

ENERGY SECURITY OF A RENTIER STATE: A CASE STUDY OF KAZAKHSTAN

Uzma Siraj* & Manzoor Khan Afridi**

Abstract

As modern world run on oil, the unprecedented rise in oil consumption during last century has generated daunting energy security challenges for the oil producing states. It is simultaneously important for energy import dependent nations and exporting nations. However, exporting nations face some captious challenges. In former Soviet Republics, Kazakhstan is one of the richest oil producing state whose over reliance on rent generated by oil exports presents daunting energy security challenges for the states at internal and external levels. On the one hand, Kazakhstan's economic development owes a great deal to the oil rent. On the other hand, it is also responsible for Kazakhstan's struggle in establishing a strong democratic political system. In addition, generating rent income face severe security challenges at external level. The involvement of external powers in Kazakh oil sector, pipeline infrastructure and threats posed by non-state actors, make the whole scenario a great challenge for Kazakhstan. The study examines the challenges rentierism has generated for Kazakhstan at internal and external levels.

Key Words: Kazakhstan, Rentier State, Oil Rents, Political Stability, Energy Security.

Introduction

The modern socio-economic development of the world is beholden to the use of energy resources especially oil. Its demand has seen an unprecedented increase since last century. There is a little evidence of its use two century ago.¹ Approximately 33% of world energy uses consists of oil. And it has constantly seen an upward trend. From 77 million barrels in 2000,

* Ph.D. Research Scholar Department of Politics and International Relations, International Islamic University, Islamabad, Pakistan. Email: uzma.phdir13@iiu.edu.pk

** Chairman & Associate Professor, Department of Politics and International Relations, International Islamic University, Islamabad, Pakistan. Email: manzoor.afridi@iiu.edu.pk

¹Véronique Ghetta and Dominique Gorse, *Materials Issues for Generation IV Systems: Status, Open Questions and Challenges*(Dordrecht: Springer Publishers, 2007), 1-3.

it reached 85 million barrels per day in 2006, 86.4 million barrels in 2010 and now the figure has crossed over 100 million barrels per day.² Thus, it is beyond doubt, how critical oil has become for producing and consuming states.

The increase in oil demand raises many challenges for importing and exporting nations alike. China's economic revolution owes a great deal to the secure supply of oil. Lacking in natural resource wealth and not having secure energy supply mechanism greatly alter the economic and social development of the states. Nonetheless, energy resources and especially oil is playing a crucial role in maintaining the economic growth, social development, military security and political stability of China.³ Thus, energy security is central to aver all stability of a state. Similarly, after coming out of the shocks of disintegration, the biggest instrument in the hands of Russia for rebuilding its economic and strategic strength was its energy resources. China and Russia are two major example of energy security. However, there are some other states whose level of economic development is not as mighty as these two, but they faced more crucial challenges for energy security. Kazakhstan presents a unique case in this regard, whose political and social stability, economic growth, territorial security, regional strength and international standings all are intrinsically connected to its energy security and more specifically its oil sector.⁴ The significance of oil is of unequivocal for Kazakhstan. It not only generates revenue for economic development but it's over reliance on oil rent creates an inertia that stagnates the development of other sectors of economy as well as development of political institution and democracy.⁵ This phenomenon is called "rentierism" and Kazakhstan emerges as rentier state. Therefore, this study is focused on internal and external challenges caused by rentierism. It will inquire how Kazakhstan as a rentier states faces severe energy security challenges.

Due to the uneven natural distribution of energy resources, especially oil, resources are accumulated into few states.⁶ It is observed that resource rich nations are more vulnerable for energy security issues because of their huge reliance on income generated through oil exports.

²"Daily Global Crude Oil Demand 2006-2019 | Statista", accessed July 3, 2019, <https://www.statista.com/statistics/271823/daily-global-crude-oil-demand-since-2006/>.

³Carlos Pascual and Jonathan Elkind, *Energy Security: Economics, Politics, Strategies, and Implications*(Washington: Brooking institute Press, 2010), 130.

⁴Indra Overland, Heidi Kjaernet and Andrea Kendall-Taylor, *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*, (Abingdon: 2010, Routledge Publishers), 21-23.

⁵Wojciech Ostrowski, *Politics and Oil in Kazakhstan*.(New York: 2010, Routledge Publishers), 105.

⁶Roman V. Sidortsov and Benjamin K. Sovacool, ed.*The Routledge Handbook of Energy Security* (London: 2011, Routledge Publishers), 21.

Oil has become paradoxical in nature. The economic, political and social development is so intricately tied with the oil production, export and rents generated through this trade that it has become lifeline. On the other hand, it has caused an inertia that has left oil producing states with limited or no choices to consider for their survival. In this scenario, oil producing, and oil rent dependent states face extra ordinary challenges at domestic and external level.

