¹⁶ See, Dettmer,

It seems possible to suggest that hydrocarbons have been affiliated with political pressures imposed upon the state. But the interaction between external actors and domestic problems has been less intensified than other Caspian oil producers. There have been certain external political pressures exacerbated by the issues related to hydrocarbons, which determined the attitude of the state both externally and internally. In other words, though the issues related to hydrocarbons have not turned into tools of certain power incumbents, there have been significant issues, around which sporadic events fundamentally shaped state's attitude. Relatively more stable domestic structure offered the state to be more stubborn about Turkmen interests especially concerning the issues related to hydrocarbons. This policy increased the tension in the external arena by affecting Turkmenistan's bilateral relations. Therefore, Turkmen hydrocarbons have not been a source of serious conflict up to now. Nevertheless, issues related to hydrocarbons have proved to be the most significant factors with regard to external political pressures.

Soon after the disintegration of the USSR Turkmenistan developed a consistent attitude towards external actors by the concern of the state to strictly control the Turkmen hydrocarbons. At first, Turkmenistan adhered to the continuation of the USSR by the influence of Turkmenbashi, who proved his intrinsic loyalty to the union. Nevertheless, soon after it became clear the disintegration of the USSR was inevitable, Turkmenistan changed its attitude. The subventions of the Soviet regime were now over. Indeed Turkmenistan had to tackle severe economic problems on its own. Hydrocarbons were the only tool of this rural country to survive. Consequently, the state became very sensitive about the issues related to Turkmen gas and oil.

Turkmenbashi considered natural resources as a treasure, which should never been shared by other actors even through cooperation. At first step, the fear of Turkmenistan was to become an energy provider who was not able to receive the real value of its natural resources. This was true because the economic problems of Turkmenistan's clients such as Russia, Ukraine, Georgia,

Azerbaijan etc. created payment problems. These countries were not able to pay the natural gas they were receiving from Turkmenistan. This is why Turkmenistan started to oppose new types of integration among the CIS members such as the 1993 summit of Minsk. There were two basic lines related to hydrocarbons, which pushed Turkmenistan away from the CIS members.

As it has been mentioned above Turkmenistan did not want to become the energy provider of the CIS members, who had serious payment problems. In addition, Gazprom's transportation tariffs were higher while the gas price was considered as low by the Turkmen authorities. Nevertheless, Turkmenistan did not have many options to sell its gas because of the lack of alternative transportation systems. Therefore, Turkmenistan felt the necessity of involving in alternative projects with other trade partners in order to decrease its dependence on the CIS region.

The route towards Afghanistan could be very useful for Turkmenistan. As a matter of fact, Turkmenbashi considered the stability of Afghanistan as the only development which could help Turkmenistan to decrease its dependence on CIS region. Within this perspective, the Taliban regime was welcomed by Turkmenistan with the hope of attaining a stable neighbor. The mild attitude of the Turkmen state towards Taliban was against the basic Russian interests, who was blaming this country for supporting Islamic radicalism within CIS as well as for supporting the war in Chechnya. This differentiation of Turkmen state put Turkmenistan out of the security agreements, which included Russia. That is to say, Turkmenistan and Russia did not seem partners in terms of security issues because of their different policies about Taliban regime. At this point it became clear that Turkmenistan and Russia were analyzing the issues related to hydrocarbons within contradictory aspects in terms of price, payment, transportation and security. That is to say, there were not enough space for Turkmenistan to further cooperate with Russia and other CIS members.

In addition to Russia, hydrocarbons also affected Turkmenistan's relations with other countries. Turkmenistan and Azerbaijan had serious disputes about the partition of certain fields as well as transportation of gas through west. The debate over the status of the Caspian concretized Turkmenistan's attitude not only towards Azerbaijan but also Kazakhstan, Russia and Iran. It should also be mentioned that the partition of certain fields became a factor, which ended the hopes of Turkey to have a role in the transportation of Turkmen gas. Although the status of the Caspian has been a problem shared by all of the littoral states, Turkmenistan's attitude should be attributed a special significance because of its being very sensitive about the partition of the Caspian. Indeed all of the littoral states proved certain degrees of sensitivity. Nevertheless, only Turkmenistan built its foreign policy upon the issues related to hydrocarbons and changed its attitude towards the countries whose suggestions contradicted with its thesis about the issue of status of the Caspian. This was a consequence of the fact that Turkmenistan was the country, who had most problems with others, mainly with Azerbaijan, concerning the possession of certain fields.

The status of the Caspian has become a problematic issue after the disintegration of the USSR, which created Azerbaijan, Kazakhstan, Turkmenistan and Russia as the successor littoral states. Even the last meeting in 2002 appeared to highlight rather than overcome the differences among Russia, Iran, Azerbaijan, Turkmenistan and Kazakhstan. President Saparmurat Turkmenbashi of Turkmenistan, the host, said there were too many unresolved issues for the leaders to reach an agreement.⁴¹⁷ There have been three major points of view. Russia and Iran supported the idea that Caspian was a lake which, should be partitioned equally among the littoral states. Azerbaijan supported the opposite view by indicating that Caspian was a sea, which offered 12 miles of national territorial waters and 200 miles of exclusive economic zones. Turkmenistan stated its conformity about 12 miles of national territorial waters but emphasized its rights on certain fields.⁴¹⁸

⁴¹⁷ "Turkmenistan: Caspian Meeting Fails", *The New York Times*, 25 April 2002, p. 10.

⁴¹⁸ Sinan Oğan, "Hazar'da Tehlikeli Oyunlar: Statü Sorunu, Paylaşılmalı Kaynaklar ve Silahlanma Yarışı", *Avrasya Dosyası*, Vol. 7, No. 2, Summer 2001, pp. 153-154.

The status of the Caspian is a very complex issue, which has become more enigmatic by different arguments of the littoral states in different times. Apart from this complexity, which takes place out of the main field of this study, one thing is clear. Most of the problems occur because of the contradictory proclaims of Turkmenistan and Azerbaijan.

Table 22- Disputable Caspian Fields among Turkmenistan Azerbaijan and Iran

Turkmenistan	Azerbaijan	Iran	USSR
Serdar	Kepez		Pronejutocnoe
Altın Asır	Sharg, Alov Araz	Elbruz	
Hazar	Azeri		Kaveroçkin
			26 Baku
Osman	Chirag		Komisari

Source: Sinan Oğan, “Hazar’da Tehlikeli Oyunlar: Statü Sorunu, Paylaşılmalı Kaynaklar ve Silahlanma Yarışı” *Avrasya Dosyası*, Vol. 7, No. 2, Summer 2001, p. 170.

Turkmenistan and Azerbaijan dispute about the fields of Serdar (Kepez in Azeri), Altın Asır (Sharg Alov Araz in Azeri), Hazar (Azeri in Azeri) and Osman (Chirag in Azeri). Iran also affirms its rights concerning the fields of Altın Asır (Sharg Alov Araz in Azeri or Elbruz in Persian). Azerbaijan cooperated with multinationals, mainly with BP, in order to confirm its rights on the fields of Azeri, Chirag and Guneshli. The PSA about these fields have led to the deal of century with AIOC in 1994. Turkmenistan had to remain silent about these fields despite its suggestions. Since then the tensions between these two Caspian republics would increase whenever an activity in the disputable fields took place. Turkmenistan could not prove its rights on Serdar-Kepez field because Azerbaijan started a PSA by cooperating with Lukoil and Rosneft in 1997. Nevertheless, Turkmenbashi’s pressures upon Boris Yeltsin led to the abolition of this agreement. In 1998, Turkmenistan agreed with ExxonMobil for the development of the same field. This time Azerbaijan put pressures on ExxonMobil by emphasizing its sensitivity and made ExxonMobil to cancel its agreement with Turkmenistan. Similarly problems related to the fields of Altınasır (Turkmen) - Sharg, Alov Araz (Azeri) – Elbruz (Persian) remained problematic. The vessels of BP working through an agreement with Azerbaijan have been urged by the Iranian war planes. Turkmenistan and Iran acted in common against the Azeri activities in these fields.⁴¹⁹

⁴¹⁹ See, Oğan, pp. 170-174.

The debate and competition between Turkmenistan and Azerbaijan about partition of these fields shaped Turkmenistan's foreign policy. On the one hand, Turkmenistan became suspicious about Azerbaijan. Consequently, the Turkmen state delayed the projects, which could be realized by cooperating with Azerbaijan. Turkey generally supported a common understanding between these two Turkic republics. Nevertheless Turkey's rapprochement with Azerbaijan was a source of suspect for Turkmenbashi who indeed considered Turkey as an ally of Azerbaijan away from Turkmenistan. Russia and Kazakhstan did not prefer to be the parts of the dispute about the above mentioned fields. They have preferred to state their point of views about the legal status of the Caspian on the macro level, rather than taking sides about the partition of certain fields. Nevertheless, the general attitude of Turkmen state about CIS region has already impeded the rapprochement among Russia, Kazakhstan and Turkmenistan. Consequently, the relations between Turkmenistan and Iran started to improve by their common attitude about the legal status of the Caspian.⁴²⁰

After gaining its independence Turkmenistan became the rival of Russia, who earned about half of its foreign currency earnings from the trade of hydrocarbons. Consequently, Russia deliberately decreased the exportation of Turkmen gas through the Gazprom pipelines. This policy was clearly stated by Rem Vyahirev, the ex-president of Gazprom, who argued that the transportation of Turkmen gas would be a betrayal to Russia who was suffering from low capacity using.⁴²¹

Therefore, it became clear for Turkmenistan that it would not be possible to make profitable and/or reliable agreements with Russia. Consequently Turkmenistan, who had problems with other CIS members and Turkey, searched for two options. The first option was China which seemed feasible

⁴²⁰ See, Albrecht Frischenschlager, "Turkmenistan on its Way to political and Economic Independence" *Eurasian Studies*, Vol. 1, No. 3, Winter, 1995, pp. 38-47.

⁴²¹ Fiona Hill, "A Not-So-Grand Strategy: United States Policy in the Caucasus and the Central Asia since 1991", *Politique Etrangère*, February 2001, p. 58 op. cit. in Elnur Soltan "Türkmenistan ve Rusya: 'Gaz' Üzerine Kurulan İlişkiler?" *"Avrasya Dosyası"*, Vol.7, No. 2, Summer, 2001, p. 192.

after 2010. The other option was Iran and Afghanistan to a certain extent. Turkmenistan found chances to improve its relations with the two marginals of the world system: Taliban and Iran. This rapprochement should be analyzed in terms of interest coincidence rather than interaction in terms of religion and culture. Similar suggestions about the status of the Caspian and availability of common transportation projects were the grounds for Turkmenistan to increase its relations with Taliban and Iran. In contrast to Russia who did not approve Taliban, Turkmenistan became the second country who involved in official negotiations with the Taliban regime. “To this end Turkmenbashi made overtures to the Taliban, personally befriending its spiritual leader Mullah Mohammad Omar and providing the student militia with diplomatic support against the opposition Northern Alliance. The removal of the Taliban did not adversely affect Turkmenbashi, who simply began courting their successors, taking every opportunity to deliver his message - that a trans-Afghan pipeline would bring enormous benefit to all parties involved.”⁴²² In addition, Turkmenistan involved in certain transportation projects with Iran.

Iran and Taliban could exacerbate the Islamic affiliations of the Turkmen tribes. As a matter of fact, too much interaction with these actors was not something wanted by Turkmenbashi. Nevertheless, it does not seem possible to suggest that Turkmenistan started to be affected by Islamic fundamentalism. Firstly, as an old member of Communist Party, Turkmenbashi was aware of the pressures, which could come from Russia if Turkmenistan cooperated with Taliban regime in Afghanistan. Within this context, negotiations with Taliban appeared to be a bargaining tool against Russia. Consequently, Afghanistan appeared to be a good transport alternative for the future rather than a strategic partner. Secondly, as an experienced energy engineer, who knew the region very well, Turkmenbashi was aware of the fact that Turkmenistan and Iran could become competitors in the future for the marketing of their gas. Secondly, Iran’s Shiite characteristic and Persian culture have been so outlandish for Turkmenistan.⁴²³

⁴²² Nyazik Ataeva, “Turkmenistan: President's Pipe Dream Lives On”, *RCA*, 12 July 2002. <http://www.erkın.net/chronicle/pipe.html>

⁴²³ See, Mehmet Seyfettin Erol, Latif N. Çakıroğlu, “Köpetdağının İki Tarafındaki Komşular: Türkmenistan-İran İlişkilerinin Son On Yılı”, *Avrasya Dosyası*, Vol.7, No 2, Summer 2001, p.225.

Besides other states, Turkmenistan did not find many chances to develop its relations with multinationals and other economic actors such as the IMF and the World Bank. Multinational oil companies who became very active in the Caspian region by their investments in Azerbaijan and Kazakhstan were very cautious about Turkmenistan's projects. Turkmenistan's illiberal trade regime and the general economic regulations were not very appropriate for the foreign investors. Nevertheless, these companies started their activities long before liberalization of Azerbaijan and Kazakhstan. It can even be suggested that foreign direct investments accelerated the liberalization of Azerbaijan and Kazakhstan. Therefore, the illiberal economic environment of Turkmenistan can not be considered as the only obstacle which kept multinational companies away from Turkmenistan. The multinationals were not eager to make investments in Turkmenistan because of the nationalistic approach emphasized by Turkmenbashi. In other words, multinational companies did not feel confident because of the autocratic presence of the president who had the absolute power. The companies did not want to make huge investments without knowing what lies ahead if president would change his mind about the company, sector, laws etc. Above all, multinational companies did not tend to make investments in Turkmenistan because of the infeasibility of the projects towards China and Japan under current circumstances, the problems of Turkmenistan with Azerbaijan and Turkey and finally the unstable environment in Afghanistan and Iran which impedes the route towards India and Pakistan. Currently Petronas, Dragon Oil, Monument and ExxonMobil have involved in activities in Turkmenistan mainly in oil fields.⁴²⁴

Consequently, the statist approach of Turkmenbashi became very explicit in terms of hydrocarbons because of the circumstances. Turkmenistan is very prudent about not sharing its gas revenues with multinationals at least in the short run. Turkmengaz and Turkmengeologiya conducted further exploration and production activities as the state companies. Consequently, Turkmenistan did not have many chances to develop alternative partners for enlarging its oil and gas trade towards new markets.

⁴²⁴ "Signs of recovery begin to appear (Escalating oil prices have benefited Russia)" World Oil, August, 2000.

Under these circumstances, it is not so surprising to see that Turkmenbashi has developed a hostile attitude against the neo-liberal pressures of certain organizations such as the IMF. Indeed, strong state and state control were the only tools of Turkmenistan who was challenged by the lack of mutually beneficial cooperation in the international arena. As a matter of fact, the only way to earn money was to reconstruct relations with Russia, while developing trade relations with Iran. Indeed Turkmenistan's earnings were enough not to involve in a stand-by agreement with the IMF. On the one hand, this independence from the IMF was an opportunity to close the doors of Turkmenistan to neo-liberal pressures. On the other hand, this resistance strengthened Turkmenistan's loneliness in the international arena. Interestingly Turkmenistan managed to impede the political pressures that might impose upon itself at the very beginning by not interacting with the external actors. Nevertheless the cost of this resistance would be isolation. With regard to Turkmenistan's relations with other states, multinationals and international organizations, it is possible to conclude that hydrocarbons impose upon Turkmenistan a sort of isolation in the international arena. This seclusion can be stated as the most significant political pressure created by the issues related to hydrocarbons, which helped the state to delay other political pressures.

IV.2.2. The Attitude of the State against Political Pressures

In Search of a Model for State

The search of state model in Turkmenistan resembled to other post-Soviet republics in the sense that the governing elite were the carry-over of the former Communist Party. Just like anywhere else in the Soviet Union, the governing cadres of Turkmenistan were brought to the strategic positions as far as they were able to prove an intense loyalty to the Communist Party during the Soviet times.⁴²⁵ Nevertheless, the Soviet regime had exceptionally merged the tribal

⁴²⁵ See, Foltz, p. 113.

structure of Turkmenistan both politically and economically. As it has been mentioned above, the members of the Teke tribe gained political power by becoming the members of the Communist Party. Meanwhile all of the seven tribes were allowed to transform themselves into kolkhozes. This policy allowed the tribes to take part in main economic activities in terms of agriculture.

The tribal characteristic appears to be a significant fact, which influences the state model in Turkmenistan. In most of the post-Soviet republics, the state had a communist background and it attempted to compromise the national interests with the interests of Russia, demands of multinational companies and neo-liberal pressures. Politically, the Turkmen state could have followed milder approach towards Russia by the impetus of the organic links. Economically, Turkmen state could have been more ardent about cooperating with multinational companies and international organizations such as the IMF, World Bank, EBRD etc. Nevertheless, the Turkmen state fundamentally differed from the other post-Soviet cases by a mercantilist approach shaped under the personality cult of the president, who became the holy leader of Turkmens by using his communist background strengthened by tribal superiority. For Turkmenbashi, Turkmenistan was identified with a strong nation composed by unification of all tribes. To the extent that the definition of nation-state had a unique sense in Turkmenistan, its model gained peculiarity when compared with other Turkic countries.

Turkmenbashi was the main actor, who deviated from other post-Soviet republics by completely rejecting to cooperate with external actors. “The divergence occurred probably because the republic’s petroleum wealth was such as to permit it to pursue its own path as world’s fourth-largest supplier of natural gas (after Russia, the US and Canada) permitting the government to keep subsidized prices the same as during the Soviet era, while raising salaries to post-Soviet levels; indeed plans were made to supply water, domestic gas and bread to citizens free of charge.”⁴²⁶

⁴²⁶ Martha Brill Olcott, “The Myth of ‘Tsentrāl’naia Aziia”, *Orbis* Vol. 38, No. 4, Fall 1994, p. 556.

The Turkmen case deviates from the post-Soviet rank by obstinate policies of Turkmenbashi, which are shaped relatively independently from the Russian interests, the demands of multinationals, the neo-liberal pressures and even with domestic necessities in western sense. Politically the state resisted against external pressures by the tribal structure, which had perpetuated throughout the Soviet years. Economically, the state knew that the oil and gas trade with Russia and Iran were adequate for attaining certain amount of richness in the short run. Therefore the state did not hurry to develop alternative mechanisms until it felt more secure about the intents of external actors. Indeed the state did not seem obedient towards multinational companies and the IMF led neo-liberal policies.

Turkmenbashi's attitude led to a strong and obstinate state both externally and internally. Within this perspective, independence and pragmatism were the two characteristics of the Turkmen foreign policy. Turkmenbashi was shaping the foreign policy by pursuing economic goals rather than political/ideological ones. Above all, Turkmenbashi's main concern was to get the real values of Turkmen gas without sharing the revenues with any external actor. Indeed, this economic concern would outdate the ideological links. Since his being elected as president, Turkmenbashi started to follow a strategy independent of Russia, depositing his 1992 oil profits in a New York bank that has no ties with Russia or the former USSR and listened with great interest to the propositions of neighboring Iran.⁴²⁷

Russia and Iran were the two significant partners of Turkmenistan because of economic reasons. Turkmenbashi was trying to increase economic gains of Turkmenistan through commercial relations with Russia and Iran. Turkmenistan had to rely on Russian transportation system until the construction of alternative pipelines. Iran appeared to be a profitable partner because of the compatibility of the structure of these two countries, which facilitated the trade of hydrocarbons. Nevertheless, this did not go beyond economy. In other words, Turkmenbashi was very careful about not being influenced neither by Russian

⁴²⁷ Martha Brill Olcott, "Central Asia's Catapult to Independence", *Foreign Affairs*, Vol. 71, No. 3, Summer 1992, p. 116.

nor Iranian models. He first tried to minimize the Russian effect on the former members of the Communist Party. Secondly, he has been very cautious about the ideological influence that could come from Iran.

