

CLANS' STATE CAPTURE AND REGIME DURABILITY IN THE KYRGYZ REPUBLIC
AND KAZAKHSTAN

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Abstract

Fifteen years after the demise of the Soviet Union the Central Asian republics found themselves in similar authoritarian conditions. However the so-called Tulip revolution sets Kyrgyzstan apart from the dominant patterns in the region. The role of informal politics has become one of the most attractive explanations of the political situation in the country. It is argued by many scholars that the ruling clan of the president Akaev could not stay in power for a long because it did not have enough resources to buy elite's support. Comparing the cases of the Kyrgyz Republic and Kazakhstan the research finds that role of resources does not play the assumed crucial role for the ruling elites to stay in power. The ability of the ruling clan to negotiate clan pacts and keep them stable, balancing and respecting other pact members, is the main explanatory factor contributing to regime durability in the cases researched.

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INTRODUCTION

After the collapse of the Soviet Union all Central Asian republics became independent sovereign states. The countries were no longer supervised by Moscow in terms of policies. They faced the list of serious reforms that were necessary to build an institutional framework and become full members of international community. During the first years of independence the countries performed differently. Kyrgyzstan was argued to be more democratic than other states in the beginning of 1990s, while Turkmenistan was considered to be the most authoritarian. Fifteen years later the countries presented five variations of authoritarianism. One of the most important aspects of the transition period has become the question of regime durability. Before 2005 the region was considered as stable and authoritarian. The events happened on March 24, 2005, also known as the Tulip revolution, have provoked serious research projects in political science. The Kyrgyz Republic experienced something that is referred as color revolution, while it's most similar and culturally close neighbor Kazakhstan has experienced no revolutionary action at all. The reason why the country was brought to conditions of a full-fledged revolution is explained in different way.

It is common to believe that the collapse of the regime headed by Akaev was, mainly, due to high-bureaucratic corruption, tribalism, and bad socio-economic performance of the state in general, although few really discuss the terms used all over in media. Moreover, the president started to be hated after Aksy events in 2002 when violence was used to calm down the crowd.

The analysis of the existing literature showed that in order to understand the so called revolution in the republic, it is worth to look at informal networks and institutions in the country. As well as Kazakhstan, the Kyrgyz Republic is deeply intervened by different informal networks that have existed in the countries for a certain period of time. Many scholars contribute to the

discussion of the existence of so called clans in the republics. Although scholars provoked a huge discussion regarding criteria clans have, in the context of the current research one accepts those as groups of powerful members of elite in the society, based on “kin or fictive kin identity,” practicing resource extraction and state capturing. These informal organizations care about resources and profit maximization. Clans also negotiate pacts that allow them to divide a state pie into many pieces.¹

Collins is considered to be a vanguard in the field of informal politics in Central Asia. Discovering the topic of the Tulip revolution, the scholar found that the regime of the previous president Akaev collapsed due to clan politics. It is widely argued in her book that the president has always relied on clans while in power.² The similar situation can be found in case of Kazakhstan. If clans exist in both cases, what is their contribution to the regime collapse and regime stability in the two Central Asian countries?

The so called *informal pacts* guarantee clans resource redistribution and descent living in a state. Collins states that pacts are important for regime stability; however, in order to negotiate one, the ruling clan should possess enough resources to redistribute and make everyone loyal. At the same time, resource scarcity is a serious obstacle for the pact to succeed. Collins together with other scholars agrees that the contentious action in the republic was provoked by the collapse of the pact created in the first years of independence among clans. The reason of its demise was the lack of resources provided by the ruling clan.³

Kazakhstan fits the presented model. The country receives significant oil and gas revenues and has a very stable regime of Nazarbaev. Schatz, being a prominent scholar of

¹Kathleen Collins, *Clan Politics and Regime Transition in Central Asia*, (Cambridge University Press, 2006), 17.

² Collins, *Clan Politics*, 26.

³ Collins, *Clan Politics*, 361.

informal politics in Kazakhstan, argues that the ruling clan has been using those resources widely, in order to stay in power.⁴

Summing things up, it can be said that amount of financial resources determines the fate of the clan pact. However, at the same time, one faces significant empirical contradictions. A closer look shows that the president of the Kyrgyz Republic did not really lack additional financial assets. First of all, the country never had a lot. Secondly, all major macroeconomic indicators show that Kyrgyzstan has never experienced any significant drops in Foreign Direct Investments (FDIs) or budget. Moreover, the trend of investments has always been positive.⁵

At the same time, the Kazakh case shows that resources were widely used by the ruling elite, but sometimes they were not enough to support the regime. The separatist movements in the mid 1990s in the northern regions of Kazakhstan are the vivid example. Moreover, talking about world examples, there is no obvious correlation between being resource abundant and regime durable.