By looking deeply into the oil sector, this study will first highlight the importance of oil and gas for Kazakhstan. The rentier state theory provides a perfect backdrop to understand its peculiarity for Kazakh economy and politics. It also analyzes the threats and challenges pertaining to its energy security by categorizing it at both internal and external levels.

The academic literature on theory of rentier state came to the fore during 1970's, when Hossein Mahdavy first used it in his work. Later, the term was widely used in academic circles. The most important application of the term appeared in the work of Giacomo Luciani and Hazem Beblawi. Their contribution to the concept of rentier states becomes very important because of two reasons, First, the theoretical development and second, they applied the term very successfully to discuss the case of Middle East the most important region for oil production in the world.⁷ Even most of the academic writings of the subsequent period appeared especially in the "Middle East Economic Analysis" regularly discussed the oil-dependent economies of the Middle East region especially Arab states in the context of rentier states.⁸ Similarly, Kjetil and Olva in their study on oil rich Middle Easter associate the oil rent with the political instability and over all security challenges to the states individually and to the whole region collectively.⁹ Another important region that appeared to be gaining importance in the rentier state discussion during 1990's was the oil rich states of Africa. Douglas Andrew in his book specifically discusses the case of oil rich state of Gabon. He highlights the international Petroleum companies in the African Oil business. Considering the case of Gabon in particular he analyzes the conditions of all oil rich states of Africa in general. His main concern depicted in his work is how the exploitation of oil wealth of Africa has hampered the development of every aspect of the oil rich society at the hands of external actors. They have not only emerged as rentier states, but the tragic fact is that their rent income has not produced even some parallels

⁷ Hazem Beblawi and Giacomo Luciani., *The Rentier state.* (New York: 2016, Routledge Publishers), 27

⁸ Donald Losman, "The Rentier State and National Oil Companies: An Economic and Political Perspective," *The Middle East Journal* 64 no.3 (Summer 2010): 427-445.

⁹ Kjetil Selvik and Bjørn Olav Utvik, *Oil States in the New Middle East* (New York: 2016, Routledge Publishers), 182.

with the other rentier states. And the role of International petroleum companies has emerged as another form of colonization.¹⁰

The post-Soviet region is a late entry in the discussion of rentier state theory. Therefore, most of the work on the theory is devoted to the classic example of Middle East and to some extent Africa. Sally Cumming's has done some important contribution in this regard. His earlier work published in 2004, argues that neo-patrimonialism in authoritative regimes of Central Asia is different from the authoritarianism in Arab states.¹¹ Robert Jackson defines the emergence of neopatrimonialism in the African states owes to the European colonizers, but it has much similarity with the Central Asian republics who emerged from the rubric of the Soviet Union. Sally Cumming considers oil producing states of the Middle East as the classical example of rentier states. Therefore, the importance of oil producing Central Asian states like Kazakhstan gets eclipsed. However, in his work published in 2012, Ostrowski places the Central Asian states in the list of most important rentier states.¹² He also categories the Central Asian states according to the relative source of rent. Most of these works strictly observed the impact of rent on the socio-political development. The impact of rent cannot be disassociated from the external forces. Infact, rent income which is earned from the external sources makes the external forces very much relevant in this regard. Secondly, when rents are originated from the energy resources like oil, the energy security of the rentier states might get jeopardized. These important aspect needs to be considered in the debates of rentier states. Kazakhstan's example might be an important addition in this regard. The rentier states face more critical energy security issues because of their overwhelming dependence on energy sector.

This part of the study will elaborate the rentier states theory linking it with Kazakhstan. Another aspect seems to be missing from the contemporary literature relates to the impact of rentierism with the overall energy security of a state. Rent income in resource rich particularly in oil rich states comes from the oil exports. The export mechanism is therefore the most important element in securing rent. Hence bringing into the discussions the entire external factor which might cause threat to the oil exports and ultimately to the rent income. This will take the discussion further to investigate how energy resources become a more critical issue for a rentier state.

¹⁰Douglas Andrew Yates, *The Rentier State in Africa: Oil Rent Dependency and Neocolonialism in the Republic of Gabon* (Asmara: 1996, Africa World Press), 205.

¹¹Sally Cummings, *Power and Change in Central Asia* (London: 2001, Routledge Publishers), 43

¹²Wojciech Ostrowski, "Rentierism, Dependency and Sovereignty in Central Asia," in *Sovereignty After Empire*, ed. Sally N. Cumming, & R. Hinnerbusch (Edinburgh: 2011, Edinburgh University Press), 282-303.