The Afghan route for transporting Turkmen gas ameliorated the relations of Turkmenbashi with Taliban. It should also be mentioned that the fundamentalists forces in this region became effective during the last decade of the Soviet Union. "Information from trustworthy sources, including intuitively credible information about the lessons many Soviet Muslims have drawn from the ability of fundamentalist forces to drive seemingly omnipotent infidels successively out of Iran and Afghanistan, suggest real cause for concern."⁴²⁸ In other words, fundamentalism was a issue which had deep roots. Indeed a careful policy towards fundamentalism would be essential for Turkmenbashi. The state's policy was very cautious about not being affected by external influences with different ideological orientations. "Shrugging off the siren warnings from his fellow presidents, Turkmenbashi has developed a curious but effective blend in Turkmenistan of resurgent Islam and secular dictatorship, enabling him to cultivate warm relations with Iran while avoiding ideological subjugation"⁴²⁹

Therefore, despite economic cooperation the president tries to keep its country away from external influences. "This attitude is best described by the words of Turkmenistan's Foreign Minister Avdi Kuliyeu who stated that Turkmenistan would not elevate someone's ideology to the state level, even Islamic ideology which has roots in Turkmenistan's history. Turkmenistan is neither Islamic nor Soviet, but a secular and democratic state."⁴³⁰

In addition, the regional conflicts in Tajikistan and Caucasia, the problems with Azerbaijan about the partition of certain fields, the problems with Uzbekistan about water partition and cotton marketing, problems with other CIS members

⁴²⁸ Jeremy R. Azrael, "The Soviet 'Nationality Front': Some Implications for US Foreign and Security Policy", in The Rise of Nations in the Soviet Union, Michael Mandelbaum (ed.) New York: Council on Foreign Relations Press, 1991, p. 97.

⁴²⁹ "Turkmen Islam", Central Asia Newsfile, Vol. 2, No. 10, October 1994, p. 11.

⁴³⁰ Mehrdad Haghayeghi, "Islamic Revival in the Central Asian Republics", Central Asian Survey, Vol. 13, No. 2, p. 252.

about tariffs and payments of natural gas, the aloof attitude of Turkmenbashi towards neo-liberal policies and nationalism concerning the utilization of natural resources were among the issues, which isolated Turkmenistan. This policy completely contradicted Russia's and Uzbekistan's initiatives to improve multilateral regional cooperation in different levels. Turkmenistan, who preferred bilateral relations was boycotting most of these initiatives. In order to develop advantageous relationships without taking sides, the state felt the necessity of emphasizing Turkmenistan's neutrality in the international arena. Within this perspective, Turkmenistan accepted permanent neutrality and declared that it would not be a member of any military or political-military alliance involving responsibilities for collective action.⁴³¹

The state could manage to sustain its viability by resisting the pressures of external actors through manipulating the commercialization of oil and gas in change of the viability of the governing cadres. On the one hand, it is possible to consider this policy as the consequence of an authoritarian regime, which refuses international cooperation by ignoring the interests of external actors in order to strengthen its power domestically through hoarding the oil and gas revenues. On the other hand, it is possible to conclude that Turkmenbashi opposes all kinds of external pressures, which are not compatible with the national interests of Turkmenistan. "Turkmenistan's president, Saparmurat Turkmenbashi, has turned his nation into a shrine to his rule and permits no dissent of any kind."⁴³² Even though these two opposing interpretations are distant from each other, the post-Soviet developments indicate that neither of these interpretations reflected the real attitude of Turkmenbashi or the state with which he was identified with. Nevertheless, it should be mentioned that Turkmenbashi had a nationalistic sense in favor of his native country. This was concretized in many examples throughout his negotiations with Russia, multinational companies, the IMF, the World Bank and even other regional powers such as Turkey and Iran. In all of these cases, Turkmenbashi refused any compromise to these actors in order not to undermine the national interests of

⁴³¹ See, Glenn A. Curtis, Turkmenistan, Washington, Library of Congress, March 1996.
<http://lcweb2.loc.gov/frd/cs/tmtoc.html>

⁴³² "America's Central Asian Allies", The New York Times, 2 October 2001.

Turkmenistan. Although this policy brought delays in unification of Turkmenistan with the world economy, Turkmenbashi proved a deep patience throughout his negotiations.

Within this cadre, neutrality and pragmatism are the two strategies of Turkmenbashi which also shape the state model. In order to follow such an independent policy the state needed two kinds of guarantees. With regard to economic aspect, the oil and gas trade with Russia and Iran tended to guarantee a certain amount of wealth. With regard to domestic support, tribalism inclined to secure the absolute power of Turkmenbashi. Secularism and autocracy were the two pillars of the Turkmen state model based on tribalism. Both of the two pillars should be analyzed by referring to Turkmenbashi's personal admiration to become the holy leader of his country. Indeed Turkmenbashi has been very careful about not arousing negative feelings of Turkmen citizens who belonged to seven different tribes. Indeed the state's secularism and autocracy did not hamper the hopes and expectations of Turkmen people.

Despite the rise of Islamic influence since Turkmenistan's independence, president Turkmenbashi clearly emphasized that the state was and would remain secular by not endangering the practices and beliefs of Muslims. Turkmenbashi hold a secular model for the state while explicating his personal respect towards Islam by recognizing all major holidays as state holidays, supporting not only instruction of Islam in state schools but also construction of mosques, publishing religious books etc.⁴³³ Secularism has been a general perspective of the post-Soviet Turkic republics. Turkmenbashi has been amongst the most tolerant leader towards Islamic values unless they did not jeopardize stability. As a matter of fact, the state was both secular and respectful towards Islamic practices. To that end, it did not endanger itself by either Islamic fundamentalism or discontent of the tribes.

⁴³³ See, Martha Brill Olcott, "Central Asia's Islamic Awakening", Current History, Vol. 93, No. 582, April 1994, p. 154.

The autocratic characteristic of the state resembled to the evolution of Turkmen secularism. On the one hand, there was the idea of strong state which had emerged under the Soviet influence. On the other hand, the state consolidated power in order to sustain stability. Authoritarian leadership in the new Central Asian states was very common precisely because it does offer a chance to keep stability and avoid turmoil-at least in the short run.⁴³⁴ Nevertheless personal influence of Turkmenbashi was different from other autocracies in the region. The personality cult of Turkmenbashi was identified with the myth of ultimate authority whose concretized form was being represented by the state.⁴³⁵

When the relations between the state and society are analyzed, there is an undeniable superiority of the state. State's extensive power decreases the democratic domain for citizens. Flourishment of civil society does not seem possible under the interaction between autocratic state and tribal society. In contrast to state's increasing wealth, the society still confronts severe economic problems. Currently a large number of people live at the edge of poverty, with provisions of free or heavily subsidized water, energy, and other public utilities as well as basic food stuffs. Moreover, other indices of well-being are unfavorable. The country's infant mortality rate (38 per 1000 live births in 1997) is the highest in the region, while life expectancy (65.4 years in 1997) is the lowest. Unemployment among the youth is estimated at about 30%.⁴³⁶

Despite these negative figures, the Turkmen people do not express their discontent. This silence may be considered as the indicator, which shows the lack of democratic environment. Nevertheless, it should also be mentioned that loose ties to religion and obedience to the political leader were the two common values of the Turkmen tribes.⁴³⁷ The tribal characteristics of Turkmen people are explicitly compatible with Turkmenbashi's secular autocracy. To the extent that dynasty is a strong specificity of tribalism and people cannot go beyond

⁴³⁴ Graham E. Fuller, "Central Asia: The Quest For Identity", Current History, Vol. 93, No. 582, April 1994, p. 146.

⁴³⁵ See, Saparmurad, Turkmenbashi Address to the Peoples of Turkmenistan, Ankara, Nurol Printing, 1993.

⁴³⁶ World Bank...

⁴³⁷ See, Nermin Güler "Geçiş Sürecinde Türkmenistan'ın Siyasi Yapısı: Türkmenbaşı Modeli" Avrasya Dosyası, Vol. 7, No. 2, Summer 2001, p. 109.

their tribal affiliations, Turkmenbashi will continue to identify himself as the father of Turkmen. Ironically, there is a vicious circle. The autocratic model of Turkmenbashi tends to offer wealth by keeping the tribal norms and values of Turkmenistan throughout the country. Turkmen tend to be content about the construction of modern buildings and malls, which offer them hopes of wealth.

This specificity can be defined by referring to Turkmenbashi's patriotism, which aims to create a prosperous Turkmen nation through his leadership. Indeed Turkmenbashi by definition considers himself as the father of Turkmen. This definition is considered to be the basis for dictatorship in most of the Western sources. On the contrary the personal supremacy of Turkmenbashi should be interpreted within the tribal structure of Turkmenistan. This is very crucial because Turkmenbashi's understanding of nation-state seems to be exactly the unification of five big and two small tribes under a homogeneous Turkmen nation. Turkmenbashi is successful at first creating a fetishistic nationalism through manipulation of all kinds of signs and values and then identifying Turkmen nationalism with his popular perception.⁴³⁸

The choice of Turkmenbashi for state model was very explicit and reflected a compatibility with external-internal dynamics and his will of becoming the holy leader of Turkmen. Turkmenbashi's state model can be best summarized by analyzing his attitude in external and internal relations. Neutrality and mercantilism are the most significant strategies of the state in international relations while secular tribalism and autocracy have become the main pillars of state within the domestic aspect.

⁴³⁸ See, Günay Göksü Özdoğan, "Sovyetler Birliği'nden Bağımsız Cumhuriyetler'e: Uluslaşmanın Dinamikleri" in Büşra Ersanlı Behar (ed.), Bağımsızlığın İlk Yılları, Ankara, Kültür Bakanlığı Yayınları, 1994, p.75.

In Search of Prosperous Autocracy

Turkmenistan's domestic structure has been characterized by relatively homogeneous ethnic composition and tribal affiliations. This specificity has been influential in state's attitude towards society. State's main concern was consolidating power while sustaining the regime viability as well as Turkmenistan's territorial integrity. The ethnic homogeneity was impeding external actors to intervene in Turkmenistan. In other words, the actors who had been interested in Turkmen hydrocarbons lack the ability to manipulate ethnicity issues as they have done in Caucasus. Meanwhile the presence of various tribes could turn into a source of conflict. Therefore, the state opted a democratic way concerning the minority rights and autocratic way concerning the society composed of Turkmen citizens.

Turkmenistan and Russia agreed about the protection of the rights and freedoms of their citizens living each other's country.⁴³⁹ The mild attitude of Turkmenistan towards Russians was understandable. Any problem related to Russian population could give Russia a tool to intervene in Turkmenistan with no regard to the ratio of ethnically Russians to Turkmen. In addition, the status of the Turkmen in Russia would be guaranteed by this agreement. Since then Turkmenbashi followed a mild attitude about the ethnically Russian citizens. Turkmenbashi became generally tolerant about the rights and freedoms of other ethnic groups considering the fact that ethnic minorities constituted a very small amount of the total population. That is to say, minorities were not a main concern of Turkmenbashi, who considered Turkmenistan's ethnic homogeneity as an appropriate basis for stability. Indeed, the state followed a democratic approach concerning the rights and freedoms of minorities. Even though the Constitution does not talk about "minorities" the ethnic

⁴³⁹ See, Lowell, Bezanis "Türkmenistan: İran ve Rusya ile Kolkola", Yeni Forum, Vol. 16, No. 317, October 1995.

origins are stated in passports. Turkmenistan offered a constitutional guarantee in order to secure, protect and develop the rights of citizens regardless of their ethnic origins. In addition, religious practices and beliefs are also taken for granted. Apart from these constitutional rights, the minorities do not face any practical difficulties. They may use their own language express their culture and religion.⁴⁴⁰

Nevertheless, Turkmenbashi chose autocracy as the basis for state's general policy. This aim was compatible with the state model. In fact, the state followed consistent policy in order to sustain its regime viability. When the chronological evolution of state's attitude is considered, it may be concluded that the state first strengthened its positioning through autocracy then attempted to increase its wealth, which would be a source of legitimacy. In other words, attaining prosperous autocracy appeared to be the main goal of the state. Indeed prosperous autocracy was also compatible with the external neutrality of the state. The state could perpetuate its neutrality and independence, in the external arena as far as it proved to be strong in the domestic arena with a certain amount of wealth. In order to attain this goal, the state started to consolidate power since the first day of Turkmenistan's independence. There was a limited competition for power in the first years following 1991. In fact, there was a limited opposition movement against Turkmanbashi during these days, which would be oppressed by state's harsh attitude against the idea of opposition.

Four opposition movements, which deserve to be emphasized here because of their different criticisms about state's different policies, emerged soon after Turkmenistan's independence.⁴⁴¹ The first opposition movement has emerged after the transformation of "Association for the Protection of Turkmen Language" (APTL) into reformist Agzybirlik political movement. APTL has been constituted in September 1989 within Turkmen Academy of Sciences. After Turkmenistan's independence this association started political activities

⁴⁴⁰ See, Süleyman Sırrı Terzioğlu, Türkmenistan Anayasası ve Türkmenistan Mevzuatından Metinler, Aşgabat, TİKA Yayınları, 1999.

⁴⁴¹ See, Bess A. Brown, "Orta Asya'nın Yorgun Ekonomileri", Yeni Forum, May 1995, No: 33, pp. 36-37 and Günay Göksu Özdoğan, "Sovyetler Birliği'nden Bağımsız Cumhuriyetler'e... pp. 70-76.

within the Agzybirlik movement which emphasized the linkage between the cultural motives that were being promoted by Turkmenbashi and the political power. Turkmenistan was the last conquered republic by Russia in 1881. The Teke tribe resisted against Russia by the support of Nakhsibendi sect. Despite the defeat of Teke tribe the resistance turned into a legend. The Turkmen state occasionally used this war, which would later called as Goktepe war, as the symbol of Turkmen nationalism. The Agzybirlik movement was not content about state's attitude, which was identifying the Teke tribe with the whole Turkmen nation by using historical myths. Agzybirlik movement not only asked for democratic rights for the expression of opposition but also suggested that there were dark sides about the Goktepe war while blaming the state to use this war for the promotion of Teke tribe.

Secondly, similar to Agzybirlik movement, Democratic Party of Turkmenistan flourished from APTL. Nevertheless, this party became illegal because it was not recognized. "The president and the newly restructured Communist Party – renamed Democratic Party of Turkmenistan since 1991- have been carrying out limited democratic reforms which has so far led to the assimilation of some 4000 members of non-Communist origin: too insignificant to be considered a substantive initiative"⁴⁴²

Thirdly, certain farmers have constituted the Peasants' Party claiming to be the representative of the rural population. Nevertheless, this movement would soon become inactive because Turkmenbashi considered alternative political movements as the initiation of hatred and rivalry amongst the tribes. This was specially essential with regard to the Peasants' Party because the activities of this party could change the status-quo between the tribal leaders and the tribe members. In addition, allowing certain peasant movements could exacerbate competition among the seven tribes.

⁴⁴² Haghayeghi, p. 252.

Finally, Democratic Reform Movement, which had organic relations with the Reformist Movement in Moscow could not find chances to activate. This was not surprising because Turkmenbashi was determined to keep Russia away from Turkmenistan's domestic affairs. Consequently, this party would also be disactivated by state policies.

In 1992 in an interview with Turkmenbashi the Reuter agent asked weather he was anxious about the influences of alternative political movements such as Islamic radicalism. The answer was honest and short. Turkmenbashi emphasized that there was a censorship mechanism, which would never allow such movements to flourish.⁴⁴³ This statement has been done in the very first days of Turkmenistan's independence. It was clear that Turkmenbashi was considering control mechanism as a very ordinary part of social and political life. This idea of censorship was compatible with Turkmenbashi's understanding of democracy as well as his approach towards other people.

There were only a few intellectuals, who knew about western standards and indicated their discontentment for strengthening democracy. Nevertheless, the state did not differentiate the activities of certain people to attain power and the attempts of certain members of intelligentsia to contribute to democratization in Turkmenistan. Both of the cases were against the regime viability, state policies and therefore the well-being of Turkmenistan.⁴⁴⁴ Within this perspective, limited activities of opposition would soon be suppressed by the state. It should also be mentioned that the censorship mechanism never allowed the opposition to state its point of view neither in newspapers nor through televisions. The mass media is under the strict control of the state and reflects Turkmenbashi's principles and state's activities in conformity with the well-being of the regime.⁴⁴⁵

⁴⁴³ See, Esedullah Oğuz, "Türkmenistan'da Basın ve Basın Özgürlüğü", Yeni Forum, Vol. 16, No. 317, p. 41.

⁴⁴⁴ See, Saparmurat Niyazov, Independence Democracy Prosperity, Alma Ata, Noy Publications, 1994.

⁴⁴⁵ See, Oğuz, pp. 41-45.

There were certain intellectuals who were involved in certain opposition activities during the first years of Turkmenistan's independence. Sapargeldi Hanov published an independent newspaper named Yash Communist (Young Communist). Tachgeldi Gutliev emphasized that state's policies made Turkmenistan the colony of the Soviets in an article. Muhammedmirad Salamatov published a periodical named Daianch (Resistance) in order to collect intellectuals under the same writing environment. Agzybirlik members such as Akmuhammet Velseparov, Shirali Nurmiradov and Hudaberdi Halliev differentiated Turkmen nationalism from that of Turkmenbashi by criticizing the state through their articles and poems. These intellectuals were either sent to prisons much as Shirali Nurmiradov or forced to leave the country such as Akmuhammed Velsaparov.⁴⁴⁶

Therefore, both the opposition, who competed for attaining power, and the intellectuals who criticized the state because of its anti-democratic policies were oppressed. Indeed, the lack of democratic plurality would become a fact of Turkmenistan. The oppression of opposition did not arouse discontent among the mass population. There were two reasons for the acceptance of Turkmen about the hegemony of one group under the leadership of Turkmenbashi. First of all, the Turkmen were very accustomed to one party's domination as the legacy of the Soviet regime. Secondly, holy leadership was compatible with their tribal customs, which were still dominant determinants in Turkmen's perceptions. Therefore, there were all the necessary conditions for one leader one party rule.

As a very closed society, the Turkmen were not expecting something more than a tribal understanding of leadership. In addition, the regime was successful because of three facts. Firstly, Turkmenbashi convinced the Turkmen society about his democratic leadership, which guaranteed a wide range of rights and freedoms by implementing the principles of unity, peace and consensus.⁴⁴⁷

⁴⁴⁶ Ibid,

⁴⁴⁷ See, Saparmurat Niyazov, Unity Peace Consensus II, Alma Ata, Noy Publications, 1994, p.106.

Secondly, the Turkmens were convinced about the coming prosperity, which would offer them increase in their socio-economic status rapidly. Thirdly, despite their being autocratic, Turkmenbashi's policies were compatible with the tribal structure of Turkmenistan. Indeed just like the Soviet regime, who built the kolkhozes upon the tribes, Turkmenbashi also respected the tribal life.

It is explicit that the slow transformation of Turkmenistan's closed tribal society offers the state a very good basis to implement autocratic policies for the perpetuation of regime viability. Nevertheless, it could have not been so easy to legitimize the slow rate of transition under autocracy if Turkmenbashi lacked the power obtained from the gas trade. Indeed Turkmenbashi uses the gas revenues in order to increase his popularity and charisma through a planned propaganda identifying his personality with Turkmen nationalism. Too much attention on one man's leadership is a specificity of most of the tribes, which in turn expects a protective paternity. Turkmenbashi successfully presented himself not only as the holy leader of Turkmens but also the protector of the Turkmens.