This thesis finds out that it is wrong to estimate a regime's durability basing on the amount of revenues a ruling clan receives from oil and gas or some other profitable sectors. What is relevant to look at, in case of the Kyrgyz Republic and Kazakhstan, is the ability of regimes to conduct elite pacts. Many scholars call the phenomenon differently (Collins: clan pact, Schatz: clan balancing); however the mechanism of its functioning is the same. Clans come together and decide upon the sectors of their activity and share the pie of profits. *Clan pact* or *clan balancing* is something that has been always preserved in Kazakhstan, while in case of the

⁴ Edward Schatz, *Modern Clan Politics: The Power of "Blood" in Kazakhstan and Beyond* (Seattle: University of Washington Press, 2004), 89.

⁵ "Arrival of Direct Foreign Investments by Countries," National Statistical Committee of the Kyrgyz Republic, <http://www.stat.kg/Rus/Home/index.html#Top1>

Kyrgyz Republic the latter declined due to the extensive state capture of the ruling elite of Akaev.⁶

The thesis develops as follows. The first chapter elaborates on the theoretical concepts necessary for the research. It defines relevant informal networks and their behavior in the society. It also depicts the outcome of clans' activity. The following two chapters shed light on the cases of the Kyrgyz Republic and Kazakhstan. They discuss the role of natural resources in regime durability. The last chapter gives an alternative look at the question of regime durability of the ruling elites in the countries. It concludes that the role of resources is not crucial, in terms of regime durability. The extent of state capture of ruling clans and consequent termination of clan pact members seems to be a better understanding of the regime collapse in Kyrgyzstan.

⁶ Schatz, *Modern Clan Politics*, 111.

THEORETICAL FRAMEWORK

This chapter sheds light on the main theoretical tools connected to the notion of clans and clan behavior, by discussing their nature, their politics, and the mechanisms that allowed these informal networks to capture the formal structure of the two Central Asian republics. During the chapter the following questions will be answered. What are the clans?

Why did these clans appear? How did these specific groups manage to become redistributive hegemony? Finally, why was it the demise of one clan in the case of the Kyrgyz Republic, while it is still not the case in Kazakhstan. This chapter will conceptualize who the relevant actors are and what kind of effect they produce.

Who are the actors?

There is no general agreement among scholars such as Collins, Luong, and Schatz concerning the question of how to characterize informal networks in the republics. Interpretations and classification of those informal groups that have a real impact on politics in the region differ. The five Central Asian republics seem to have different clan systems. The case of clans existing in Kazakhstan and the Kyrgyz Republic are not exceptions. There is a huge debate concerning the origin and criteria of informal networks as clans among scholars. Luong argues that clans in Central Asian republics are based on regional identities developed in Soviet period.⁷ Schatz argues that in the context of Kazakhstan it is relevant to take into account blood ties.⁸ Olcott, on the other hand, does not believe in primordial context of modern clans in Kazakhstan.⁹ Collins, in order to explain clans in the whole region, keeps clans as “kin and fictive kin based” groups.¹⁰

⁷ Pauline Jones Luong, *Institutional change and political continuity in Post-Soviet Central Asia* (Cambridge University Press, 2002), 59

⁸ Schatz, *Modern Clan Politics*, 47.

⁹ Martha Brill Olcott, *Kazakhstan, Unfulfilled Promise* (Carnegie Endowment for International Peace), 184.

¹⁰ Collins, *Clan Politics*, 22.

Primordial perspectives

Informal networks have always existed throughout the history of Central Asian states. Both Collins and Anderson believe that the most common informal networks that intervene into political structures of the country are clans. They argue that clans are typical for the Kyrgyz nomadic tribal culture. Institutions based on such identities are the most viable since clans have survived throughout the whole history of Central Asia. Although the current clans are different from initial ones that existed in medieval times. They are less blood-based and more inclusive, empirical data show that there is a very strong correlation between sub-ethnic identity and clan affiliation.¹¹

Khamidov puts tribalism relations at the epicenter of the Kyrgyzstan's political life. He draws people attention to the bigger primordial cleavage existing in the country, which is *ong kanat* (right wing) and *sol kanat* (left wing). One is from the south of the republic, while the other one is from the north. The political elite from the north was predominant in the majority of governmental positions, while the president of the republic was from the northern primordial tribe.¹²

At the same time, Radnitz would argue that clans are the primordial phenomena. Local support of kin leaders has become more and more practiced in the Kyrgyz Republic. Radnitz shows the case when one influential oppositional leader was arrested in the capital of the country; the next day the whole population of the village he was born in organized several strikes and went to confront the police in the south of the republic. People in the wider region were ambivalent towards the arrest; riots occurred only in three villages. That historically constituted

¹¹ Collins, *Clan Politics*, 22.