Oil, Rentierism, and Kazakhstan

Kazakhstan is the largest oil producing state among five Central Asian states. During 1960's Kazakhstan's oil wells were producing approximately 40,000 barrels oil per day. With the discovery of Tengiz oil field in 1979, its share increased tremendously during the last decade of USSR.¹³ Despite this, lack of financial resources and technological backwardness hampered the exploration and development of offshore reserves.¹⁴ During Post independence era, oil sector remained the most important sector of the economy. Almost entire development process was dependent on this one sector creating multidimensional challenges at domestic, regional and international levels. Hence, maintaining a stable production pattern and securing demand emerges as essential elements of energy security for Kazakhstan and its rent income. This led the country to adopt the strategy of increasing oil rent at domestic level, improve the pipeline infrastructure with neighboring states at regional level and formulate a multi-vectoral foreign policy to acquire financial assistance and advance technology from international powers.¹⁵ Eliminating these three elements will be synonymous to obliterating the energy security of the country.

The arrival of the major US and European firms increased its competitiveness of Kazakh oil sector. Therefore, it is hard to escape the impact of oil rent on any sector of a state especially the foreign factors. Almost every aspect of Kazakhstan is related and affected by the rent income generated by the oil sector. Too much dependence on oil income have gross implications for economic, political and social security and development of a state. Therefore, it is pertinent to analyze the crucial impact of energy sector over a resource dependent state like Kazakhstan. And the theory of rentier state perhaps provides a perfect framework to study this phenomenon.

Many experts have made some valuable contribution to the rentier state theory by examining the patterns and implications of resource dependency in rentier states. However, Hussein Mahdavy and Hazim Beblavi's contribution have been phenomenal in this regard. Mahdavy

¹³Katherine Hardin, (2012, January 27) "Kazakhstan's Energy Sector Since Independence: Two Decades of Growth and Challenges Ahead?," Atlantic Council, January 27, 2012, http://www.atlanticcouncil.org/images/files/publication_pdfs/403/012712_ACUS_Eurasia_Hardin.pdf, (Retrieved November 9, 2018).

¹⁴Gal Luft and Anne Korin, *Energy Security Challenges for the 21st Century* (California: 2009, Greenwood Publishing Group), 31-34.

¹⁵Jacopo Maria Pepe, *Beyond Energy: Trade and Transport in a Reconnecting Eurasia* (Berlin: 2016, Springer Publishers), 421-422.

highlighted the case of Persian Gulf states especially the case of Iran.¹⁶ Similarly, Rebekka Schliephave, discussed the case of Middle East and North African rentier states. She raises questions about the political process in the Middle Eastern and North African oil rich states and tries to find the answer by analyzing the theoretical concept of Hazim Beblawi and Luciani.¹⁷ Her work is an important contribution to the rentier state concept, but it undertakes the theory to generalize an oil producing region rather than focusing on a particular state

Before examining the case of Kazakhstan as a rentier state, it is important to look at the main features of rentier state theory. While looking at the theory at first hand, one might look into the concept of rent as given by Beblawito understand the implications of rentierism in Kazakhstan. He views “rents” generated by natural resources as a reward of owning resources. He believes that such ownerships are found in almost every state. However, when rent is categorized as earned and occurred rent, the main difference emerges between different kinds of rents as well as the definition of rentier state becomes clearer.¹⁸ As earned income is generated through efforts put into utilization of resources, while occurred rent is an effortless income. This study will focus on the theoretical explanation presented by Beblawi for the rentier states. The natural resources rich states are more incumbent to rentierism which presents a perfect explanation to establish Kazakhstan’s case as a rentier state. Beblawi’s explanation of rentier state provides following attributes of rentier states.

- (i) Rent as a predominant income in the state’s economy,
- (ii) Rent as a substantial amount earned externally, and only few hands are involved in earning those external rents.
- (iii) The states government assumes the role of those “few” involved in earning rents.
- (iv) It is hard to survive for the economy without the rent income.¹⁹

The income generated by rent if involves majority of society in earning process, then the Beblawi’s definition is not applicable. He views the role of few in earning and role of many in consuming that income as an important feature of his theoretical explanation of Rentierism. Thus, it provides the best suitable explanation of rentierism for the states that predominantly rely on natural resources rents like Kazakhstan. The above-mentioned features of

¹⁶Beblawi and Luciani, *The Rentier state*, 211-220.

¹⁷Rebekka Schliep, *The implications of the rentier state theory regarding the major oil-producing states of the Middle East* (Norderstedt: 2017, Grin Publishing Company), 86-89.

¹⁸Kjetil Bjorvatna and Alireza Naghavi, “Rent seeking and regime stability in rentier states,” *European Journal of Political Economy* 27 no. 4 (December 2009), 740-748, <https://doi.org/10.1016/j.ejpoleco.2011.05.007> (Accessed July 2, 2019).

¹⁹Beblawi and Luciani, *The Rentier State*, 114-116.

the rentier states will lead to the second part of the study to the analysis of the implications of rentierism on energy security issues.