There have been many initiatives of Turkmenbashi to strengthen his reputation among Turkmen people. Turkmenbashi knew his country very well. In addition to being a member of Teke tribe he had found the opportunity to learn how things were being carried out within the Communist Party. Finally as an energy engineer who had extensive knowledge of politics he had already planned the best method to influence the Turkmen people. Even before he was elected as the president Turkmenbashi had promised that water, natural gas and electricity would be free for the citizens of Turkmenistan.⁴⁴⁸ He kept his promise after being elected as the president by an overwhelming majority. Since then he regularly implemented subsidies to Turkmen people. In 1995 as a new year gift, he offered the Turkmen people wage and pension increases; minimum pension was increased fourfold to 1,000 manats, standard old age pension to 2,500 manats and invalid/war veteran pensions to 3,000 manats.⁴⁴⁹ Whether the

⁴⁴⁸ Turkmenbashi, Address to..., p.4.

⁴⁴⁹ "Niyazov's New Year Cheer" Central Asia Newsfile, Vol. 3, No. 1, January 1995, p. 11.

pension increases were able to cover the price increases is another issue. What matters here is that way that the pension increases have been presented to the Turkmen. This would become a part of Turkmenbashi's promotion activities. In other words, the idea of socially responsible state has been replaced by the idea of strong state who offers gifts.

Turkmenbashi's attitude should be interpreted as if he is the leader and the owner of a tribe. In Turkmenistan, children memorize poetry written by president Turkmenbashi and his deputies kiss his hand when they greet him.⁴⁵⁰ He has expressed himself as a very mild and munificent leader towards his people. "There is a city called Turkmenbashi, as well as Turkmenbashi streets, mosques, factories and airports. The president's portrait appears on the country's money, on banners and posters, on bottles of vodka and packets of tea. A golden statue of him atop a 246-foot arch in the capital, Ashkabad, rotates so that his arms always point to the sun."⁴⁵¹

Turkmenbashi has been very generous to people loyal to him and oppressive to those who dare to indicate criticisms. The hydrocarbons offered him the opportunity to sustain popular support through reconstruction of Turkmenistan's framework, allocation of resources and propaganda activities. Above all, Turkmenbashi explicated the state's attitude in terms of a will for the well-being of the Turkmen society. In other words, the state was acting compatible with the tribal structure of Turkmenistan, which necessitated a strong authority with a capability to offer wealth to its people. Within this context, the state's ultimate goal seemed to consolidate power by the help of oil and gas revenues while strengthening its autocratic positioning in order to impede the rise of alternative powers.

⁴⁵⁰ "Analyst Predicts "Radical Change" Near for Turkmenistan", Eurasianet, 21 October 2002.
<http://www.eurasianet.org/departments/recaps/articles/eav102102.shtml>

⁴⁵¹ Steven Lee Myers "Turkmen Leader, Wishing to Be August, Settles for January", The New York Times, 11 August 2002, p. 7.

The society did not indicate a wide ranging discontent because the state met expectations. This consensus tends to perpetuate because Turkmenistan will likely be a closed society with few interaction. Sooner or later Turkmen people will learn how things have already changed in the other parts of the world. Nevertheless, it may be too late for them to change their expectations from the state because they tend to become a consumer society in the near future despite their current inferior socio-economic status. That is to say, Turkmenistan has already become an autocracy at the eve of prosperity characterized by the issues related to oil and gas.

IV.3. State versus Economic Pressures Related to Hydrocarbons

IV.3.1. Economic Pressures Related to Hydrocarbons

Just like other post-Soviet republics, Turkmenistan was challenged by two related factors. First of all, the emergence of certain economic factors such as the establishment of National Bank, national currency, and independent economic policies produced by national authorities led to hyperinflation. Secondly, the changing characteristics of the Soviet type of interrepublican trade created drastic consequences especially in Turkmenistan who had been completely dependent on barter system through which it has been exchanging cotton and gas for almost types of goods and services.

These problems were common in all of the post-Soviet republics especially during the first years of their independence. Most of the transition economies have cooperated with international organizations such as the IMF and the World Bank in order to benefit from financial resources as well as expertise. At first sight the post-Soviet republics have perceived the IMF and the World Bank as the experts, which could help them to stabilize their macro economic indicators while supporting certain development projects. Cooperation with the IMF seemed necessary because the former members of the Communist Party did not have any idea about how to cope with the economic pressures through market

policies. In addition, the lack of centralist Soviet regime made these countries stumble during their construction of domestic agents such as central Bank and other financial actors. As a matter of fact, cooperation with the IMF could help these countries to solve their liquidity problem while implying appropriate macro economic policies. Meanwhile, the World Bank offered appropriate project management for the development of certain sectors in certain regions. Indeed cooperation with the World Bank could help these regions to implement sectoral development projects as well as other projects aimed at solving certain regional problems. Just like other post-Soviet republics, Turkmenistan started to negotiate with the IMF and the World Bank in order to cope with the transition problems. Nevertheless, the Turkmen state deliberately decreased its relations with these organizations who were advising neo-liberal pressures. This attitude was not so surprising because for Turkmenbashi the power of the state was an undeniable condition of attaining national development. The significant role of state is explicit in almost all sectors. “In 1991, 61 textile producers realized one third of the industrial production. The resting two third of the production belonged to the 38 giant state entrepreneurs which were specialized at chemicals, gas, oil process, and electricity.”⁴⁵²

State’s attitude was very peculiar. Turkmenistan had to leave the Soviet type of economy because the interrepublican trade and barter was not beneficial. In addition, Turkmenistan had to implement independent monetary and fiscal policies in order to decrease its dependence on Russia. Nevertheless, there was a refusal of the state to accept the IMF and World Bank oriented reforms. That is to say, Turkmenistan had to fill the gap left by the collapse of the Soviet system on its own without looking for financial and technical aid of international organizations.

Within this perspective, Turkmenistan’s first independent years witnesses serious economic problems. The inflation reached up to 1800% in 1994 indicating the highest level among all other pos-Soviet republics. manat has steadily lost its value against US dollar and the real values of wages have

⁴⁵² Şule Yıldırım, “Turkmenistan” Ankara, IGM No. 4, 1992, p.3.

decreased by hyper inflation and devaluation of manat. The decreasing value of manat did not contribute to Turkmenistan's export earnings, which have been dependent on gas and cotton within a very rigid scheme of interrepublican trade.⁴⁵³

The economic indicators started to show positive signs starting in 1996. The hyperinflation which was 1800% in 1994, 1000% in 1995 and 992.5% in 1996 decreased to 83.7% in 1997, 16.5% in 1998 and 24.1% in 1999. Parallel to this, the value of manat started to rise in 1995 against dollar. The dollar/manat rate was 449 in 1995, 4016 in 1996, 4200 in 1997 and 5350 in 1998. The value of manat was stabilized since then. The state managed to sustain economic stability by the help of gas revenues, which offered it the chance to intervene and control the economy.⁴⁵⁴

Therefore, despite certain economic pressures created by disintegration, Turkmenistan seems to stabilize the macroeconomic indicators through national policies. Nevertheless, in addition to these pressures there were certain structural problems, which created long term pressures upon the state as the main engine of the economy. Most of these problems were the results of the awkward structure of the real sector characterized by extensive influence of gas and cotton production in a country which had retained its tribal peculiarities despite the Soviet and post-Soviet effects. In other words, the Turkmen economy seemed to indicate positive results, which at the same time hindered structural weaknesses.

The tribal characteristics of Turkmenistan also affected its general economic evolution. Traditional tribal relations perpetuated their influence by the isolation of this desert land from other parts of Soviet Union. The Caspian Sea and the Kyzyl Kum Desert also isolated this region from neighboring non-Soviet countries. When the lack of telecommunications is also considered, it becomes

⁴⁵³ Saule Baycaun "10 Yıllık Bağımsızlık Sürecinde Türkmenistan Ekonomisine Genel Bir Bakış", *Avrasya Dosyası*, Vol. 7, No. 2, Summer 2001, pp. 19-20.

⁴⁵⁴ See, Alan Feuer "The World: Central Asia's Paper Tiger; The Cult of Personality and Pipe Dreams", *The New York Times*, 4 January 1998, p. 3.

more clear how tribal relations remained untouched throughout the years. Just like most of the other nomadic people, agriculture and livestock were the two common activities of the Turkmen tribes. The Russian policies decreased Turkmenistan's livestock. Gas and cotton production became the two main economic activities. Cotton monoculture shaped the overall economy by excluding other activities from the range of production.

When gas production is compared with that of cotton in terms of their ability to shape the Turkmen economy, a very interesting outcome may be detected. The gas production remained outside the tribal affiliations. In other words, gas industry was completely independent from the domestic structure. Consequently, Turkmenistan became a significant gas provider for the Soviet republics. Nevertheless, its economy was not affected by the rising gas industry. This was a policy of the Soviet regime, who attributed a strategic significance on gas. Gas production was strictly controlled by the Soviet regime leaving no space for the members of Turkmen tribes neither in management nor in trade.

On the contrary, cotton production was very compatible with the tribal structure of Turkmenistan. Indeed the Soviet regime preferred to arrange the kolkhozes according to the characteristics of the tribes. This was unique for Turkmenistan where Soviet type of production was arranged according to the regional specificity. This approach boosted cotton production. Turkmenistan became a cotton supplier in return of all kinds of goods and services, which were being swapped under the interdependence of the USSR. There were two outstanding results of this specialization for the Soviet regime. First of all, both gas and cotton production were boosted. Secondly, the tribes have not turned into centrifugal forces by their acculturation to the intense cotton production. This also helped the Soviet regime to control gas without interfering in Turkmenistan's nomadic structure. When Turkmenistan attained its independence, nothing changed. Agriculture was providing about 50% of Turkmenistan's GDP. The stake of industry was limited by 20%.⁴⁵⁵

⁴⁵⁵ Glenn A. Curtis (ed.) Turkmenistan, Washington, Library of Congress, March 1996.
<http://lcweb2.loc.gov/frd/cs/tmtoc.html>

Despite this awkward structure of the economy, there were great hopes for the development of Turkmenistan. The problems and the solutions were explicit. Turkmenistan could include the gas sector into the economy. In other words, the revenues from the gas sector could help Turkmenistan to support the other sectors first in agriculture then in industry. This goal was reached in terms of cotton industry. “In contrast to Soviet times, when the Union policy of maintaining 'cotton independence' led to overspecialization in cotton growing in Turkmenistan, cotton production rates are likely to be maintained in future by the industry seeking to establish itself on the market for its own benefit.”⁴⁵⁶

There were fluctuations in cotton production. For instance in 1997 Turkmenistan could only produce 620,000 tons of cotton. That accounted 44% of the program, which has been envisaged as 1.4 million tons. In 1998, the production increased to 1.3 million tons. Meanwhile the textile industry was developed. During Soviet times, Turkmenistan was able to process 5% of its production. Currently the textile industry processes 40% of Turkmenistan's production.⁴⁵⁷ There is a positive correlation between the vast cotton production and the development of textile industry. In other words, the production leads to the transfer of resources towards textile industry and vice versa. The kolkhoz structure controlled by the five tribes of Turkmenistan is another reason, which invokes the state to move resources towards cotton production and textile industry.

Nevertheless, the vast production of cotton exhausts Turkmenistan's water resources.⁴⁵⁸ Consequently, cotton production appears to be an obstacle for other agricultural products. Indeed, the situation of non-cotton agriculture became really problematic. First, land productivity has decreased because of the cotton production methods. Second, irrigation is necessary for almost all of the arable lands, which seems difficult because cotton production consumes most of

⁴⁵⁶ Meret B Orazov and Prof. Galina O Khalova “Turkmenistan's Economic Reform Programme”, Central Asia Newsfile, Vol. 3, No. 10, October 1995, p. 6.

⁴⁵⁷ Baycaun, pp. 19-20.

⁴⁵⁸ Max Spoor “Transition to Market Economies in Former Soviet Central Asia: Dependency, Cotton and Water”, The European Journal of Development Research, Vol. 5, No. 2, 1993 pp. 142-156.

the water. Thirdly, vast cotton production made the people unaware of other types of agriculture. Indeed, they do not tend to change their product composition because they are not sure about the results. Shortly, it may be concluded that vast cotton production impedes the diversification of agricultural products and self-sufficiency envisioned by Turkmenbashi.⁴⁵⁹

Despite its economic contributions, the cotton monoculture slows down the rise of other agricultural products and makes Turkmenistan completely dependent on import goods including all types of primary goods. Currently Turkmenistan satisfies the demand for bread through importations from Ukraine and Kazakhstan. In addition to this, Turkmenistan needs to import all types of fruits and vegetables their sub products. These imports satisfies more than 50% of almost all kinds of consumption such as 75% of cereals and 50% of milk.⁴⁶⁰ The problems were urgent and there were not too much time to transfer the gas revenues into other sectors. In the early 1990s, the state had found no other way then offering subsidies to protect the consumers from the shock of leaving the insulated Soviet system. Nevertheless, this subsidization was among the lowest in the Soviet Union, and it deteriorated further in the 1990s. More important than this, the core of the problem remained unchanged.⁴⁶¹

When the state realized that it would not be easy to reconstruct the agricultural production and/or build industry its economic policy shifted towards gas trade. Even though the growing Western demand was a hope for Turkmenistan, the lack of alternative transportation system would soon end the goal of selling gas at world markets. The existing pipeline system on the north-south axis was controlled by Russia's Gazprom. This did not allow Turkmenistan to develop strategies for gas trade. Russia arranged not only the timing for flow of gas, but also the price and transportation tariffs.

⁴⁵⁹ See, Max Spoor "White Gold versus Food Self-Sufficiency? Agrarian Transition in FSU Central Asia", in A. Kuyvenhoven, H. Mall and A. van Tilburg (eds.) Markets beyond Liberalisation, New York, Kluwer International, 2000, pp. 57-76.

⁴⁶⁰ Baycaun, 10 Yıllık...p. 29.

⁴⁶¹ See, Curtis,

The indicators of Turkmen economy show how gas trade has an overwhelming significance for Turkmenistan. Knowing the gas potential of the country and the difficulties concerning the development of non-oil sectors, the state put a big emphasis on the issues related to gas. Consequently, gas trade became the main factor, which designated the domestic economy and Turkmenistan's export relations. The available international prices and flow of payments became the two conditions of sustaining Turkmenistan's economic growth even stability. Indeed Turkmenistan's economy was characterized by these external factors. It was very difficult to benefit from these two factors at the same time. The fluctuations in the oil and gas prices tended to hamper the Turkmen economy. More important than this, the payment problems started to drastically damage the economy.

Turkmenistan's economy was extremely weak. Despite an extensive cotton and gas production the country was totally dependent on other countries for the satisfaction of almost all kinds of goods and services. The traditional barter system collapsed because the interrepublican trade was decelerated. The costs of the problems concerning interrepublican trade led to drastic consequences for Turkmen economy. During Soviet times, Turkmenistan was sending its gas and cotton to other Soviet republics in order to acquire other goods and services. There was not a reciprocity in this scheme. In other words Turkmenistan was sending its goods to Ukraine getting its need from a third party such as Russia under the planning of Central Regime. Once this flow has stopped by the disintegration of the USSR Turkmen economy suffered deeply from transition. It was no more possible to send gas or cotton to one country and acquire the necessary goods and services from another. In addition most of the post-Soviet republic have found themselves in serious fiscal problems which obscured regular payments.

Therefore both the Soviet and liberal type of trade were not feasible. Turkmenistan could not continue the barter system because the offers were not generally coinciding with Turkmenistan's needs at the moment. Furthermore, the barter system was not compatible with state's mercantilist approach. It was

not possible to sell goods to other post-Soviet republics because Turkmenistan's trade partners such as Russia, Ukraine, Georgia, Azerbaijan etc. were all deeply affected by the problems of transition characterized by hyperinflation and weak liquidity.

Turkmenistan could benefit from the rise of gas prices at the world markets until 1993. Nevertheless the contribution of the rising gas prices was very limited because of the payments problems of post-Soviet gas importers.⁴⁶² Indeed Turkmenistan had to decrease the flow of gas towards Ukraine and Georgia despite very favorable prices at the world markets. The result was economic deterioration because of decreasing GDP and hyperinflation arising from the pressures of the ruble zone. As a result, the GDP has fallen 30% between 1993 and 1995. The fall of GDP has continued in 1996 by 7.7% and peaked in 1997 by 25.9%. The GDP started to grow in 1998 by 5% and continued to increase in 1999 by 16%.

Table 23- Basic Economic Indicators of Turkmenistan

	1995	1996	1997	1998	1999
GDP (in billions of manat)	1072	7608	9648	13241	19065
GDP (in billions of USD)	2.5	1.9	1.8	2.5	1.6
GDP Growth	-8.2	-7.7	-25.9	5	16
Inflation	1000	992.5	83.7	16.5	24.1
Exchange rate (period average) (dollar per manat)	449	4016	4200	5350	5200

Source: IMF and World Bank

There is a positive correlation between the inclination of GDP growth and the gas exports. The flow of gas towards the former USSR zone has been 22.56 billion cubic meters in 1995, 24.33 billion cubic meters in 1996, 6.62 billion cubic meter in 1997, 0 in 1998 and 8.7 billion cubic meters in 1999. In 1997 the fall of GDP was enormous because the importers did not pay for most of the gas they acquired from Turkmenistan. This is why Turkmenistan did not send any gas towards Russia throughout 1998 in which the GDP indicated a 5% of growth when compared with the previous worst year. In 1999 Turkmenistan

⁴⁶² Central Asia Newsfile, Vol. 3, No. 2, February 1995, p. 11.

started its gas trade with CIS members through Russian pipeline system after being satisfied about the new plans concerning the debt payments as well as the future payments and prices. Since then the GDP started to increase.⁴⁶³

Table 24- Oil and Gas Production in Turkmenistan

	1995	1996	1997	1998	1999
Oil Production (million tons)	4.4	4.1	5.4	6.6	7.4
Oil Production (barrel per day)	88.233	83.273	108.434	432.530	148.594
Gas Production (billion cubic meter)	32.26	35.18	17.32	13.25	22.9
Exports to former USSR Zone	22.56	24.33	6.62	0	8.7
Exports to Iran	0	0	0	1.8	1.8
Domestic Consumption	9.70	10.85	10.85	11.48	12.4

Source: The Economist Intelligence Unit, Turkmenistan Country Profile, 2000 op. Cit. in Saule Baycaun, "10 Yıllık Bağımsızlık Sürecinde Türkmenistan Ekonomisine Genel Bir Bakış" *Avrasya Dosyası*, Vol. 7, No. 2, Summer 2001, p. 26.

Turkmen economy tends to continue to be dependent of gas trade. That is to say, the changes in gas trade creates drastic consequences in the economy. The GDP tends to grow enormously when Turkmenistan continues its trade relations with Russia and other CIS members with least possible payment problems while developing new relations with non-CIS countries such as Iran.

The state does not want to rely on the trade with Russia. Despite Iran's being a profitable partner, the isolation of this country in the international arena as well as its being another producer limits the extent of cooperation between these two countries. State's most important problem arises at this point. Turkmenistan needs foreign direct investments in order to develop alternative routes of transportation. Nevertheless, multinational companies do not invest in Turkmenistan where democratic mechanisms and liberal economic principles are underestimated by Turkmenbashi. The refusal of Turkmenbashi to interact with the IMF and World Bank is a significant fact, which decreases foreign direct investments in Turkmenistan. Furthermore, the Turkmen state does not have to inform these organizations about its economic indicators such as state

⁴⁶³ See, The Economist Intelligence Unit, Turkmenistan Country Profile, 2000 op. Cit. in Baycaun, p. 26.

earnings, expenditures and savings. That is to say the multinational companies analyze Turkmenistan through estimated figures which appear to be another factor that increases distrust.

Within this context, multinationals and other organizations such as EBRD and World Bank emphasizes certain issues which turn out to be pressures imposed upon the state.⁴⁶⁴ First, disinformation is a significant problem because the IMF has had no Article IV consultation with Turkmenistan since 1999. The external actors such as multinational companies, banks, non-governmental organizations, will continue to indicate distrust unless they acquire adequate amount of qualified information about the state's operations and other economic indicators. Second, the state needs to increase the efficiency and the role of the Foreign Exchange Reserve Fund (FERF) and the transparency of resource flows within the energy sector. Otherwise, it seems difficult for Turkmenistan to acquire technical and financial support for the energy sector projects. Third, the dual exchange rate regime and limited access to currency conversion appear to be significant problems for companies, international banks and organizations. The conversion arrears continue to be a vague issue. Foreign investments tend to be very limited under the dual exchange regime and limited conversion options.

It seems as if Turkmenistan may benefit from international cooperation if the state manages to realize these issues by implementing a more liberal approach, which includes less state intervention and privatization. Nevertheless, state's autocracy shaped under Turkmenbashi's personality cult impedes external actors to make reliable projections about Turkmen economy. Alternative scenarios are prepared for risk minimization, which here refers to least lost under pessimistic scenario and prompt positioning under optimistic one.⁴⁶⁵

⁴⁶⁴ See, "EBRD Board approves new strategy for Turkmenistan", EBRD Press Release, 9 September 2002.

⁴⁶⁵ Ibid,

The baseline scenario indicates authorities' failure to progress in democratization and implementation of critical market reforms. The multinational companies will continue their cautious strategy of not increasing their risk by huge long-term commitments while continuing relations with the state in order guarantee their interests. If the state continues its current policies with no compromise with international organizations such as the IMF, World Bank and EBRD, then the baseline scenario will be implemented. In this case, the external actors tend to ask the state to promote private sector activities with least possible corruption. In other words, the state needs to support private investment without offering private bonuses to government officials. The state will be asked to slow down public investments until it proves sound commitment for the liberal reforms.

The intermediate scenario indicates progress and the will for progress in terms of both democratic reforms and macroeconomic adjustment in its liberal meaning. This scenario tends to be realized when the state accepts to liberalize the trade regime, offer legal guarantees for the foreign direct investments and profits transfers abroad, as well as realization of limited privatization. In this case, the multinational companies tend to increase their development activities in certain fields while involving in exploration in others. First, Turkmenistan will be able to sell its oil at the world markets. Second, the gas transportation projects will be realized in terms of their feasibility. Meanwhile, international actors such as the IMF, World Bank and EBRD will start to intensify their relations with the government by expanding their range of its activities. Financing and technical aid will be provided to private investments in the production and export of oil and gas. The state enterprises in the oil and gas sectors will also find the opportunity of benefitting from the services of these organizations. The provision of technical assistance to the Government Agencies responsible for the oil and gas sector will be reconsidered. The public sector investment projects will be supported both financially and technically unless they prove themselves to effective and independent from personal interests. The financial and technical support given to public sector will increase as far as transparency and accountability in the government's budget improve.

The regular scenario implies a harmonious cooperation of the state with international organizations in terms of the implementation of economic reforms rapidly and effectively. The rapid and effective implementation of a comprehensive reform program including macroeconomic adjustment, price liberalization and privatization will lead to flow of foreign direct investments unless the rights and interests of investors are guaranteed. In this case, the oil and gas sectors will simultaneously boost. The transportation projects will be realized in the short run. International organizations will not only offer long term credits with low interests rates but also technical support for the development of the energy sector as well as other sectors. Turkmenistan will enter in a rapid transition period. The gap between the transition rate of Turkmenistan and other post-Soviet republics will be filled swiftly. The multinational companies and international organization will first lead to a boom in Turkmenistan's export earnings then support the development of the country by an effective usage of the revenues for the development of private entrepreneurs in the non-oil sectors.⁴⁶⁶

In order to better understand state's approach it may be useful to determine what the neo-liberal pressures refer as the necessities of the regular scenario. In order to benefit from the bonuses of the regular scenario the state is expected to accomplish democratization and economic liberalization simultaneously. In terms of democratization Turkmenistan is asked to sustain a multi-party democracy, multitude of democratic institutions, separation of powers, free and regularly organized elections, freedom of the media, rise of civil society and protection of human rights.

With regard to economic criteria the reform package includes all aspects of the Turkmen economy. Above all, the state should accomplish a certain degree of liberalization through unification of the exchange rate and liberalization of all current account transactions in coincidence with the IMF recommendations. The transfer of the foreign exchange reserves to the Central Bank and adoption of a market based monetary policy are two other issues which do not exist in

⁴⁶⁶ Ibid,

Turkmenistan The current trading system is not available for foreign investors. The dual exchange rate imposes a sort of hidden tax upon the traders. The state subsidies on cotton, wheat, oil and gas should be eliminated in order to equalize the prices with the market levels. The Foreign Exchange Reserve Fund (FERF) should be disciplined through regulations and transparency. The state should not intervene in private sector operations. The privatization of medium-sized state enterprises should be restarted, non-profitable firms should be closed and further privatization should include bigger enterprises. The control of the Central Bank on lending decisions, interest rates, bank mergers and bank closures should be transformed to a regulatory role with no direct intervention. The public utilities should be subjected to a tariff reform supported by a suitable programme of corporatisation and commercialisation.⁴⁶⁷

When the positioning of the state against external pressures are considered it may be suggested that a regular scenario is very far away from Turkmenistan. Even the intermediate scenario does not seem to reflect the will of Turkmenbashi to accomplish a national development program with least possible external influence. It should be mentioned that rather than trying to compromise the demands of Russia, the interests of multinational companies and the neo-liberal pressures of the IMF and the World Bank, Turkmenbashi implied his own way. In other words, the state simply rejected to cooperate with external actors. The state tends to implement certain economic reforms in order to benefit from foreign investments. Nevertheless, the decision of the state does not tend to favor the implementation of neo-liberal policies. On the contrary, there is a tendency of the state to politically strengthen its power, while increasing its wealth through gas trade. Under this policy option the economic reforms tend to vary between the baseline scenario and the intermediate scenario changing according to the magnitude of external pressures and domestic dynamics.

⁴⁶⁷ Ibid,

IV.3.2. The Attitude of the State against Economic Pressures

Macroeconomic Policies

It has already been mentioned that post-Soviet positions of the members of former Communist Party have imposed a greater range of responsibilities when compared with the Soviet era. First of all, in addition to the demands Russia, neo-liberal pressures oppressed the governing elite. Within this sense, compliance to the demands of Russia does not seem a sufficient condition of sustaining the status-quo as it had once been under the Soviet regime. Secondly, the state turned out to be the most potent domestic agent, who was assigned the responsibility of realizing a sound transition period strengthened by the idea of development. That is to say, the lack of a national bourgeoisie and the private entrepreneurship have imposed on the state to realize certain goals of economic growth while implementing the liberalization program, which included issues such as privatization.

When these factors are analyzed simultaneously, it may be understood that the role of the state has been more complicated since the demise of the USSR. The governing elite should be able to compromise the national interests, the demands of Russia and the neo-liberal pressures of the World Bank and the IMF in order to perpetuate its regime viability. As a matter of fact, the president seemed ardent about accelerating Turkmenistan's transition in coincidence with the neo-liberal recommendations of the IMF.

Nevertheless, it did not take much time to notice that the state was not very keen about the implementation of certain reforms. The reason for this slowness was clear. The neo-liberal pressures were jeopardizing the power of the state in terms of many aspects. The minimization of the state was not something compatible with the national development program of Turkmenbashi who attributed significant missions for the state. The state was the main actor in the national economy, which offered the governing elite a significant tool for

perpetuating power. 90% of the work force is employed at state enterprises.⁴⁶⁸ Within this context, transition of Turkmenistan may be analyzed with regard to two aspect; First, inadequate economic adjustment in terms of market principles was supplemented by some progress in institutional reforms, and strong desire for sectoral development with insufficient results. Second, modernization of tax and business laws, as well as legal framework for joint-ventures and PSAs for the oil and gas industries are inadequate. Complicated and slow state bureaucracy keeps foreign investors out of Turkmenistan. This was very significant for Turkmenistan because its gas trade with CIS members were not compatible with the vision of Turkmenbashi. In fact, the ultimate, to a certain extent the only, aim of Turkmenistan was to quadruple its gas revenues. If its relations with Russia were more favorable, it would be likely to see the delay of certain reforms. Indeed Turkmenbashi approved limited macro economic adjustments and privatization not because of financial problems, which imposed the IMF as a supervisor, but because of the need for foreign investors to decrease Turkmenistan's dependence on Russia.

As a matter of fact all kinds of external interaction and isolation seem to be the outcome of state's will to commercialize its gas at the most possible highest prices with no delays in payments. Within this context, the reforms which were vitalized since 1991 can be pointed in terms of different issues covering a wide range with little progress.⁴⁶⁹ Energy, agriculture, social sector, international communication and communication were indicated as the priorities in terms of investments. Regulations about the market were accepted. Some progress was realized in taxation, credit instruments and monetary issues. Treasury ameliorated budgetary issues. Regulation about exchange rates has been realized. State improved foreign economic relations and constituted State Goods Exchange and Foreign Economic Relations Ministries. State Agency for Foreign Investment (SAFI) is established for attracting foreign investments. Ten

⁴⁶⁸ See, Curtis,

⁴⁶⁹ Human Development Report, Turkmenistan, 1997, pp.10-11 op. cit. in Abrurrahman Işık, "Türkmenistan'da Gerçekleştirilen Reform Hareketi", *Avrasya Dosyası*, Vol. 7, No. 2, Summer 2001, pp. 39-40.

free zones were indicated. Price liberalization for gas is realized with a certain amount of state control. A privatization program is developed. These issues cover a wide range of economic policies. Nevertheless, the extent of the reforms remained limited. Compared to most of the CIS countries, economic reforms were implemented very slowly in Turkmenistan. The state remains the dominant player in the economy. Despite the steep decline in GDP since independence, the extent of absolute poverty is small in comparison to many other countries in the region. Poverty in Turkmenistan was estimated at only 7% in 1998 in terms of a purchasing power parity-based poverty line of US\$2.15 per capita per day.⁴⁷⁰ This was a result of the gas trade, which facilitated the improvement of economic indicators with no structural progress.

In spite of slowness of transition, Turkmenistan was involved in certain initiatives concerning the reconstruction of certain institutions. These reforms were not a direct consequence of the neo-liberal pressures. Rather the state needed to reconstruct certain institutions in order to make economic system work with no external intervention. Indeed Central Bank of Turkmenistan (CBT) was constituted with the purpose of sustaining a stable economy. According to the Law on Commerce Banks and the Banking Activities (1992-1993) CBT is an independent agent and only responsible to the president.

On the one hand, more than 60 commercial banks were vitalized. Some of these were transformed into joint stock companies such as Gasbank, Senegatbank and Turkmenistanbank.⁴⁷¹ On the other hand, CBT has sold foreign currencies in coincidence with the flow of hard currencies towards Turkmenistan. This policy led to surpluses in the budget. Certain progress has been realized in terms of taxation system by the introduction of revenue tax and VAT. Meanwhile the rate of taxation on small enterprises was decreased. The foreign investments are declared to be exempted of tax for the first three years unless at least 30% of the total investment is realized by cash foreign currencies.⁴⁷² Although these initiatives were planned to increase investments, it was clear that taxation was

⁴⁷⁰ World Bank...

⁴⁷¹ Işık, pp.41-42.

⁴⁷² Ibid, 42.

state's secondary concern coming after gas revenues. Capital markets were considered to be an indispensable condition of market economies.

The number of joint stock companies started to increase in Turkmenistan. Nevertheless, their contribution to the economy is still very limited under state's strong influence. Indeed, it is the state who is developing the capital markets through state bonds. To the extent that state control is extensive, privatization is small and capital markets are totally inadequate. Insurance markets have also remained undeveloped. There are 14 insurance companies. In addition to state company, five firms have been established through cooperation with CIS and Iranian companies while the remaining are domestic ones.⁴⁷³ In other words, Turkmenistan is still out of the interest of renowned multinational insurance companies. Finally the control mechanisms are also inadequate. Despite president's approval of Fiscal Audit Regulations in Turkmenistan, real control is being made by Turkmenbashi. The president and therefore the state are not controlled by independent mechanisms.⁴⁷⁴

The slow rate of transition strengthens Turkmenistan's loneliness in the international arena. Turkmenistan, who decreased its relations with the IMF to a minimum level, faces an aloof attitude from other organizations such as World Bank and EBRD. Indeed the World Bank projects are relatively small in size when compared with other transition economies. Finally, in 2000, EBRD decided to suspend its involvement in Turkmenistan because of the lack of commitment to reform and transition.⁴⁷⁵ This loneliness decreases the capacities of the state to cope with sectoral problems. In other words, the macroeconomic indicators are improved by the contribution of gas revenues. Nevertheless, the lack of technical assistance, technology and know-how does not allow Turkmenbashi to accomplish his development programs soundly.

⁴⁷³ Ibid, p. 44.

⁴⁷⁴ See, Devlet Odabaş, "Geçiş Sürecinde Türkmenistan'da Finansal Piyasaların Yeniden Yapılandırılması Çalışmaları", *Avrasya Dosyası*, Vol. 7, No. 2, Summer 2001, pp. 58-73.

⁴⁷⁵ "EBRD: European Bankers Get Tough with Turkmenistan", *European Report*, 26-04-2000.

Privatization

Most of the transition economies considered privatization as the key for attaining economic growth. Privatization is a significant method for attracting foreign investments. Efficiency and rational usage of resources can be pointed out as two of the most important contributions of privatization to economy. Above all, fiscal problems of transition economies force them to sell state enterprises as soon as possible.

Privatization is of course a very critical issue for the state because the elites want to perpetuate their power by referring to socialist tradition and oil revenues. It is explicit that the role of socialist legacy as a legitimizing tool started to decrease. Therefore, oil and gas revenues tend to be the most significant instrument for the state in order to sustain the regime viability. Privatization invokes a dilemma upon the government. Accepting the demands of the IMF and the World Bank will implicitly decrease state's control on energy issues, which in turn may hamper the capability of the state to legitimize itself by manipulating the opportunities acquired from oil and gas. Within this sense, it was very likely for the state to seem ardent about privatization on the one hand, and decelerate the privatization process on the other.

Within this context, the attitude of the Turkmen state about privatization may be analyzed in three steps. First, under the impact of liberalization in post-Soviet economies, the state declared its commitment for privatization. Second, realizing that gas revenues could solve most of the macroeconomic problems, the state has slowed down privatization process. At this step, the state considered state assets as tools for consolidating power. Third, the state started to be more moderate about privatization, when the problems with CIS members temporarily stopped the gas trade through Russia.

The government did not formulate an industrial privatization plan until the end of 1992. In 1992 and 1993, Turkmenbashi declared ambitious privatization programs including energy, transportation, agriculture, and communications. With regard to industry, only 10% of plants would be privatized. With regard to

small businesses, 6,000 enterprises were allowed to function early in 1992. The state postponed auction sales of middle-sized industrial establishments and large enterprises. The privatization of energy sectors of the economy and the cotton industry were not planned.⁴⁷⁶ The idea was to develop Turkmenistan by private entrepreneurship. Since then, the oil and gas revenues would gain further impetus to the improvement of the economy.⁴⁷⁷

The law 'On Destatisation and Privatization' (1993) indicated the ways in which the State Property Agency, labor collectives and individuals could start the privatization process. This law emphasized that the choice of privatization procedures is up to a majority vote of the staff of the concerned enterprise. Meanwhile, there was also options which seemed to be more preferable for procedure of privatization. According to this law the privatization schemes can be pointed out as follows:⁴⁷⁸

- 1- Objects of state property may be leased, with a right to buy provision, to collectives or individuals,
- 2- Public property may be transformed into collective property through buyout by a workforce collective, either making a single payment or paying in installments,
- 3- A state run enterprise may be transformed into collective property through buyout by a workforce collective, either making a single payment or paying in installments,
- 4- State property can be sold to citizens, non-state-sector legal entities or foreign buyers, through an auction or competitive tender.

⁴⁷⁶ See, Business Information Service for the Newly Independent States (BISNIS), Commercial Overview of Turkmenistan, BISNIS, March 2000.

<http://www.bisnis.doc.gov/bisnis/country/Turkmenistan.cfm>

⁴⁷⁷ Orazov and Khalova, p. 7.

⁴⁷⁸ Ibid,

The privatization of 96% of 430 consumer services enterprises have been owned by their staff. The remainder has been privatized through auction. In 1993, the public sector controlled 94% of the fixed assets of Turkmenistan. More than 50% of economically active people are employed in the public sector. 80% of the total output of Turkmenistan is provided by the public sector. The fuel and energy sector comprises about 85% of the industrial assets of Turkmenistan.⁴⁷⁹ The development of mixed economy is not easy for Turkmenistan. The figures explicate that the efficiency of the public sector is more than the other sectors. In addition, the mentality of people consider the state as the main provider of goods and services. The state seems to be the only agent that is capable of realizing economic growth. As a matter of fact, the new legislation suggests that enterprises and industrial complexes of fuel and energy, transportation, telecommunication, health care, culture and education continue to be controlled and provided by the state. In other words, the state did not implement a wide range privatization considering the gas revenues as a tool which could help it solve fiscal problems and initiate a national development program. The privatization process is realized slowly through the framework of Ten Years of Stability Program along which 30% of the state assets will be privatized primarily in the construction and agro-industrial complexes, service industries and public catering. The program aims to protect the public sector by ensuring its economic advancement.⁴⁸⁰

Nevertheless, the state had to become more moderate about privatization. First of all, the problems with Russia and other CIS members could create drastic consequences upon Turkmenistan because the state was acquiring most of the gas revenues from these countries. Secondly, the state did not manage to develop energy, agriculture and other priority sectors mentioned in Turkmenbashi's development programs.

⁴⁷⁹ For figures, see, Ibid, p.7.

⁴⁸⁰ Ibid,

In 1995, the government announced more ambitious privatization plans for 1996 and 1997 through President's Program for Social and Economic Development in Turkmenistan.⁴⁸¹ According to new plan, each ministry is asked to provide a list of the agencies which should be privatized. The list should comprise 15% of the bodies which are affiliated with the relevant ministry. In other words, the state wants to decrease the risk of losing control on the economy by equally spreading the rate of privatization among the ministries. According to the head of the Department of State Property and Privatization (DSPP), 800 more companies will be privatized within this scheme. In addition to this, DSPP makes plans for mass privatization and a voucher system for larger units which employ more than 330 employees.⁴⁸²

The regulations and tax laws were frequently changed. The private entrepreneurship did not develop with the exception of completely privatized service sector. When the situation of agriculture is analyzed, it may be suggested that private ownership is still a strange concept. The Turkmen law allows individuals to own agricultural land and real estate. Nevertheless, this legal amendment was not reflected in practical life. Consequently, there are less than 100 private farmers. Leasing has been the most preferred method supposed by the agricultural reform program. Most of country's arable land has been given to private farmers through leasing. Nevertheless, this cannot be considered as a sort of genuine private ownership because leasing is realized only when the relevant farmers acquire exceptionally good harvest and prove the state agents that they are hard-working farmers. Even in this case, they lack the right to sell their lands. In short the state still dominates the agriculture because the government has extensive rights such as determining crop mix, distribution, and price.⁴⁸³

⁴⁸¹ See, BISNIS...

⁴⁸² Ibid,

⁴⁸³ Ibid,

As a result, Turkmenistan is the least transformed country towards liberal economy. The private sector share in GDP has increased in many transition countries, reaching 70% or more in Albania, the Czech Republic, Estonia, Hungary, Lithuania, Russia, and the Slovak Republic. Only in Belarus, Tajikistan, and Turkmenistan it has remained at 30% or lower.⁴⁸⁴ That is to say, along with Tajikistan, Turkmenistan has not indicated a progress towards private entrepreneurship.