Implications of Oil Rent for Kazakhstan

The theoretical explanation clearly exhibit that Kazakhstan fits into the category of rentier states. First, because it derives most of its national income from the extraction and exports of oil. In addition, the economic elites especially attached with the oil business depends greatly on the oil rents acquired through the export of oil.²⁰ The share of taxes in national income is very limited. In such circumstances, Kazakhstan's too much reliance on energy resources like oil industry creates security concern for the country.²¹ As it is the major source of domestic stability at political, economic and social levels.

Securing oil sector requires attention of the state at regional level issues too, which involves transit routes and oil trade facilities, any threat to these might directly affect the domestic stability. Third, it has great repercussions for the state at international levels too. Kazakhstan's energy trade relations with states at regional and international level also influence its energy security scenario. Thus, too much dependence on rent income greatly alter the capability of the state to ensure its energy security. The threats emanating from the energy sector creates security issue at domestic regional and international level. The following second part of the paper will analyze these threats of a rentier state at three levels.

Significance of Oil for Kazakhstan

The revenues generated through oil sector are extremely important for Kazakhstan's economic and political stability. Its oil and gas exports comprise 63 % of the total national exports. This fact alone is enough to reveal how energy security is important for Kazakhstan.²² The boom in oil prices in the international market contributed in rapid economic growth of the country during last two decades. The GDP per Capita witness a sharp increase from US\$1647 in early days of independence to US \$ 13,172 in 2013. However, the sagging oil prices in global market reduced the oil rent of the country. Consequently, per capita income fell below US\$ 10,000

²⁰ Anja Franke, Andrea Gawrich & Gurban Alakbarov, "Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse' in Post-Soviet Regimes," *Europe-Asia Studies* 61 no,1 (December, 2010) 109-140, <https://doi.org/10.1080/09668130802532977> (Retrieved July 18, 2019).

²¹ Ilias Bantekas, et al., *Oil and Gas Law in Kazakhstan: National and International Perspectives*, (London: 2004, Kluwer Law International) 15.

²² Daniel Workman, *Kazakhstan's top 10 exports*, (World Top Export, June 2019), Retrieved December 22, 2018, <http://www.worldstopexports.com/kazakhstan-top-10-exports/>

during last 5 years and reached US\$ 9,462 at the end of 2018.²³ However, Kazakhstan had to reassess its growth target in the wake of falling oil prices and it fell from 4.8 % to 1.5 % during previous years.²⁴ Energy Sector especially oil and gas alone comprise of one fourth of the National GDP. Another important aspect of profuse attention on oil sector results in negligence to other sectors of the economy. Despite announcing ambitious plans for economic diversification, Kazakhstan still needs to pay more attention to the diversification of the economy. As a result, the share of manufacturing and agriculture sector remained stagnated at 11% and 5% respectively making both of them inefficient.²⁵ A report by World Bank throws light at the plight of the agricultural sector which says that a Kazakh farmer produce only \$3000 worth of crops per year which is approximately, 20 times less than the output of a farmer in developed countries.

Oil rents comprise more than 35 % of Kazakh GDP and 75% of its total exports revenues exhibits the severity of the situation. Although, oil rents helped the country maintain 3.7% growth rate in 2015 when oil exports were experiencing sharp decline due to falling oil prices.²⁶ Kazakhstan, who maintained the double-digit economic growth in the first decade of the new century and a decent rate of around 6 to 7% in early years of second decade could not sustain the lowering prices of petroleum products.²⁷ International Monetary fund has predicted a modest economic growth of 3.1 to 3.2% during next few years given the situation of global oil market. This elaborates how a rentier state faces severe economic security issues. The financial crisis of the 2008 had disastrous effect on Kazakh economy.

Looking at the external sources of economic activity reveals there is a subtle negligence from the foreign investors to invest in other sectors of economy. The Foreign investment is directed mostly in oil sector. The services sector and other areas provide less attraction to the foreign investors.²⁸ It is not the government only unobtrusive to the development of non-oil sector. Therefore, rentierism in oil rich states is not only the result of domestic policies. But it also shows the structural weakness and the role of

²³ *Kazakhstan GDP per Capita*, (CEIC, 2018), Retrieved July 4, 2019, <https://www.ceicdata.com/en/indicator/kazakhstan/gdp-per-capita>.

²⁴ Asian Development Bank, *Kazakhstan Economy and ADB*, (ADB, 2019), Retrieved June 25, 2019, <https://www.adb.org/countries/kazakhstan/economy>.

²⁵ World Bank, *World Bank Group – Kazakhstan*, (World Bank, April 2015), Retrieved June 28, 2019, <https://www.worldbank.org/content/dam/Worldbank/document/Kazakhstan-Snapshot.pdf>.