Despite Turkmenbashi's desire to develop energy sector while reaching agricultural self sufficiency, the inadequacies in institutional reforms have decelerated the sectoral development. Foreign investors did not prefer to invest in Turkmenistan in spite of certain incentives such as tax exemption for the first three years if more than 30% of the investment leads to a flow of foreign currency. In addition, the lack of private entrepreneurship perpetuated. The inadequacies of banking system impeded the rise of credit system while absence of sound capital markets hampered the investment plans. The only way left for Turkmenistan seems to be development through state's initiative either in the form of state entrepreneurs or subsidized private entrepreneurs. Nevertheless, in both cases the absence of managerial skills, technology and know-how still continue to be significant problems tending to impede Turkmenistan's sectoral development.

State Revenues

In most of the countries, the state attributes great significance to taxation. This is understandable because tax revenues make up an important amount of state's income. Naturally, the state attempts to create a sound taxation system. In liberal economies the logic of taxation is to increase revenues by not damaging consumption and production. Within this context modern taxation mechanisms such as VAT, have been developed in order to attain an optimum point among tax revenues, consumption and production. The transition economies have tried to ameliorate their taxation system since the first day of independence. The

⁴⁸⁴ Vito, Tanzi "Transition and the Changing Role of Government", Finance and Development June 1999, Vol. 36, No. 2.

disintegration of the USSR stopped the flow of resources among the republics. In other words, the post-Soviet states had to develop adequate mechanisms in order to increase their revenues. Taxation was considered as the most crucial tool.

The evolution of Turkmenistan's taxation system indicates similarities with its transition process. In other words, despite a few reforms during the first years of Turkmenistan's independence, the evolution of taxation is inadequate. In most of the transition economies, the amelioration of taxation system is considered as one of the most significant mechanisms which could help the state to solve its fiscal problems through stable adjustments. Indeed the IMF oriented programs have put a special emphasis on the issues related to the taxation. On the contrary, Turkmenistan moved little towards a viable taxation system. Following certain legal amendments of 1992, value added tax, income tax and operation taxes were introduced. Nevertheless, introduction of these taxes was meaningless unless they were not implemented by well-functioning institutions. Within this sense, institutional reforms were top priority for Turkmenistan who has long been influenced by economic centralism of the Soviet regime. The Ministry of Economy and Finance needed a specialized department which could effectively manage the state revenues while constituting the annual budget auditing the expenditures and savings. Consequently, Turkmenbashi constituted the Treasury Department within the cadre of the Ministry of Economy and Finance.⁴⁸⁵

These institutional reforms were necessary though not sufficient. The vitalization of new departments and reconstruction of the existing departments may increase the efficiency of the functions as far as they are equipped with managerial capabilities with least deviation towards corruption. The Turkmen case indicates that institutional reforms contributed to the strict control of the state over the revenues rather than the creation of effective management. As a matter of fact the composition of the state revenues became weaker by the decreasing amounts of taxation. The tax rates in most of the goods and services

⁴⁸⁵ See, Işık, "Türkmenistan'da ...", pp. 42-43.

were smaller by the state's policies. This was deliberately done because the state aimed to prove that the gas revenues would benefit the citizens through subsidies and modernization for Turkmenistan.⁴⁸⁶ Just like all other state institutions, The Ministry of Economy and Finance and naturally the Treasury Department were the tools, which helped Turkmenbashi to strictly control the state revenues.

In 1993, the state revenues constituted 19.2% of the GDP. In 1996 15% of the GDP was constituted by state revenues, 6.9% of which came from gas trade. In other words, about half of the state revenues was acquired through gas trade. Since then, the share of the state indicated fluctuations because of the problems concerning the gas trade with CIS members. In 2000 the share of the state revenues in GDP started to increase as a result of improvements of the relations with Russia, which restarted the gas flow towards CIS members. It is expected that the share of the gas revenues will drastically increase in the near future by the influence of rising exportation to CIS, Iran and other countries as soon as the problems related to transportation are solved. That is to say, the GDP of Turkmenistan will be composed mainly by the state revenues in which the gas revenues will constitute the biggest part.⁴⁸⁷

When the details of oil and gas revenues are analyzed, it becomes clear that new mechanisms such as value added tax and profits tax serve for increasing the amount of revenues obtained from oil and gas. Indeed these taxes are efficiently used in the energy sector and provide another impetus to the revenues obtained from natural resource tax excises on petroleum production. In other words, the tax reform did not lead to efficient results in non-oil sectors but in oil and gas sectors.

⁴⁸⁶ See, Steven Lee Myers "Turkmen Leader, p. 7.

⁴⁸⁷ See, Dale F. Gray, Evolution of Taxes and Revenues from the Energy Sector in the Baltics, Russia and Other Former Soviet Countries, IMF, March 1998, p. 10.

Table 25- Turkmenistan's Estimated Gas and Oil Sector Revenues (In % of GDP)

	1994	1995	1996
Natural resource tax	0,8	1,3	1,9
Foreign exchange reserve fund	0,1	3,7	3,6
Value added tax	0,43	0,75	0,75
Profits tax	0,14	0,23	0,23
Excises on petroleum production	0,22	0,67	0,45
Total	1,69	6,65	6,93

Source: Dale F. Gray, Evolution of Taxes and Revenues from the Energy Sector in the Baltics, Russia and Other Former Soviet Countries, IMF Publications, March 1998, p. 36.

Within this context, it is not possible to talk about an independent mechanism, which works with the government to ameliorate the taxation system while leading to a sound equilibrium among revenues, expenditures and savings. On the contrary, the rising influence of gas revenues hampers the taxation system drastically by fluctuations in populist expenditures.⁴⁸⁸ In addition, the situation of savings is extremely vague because of three facts. First, there is no effective domestic mechanism with public transparency, which could periodically inform how the savings are revaluated and what for. Second, the state's aloof attitude towards international organizations such as the IMF and World Bank impedes the audits of external sources of public information. Third, Turkmenbashi does not give any idea about the situation and future of the savings. The trend indicates no hope for effective and transparent institutional amendments.⁴⁸⁹

The Turkmen case differs from its counterparts in the Caspian not only in terms of state's enormous power but also state's explicit attitude about reflecting this power. In other words, in contrast to other Caspian countries, the Turkmen state does not feel the necessity of covering its autocracy by certain initiatives for democratization. On the contrary, Turkmenbashi explicitly emphasized his absolute power. Turkmenbashi's attitude became even more clear about state revenues. Having identified his personality with Turkmenistan, Turkmenbashi represented himself as the owner, manager and distributor of state revenues. Indeed when Turkmenbashi is considered as the state *per se*, then it seems more

⁴⁸⁸ See, "Niyazov's New Year...", p. 11.

⁴⁸⁹ See, "Analyst Predicts..."

appropriate to use the term state's revenues rather than state revenues. This arises from the fact that Turkmenbashi considers himself as the only authority who is capable of deciding about the revenues. Turkmenbashi's attitude is a consequence of his interpretation of Turkmenistan as a big unified tribe. Within this context, issues such as revenues, expenditures and saving take place as if Turkmenistan is a tribe rather than a republic.

As a result, the state considers oil and gas revenues as the main engine of the economy. This attitude completely hampers the taxation system, which has never worked efficiently in the Turkmen case. Consequently, the state finds no other way than to allocate some of the revenues in the form of direct and indirect subsidies while implementing populist projects. This awkward structure of taxation gives another impetus to the independence of the state from the society while increasing its dependence on externally generated revenues of oil and gas.

IV.4. Turkmenistan: State's (Neo)-mercantilist Adjustment

The attitude of Turkmen state is the most explicit one among almost all of the post-Soviet republics. Turkmenbashi's personality cult shaped the Turkmen state. The state, strictly controlled by Turkmenbashi, is authoritarian in political sense and is command oriented in terms of economy. Both of these characteristics appeared to be the results of the desire of the state to maximize its revenues generated from oil and gas trade.

Nevertheless, it does not seem possible to conclude that state's only aim is to maximize the revenues through the trade of hydrocarbons. Rather, the state aims to decrease Turkmenistan's agricultural dependency by realizing adequate institutional reforms in other sectors. In other words, the state follows a mercantilist policy, which aims to increase the revenues externally generated from oil and gas trade while decreasing Turkmenistan's dependence as much as possible. There are certain plans for the realization of a national development

program. Nevertheless, the trend indicates that Turkmenistan is far away from industrialization. There are significant problems, which impede agricultural self-sufficiency. Consequently, the oil and gas sector remains as the most critical source of revenues. Indeed, the state attributes great importance to hydrocarbons. State's main strategy is to control the trade of oil and gas at the broadest level and the oil and gas business is strictly supervised by the state. The state companies take place at the production, distribution and marketing phases. Meeting the energy needs through domestic production has already been sustained.

Turkmenbashi was very cautious about the gas trade. Basically, he opposed all kinds of external relations, which did not work in conformity with the idea of maximization of hydrocarbon revenues. Within this sense, the state was very attentive about the flow of gas to CIS members. Turkmenbashi did not allow this flow until the reconstruction of the trade terms under more favorable conditions. On the one hand, this was a necessary strategy because Turkmenistan was not able to acquire the real value of its gas. It was not even possible to get money because of the fiscal problems of certain CIS members. On the other hand, Turkmenistan found itself in isolation because there was no other way than selling gas through Russia with the partial acceptance of Iran.

Turkmenistan's isolation in the international arena was intensified by worsening relations with international organizations such as the IMF and the World Bank. The state did not allow the development of the market system and market was considered as an adversary of the state. Indeed, the state by definition opposed the idea of defensive market response, which could compromise the interests among concerned actors while sustaining the national interests at the most possible broadest level. This is why the state was extremely aloof towards international organizations such as the IMF and the World Bank. Reciprocity with these organizations would lead to certain amount of liberal policies in terms of both politics and economy. As a matter of fact, the state did not interact with organizations such as the IMF and the World Bank in order to postpone certain policy options like privatization as much as possible. Furthermore, the

state did not create favorable conditions for the foreign direct investments. Turkmenbashi's desire not to share Turkmenistan's richness with external actors is a significant impediment for multinational companies.

State's mercantilist/nationalist attitude seems outmoded because closed economies do not have many chances to interact with the actors of the world economy. The possibility to benefit from foreign technology, capital and investment becomes extremely limited. Nevertheless, the Turkmen case deviates from this assumption by the help of the gas trade. It is clear that Turkmenistan have the option not to involve in an interaction with the IMF, World Bank and multinational companies as far as the state prefers to continue Turkmenistan's dependence on trade with Russia and Iran. In other words, Turkmenistan will be able to maximize its revenues as long as the trade with Russia and Iran continues with no problems of pricing and payments. At this point, it seems necessary to interrogate whether state's approach can be identified with competitive accelerated adjustment. The state aims to accept higher prices under continued dependence mainly on Russian transportation system. Furthermore, it is clear that with regard to domestic usage of resources, the state is not as cautious as it is towards external trade in order to maximize its revenues. In addition, the state did not involve in a consistent strategy in order to increase the competitiveness of non-oil exports. That is to say, the state does not seem willing about creating non-oil exports. Therefore, state's approach can not be identified with competitive accelerated adjustment.

Indeed, the state has already involved in a neo-mercantilist adjustment process in order to realize Turkmenbashi's national development program with limited foreign direct investment and least possible liberalization. State's attitude may lead to positive results if it manages to transform the gas revenues into tools for the realization of development projects such as agricultural self-sufficiency and advanced industrialization in certain sectors. State's neo-mercantilist attitude is clear as it aims to maximize its externally generated revenues while sustaining domestic stability. However, the consequences of this neo-mercantilist adjustment are not very clear. Until now, the state could not manage to improve

agricultural self-sufficiency and a progress in industrialization process.⁴⁹⁰ On the one hand, this inadequacy can be considered as the failure of the state to meet its domestic responsibilities. On the other hand, it may be suggested that state could not succeed at creating good results because it tries to solve its problems of payment and tariffs with Russia and other CIS members. Considering the fact that the terms of trade with Russia were reconstructed on more favorable conditions, then it may be concluded that Turkmenistan will acquire more gas revenues in the near future. In addition to this, relations with Iran are also developing. Therefore, Turkmenistan is at the eve of a new period in which state's neo-mercantilism may lead to positive results in terms of agricultural self-sufficiency and progress in industry.

The least possible option seems the move of state towards liberal policies. The state seemed committed to the idea of autocratic prosperity. "Saparmurad Turkmenbashi creates autocratic brand of capitalism in Turkmenistan, built on cult of personality and his promise to transform country's huge natural gas reserves into riches for country's consumers; failure of his economic programs has prompted Turkmenbashi to promote his vision--and himself--through a bizarre collection of consumer goods; his centralized control of economy and capricious habit of firing his own trade ministers make foreign investors wary."⁴⁹¹ Indeed state's getting richer tends to intensify its autocratic aspect while increasing Turkmenistan's prosperity. Hence, liberalization does not seem possible as far as the current regime is not jeopardized by a long lasting

⁴⁹⁰ The cotton prices are relatively high and the state attributes a special significance on the production of this crop, which covers more than half of the best lands. Cotton leaves no adequate ground for production of other grains and vegetables. The presidential program of New Village aims to develop astrakhan, wool, milk and other stables without decreasing the cotton production. Rational use of irrigated land and pasture, amendment of the cultivatable area, desalinization and purement of chemical contamination of land and water are the main pillars of this program. Improvement of air and water will be sustained through three methods. First, hydrotechnical installations such as reservoirs and the facilities needed to complete the Karakum canal will be constructed. Second, fresh ground water will be used efficiently. Third, optimum water consumption standards are to be developed through advanced techniques. It is planned that 35% of the water, will be saved through the advanced methods which means to double the current consumption figure for the whole of the country's industry. For details See, Orazov and Khalova, and Max Spoor "Upheaval along the Silk Route: The Dynamics of Economic Transition in Central Asia" Journal of International Development, Vol. 9, No. 4, 1997, pp. 579-587.

⁴⁹¹ Alan Feuer "The World: Central...", p. 3.

problem, which hampers the gas trade with external actors. Within this context, it seems as if the state will have to choose between a failure in terms of realizing the national development program in order to sustain the regime's viability through populism, or a success, which may be realized by authoritarian command economy, which supports the growth of industry and agriculture by state's initiative. State's neo-mercantilist adjustments tend to promote the creation of either a pure rentier state or a centralist state. If state prefers to legitimize its neo-mercantilist attitude through populism, then it is more likely that Turkmenistan becomes a pure rentier state, which allocates revenues through free services and subsidized goods under continuously modernizing Turkmenistan if modernization means the construction of huge buildings and facilities with no industrial development. If the state insists on realizing the national development program proposed by Turkmenbashi, then it is more likely to see a centralist state which leads to the agricultural and industrial growth through authoritarian command economy.

When state's oscillation between the policy of covering economic failure through populism and economic success through authoritarian command economics is compared, then it may be suggested that it is more likely to see the rise of a rentier state in Turkmenistan. The last case, seem to work on behalf of Turkmenistan if long terms consequences are calculated. Nevertheless, authoritarian command economics tend to put an emphasis on transformation of savings into investments, which leaves a small place for citizens. On the contrary, the citizens will be pushed into the domain of production, which may lead to discontentment in a tribal country like Turkmenistan, where state has been acting like a protective father rather than a planning and implementing mechanism. Within this perspective, the state tends to sustain its strict control over the economy shaped by the personality cult of Turkmenbashi. The result seems to be a domestically strong but externally dependent state, which controls the closed society through neo-mercantilist measures in order to sustain autocratic prosperity.

The state may not prefer to intervene in the economy in order to support the growth of the non-oil sectors because of the fact that the dependence of the state on internally generated revenues will decrease by the influx of revenues. Consequently, Turkmenistan may be jeopardized by an awkward economic growth dependent on gas revenues. In addition, the state will have the chances to quadruple its oil revenues by the virtue of high interest rates, which have always been taken for granted by international banks. However, it must be mentioned that Turkmenistan's social and economic strata will be negatively affected by the sudden influx of the gas revenues, if it does not gain impetus to its industrial and agricultural development. Consequently, the service sector tends to develop overwhelmingly. The population at large may acquire wealth through the distribution of the oil revenues. This may lead to a society, which is designated by a very strong state, and a weak civil society.

In a situation, where the state prefers to control the oil revenues rather than transforming them into industrial and agricultural development, the state will have a dual characteristic: First, it will be very strong and autonomous from the society, because all revenues will be externally generated. The need of the Turkmen state for taxes and revenues of other activities will completely perish by the rising influx of externally generated oil revenues. The state members will tend to adhere to their positions as a tradition coming from the Soviet times. In order to perpetuate their power, the state members will likely allocate the revenues in order to provide cheap and free services to the citizens. The society, which is very familiar with this protective attitude, may retain its approval towards the regime. In this structure, both the state and the society will be satisfied from a sheer trade of hydrocarbons, which offer them important bonuses. The danger in this scheme lies in the fact that the allocation of the revenues will make the citizens to be highly dependent on a rent circle, which will be dominated by the elites. Income will not be determined along work, production or quality. Rather, access to rent circle will be the most crucial condition of increasing individual status. This circle will increase the power of the state but will tend to create a rentier economy wherein cleavages along

certain lines exist. Consequently, the Turkmen state will have to confront with social acrimony because, the inadequate infrastructure of economy, industry and agriculture will limit the access of labor to production process. Social upward mobility will be designated by the search of people for additional rents.

Second, as a consequent of the first point, the state will be very weak because patronage relations of regional groups will limit the activities of the state. More important than this, the Turkmen state, who gaining a certain amount of autonomy from the society, will become completely dependent on external factors. The role and efficiency of Gazprom give a further impetus which may put the state under the dependence of Turkmenistan on Russian transportation system. The vulnerability of the economy against price fluctuation shaped the negotiations between Russia and Turkmenistan. That is to say, the stability of the state-society relations will be very responsive to external factors, mainly Russia. The distribution of gas revenues will replace the classical legitimization process of the state. The state will turn into an apparatus of certain cadres composed by the former members of the Communist Party who belonged to the Teke tribe and whose survival is characterized by the supremacy of external factors on society.

In the Turkmen case, the capitalist accumulation tends to be completely absent by impeding Turkmenistan's transformation at the very beginning. The current problems are potent enough to create a sort of underdevelopment which is characterized by an excessive accumulation of wealth by certain cadres who control (or are related to) energy sector, a sectoral illness that is shaped by excessive growth of oil gas and service sectors with no manufacturing and a disproportionate valuation of manat which promotes consumption while decreasing the export competitiveness of the non-oil goods and services. A rent seeking behavior that is common in all of the segments of the society, tends to create a social illness characterized by consumption of wealthy citizens who do not feel the necessity of developing their intellectual capacities.

CHAPTER V

CONCLUSION

International organizations, mainly the IMF, refers to the concept of transition economies in order to accelerate the unification of the post-Soviet countries with the world economy through formulas based on macroeconomic stabilization, free prices, privatization and certain amount of democratization. As it is shown in this study, this approach is a natural outcome of the neo-liberal pressures on the one hand, the demands of the multinationals on the other. Nevertheless, this conceptualization ignores the historicity of the transition economies by considering the transition period as if it is independent from the Soviet one. In contrast to this approach, which puts too much attention on the role of global factors, this thesis indicated that the transition process is being characterized by the dialectical interaction between the global factors and the regional peculiarities. Within an institutionalist perspective, this study showed that the state took place at the center of this interaction because of its being the only domestic agent capable of answering the external pressures while meeting the domestic necessities. Hence, this thesis indicated that the state was the most significant actor without which it was not possible to understand the transition processes of Azerbaijan, Kazakhstan and Turkmenistan.

Azerbaijan, Kazakhstan and Turkmenistan deviated from other transition economies by the explicit influence of the issues related to hydrocarbons, which made their transformation unique. To the extent that the state was at the center of this transformation, the interaction of the state with the issues related to hydrocarbons determined the characteristics of the transformation of these countries. This study showed that despite their being emerging petroleum economies Azerbaijan, Kazakhstan and Turkmenistan differed from other oil producing countries by the legacy of the Soviet system.

The post-Soviet transformation of Azerbaijan, Kazakhstan and Turkmenistan is unique in the sense that the transition period was characterized by the explicit influence of the issues related to oil and gas. Within this context, this dissertation analyzed state's attitude and its interaction with the issues related to hydrocarbons in order to decide about state's specificity among competitive accelerated adjustment in Azerbaijan, defensive market response in Kazakhstan, and neo-mercantilist adjustment in Turkmenistan. On the one hand, this study suggested that the state has been domestically very strong since the first day of the independence of these countries by the virtue of the Soviet tradition. On the other hand, this study advocated that the state consolidated its domestic power by the help of oil and gas trade in the post-Soviet era. Consequently the state became domestically strong internationally vulnerable to the pressures related to oil and gas. Indeed, state's responses to political and economic problems related to hydrocarbons indicated the transition of Azerbaijan, Kazakhstan and Turkmenistan. Azerbaijan's peculiarities led to state's competitive accelerated adjustment, Kazakh state involved in defensive market response and finally state's nationalist approach under the cult of president created neo-mercantilist adjustment in Turkmenistan.

Within this context, the main conclusion of this dissertation verifies the main hypothesis, as this study explicated that the state was the most potent and critical domestic agent, which determined the characteristics of post-Soviet transition of Azerbaijan, Kazakhstan and Turkmenistan by interacting with the issues related to hydrocarbons. The analysis in the second, third and fourth chapters led to findings, which verified that the above-mentioned hypothesis had validity for all of the three countries with different peculiarities. Consequently, it was explicated that state's becoming domestically more strong was an obligation which arose from the Soviet tradition on the one hand, and the consequences of political and economic pressures on the other. This study indicated that most of the similarities among the states of Azerbaijan, Kazakhstan and Turkmenistan were the legacy of the Soviet period, while the

contrasts have been shaped by state's attitude towards the issues related to hydrocarbons in the post-Soviet era. In other words, similar state structures were affected by different attitudes towards the issues related to hydrocarbons, which in turn created distinct paths for each of the states of Azerbaijan, Kazakhstan and Turkmenistan.

In all of the cases, state appeared to be the most potent and critical domestic agent, which determined the basic characteristics of the transition period. This arose from the fact that the state had already assumed a sort of supremacy over the society when Azerbaijan, Kazakhstan and Turkmenistan gained their independence. The central planning during the Soviet period promoted the Soviet state, as the only authority. Apart from the political power of the state, the central economic policies such as state intervention, state subsidies, and state production increased state's roles and responsibilities. The analysis in the second chapter indicated that there were several differences regarding the effects of different Soviet leaders upon state's evolution, which constituted the basis of the post-Soviet state. Lenin's Soviet Union as a federation of autonomous republics would be oppressed by Stalin's authoritarian measures, which demanded the foundation of the same single culture. Krushchev's real communist ideal has provisioned a welding together in the long run in the form of an evolution under a less authoritarian state regime. Brezhnev eradicated the spaces of separate ethnic and political development for the purpose of reaching communist ideal. Andropov strengthened the idea of welding of the nations under a single language, ideology and economy. Gorbachev, attempted to develop Andropov's ideas with stronger economic ties. It was clear that the leaders were shaping the general attitude of the state apparatus according to their will. Consequently Aliyev in Azerbaijan, Nazarbayev in Kazakhstan and Turkmenbashi in Turkmenistan would consolidate power by controlling the state apparatus on the one hand and totally shaping the transition of their country on the other.

Despite their different positions, all of these leaders manipulated the idea of strong state by intervening in almost all aspects of life in a wide range covering politics and economy as well as societal life, culture, language, religion, personal beliefs etc. Consequently, state's domain was too large leaving no space for either individual or group identities. Society was expecting all of the services from the state, which was deciding for them. There were not any private economic agents, neither in industry nor in agriculture and services. This outcome was very significant for understanding the reason, which created strong leaders capable of shaping state's attitude in Azerbaijan, Kazakhstan and Turkmenistan. The states of Azerbaijan, Kazakhstan and Turkmenistan inherited the above-mentioned characteristics, which were indicated in the second chapter of this dissertation. Indeed the governing elite of these countries would be consisted of ex-communists, who have gathered along under a strong leadership, which at the same time constituted the basis for strong state. Within this context, this dissertation defined the characteristics of post-Soviet state in Azerbaijan, Kazakhstan and Turkmenistan by both indicating their similarities and peculiarities. Therefore, the answer to the question of "what does state refer in the newly independent oil producer Caspian countries?" is given. Shaped by the influence of one leader, the state was constituted by the carry-over of the former communists with strong leadership. State's being the carry-over of the Communist Party was a specificity which emerged naturally because the only cadres who had executive abilities were consisted of former communists. Indeed, being a member of the former Communist Party appeared to be the indispensable condition of regime's viability in all of the three cases.

State's being the only agent of the economy offered the governing elite the chance of controlling every aspect that could be linked to the national development of their countries. Consequently, despite different levels of liberalization, the composition of the governing elite did not fundamentally change after the disintegration of the former USSR. These cadres disseminated their power by the virtue of their control over strategic places. All of the three cases proved that the organic links among the *nomenklatura* made communist background an indispensable condition of sustaining governing elite's viability.

Aliyev in Azerbaijan, Nazarbayev in Kazakhstan and Turkmenbashi in Turkmenistan were former members of the Communist Party with significant responsibilities in the Secretary General positions. Azerbaijan indicated a short-term deviation from this trend between 1991 and 1993 by the presidency of non-communist Elchibey who would soon be replaced by Aliyev, again with Communist Party background. Kazakhstan completely fit this condition since the very beginning. Nazarbayev appeared to be a member of former Communist Party, who had good relations with the *nomenklatura*. Although Turkmenbashi resembled to Aliyev and Nazarbayev with regard to his career at the Communist Party, his being affiliated to Teke tribe gained a peculiar characteristic. Indeed a sort of tribal amalgamation with the republic's Communist Party was unique in Turkmenistan. This specificity perpetuated in aftermath of the disintegration of the USSR. Despite these differences, being the carry-over of the former Communist Party appeared to be a significant condition to hold the power in all of these three countries. This consequence is not so surprising because the political structure of Azerbaijan, Kazakhstan and Turkmenistan were shaped by the centralist Soviet regime through the patronage relations among the members of *nomenklatura*. Consequently, the state was consisted of the cadres who proved loyalty to the current presidents.

The influence of hydrocarbons were all present in Azerbaijan, Kazakhstan and Turkmenistan. This study indicated that the reserves of these countries were sufficient enough to create a competition among multinational companies, Russia and other regional power incumbents such as Iran and Turkey in order to take shares from the production and transportation phases. This study showed that the issues related to hydrocarbons constituted the most significant common factor, which shaped the state's post-Soviet evolution. The attitude of the state concerning its domestic and international relations is being characterized by its capabilities *vis-à-vis* the oil and gas trade, which in turn shaped the peculiarities of the transition processes of Azerbaijan, Kazakhstan and Turkmenistan. Within this sense, the essence of the state as a post-Soviet agent and its approach towards the valuation of oil and gas have direct affects on its relations with the external actors composed of states (mainly Russia), multinational petroleum

companies and non-governmental organizations (mainly the IMF) on the one hand and the society in the domestic arena on the other. This study explicated that all of these three republics showed different levels of resistance to the transition process mainly because of the state's fear of losing power in the post-Soviet era. During the first years of their independence all of these states were jeopardized by the neo-liberal pressures. At first step, they attempted to imply certain neo-liberal measures by trying not to lose their power. This approach contained serious contradictions. On the one hand, multinationals and international organizations such as the IMF were asking the state to accept a macro-economic stabilization program, free prices and privatization. On the other hand, the state was manipulating the Soviet heritage of strong state by arguing that the state was the only agent that could assume certain responsibilities such as national development.

That is to say, all of the three states were faced with serious threats related to hydrocarbons in the international arena in contrast to their domestic superiorities. The state's choice to respond to the interests of Russia and the demands of multinational companies, while coping with neo-liberal pressures of international organizations and domestic necessities characterized the transition of Azerbaijan, Kazakhstan and Turkmenistan. The last part showed that the ability of the state to compromise these pressures through commercialization of hydrocarbons determined the characteristics of the transition period of Azerbaijan, Kazakhstan and Turkmenistan. The attitudes of states have varied between three policy options. First of all, putting too much attention on national interests while ignoring the demands of external parties led to either changes in regime or isolation. Secondly, in addition to the condition of having a communist background, satisfaction of Russian interests appeared to be the main condition of sustaining governing elite's viability. Thirdly, an appropriate equilibrium between Russian interests and demands of multinational companies while implying certain liberal programs with a certain domestic economic success appeared to be the minimum condition of sustaining governing elite's viability within certain degree of transition from command economy towards

market economy. The state's ability to balance the interests of Russia with the demands of multinational companies, while coping with neo-liberal pressures of international organizations and domestic necessities changed case by case.

To start with the Azeri case, it should be mentioned that the state has been confronted by the political and economic pressures arising from the issues related to oil since the very beginning of its independence. Azerbaijan's evolution as an independent state has been shaped totally by the competition among Russia, Iran and Turkey in order to control the transportation of the Azeri oil. The ethnic conflicts with Armenians and the civil war in Chechnya have been exacerbated by the interference of the external actors such as Russia and Turkey, who had contradictory projects for the transportation of Azeri oil. The stability of this region could accelerate the Baku-Ceyhan project, which would mean the total expulsion of Russia from the transportation of Azeri oil. Therefore, the instability Azerbaijan would increase the significance of Novorossisk for the petroleum companies such as BP who was trying to sell the Azeri oil at the world markets as soon as possible. The competition among Russia, Iran and Turkey has led to political pressures related to the promotion of certain concepts such as language, culture, history and religion. Russia attempted to use its historical connections. Meanwhile, the Islamic model of Iran was confronted by the secular alternative of Turkey. The search of state for a model led to clear outputs. The Azeri state, which started to consolidate power by the virtue of possessing more control on the production and trade of oil and gas, seemed closer to the secular model of Turkey. This study showed that Azerbaijan's choice for a secular model was not shaped under the influence of Turkic ties but for the purpose of sustaining the status-quo. That is to say, the state which started to manipulate the hydrocarbons was involved in a secular understanding for strengthening the regime viability.

State's choice for secularism was clear. Nevertheless state's attitude towards external actors indicated two distinct routes under two different leaders. Azerbaijan under the leadership of Elchibey between 1991-1993 paid too much attention to national interests while ignoring simultaneously the demands of

Russia and multinational companies about production and transportation of hydrocarbons. Azerbaijan under Elchibey's regime failed to comply with almost all of these factors. During this period, the state opted for the first policy mentioned above. Elchibey was elected by popular vote, which overthrew Muttalibov as the candidate of the Communist Party. Nevertheless, the presidency of Elchibey did not last very long. He was replaced by another former member of Communist Party, Haydar Aliyev, after a coup d'état. Elchibey's regime, which did not have any linkage with *nomenklatura* did not succeed in balancing the vital Russian interests with the demands of multinationals. Indeed, Elchibey's nationalistic approach did not coincide with the impositions of the IMF and the World Bank at all. Elchibey's insistence on not offering multinationals appropriate conditions of Production Sharing Agreement was one of the cornerstones, which would hamper governing elite's viability. Finally, Russia was not contented about the state's policies shaped by Elchibey's nationalistic approach. Azerbaijan was ardently promoting certain transportation projects such as Baku-Ceyhan, which could completely exclude Russia. As a result, Elchibey was replaced by the new leader Aliyev, who would be very cautious about not damaging the vital interests of Russia and multinational companies. Aliyev strengthened state's secular characteristic while realizing a certain amount of democratization. In addition, the new president met all of the conditions mentioned above. First of all, Aliyev, as an experienced member of the former Communist Party, reconstructed the government by new cadres most of whom had communist background. Secondly, multinationals were offered significant stakes in production sharing agreements. Thirdly, the early oil was transported through Novorossisk, which assured the concerns of Russia to a certain degree. The government was also oppressed under the economic pressures coming from the IMF and the World Bank, which suggested the minimization of the state within a neo-liberal approach. In coincidence with rapprochement with multinational companies, the new government accelerated the rate of transition by applying free prices, macro economic adjustment programs of the IMF and a new privatization program. The economy was recovered by the contribution of the revenues obtained from PSAs, foreign direct investments and oil trade. That is to say, the state first

fulfilled the second policy option and then involved in certain indicators of thirds policy option. Consequently, the state, which consolidated domestic power, could not find many chances to increase its capabilities in the international arena because of the issues related to hydrocarbons. This economic recovery became apparent as soon as the state started to follow a moderate policy, which did not undermine the interests of Russia while cooperating with multinational companies, and international organizations such as the IMF. The only way was to sustain domestic stability by a secular understanding of quasi-democracy while cooperating with multinational oil companies and international organizations such as the IMF in a way that would not endanger the basic interests of Russia. Therefore, the state did not opt for a neo-mercantilist approach, which would strengthen Russia's presence by closing Azerbaijan towards multinationals. State's choice was not defensive market response because it attempted to open the country to foreign capital as much as possible. State responses to political and economic pressures can be summarized as quasi-democratization and a limited amount of economic liberalization, which promised a large privatization program. The state clearly attempted to make oil and gas exports more competitive by cooperating with multinational companies. The state protected Russian interests at the most possible minimum level as far as it was necessary. These policies have reflected the competitive accelerated adjustment of the state, which aimed to create a balance between the national interests and the external pressures created by the issues of oil and gas.

The Kazakh state's attitude was very clear since the very first day of independence. This arose from the fact that the governing elite was composed of the members of former Communist Party under the leadership of a president who had already proved his loyalty to Supreme Soviet and was appointed with significant missions. Indeed, president Nazarbayev was appointed by Mikhail Gorbachev as Communist Party leader of Kazakhstan in late 1988. He became the former chairperson of the Supreme Soviet on 22 February 1990. In December 1991 he was elected as president through the results of the national elections of Kazakhstan. Since then Nazarbayev steadily increased his power. In other words, the governing elite sustained its viability because of state's being

carry-over of the Communist Party. This conclusion is compatible with the findings of this study, which argued that communist background is the primordial condition of sustaining governing elite's hold of power.

Having identified the state's specificity, the third chapter also analyzed Kazakh state's ability to respond to the political and economic pressures arising from the issues related to hydrocarbons. It was concluded that the state attempted to respond to the interests of Russia and demands of multinational companies, while coping with neo-liberal pressures of international organizations and the domestic necessities. The Kazakh case differed from the others by state's success at balancing the interests of external actors. State implicated this policy by cooperating with multinationals and international organizations such as the IMF while trying not to hamper vital Russian interests. The state under the leadership of Nazarbayev directly opted for the third policy in order to sustain an equilibrium among the influential factors. In other words, the state searched for an appropriate equilibrium between Russian interests and demands of multinational companies while implying an extensive liberalization programs which imposed upon the government to become autocratic in order to sustain domestic stability. This was an obligation for the state because ChevronTexaco was the most significant company, which controlled critical production projects such as Tengiz and Karachaganak. Russia was controlling the pipelines that connected Kazakhstan with Novorossisk. The rapprochement between Chevron and Russia led to common transportation projects, which increased their power against the Kazakh state. Within this context, the state felt the necessity to accomplish political and economic reforms in coincidence with the demands of multinationals, neo-liberal pressures and the interests of Russia. Consequently the state became domestically more autocratic in order not to be jeopardized by opposition movements.

It was not easy to reach at an equilibrium among the pressures coming from Russia, multinational companies, international organizations and domestic necessities. Just like other transition economies, Kazakhstan was jeopardized by the economic consequences of disintegration. Furthermore, the state members,

who were supporting the continuation of the former relations under a strong CIS, were astonished by the rising influence of multinationals and the IMF. Until 1995, the state could not successfully develop policies to balance the Russian interests and demands of multinational companies as well as the neo-liberal programs imposed by the IMF. On the contrary, policies were implemented with no regard to their domestic consequences. State's attitude was sufficient for sustaining its viability though insufficient for leading to a process of smooth transition.

Starting at 1995, the state gained a further success by compromising the interests of these actors while satisfying the domestic necessities. First of all, in order to cope with the domestic problems while balancing the Russian interests and demands of multinational companies as well as the neo-liberal programs imposed by the IMF, the state clearly defined its model. Secularism, economic liberalism and political autocracy were the compulsory choices of the state, who hoped to cope with the external pressures

On the one hand, state indicated a secular understanding, which covered all of the citizens with no regard to their identity orientation. Minorities were granted their basic rights. This was a precaution against external interventions, which could cause ethnic problems regarding the control over the production and transportation of Kazakh hydrocarbons. In other words, secularism and some democratization were musts in order to avoid the influence of Russia on northern Kazakhstan where Cossacks (ethnic Russians) constituted an overwhelming majority. In addition, secular state was necessary to impede the rise of Islam promoted by Iran. This study explicated that state's choice for secularism was not affiliated with Turkish influence. Rather it was state's rational choice to avoid the rise of religion as an alternative power.

State's policies about creating a favorable environment for foreign direct investments was appropriate for the multinational oil companies which were involved in giant Production Sharing Agreements. The choice of consortia to use Russian transportation system while giving certain stakes to Russian oil

companies assured the Russian interests. Liberalization of prices, privatization and macroeconomic adjustments improved state's relations with organizations such as the IMF, the World Bank, EBRD etc. Finally, the commercialization of hydrocarbons allowed the state to satisfy the domestic demands by the contribution of the revenues extracted from PSA's, foreign direct investments and hydrocarbon revenues. At this point, the state's political liberalization appeared to be less than its economic transition.

It is clear that the Kazakh state did not develop neo-mercantilist approach in order to change the characteristics of former relations with Russia. Nevertheless, the state has assumed policies, which involved competitive accelerated adjustment and defensive market response simultaneously. State's competitive accelerated adjustment is apparent in its attempt to make oil and gas exports more competitive by cooperating with multinational companies. It should also be mentioned that the state *per se* was involved in economy to lower barriers to the market. In other words, state accepted a certain degree of minimization because of the demands of multinationals and neo-liberal pressures imposed by the IMF. Within this aspect it seems as if state's attitude was a reflection of competitive accelerated adjustment. Nevertheless, state filled the gap left after its economic minimization, by increasing its power in the political arena. In other words this study explicated that the Kazakh state let the markets work while consolidating domestic power through autocracy shaped by the leadership of Nazarbayev. The main axe of this attitude was determined by state's concern to act in coincidence with the demands of multinational companies and international organizations by not endangering vital interests of Russia. Therefore, Kazakh transition coincided with state's defensive market response, which allowed markets work under an autocratic political regime.

Turkmenistan fundamentally differed from Azerbaijan and Kazakhstan because of the presence of strong tribal structure, which was amalgamated within the Communist Party during the Soviet era. The Soviet regime supported the Teke tribe in order to gain popular support, while avoiding religious affiliations. Most of the members of the Turkmenistan Communist Party were affiliated with the

Teke tribe. The other tribes did not oppose this choice because their rights to exploit the lands were guaranteed. In other words, the kolkhozes of Turkmenistan were arranged in conformity with the tribal structure. The Soviet regime preferred to dominate the gas flow from Turkmenistan and left a certain amount of free space for rural population by adapting the kolkhoz system to tribal structure.