²⁶ Nordea, *The Economic Context of Kazakhstan*, (March 2019), Retrieved June 30, 2019, <https://www.nordeatrade.com/fin/explore-new-market/kazakhstan/economical-context>

²⁷ *Kazakhstan's top 10 exports*, World Top Exports. (2018), Retrieved December 22, 2018, <http://www.worldstopexports.com/kazakhstan-top-10-exports/>

²⁸ Kenneth Omeje, *Extractive Economies and Conflicts in the Global South: Multi-Regional Perspective on Rentier State*, (Hampshire: 2008, Ashgate Publishers), 173.

international actors who prefer economic gains more than social sector development.

Domestic Implications

As far as Kazakhstan's domestic political scenario is concerned, it is an established fact that political and economic powers are synonymous to each other in Kazakhstan. Its political system encourages the rentierism. Neopatrimonialism is evident in its structure where patrons use natural resources of the state to secure political loyalties.²⁹ Political power and authority in rentier states lies in the hands of those controlling economic power. It is the government of the states which runs the economic system and undertakes all economic activities. Their major economic activities revolve around resource exploration, extraction and their exports. And whatever income is generated through this process, is distributed among two categories of citizens. First the economic elite, who owns such resources or run their business and closely associated with the political leadership and ruling elite. In Kazakhstan case, a small group has earned huge profits thanks to soaring oil prices and booming oil business of the country. This creates a strong bond between them, and their support becomes essential for the stability of the regime.³⁰ However, it has some negative repercussions for the development of democracy. Secondly, receiver group which is public extends their support to the government mainly due to two major reasons. First, they get share in "occurred income" without contributing much efforts. Secondly, without paying taxes, rent income is utilized in state provisions to the public, greatly decreasing public's ability and willingness to demand more benevolence.

Finally, another important implication which will set the stage for entering into the second part of the study is, that such states are usually unable to diversify their economy and income resources. The political and economic stability provided by the rent income prevent the government efforts to develop the other sectors of the economy.³¹ This has happened in the case of many rentier states including Kazakhstan. Government spends a sizable portion of the rent income on public for raising their standard of living prevents the popular discontent against the autocratic rule. Increased spending on social sector ensures acceptability and stability of government's

²⁹Margarete Klein, Hans-Henning Schröder and Susan Stewart, *Presidents, Oligarchs and Bureaucrats: Forms of Rule in the Post-Soviet Space*, (Surrey: 2012, Ashgate Publishers).

³⁰Rico Isaacs, *Party System Formation in Kazakhstan: Between Formal and Informal Politics* (London: 2011, Routledge Publishers), 155-157.

³¹Beblawi and Luciani, *The Rentier State*, 10.

social development models.³²This also becomes a tool in the hands of the regimes to curb the demand for democracy. Diversification of economy not only requires imposition of more taxes on public for spending on other sectors of the economy it also increases the threats to regime stability and demand for political reforms.³³The overall situation presented above creates serious issues for the rentier states. As the whole political social and economic structure depends on oil rents. And government has to maintain focus on oil sector for maintaining stability. Consequently, other sectors are neglected, and government fails to diversify economy which is essential to reduce reliance on rent income and combat the threats posed by reliance on one sector.

The overall situation in a rentier state like Kazakhstan increase the challenges for energy security of the states at regional and global level too. As discussed in the previous section that diversification of economy has become an essential component to reduce the vulnerabilities of rentierism. However, rentier states find it hard to diversify their economies and face serious challenges at regional and global level too.

Energy Security of Rentier State: External Levels of Threat

Kazakhstan, as a “Rentier state” not only faces security issues at domestic level, its external relations and foreign policy is not immune to the insecurity created by rentierism. Rentier states face multi-dimensional security threats. Their energy sector not only integrates their political economic and social sectors at domestic levels. But their energy exports are also integrated beyond their territorial boundaries. The oil trade in the land locked region is mostly carried out through pipeline. The integrated nature of oil pipeline infrastructure creates some more security threats for Kazakhstan. In Friedberg’s views states feel more threatened from the policies of their neighbors and countries geographically adjacent.³⁴ In a region, where economic interests of the whole region (consisting of rentier state) are integrated through a system of oil trade via pipeline system, energy sector presents major security threat. The energy security of a state cannot be understood without linking it to the energy security issues of other states. This becomes a more complicated phenomenon in the case of Kazakhstan.

³²Gyene Pállstván. (2016). "Rentier States, or the Relationship between Regime Stability and Exercising Power in Post-Soviet Central Asia," *Society & Economy*, 38, no. 2, (May, 2016), 171-191, <https://doi.org/10.1556/204.2016.38.2.3>.

³³Richard Pomfret, “Constructing Market-based Economies in Central Asia: A Natural Experiment?” *The European Journal of Comparative Economics*, 7, no. 2, (December, 2010), 449-467. Retrieved June 2, 2019, <http://ejce.liuc.it/Default.asp?tipo=articles&identifier=ejce:18242979/2010/02/10>.

³⁴Aaron L. Friedberg, “Ripe for Rivalry: Prospects for Peace in a Multipolar Asia,” *International Security* 18, no.3, (Winter, 1993) 5-33, https://www.jstor.org/stable/2539204?seq=1#page_scan_tab_contents.

Therefore, energy related security threats range from pipelines, transit issues, regional rivalries to security threat to energy infrastructure from non-state actors.

Kazakhstan's peculiar geography as a landlocked state integrates it into a regional infrastructural web for the energy trade. Before, 1991, it was part of an integrated Soviet energy trade.³⁵ During post-independence era, periodic transit issues, and unresolved disputes of offshore resources in the Caspian Sea involving Kazakhstan and other littoral states have endangered the energy security and integrity of states dependent of oil rents.

Similarly, the role of non-state actors and terrorist organizations in the region has occurred as a big threat for rentier states. The geographic juxtaposition of Kazakhstan and whole Central Asia region to Afghanistan, Iran and Middle East creates serious security threats to oil trade infrastructure and major pipelines of the region.³⁶ The presence of Al Qaeda and penetrating ISIS in the region make the security of thousands of km long pipelines susceptible. Thus, endangering the rent income of the rentier states. This has emerged as one of the biggest concerns of Kazakhstan especially, in the post 9/11 era.³⁷ Furthermore, the relations of regional and global powers with Kazakhstan creates an environment of power rivalry in the energy sector of the states. Independence from Soviet Union created challenges for the rentier states at every step. First of all, increase in rent income could not be possible without developing the energy sector. The foreign investment emerges as the pre requisite for this issue. Hence, involving the external powers in the region. Russia as the predecessor state of the former USSR inherited the whole infrastructure of oil and gas pipelines, which was inevitable for the regional states like Kazakhstan. Later the involvement of the US and EU complicated the competition. This generated severe conflict over new pipelines route between Russia and the EU. Trans Caspian, and Nabucco pipeline are opposed by Russia but essential for oil trade diversification of Kazakhstan. On the other hand, the construction of BTC Baku Tbilisi, Ceyhan pipeline and BTS Baku Tbilisi Supsa have caused a severe blow to the Russian monopoly.³⁸ The regional states face a tough choice in this scenario, when it comes to the selection of new route.

The emergence of China in the initial years of the new century has added to the severity of the situation. Its growing influence in regional

³⁵Ostrowski, *Politics and Oil in Kazakhstan*, 82-84.

³⁶Bantekas, et al., *Oil and Gas Law in Kazakhstan: National and International Perspectives*, 313.

³⁷Lydia M. Buyers, *Central Asia in Focus: Political and Economic Issues*(New York: 2003, Nova Science Publishers), 239.

³⁸Richard Morningstar, "The Baku-Tbilisi-Ceyhan Pipeline: A Retrospective and A Look At The Future." *The Central Asia and Caucasus Analyst*, August, 2006, <https://www.cacianalyst.org/publications/analytical-articles/item/11010-analytical-articles-caci-analyst-2006-8-23-art-11010.html>, (Retrieved, July 2, 2019).

affairs and increasing oil trade with Kazakhstan, might create challenges for diversification policy of the state. At the moment, share of Chinese oil companies in Kazakhstan's oil sector is 24% as the biggest buyers of Kazakh oil.³⁹ This share is constantly rising. Too much reliance on one export destination also cause demand side security problems for a rentier state. It hampers economic development when demand in the major export destination falls. Therefore, diversification of supply routes is considered very important. For a rentier state, like Kazakhstan.

Kazakhstan's position in this scenario becomes very important. So far Kazakhstan has maintained a successful and balanced approach in its foreign energy relations, but with the passage of time, it is becoming even more strenuous to maintain a balanced policy. Moreover, the US takes interest in the energy market of the region for its strategic purpose of incapacitating the Russian influence in the region through its petroleum companies like Exxon Mobil and Chevron who are two of the biggest investors in the petroleum sector of Kazakhstan.⁴⁰

Kazakhstan is located in a region where, territorial disputes, legal status of the Caspian Sea and dependency on Russian pipeline infrastructure create so much havoc.⁴¹ Located at the crossroads of Eurasia sandwiched between two giant neighbors China and Russia. It's energy trade with China was the first major step towards diversification and increasing the rent income. Kazakhstan is very much keen to explore more trading opportunities with the European nations. However, it must cross the huge Russian territory before reaching Europe. And that too while using Russian pipelines. This fact puts Kazakhstan at a disadvantageous position. Hence, diversification has become a paradox. Essential for increasing rent income but difficult to achieve in the given geo political scenario. In addition, the existing pipelines stretching on thousands of kilometers face a major security threat from the terrorist organizations active in neighboring Afghanistan and Middle East. Therefore, energy security and rentierism both are irrevocably cinched to each other.