After the disintegration of the USSR, the society remained rural and agrarian while the state was composed of the former members of the Communist Party who were affiliated with the Teke tribe. The contest of external actors to control the Caspian hydrocarbons have led to drastic consequences especially in Caucasus. Nevertheless, the external power incumbents such as Russia, Iran and Turkey as well as the multinationals did not find the chance to manipulate the ethnic religious affiliations in Turkmenistan. The unique amalgam composed of tribal affiliations and the rule of Communist party had already created an obedience towards central authority as far as the traditional rights of tribes were not hampered. The only problem could arise because of the discontent of other tribes, especially the Salur tribe, against the influence of Teke tribe. Indeed, as a member of Teke tribe and an ex-Communist the president Turkmenbashi perpetuated the policy of the Soviet regime concerning the issues related to gas and tribes. The state dominated the gas trade and respected the agricultural rights of other tribes. On the one hand, the state wanted to strictly control the energy sector leaving no space for private entrepreneurship and foreign investors. On the other hand, the state felt the necessity of retarding the agricultural reforms such as privatization in order to avoid the discontent of other tribes against the power of Teke tribe concretized in the personality cult of Turkmenbashi. Turkmenbashi was very cautious about his relations with other tribes. Indeed his main concern was to unite the tribes under Turkmen nation. This concern was the main reason of Turkmenbashi's nationalistic policies. In addition, Turkmenbashi developed state's model in coincidence with these peculiarities. First of all, the state was very strong and harsh against opponents but mild towards supporters. The opposition was strictly suppressed but the traditional rights of tribes were guaranteed. Secondly, just like in Azerbaijan

and Kazakhstan, the state opted for secularism. The state aimed to control the power of religious tribes and avoid the influence of Iran. Nevertheless, in coincidence with its concern not to arouse the discontent of tribes, the state was respectful to religious practices as far as they did not gain a political characteristic. Thirdly, knowing only a closed society would allow the state to sustain the status-quo the state was less liberal when compared with Azerbaijan and Kazakhstan.

Nevertheless, it was not possible to remain as a closed society because interaction with external actors was a must for the state which aimed to sell the hydrocarbons at the world markets. As a result, issues related to hydrocarbons would become another critical factor, which determined state's attitude. The state was obliged to continue its relations with Russia because of Turkmenistan's dependence on Gazprom's gas transportation system. On the one hand, it was easy to perpetuate the relations with Russia. The president and important state members were the carry-over of the former Communist Party. In addition, the state did not compromise with multinationals and international organizations and preferred to comply with domestic necessities by involving in relations with Russia and other CIS members. This choice was necessary in order to first sustain regime viability, and then consolidate power. That is to say, the state followed the second policy option between 1991 and 1997 by trying to guarantee the basic interests of Russia under a regime composed of the carry-over of the Communist Party. Nevertheless, the terms of trade with Russia were not beneficiary for Turkmenistan. Starting at 1997, the state's attitude changed not towards the third option but towards the first one. State's relations with Russia started to worsen in coincidence with Turkmenbashi's rising nationalistic attitude. This policy change was very explicit in the issues related to gas. Until 1997, Turkmenistan continued its gas trade mainly with CIS members. Nevertheless, the payments problems of CIS members and high transportation tariffs of Russia's Gazprom and low prices for gas invoked Turkmenbashi to suspend its gas trade through Russia. Indeed, Turkmenistan's attitude between 1997-1999 indicated a complete loneliness in the international arena. The state refused to compromise with multinational companies while resisting against the

neo-liberal pressures by not implementing the parameters of transition. Under normal conditions, the regime's viability could be threatened because the state, which did not have good relations with multinationals and international organizations, lost the support of Russia. At this point, Turkmenbashi felt the necessity of changing his attitude first towards Russia and then towards foreign investors and international organizations starting at the end of 1998. The relations with Russia were reconstructed on reciprocally more favorable conditions. The state declared that it was willing to accelerate Turkmenistan's transition process. As a result, the state positioned itself in terms of second policy option while giving indicators that it would take somewhere between the second and third policy options.

The state's attitude reflected a complete adherence to neo-mercantilist adjustment. The national control over energy resources was the main concern of the state. Secondly, the state aimed to increase its revenues through oil and gas imports. Thirdly, the state opposed all of the influences, which could somehow decrease state's influence. As a result, the state appeared to be the only agent, which dominated politics and economy. Despite the fact that the state indicated its willingness to imply a certain amount of liberalization, this was an outcome of state's neo-mercantilist attitude. In other words, state's intention about liberalization did not mean that it was becoming market oriented. On the contrary, the state considered limited liberalization as a strategy in order to strengthen its neo-mercantilist attitude, which meant the domination of strong state whose principal goal was to increase the flow of revenues through oil and gas trade.

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APPENDIX A

SUMMARY IN TURKISH

Devlet gerek siyaset bilimi gerekse ekonomi disiplinlerinde yeri ve özellikleri açısından en çok tartışılan kavramlardan bir tanesidir. Devlete atfedilen önem ve roller içinde bulunulan dönemin şartlarına göre değişiklik göstermiştir. En genel anlamda liberal ekonomiler piyasaya öncelik verip devleti ya pazar ilişkilerinin dışında düşünmüşler ya da mümkün olan en az seviyede düzenleyici, bazen de denetleyici roller atfetmişlerdir. Bu çerçevede 1940-1970 yılları arasında yaygınlık kazanan Keynes ekonomisi devletin artan enflasyonun olumsuz etkileriyle baş edememesi, üstüne üstlük global ürün piyasalarındaki kararsızlıklarla sorgulanmaya başlanmıştır. Öncelikle İngiltere ve Amerika Birleşik Devletleri'nde Thatcher ve Reagan hükümetleri neoliberalizm'i, Keynes ekonomisine karşı bir alternatif olarak ileri sürmüşler ve temel hedeflerini devleti küçültmek suretiyle mülkiyet haklarıyla, siyasal ve sosyal dengeyi daha iyi korumak olarak belirtmişlerdir. Serbest piyasa ekonomisini mümkün olan en az genişlikteki devlet aktivitesiyle sürdürülebilir kılmayı hedefleyen neoliberalizm, aynı zamanda uluslararası alanda da ciddi sonuçlar doğurmuştur. Buna karşın sosyalist ülkelerle beraber, liberalizmi benimsemiş olmalarına rağmen milli kalkınmayı devlet girişimciliği sayesinde gerçekleştirebileceklerini düşünen bazı gelişmekte olan ülkeler devlete önemli görev ve sorumluluklar atfetmişlerdir. Gelişmekte olan ülkeler 1970'li yılların sonundan başlayarak Yeni Uluslararası Ekonomik Düzen kavramı altında endüstrileşmiş ülkelerin lehine işleyen ucuz hammadde pahalı işlenmiş ürün akışının dengelenmesini ve uluslararası yardım programlarının daha uygun koşullarla genişletilmesini devletleri aracılığıyla dile getiriyorlardı. Neoliberalizm devleti küçültmek suretiyle bu taleplerin etkisinin azaltılmasına neden olmuştur.

Sovyetler Birlięi'nin daęılması neoliberalizmin yeni bir ivmeyle g ve yaygınlık kazanmasına sebep olmuştur. Devleti ve devletilięi baz alarak merkezi ynetimin aęırlıęıyla siyasi ve ekonomik yapılarını kurumsallaştırmıő olan sosyalist lkelerin dayandıkları sistemin zlmesiyle neoliberal politikaları reten IMF ve Dnya Bankası gibi kurumlarla, buna dolaylı destek veren okuluslu firmalar iin geniő bir coęrafyaya yayılma imkanı doęmuştur. Eski sosyalist devletlerin bu kurumlar iin nemi yadsınamazdı nk grece geliőmiő endstirileri doęrudan yabancı yatırımları ncelikle zelleőtirme bazında teővik ederken, tketimin endstirileőme oranının ok altında kalması mal ve hizmet akıőını zendiren bir yapı arz ediyordu. Bu bakımdan eski sosyalist lkelerde devlet serbest piyasa ekonomisine geiőin ve dnya ekonomisiyle btnleőmenin en nemli engelleyicisi olarak algılanmıőtır. Gl devlet, eski Sovyet rejiminin bıraktıęı mirasın yarattıęı devletin, toplumdan belirli bir oranda grecelik kazanmıő olduęu bir yapıda tm geiő ekonomilerinin ortak bir zellięidir. Devletin bu zellięi tm eski sosyalist lkelerde geerli olduęundan neoliberalist anlayıőla politika reten IMF ve Dnya Bankası gibi kurumlar devleti ve devletilięi tm eski sosyalist lkeler iin istenmeyen olgular olarak nitelemiőlerdir.

Baőka bir deyiőle eskinin sosyalist bugnn geiő ekonomilerindeki devletin gc, Sovyetler Birlięi'nin kőyle global ekonomiyle btnleőme srecinin ivme kazanmasıyla tehdit altına girmiőtir. Dolayısıyla bu lke devletleri genellikle IMF ve Dnya Bankası tarafından telkin edilen neoliberal yaklaőımla yz yze gelmeye baőlamıőlardır. Devletin kltlmesi yaklaőımı zelleőtirme ve devlet faaliyetlerinin azaltılmasıyla ifade edilen global bir talebe dnőmőtr. Bu lkelerin belirtilen temel ilkelerle serbest piyasa ekonomileri haline gelmeleri ve dnya ekonomisiyle btnleőme sreci bir geiő mantıęıyla ele alınmıő ve ortak reeteler sunulmuőtur. Fiyat liberalizasyonu, zelleőtirme ve makro ekonomik dengenin saęlanması IMF ve Dnya Bankası gibi kurumların eski sosyalist devletlerin dnya piyasalarıyla btnleőtirilmesinde uyguladıkları neoliberal yaklaőımın temel direkleri olmuőtur.

Bu aşamada neoliberal yaklaşımlar eski sosyalist ülkelerin dünya ekonomisinin aktörleriyle daha yoğun bir etkileşim içerisine girmelerini kolaylaştırmış, ancak yerel farklılıkları göz ardı ederek uyguladığı ortak politikalar nedeniyle yeni sorunların doğmasına engel olamamıştır. Eski sosyalist ülkeler bir yandan dünya ekonomisi ile bütünleşmek adına yukarıda belirtilen neoliberal yaklaşım çerçevesinde üretilen politikaları uygularken, bir yandan da eski yönetim mensuplarının kendilerini Sovyet sonrası dönemde yeniden dönüştürerek Sovyet kadroculuğunun yani, nomenklatura iktidarının sürmesinin yarattığı ikileme kalıcı sorunlara sahip olmuşlardır. Bu sorunların başında gayri meşru uygulamalar yer almakta ve gerek makroekonomik uyum tedbirleri gerekse özelleştirme bozuk bir doğayla hayata geçirilmektedir. Buna karşın IMF, Dünya Bankası ve diğer bağımsız finans kuruluşları geçiş dönemini sık bir yaklaşımla sadece makro ekonomik göstergelerle özelleştirme sonuçlarını ele alarak değerlendirmekte, hatta notlandırarak bu ülkelerin uluslararası arenadaki saygınlığını derecelendirmektedir. Devlet somut bir hasım olarak addedilirken geçiş sürecindeki asıl sorunun yozlaşmış kadroların varlıklarını güçlendirerek sürdürmelerinin olduğu bilinse de neoliberal tedbirlerin sermaye, mal ve hizmet akışı için elverişli ortamı yarattığı sürece göz ardı edilmektedir. Sonuçta devlet kapsam olarak küçülmekte buna karşın devlet aygıtını kontrol eden kadrolar özelleştirme gibi uygulamaları kendi lehlerine kullanarak bir nevi “nomenklatura özelleştirmesi” yaratmakta ve bu ülkeler elde edebilecekleri üretim girdisini çok daha düşük oranda daha büyük bir maliyetle sağlamaktadırlar. Başka bir deyişle ulusal kalkınma fikri yok olmakta, devlet küçülmekte buna karşın uluslararası piyasalarda rekabet edecek güçlü, karlılığı ve verimliliği yüksek özel sektör doğmamaktadır.

Bu kısır döngünün anlaşılması ve alternatif çözümler sunulabilmesi ancak kurumsal bir analizle mümkündür. Siyasi ve ekonomik alanlardaki bütünselliği göz ardı etmeyen kurumsal analiz tarihsel bütünlük anlayışı çerçevesinde yapısal analizlerle geçmiş, günümüz ve gelecek arasındaki bağlantıyı çok sağlam bir biçimde ortaya koymaktadır. Nitekim kurumsal analiz yapısal yaklaşımıyla geçiş ekonomilerinin sorunlarını en iyi irdeleyen çerçeveyi sunmakta ve Sovyet öncesi ile sonrası arasında kurumların nasıl bir değişime

girdiğini, hangi yapıların varlıklarını sürdürürken hangilerinin dönüştüğünü ya da yok olduğunu ele alarak bu ülkelerin yerel özelliklerinin dönüşümlerine olan etkisini ortaya koyabilmektedir. Bu çerçevede geçiş ekonomileri arasındaki farklılıkların, benzerliklerin, tarihsel değişim, kesinti ve sürekliliklerin ortaya konabilmesini sağlamaktadır.

Neoliberal yaklaşımların geçiş ekonomilerinin sorunlarını yüzeysel olarak düzeltirken, tarihsel sürekliliği göz ardı ettiğinin ve geçiş ekonomilerinin ciddi yapısal sorunlarının olduğunun en güzel kanıtlarından bir tanesi de Hazar'ın yeni oluşan petrol ekonomileri olarak nitelenebilecek Azerbaycan, Kazakistan ve Türkmenistan örneğinde somutlaşmaktadır. Neoliberal bir yaklaşımla bu ülkelerin IMF tarafından önerilen reçeteleri hangi oranda uyguladıkları ve özelleştirme konusunda ne derece başarılı oldukları ele alındığı taktirde, Azerbaycan'ın başarılı olma yolunda, Kazakistan'ın başarılı, Türkmenistan'ın ise tamamen başarısız olarak nitelenmesi doğal bir sonuç olarak belirlemektedir. Buna karşın kurumsal bir analiz yapıldığında bu ülkelerin sorunlarının birbirine benzer oranlarda süreklilik kazandığı sonucuna varılabilir. Kurumsal bir analize uygun yapıyı ortaya koyarken Azerbaycan, Kazakistan ve Türkmenistan'da devlet aygıtını kontrol eden kadroların kazandığı süreklilik ve devlet aygıtının bu üç ülkenin en belirleyici özelliği olan petrol ve gaz'la ilişkilendirilen siyasi ve ekonomik baskılara nasıl cevap verdiği ile, bu cevapların kendilerine yöneltilen neoliberal baskıları nasıl dönüştürüldüğünün incelenmesi gerekmektedir.

Bu açıdan yaklaşıldığında Azerbaycan, Kazakistan ve Türkmenistan'ın diğer Sovyet sonrası ülkelere temelde benzerken, önemli bir noktada farklılık gösterdiği ortaya çıkmaktadır. Nitekim bu üç ülkenin durumu devletin önemli bir güce sahip merkeziyetçi bir yapıda olmasıyla diğer geçiş ekonomilerine benzemektedir. Ne var ki bu üç ülke, diğer geçiş ekonomilerinden sahip oldukları hidrokarbon rezervleri sayesinde farklılaşmaktadırlar. Başka bir deyişle, Azerbaycan, Kazakistan ve Türkmenistan'ın dönüşümlerini anlamak devletin hidrokarbonların ticarileştirilmesiyle ilgili tutumlarının derin bir

analizinin yapılmasıyla mümkün olabilir. Bu çerçevede, Azerbaycan, Kazakistan ve Türkmenistan sadece geçiş ekonomilerinin genel özelliklerini paylaşmakla kalmayıp, iktisadi büyüme yolunda olan petrole dayalı ekonomi olma özelliklerini yansıtmaktadırlar. Kısacası; Azerbaycan, Kazakistan ve Türkmenistan'ın Sovyet sonrasındaki dönüşümünün analizi en iyi şekilde bu ülkelerin geçiş ekonomisi olmalarını sağlayan özelliklerin devletin hidrokarbonlarla ilgili konulara yaklaşımıyla etkilenmekte olduğuna yönelik kurumsal bir analizle yapılabilir. Bu analizde devletin petrol ve gazla ilişkilendirilebilecek hususlarla etkileşimi ortak bir özellik olarak ele alınmalı ve devlet aygıtının bu etkileşimde nasıl bir stratejiyi neden izlediği irdelenmelidir.

Devletin Sovyet sonrası dönemde siyasi ve ekonomik sorumlulukları üstlenen alternatifsiz tek birim olması görev ve sorumluluklarını pekiştirmiştir. Bu durum Sovyet döneminde önemli yönetim kademelerinde bulunan kadrolara bulundukları konumları güçlendirerek sürdürme imkanı vermiştir. Azerbaycan, Kazakistan ve Türkmenistan vakalarının hepsinde eski Komünist Partisi üyelerinin yeni yönetici kadroları oluşturdukları görülmektedir. Azerbaycan'da Aliyev, Kazakistan'da Nazarbayev ve Türkmenistan'da Türkmenbaşı eski Komünist Partisi'nde önemli görevler üstlenmek suretiyle siyasi güce erişmişler, Sovyet sonrası dönemde de bu güçlerini pekiştirmek imkanı bulmuşlardır. Nitekim her üç ülkede de yönetimler eski Komünist Partisi üyeleri arasından birbiriyle etkileşim içerisinde olanların sıvrılmasıyla oluşturulmuştur. Bu genel sonucun tek istisnası Azerbaycan'da komünist olmayan tek yönetici diye adlandırılan Elçibey'in 1991-1993 yılları arasındaki iktidarı olmuştur. Ancak Elçibey iktidarını düzenlenen bir darbe sonucunda komünist geçmişe sahip ve nomenklatura bağlantıları bulunan Aliyev'e bırakmak durumunda kalmıştır. Bu değişim bu üç ülkede komünist geçmişe sahip olmanın iktidarı sürdürmede önemli avantajlar sağladığının bir göstergesi olmuştur. Kazakistan'da Nazarbayev iktidarının ilk gününden bu yana komünist geçmişini başarıyla kullanmıştır. Türkmenistan'da da benzer bir oluşum meydana gelmiş ve Türkmenbaşı iktidarını kendisine yakın bulduğu kimselerle kadrolaşarak güçlendirmiştir. Ancak Türkmenistan barındırdığı aşiretlerle diğer ülkelerden farklılaşmıştır. Bu sapmanın sebebi bu ülkedeki aşiret yapısının Sovyet döneminde Komünist Partisi içerisine eklenmesidir.

Sovyet döneminde yönetim kademeleri Türkmenistan'ın doğal gaz rezervlerini diğer cumhuriyetlere transfer etmeye ağırlık vermişler, bunu yaparken de mevcut durumu bozmamaya özen göstermişlerdir. Sonuçta etkin olan aşiretler geleneksel varlıklarını tarım sektöründe sürdürürken, gaz sektöründe hiç yer almamışlardır. Sovyetlerin bu kaygısı sonucunda dönemin en güçlü aşireti olan Teke, Komünist Parti'ye Türkmenistan bölgesinden yönetici sağlayan bir odak olarak belirmiştir. Bu durum Teke aşiretinin siyasi gücünü pekiştiren bir unsur olmuş ve Sovyet sonrası dönemde de devam etmiştir. Başka bir deyişle Sovyet sonrası Türkmenistan'da iktidar Türkmenbaşı'nın da bizzat uyduğu Teke aşiretine dayalı bir nomenklatura anlayışıyla pekişmiştir.