Conclusion

Energy Security has become a crucial issue in contemporary global politics. This is especially true for those states who are compellingly dependent on income generated by the export of energy resources especially

³⁹Share of China's companies in Kazakhstan's oil production estimated at 24%, *Tengri News*, <https://en.tengrinews.kz>: <https://en.tengrinews.kz/markets/Share-of-Chinas-companies-in-Kazakhstans-oil-production-24323/>, accessed June 30, 2019).

⁴⁰ZP Kazakhstan. *Oil and gas companies of Kazakhstan*, <http://zp.kz/en/25/29.html>, accessed June 30, 2019).

⁴¹Kuralai I. Baizakova, Energy Security Issues in the Foreign Policy of the Republic of Kazakhstan. *American Foreign Policy Interests*32, no. 2(April, 2010), 103-109, <https://doi.org/10.1080/10803921003697674>, accessed July , 2019).

oil. This resource income called rent income in its entirety generate a conundrum. This enigma is very well defined as rentierism by Hazim Beblawi and Giacomo Luciani. Kazakhstan presents an interesting case study as a rentier state where oil rents critically influence the whole social fabric of a state. Kazakhstan is the 9th largest oil exporting state in the world. Oil sector contribute more than 40 % of the total GDP of the country. Therefore, oil rent is the predominant income of the country.

Government is the main recipient of rent and its substantial amount is earned from external resources, and only few hands are involved in earning those external rents. The government assumes the role of those “few” involved in earning rents. Government use this rent income for gaining political support by redistributing it among few individuals involved in oil business. At social level. Rent income is used to provide subsidies to the masses. In this scenario, government do not levy taxes on public which helps in diluting demand for political reforms and democracy. Thus, strengthening the regime. Thereupon, creating critical dependence on rent income at political level. Now in order to secure this rent income, it is highly crucial to ensure security of the oil sector at external levels too. As the theory explains that most of the rent is generated through external sources, Kazakhstan’s oil rent which is earned externally, poses severe challenges. The land locked nature of the state makes it fully dependent on pipeline. Any effort to diversify its trade through EU’s supported pipeline routes have met with severe opposition from Russia. Secondly, the involvement of external powers has provoked a severe energy politics in the region which ultimately threatens the interests of rentier state. Third, regional disputes, like legal status of Caspian Sea, and other territorial disputes are major obstacles in enhancing the rent income. Finally, Kazakhstan’s geographic proximity to Afghanistan, Middle East, and South Asia, and the presence of terrorist organizations and threats from ISIS have generated severe pitfall for the energy security and overall stability of rentier states especially Kazakhstan. In a nutshell, Kazakhstan as a rentier state faces enormous energy security challenges which threatens the internal and external stability of the rentier states in general and Kazakhstan in particular.

Bibliography

- Bjorvatn, Kjetil, and Alireza Naghavi. "Rent seeking and regime stability in rentier states." *European Journal of Political Economy* 27, no. 4 (2011): 740-748.
- Buyers, Lydia M. *Central Asia in Focus: Political and Economic Issues*. New York: Nova Science Publishers, 2003.
- Losman, Donald. "The Rentier State And National Oil Companies: An Economic And Political Perspective." *The Middle East Journal* 64, no. 3 (2010): 427-445.