Bu yapıda eski Komünist Partisi üyeleri arasından Sovyet sonrası dönemde sivrilen kesimlerin iktidarda kaldıkları aşıkardır. Bu noktada iktidarın güçlenerek varlığını sürdürmesi devletin petrol ve gaz konularındaki tutumuyla belirlenmiştir. Başka bir deyişle komünist bir alt yapı iktidarı Sovyet sonrasında sürdürmeyi sağlayan önemli bir unsur olarak gözükmüş, bu iktidarı pekiştirerek devamlılık sağlamanın yolu da devletin petrol ve gazla ilişkilendirilen baskılara karşı verdiği cevapların başarısıyla belirlenmiştir. Nitekim petrol ve gazdan kaynaklanan hususların önemi her üç ülke içinde hayati önem taşıyan boyutlarda meydana çıkmıştır.

Baskıların kaynağında çokuluslu petrol firmaları, IMF ve benzeri örgütler, Rusya, İran, Türkiye gibi bölgesel güç adayları ile iç politika gereksinimleri yer almıştır. Doğal olarak devlet aygıtını kontrol eden kadrolar varlıklarını sürdürme ve güçlendirme adına bu dört odaktan kaynaklanan baskı ve taleplere farklı düzeylerde cevap vermeyi tercih etmişler ve benzer noktalarda başladıkları Sovyet sonrası tarihlerinde her geçen gün birbirlerinden farklılaşmaya başlamışlardır. Bu dört odağın devlete karşı oluşturdukları baskılar Azerbaycan, Kazakistan ve Türkmenistan için paralel noktalarda yoğunlaşmıştır. Çokuluslu petrol firmaları üretim, paylaşım ve taşıma anlaşmalarını bir an önce hayata geçirmek isterken; sermaye, işgücü, yatırım ve mal transferlerini kolaylaştıracak ve hukuksal garantiler sağlayacak bir çevrenin oluşmasını talep etmişlerdir.

Bu yaklaşımla uyumlu bir şekilde IMF'nin başını çektiği örgütler, neoliberal baskılarla milli ekonomileri uluslararası sermayeye açacak makro ekonomik ve hukuksal düzenlemelerin yapılmasını teşvik etmişler ve özelleştirmeyi vurgulamışlardır. Sonuç olarak Azerbaycan, Kazakistan ve Türkmenistan yoksun oldukları teknolojiye yararlanıp, doğal kaynaklarını ticarileştirebilmek adına çokuluslu firmalarla anlaşma yapmak, bunun için de IMF'nin sunduğu uyum reçetelerini uygulamakla, eski Sovyet cumhuriyetleriyle yaptıkları karşısız ve mübadele esaslı ticareti uluslararası arenada yalnızlaşarak sürdürmek arasında seçim yapmak durumunda kalmışlardır. Bu seçimleri esnasında Rusya eski ayrıcalıklarını özellikle petrol ve gaz taşımacılığında söz sahibi olarak sürdürmek için siyasi ve askeri gücünü kullanmaktan kaçınmamıştır. Bu arada İran sahip olduğu konum ve görece gelişmiş petrol endüstrisi ile karlı bir ortaklık imkanı sunmuş, buna karşın Türkiye taşımada söz sahibi olabilmek için kültürel ve kimliksel yakınlıkları vurgulamıştır. Sonuçta Rusya, İran ve Türkiye arasındaki rekabet farklı düzeylerde baskılara neden olmuştur. Bu arada Azerbaycan, Kazakistan ve Türkmenistan dış baskılara cevap verirken ülkelerinde kamuoyu taleplerini ve iç politika gerekliliklerini belirli bir ekonomik iyileşme sürecini takip ederek yakalamak zorunluluğunu hissetmişlerdir.

Sonuçta bu üç ülkenin dönüşüm süreci sadece IMF'nin belirlediği kriterlerdeki başarı oranlarına göre değil, bu dört baskı odağı arasında komünist bir geçmişini sürdüren devlet aygıtının petrol ve gazla ilişkilenen baskılara karşı aldığı tutum ve verdiği cevaplarla belirlenmiştir. Bu çerçevede devletin üç ana politika seçimi belirlemiştir. Birinci olarak, dış aktörlerin temel çıkarlarını göz ardı ederek milli çıkarlara verilen aşırı öncelik rejim değişikliği ya da tecritle sonuçlanmıştır. İkinci olarak, komünist geçmişe sahip olmanın yanısıra temel Rus çıkarlarının gözetilmesi yönetim kadrolarının varlıklarını sürdürmelerinde temel bir koşul olarak belirlemiştir. Üçüncü olarak çokuluslu firmalar ile Rusya'nın çıkarları arasında sağlanan bir dengeyle belirli oranda liberalizasyona giden bir yapıda yönetim kadroları varlıklarını serbest piyasa ekonomisine belirli oranlarda geçişi sağlayarak sürdürme imkanı bulmuşlardır. Azerbaycan, Kazakistan ve Türkmenistan'da devlet politikaları bu üç kriter baz alınarak incelendiğinde benzerlik ve farklılıklar hemen ortaya çıkmaktadır.

Azerbaycan devleti bağımsızlığını elde ettiği ilk anlardan itibaren petrole ilişkilendirilebilecek politik ve ekonomik baskılara maruz kalmıştır. Rusya, İran ve Türkiye arasında cereyan eden Azeri petrollerinin taşınmasını kontrol etmeyi amaçlayan rekabet üç veçheli bir politik baskı oluşturmuştur. Birinci olarak birbirleriyle çelişen taşıma projeleri öne süren Rusya ve Türkiye gibi dış aktörlerin müdahaleleriyle Ermenilerle olan etnik problemlerle Çeçenistan'daki iç savaş ortaya çıkmıştır. Bu bölgedeki istikrarın Bakü-Ceyhan hattının Rusya'nın dışarıda bırakılmak suretiyle hayata geçirilmesini kolaylaştıracağı açıktır. Azerbaycan'daki dengesizliklerin Azeri petrolünü bir an evvel dünya pazarlarına ulaştırmayı hedefleyen BP gibi firmaları Novorosisk opsiyonuna yönlendirmektedir. İkinci olarak Azeri devletinin oluşumu Rusya'nın nomenklatura üyesi olmayan tek lider olan Elçibey'in devrilmesini sağlayan devlet darbesini kullanmayı amaçlaması ve bu sürecin sonunda Aliyev'in iktidara gelmesi yer almaktadır. Bu konudaki analizin sonucu söz konusu darbeyi Rusya'nın yanı sıra BP'nin de olumlu bakarak dolaylı bir destek verdiği yönündedir. Üçüncü olarak Rusya, İran ve Türkiye arasındaki rekabetin bir uzantısı olarak bu ülkelerin Azerbaycan'ı etkilemek amacıyla dil, kültür, tarih ve din kavramlarını kullanmaları sayılabilir. Rusya tarihsel bağlarını ortak payda olan Sovyet sonrası ülke özelliklerini kullanarak dile getirmiştir. Bu arada İran'ın sunduğu İslamcı model Türkiye'nin laik anlayışıyla çatışmıştır. Gücünü petrol üretimi ve ticaretiyle daha da pekiştiren Azeri devleti Türkiye'nin sunduğu laik modele türki unsurların etkisinden çok statükoyu korumak amacıyla yakınlaşmıştır. Başka bir deyişle hidrokarbon rezervlerini kullanarak gücünü arttırmaya başlayan Azeri devleti laikliği rejimin sürekliliğini garantileyen bir unsur olarak görmektedir.

Azerbaycan komünist geçmişi olmayan Elçibey yönetimi altında tamamen birinci politika seçeneğini uygulamış ve milli gereksinimleri gözeterek Rusya'nın temel çıkarlarını göz ardı ettiği gibi üretim paylaşma anlaşmalarında çokuluslu firmaların baskılarına boyun eğmemeye çalışarak ülkesinin kaynaklarını öncelikle Azerbaycan lehine kullanmaya çalışmıştır. Rusya'nın ve çokuluslu firmaların tasvip etmediği bu rejim varlığını sürdürememiş ve yerini komünist bir geçmişe sahip Aliyev'e bırakmıştır. Laiklik her iki döneme de

damgasını vuran temel bir devlet politikası olmuştur. Ancak devletin bu seçimi bölgesel güç adayı olan Türkiye'nin bir model olarak kabul görmesinden çok Sovyet geleneğinin bir sonucu ve laik olmayan bir rejimin karşılaşılabileceği İran ve Afganistan kaynaklı tehditlere bir önlem olarak belirlemiştir. Elçibey'den farklı olarak Komünist Partisi döneminde oldukça derin bir deneyim kazanmış tecrübeli bir lider olan Aliyev güç odakları arasında denge sağlayarak milli kazanımları maksimize etmeye çalışarak üçüncü politika seçimini uygulamıştır. Bu çerçevede başta BP olmak üzere bir yandan çokuluslu firmalara üretim paylaşma anlaşmaları imzalamış, öte yandan Rus çıkarlarını erken Azeri petrolünün Novorosisk üzerinden taşımak kaydıyla gözetmiş ve Bakü-Ceyhan projesinin hayata geçirilmesini daha geniş bir zaman dilimine bırakmıştır. Bu yaklaşımla uyumlu olarak fiyat liberalizasyonu, makro ekonomik uyum ve özelleştirme alanlarında IMF ile giderek daha yakın bir çalışma içerisine girmiş ve hatta enerji sektöründe geniş bir özelleştirme programı hazırlayarak bunun uygulanacağını sinyallerini vermiştir. Bu zaman dilimde hükümet IMF ve Dünya Bankası'nın neoliberal bir anlayışla devleti küçültme yolundaki baskılarıyla da bunalmıştır. Hükümet bu baskılara enerji firmalarını da kapsayan geniş bir özelleştirme programını uygulamaya sokarak ve yapısal reformları desteklemek amacıyla petrol gelirlerinden elde edilen kazançların bir kısmının toplandığı Ulusal Petrol Fonu'nu kurarak karşılık vermiştir. Tüm bu politikalar devletin ulusal çıkarlarla dış baskıları dengelemeye çalışarak rekabet edebilirliği hızlandırılmış bir uyumlaştırma sağlamaya yönelik anlayışını yansıtmaktadır.

Hidrokarbonlarla ilgili konular Kazakistan'ın bağımsızlığını kazanmasının hemen ardından devlet için önemli faktörler haline geldi. Kazak vakası diğerlerinden devletin dış aktörlerin çıkarlarını dengelemede gösterdiği başarıyla farklılaşmıştır. Kazak devleti Rusya'nın çıkarlarıyla çokuluslu şirketlerin taleplerini dengelerken uluslararası örgütlerden gelen neoliberal baskılarla milli gerekliliklerle baş etmeye çalışmıştır. Başka bir deyişle devlet Rus çıkarları ve çokuluslu şirketlerin talepleri arasında denge kurmaya çalışmış, bu arada geniş çapta uyguladığı ekonomik liberalizasyon programı siyasi alanda otokratik olmayla dengelenmiştir. Bu yöntemle üçüncü politika seçeneğini başarıyla uyguladığı bir vaka olarak belirlemiştir.

Bu seçim devlet için bir nevi zorunluluktuk, çünkü ChevronTexaco, Tengiz ve Karaçaganak gibi hayati önem taşıyan projelerde söz sahibiydi. Rusya ise Kazakistan'ı Novorosisk'e bağlayan boru hatlarını kontrol etmekteydi. Chevron ve Rusya arasındaki yakınlaşma bir yandan ortak taşıma projelerini hayata sokarken, diğer yandan bu iki aktörün Kazak devleti karşısında daha güçlü pozisyon almalarına neden olmuştur. Bu bağlamda devlet belli siyasi ve ekonomik reformları çokuluslu şirketlerin talepleri, neoliberal baskıları ve Rusya'nın çıkarlarını gözeterek tamamlama gereği duymuştur. Chevron, Rusya ve Kazak devleti arasındaki işbirliğinin uyumlu olmasının sebepleri incelendiğinde şu sonuçlar belirmektedir. Eski Komünist Partisi'nin önde gelen liderlerinden bir olan Nazarbayev konumu gereği Chevron ile Rusya arasında 1980'li yıllarda başlayan görüşmelerin Sovyet sonrası dönemde doğurabileceği sonuçları doğru tespit etmiştir. Rusya'nın tüm güç adayları arasındaki konumu özellikle Kazakistan için daha yoğundu çünkü bu ülkede neredeyse çoğunluğu oluşturan Slav nüfusunun yanı sıra, endüstrinin tüm akışı Slav kökenli nüfusun etkin olduğu Rusya sınırındaki kuzey Kazakistan'a bağımlıydı. Rusya'nın temel çıkarlarının göz ardı edilmesi bu bölgede huzursuzlukların başlamasına ve ciddi kayıpların oluşmasına neden olabilirdi. Bu yapıda devlet kendisine laik bir model belirleyerek öncelikle Slav nüfusu üzerinde bir baskı gibi algılanmamaya özen göstermiş ve bu nüfusun temel haklarını gözetmeye çalışmıştır. Ancak Kazakistan iç yapısının Rusya ile olan organik bağı nedeniyle bu düzenlemenin yanısıra temel Rus çıkarlarının gözetilmesine de dikkat etmiştir. Başta Tengiz olmak üzere Kazak petrolleriyle en yakından ilgilenen firma olan Chevron'la yapılacak üretim paylaşma anlaşmaları Kazakistan'ın doğal kaynaklarının bir an evvel ticarileşmesini sağlamış, Rusya ile de taşıma aşamasında uyumlu bir işbirliğine gitmiştir. Bu yapıda gerek çokuluslu firmaların aradığı ekonomik ortamı yaratmak, gerekse Rusya'ya olan bağımlılığını dengeleyebilmek adına IMF ile çok uyumlu bir çalışma yapılmış ve ekonomik liberalizasyonu bu bölgede en geniş anlamda gerçekleştiren ülke Kazakistan olmuştur. Nitekim küçük ve orta ölçekli işletmelerin özelleştirilmesi neredeyse tamamlanmış, başta enerji sektörü olmak üzere büyük ölçekli işletmelerin özelleştirilmesinde ise önemli adımlar atılmıştır. Devlet yoğun bir ekonomik liberalizasyonu gerçekleştirirken dış politikada güçsüzleşmiş, yönetim kadroları varlıklarını sürdürebilmek için iç siyasi anlamda otokratikleşmişlerdir.

Nitekim Slav kökenli nüfusun hoşnutsuzluğunu uyandırmamak adına yapılan reformlar dışında tüm muhalefet baskılarıyla karşılaşmış, medya kontrol altında işleyebilmiştir. Demokratik süreçte farklı kesimler kendilerini temsil etme imkanını ancak iktidarla uyumlaştıkları ölçüde bulabilmişlerdir. Başka bir deyişle petrol ve gazla ilişkilenen baskılarla dış politikada çokuluslu firmalar, Rusya ve IMF gibi örgütler uyumlu çalışan devlet, iç politikadaki gücünü kaybetmemek için otokratik uygulamalara girmiştir. Sonuçta ekonomik anlamda liberal, siyasi olarak otokratik bir Kazak devleti belirmiştir. Tüm bu yaklaşımlar bir arada değerlendirildiğinde devletin geniş çapta bir piyasa uygulaması gerçekleştiriyor gibi görünmesine rağmen, korumacı piyasa anlayışıyla hareket ettiği sonucu doğmuştur.

Türkmenistan devlet aygıtını kontrol eden kadroların sahip oldukları komünist geçmiş ve hidrokarbonlarla ilişkilenen konuların bu ülkenin yapısal gelişimini temelden etkilemesiyle Azerbaycan ve Kazakistan'a benzemekte, ancak bu ülkeye has özellikler uygulanan politika seçimlerinde büyük farklılıklara neden olmaktadır. Türkmenistan devletinin yapısı incelendiğinde komünist geçmişe sahip kadrolar içerisinde sivrilerek varlıklarını Sovyet sonrası döneme taşıyanlar dikkat çekmektedir. Buna karşın Sovyet döneminde başlayan Teke aşiretinin Komünist Partisi içerisindeki ağırlığı, bu ülkenin yapısını belirleyen özgüllüklerden birisi olarak ortaya çıkmıştır. Teke mensubu olarak eski Komünist Partisi'nde önemli görevler üstlenen Türkmenbaşı, Sovyet sonrası dönemde bu geleneği bozmamış ve yönetim kadrolarını kendisine bağlı Teke mensubu eski Komünist Partisi üyelerinden seçmiştir. Ülkede Sovyet döneminde yerleşen ve aşiret yapısıyla kemikleşen siyasi iradenin şahsiyetle özdeşleşmesi geleneği de sürdürülmüş ve Türkmenbaşı adeta devletin ve ülkenin ötesinde bir yere yerleşerek gücünü pekiştirmiştir. Bu yapıda Rusya, İran, Türkiye ve hatta çokuluslu şirketler gaz akışını kontrol edebilmek amacıyla Türkmenistan'daki etnik ve dini eğilimleri kullanma fırsatını bulamamışlardır. Eski Komünist Parti idaresi ve aşiret yapısı arasındaki benzersiz birleşim aşiretlerin geleneksel haklarının zarar görmemesi koşuluyla merkezi otoriteye yönelik bir itaati zaten yaratmış durumdadır.

Bu yapıda doğabilecek tek problem başta Salur olmak üzere diğer aşiretlerin Teke aşiretinin etkisine karşı duyabilecekleri memnuniyetsizliktir. Teke aşiretinin mensubu ve Komünist Partinin eski bir üyesi olan Türkmenbaşı Sovyet rejiminin gaz ve aşiretler konusundaki tutumunu sürdürmüştür. Devlet gaz ticaretini kontrol ederken diğer aşiretlerin tarımdaki haklarını gözetmiştir. Bir yandan devlet enerji sektörünü özel girişime ve yabancı yatırıma alan bırakmayacak şekilde kontrol etmiştir. Diğer yandan devlet özelleştirme gibi tarımsal reformları Türkmenbaşı'nın kişisel kültüründe somutlaşan Teke aşiretinin iktidarına karşı memnuniyetsizliğin doğmaması için geciktirmiştir. Sonuçta devlet laik ve otokratik bir hale gelirken, neoliberal baskılara karşı duyarsızlaşmıştır.

Devletin politika seçenekleri incelendiğinde 1991-1997 yılları arasında Rusya'nın temel çıkarları hariç dış baskı odaklarını gözardı eden komünist geçmişe sahip bir yapı belirmiştir. Başka bir deyişle yukarıda belirtilen ikinci politika seçeneği uygulanmıştır. Neoliberal politikalara gücünü kaybetmemek adına prim vermeyen Türkmenbaşı çokuluslu firmaların Türkmenistan'da yatırımlarını derinleştirmemesi ile Gazprom'un taşıma hatlarına olan bağımlılığı nedeniyle Rusya ile olan gaz ticaretini sürdürmekten başka bir yol bulamamıştır. Bu ülkenin uyguladığı düşük fiyat politikası nedeniyle Türkmenistan-Rusya ilişkileri 1997 yılından başlamak üzere gerginleşmiş ve 1997-1999 arasındaki birinci politika seçeneği nedeniyle tecritle sonuçlanmıştır. 1999 yılından itibaren ise devlet Rusya ile olan ilişkilerini ikinci politika seçeneği etrafında tekrar kurarken, çokuluslu firmalarla daha yakın ilişkiye girerek belirli oranlarda ekonomik liberalizasyonu gerçekleştirebileceğini yani üçüncü politika seçimine doğru adımlar atacağını sinyali vermiştir. Tüm bu politika seçimleri aslında devletin neomerkantalist yaklaşımının koşullara göre yansımaları olarak belirmiştir. Başka bir deyişle devlet iç ve dış alanlarda Türkmenbaşı'nın şahsiyetiyle özdeş tutulan güçlü bir yapıyla farklı politika seçenekleri izleyebileceği mesajını verse de, temel hedef olarak milli çıkarlara öncelik veren, petrol ile gaz ticaretinden elde edilen gelirlerin ülkeye akışını sağlamayı düşünen neomerkantalist bir yaklaşımı esas almıştır.