- Yates, Douglas Andrew. *The Rentier State in Africa: Oil Rent Dependency and Neocolonialism in the Republic of Gabon*. Asmara: Africa World Press, 1996.
- ADB. "Kazakhstan: Economy." <https://www.adb.org>. 2019. <https://www.adb.org/countries/kazakhstan/economy>.
- Baizakova, Kuralai I. "Energy Security Issues in the Foreign Policy of the Republic of Kazakhstan." *American Foreign Policy Interests* 32, no. 2 (2010): 103-109.
- Beblawi, Hazem , and Giacomo Luciani. *The Rentier State*. New York: Routledge Publishers, 2016.
- Beblawi, Hazem, and Giacomo Luciani. *The Rentier state*. New York: Routledge Publishers, 2016.
- CEIC. *Kazakhstan GDP per Capita*. July 4, 2019. <https://www.ceicdata.com/en/indicator/kazakhstan/gdp-per-capita>.
- Cummings, Sally . *Power and Change in Central Asia*. London: Routledge Publishers, 2004.
- Franke, Anja , Andrea Gawrich, and Gurban Alakbarov. "Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse' in Post-Soviet Regimes." *Europe-Asia Studies* 61, no. 1 (2009): 109-140.
- Friedberg, Aaron L. "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia." *International Security* , 1993: 5-33.
- Ghetta, Véronique, and Dominique Gorse. *Materials Issues for Generation IV Systems: Status, Open Questions and Challenges*. Dordrecht: Springer Publishers, 2007.
- Gyene, Pal. "'Rentier States" or the Relationship between Regime Stability and Exercising Power in Post-Soviet Central Asia." *Society & Economy* 38, no. 2 (2016): 171-191.
- Hardin, Katherine. "Kazakhstan's Energy Sector Since Independence: Two Decades of Growth and Challenges Ahead?" *Atlantic Council*. January 27, 2012. http://www.atlanticcouncil.org/images/files/publication_pdfs/403/012712_ACUS_Eurasia_Hardin.pdf (accessed November 9, 2018).
- Ilias Bantekas, John Paterson, Maidan Suleimanov, Ma?dan Kontuarovich Suleimenov. *Oil and Gas Law in Kazakhstan: National and International Perspectives*. London: Kluwer Law International, 2004.
- Isaacs, Rico. *Party System Formation in Kazakhstan: Between Formal and Informal Politics*. London: Routledge Publishers, 2011.
- Luft,, Gal, and Anne Korin. *Energy Security Challenges for the 21st Century*. California: Greenwood Publishing Group, 2009.
- Morningstar, Richard. *THE BAKU-TBILISI-CEYHAN PIPELINE: A RETROSPECTIVE AND A LOOK AT THE FUTURE*. August 23, 2006. <https://www.cacianalyst.org/publications/analytical->

- articles/item/11010-analytical-articles-caci-analyst-2006-8-23-art-11010.html.
- Nordea. *The economic context of Kazakhstan*. 2019. <https://www.nordeatrade.com/fi/explore-new-market/kazakhstan/economical-context>).
- Omeje, Kenneth. *Extractive Economies and Conflicts in the Global South: Multi-Regional Perspective on Rentier State*. Hampshire: Ashgate Publishers, 2008.
- Ostrowski, Wojciech . *Politics and Oil in Kazakhstan*. New York: Routledge Publishers, 2010.
- Ostrowski, Wojciech. "Rentierism, Dependency and Sovereignty in Central Asia." In *Sovereignty After Empire*, by Sally N Cumming and Raymond Hinnerbusch, 282-303. Edingburgh: Edingburgh University Press, 2011.
- Overland, Indra, and Heidi Kjaernet. *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*. New York: Routledge Publishers, 2010.
- Pascual, Carlos , and Jonathan Elkind. *Energy Security: Economics, Politics, Strategies, and Implications*. Washington: Brooking Institution Press, 2010.
- Pepe, Jacopo Maria. *Beyond Energy: Trade and Transport in a Reconnecting Eurasia*. Berlin: Springer publishers, 2016.
- Pomfret, Richard. "Constructing Market-based Economies in Central Asia: A Natural Experiment?" *The European Journal of Comparative Economics* 7, no. 2 (2010): 449-467.
- Schliep, Rebekka. *The implications of the rentier state theory regarding the major oil-producing states of the Middle East*. Norderstedt: Grin Publishing Company, 2017.
- Selvik, Kjetil, and Bjørn Olav Utvik. *Oil States in the New Middle East*. New York: Routledge Publishers, 2016.
- Sovacool, Benjamin K. *The Routledge Handbook of Energy Security*. New York: Routledge Publisher, 2011.
- Statista. *Daily demand for crude oil worldwide from 2006 to 2019 (in million barrels)**. April 18, 2019. <https://www.statista.com/statistics/271823/daily-global-crude-oil-demand-since-2006/> (accessed July 3, 2019).
- Susan Stewart, Mr Hans-Henning Schröder, Ms Andrea Schmitz, Ms Margarete Klein. *Presidents, Oligarchs and Bureaucrats: Forms of Rule in the Post-Soviet Space*. Surrey: Ashgate Publishers, 2012.
- Tengri news. *Share of China's companies in Kazakhstan's oil production estimated at 24%* . November 25, 2016. <https://en.tengrinews.kz/markets/Share-of-Chinas-companies-in-Kazakhstan-s-oil-production-24323/>.

- World Bank. *Kazakhstan GDP growth (annual %)*. 2018.
<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=KZ>.
- . "World Bank Group – Kazakhstan." <https://www.worldbank.org>. April 2015.
<https://www.worldbank.org/content/dam/Worldbank/document/Kazakhstan-Snapshot.pdf>.
- World Top Exports. *Kazakhstan's top 10 exports*. 2018.
<http://www.worldstopexports.com/kazakhstans-top-10-exports/>
(accessed December 22, 2018).
- ZP Kazakhstan. *Oil and gas companies of Kazakhstan*. 2019.
<http://zp.kz/en/25/29.html>.