¹² Alisher Khamidov, "Kyrgyzstan: organized opposition and civil unrest," EurasiaNet (2002), <http://www.eurasianet.org/departments/rights/articles/eav121602.shtml>

one primordial clan from where the political leader originally was from.¹³ The most extreme example of primordial interpretation of clans took place in 2003 in the Kyrgyz Republic. During the spring of this year one of the opposition leaders declared his will to create a party based on one primordial tribe, *Sayak*. Nurlan Motuev, the leader of the hypothetical party, even plagiarized Marxist slogan for his party – “Sayaks of all countries in the world – unite!” The person was considered to be a politician from the region and informal leader of the clan. His attempt to create a party based on primordial tribe did not succeed, but created huge dissonance within the society.¹⁴

Modern perspectives

Luong states that informal networks are based on regional identity and implies a modern connotation. The scholar points out that these informal political networks were developed during the Soviet period and retained their significance during the independence years. She points out that the Soviet system managed to destroy previously existing informal networks in the country and established regional ones. The soviets were successful in reducing both Islamic and sub-ethnic identities in the region. The Soviet administrative territorial structure benefited regional compounds as *oblasts* (administrative regions) more than republics in general. Regional heads of the communist party received resources directly from Moscow. The ones who were receiving funds from Moscow were in charge of “Obkoms”, i.e. heads of regions in the Soviet republics. These elite members were very powerful in terms of money distribution within their regions. After regional leaders received money, they redistributed resources in the way they wanted. Too generous distribution of resources within a specific group of individuals in a region created patronage networks that supported the leader in emergency situations such as a possible removal

¹³ Scott Radnitz, “Networks, localism and mobilization in Aksy,” *Central Asian Survey* (2005), 424.

¹⁴ Nurlan Motuev, “Dzhumgalskii triumph sayakov,” ResPublika (2003), <http://www.tazar.kg/news.php?i=2256>

from the office. This structure of resource redistribution worked perfectly during the Soviet times and determined the way clans were transformed from primordial tribes into modern regional factions.¹⁵

The collapse of the Soviet Union was the point of transformation of regionalist networks, since structure of resource redistribution changed. During the independence period, resource redistribution was in the hands of the government of the Kyrgyz Republic, headed by President Askar Akaev. It can be concluded, there were no formal structure left to maintain regionalist informal institutions in Central Asia. The network became weaker but did not vanish completely. Regionalist groups with thoroughly worked informal institutions were the most developed informal networks during the process of democratic state building; since they had rich experience of rent-seeking by that time and were ready to 'seize' power and resources.¹⁶ Radnitz has the same view on informal networks in Kyrgyzstan; however he believes that regionalist identities are too broad and non-functional informal networks. The author draws attention to small networks existing within a specific region. He supposes that clans can be efficient only with a limited number of people. It is difficult to practice patronage and clientelism with twenty thousand individuals, however possible with small groups of people. He assesses small local identities as the most influential ones in Kyrgyzstan.¹⁷

There is another modern point of view regarding clans in Central Asian republics. According to Engvall and Anderson, informal networks existed before the collapse of the Soviet Union. However, the creation of an independent state significantly contributed to the development of informal institutions and narrow interest groups, i.e. clans within the country. The scholars argue that informal institutions have flourished because formal institutions were

¹⁵ Luong, 59.

¹⁶ Ibid.

¹⁷ Radnitz, *Mobilization in Aksy*, 424.

extremely weak in the first years of democratization. The majority of essential institutions fled from the country with the collapse of the Soviet Union leaving an institutional vacuum needed to be filled by alternative institutions. Previously existing small clans filled the systemic gap because they were good alternatives. Engvall confirms that the majority of competitive informal institutions were developed during the Soviet period of time.¹⁸ At the same time, the rise of independence was extremely beneficial for their later development. The absolute independence and lack of control (previously supervised by Moscow) led to substantially corrupt regimes of both Akayev and Bakiev.¹⁹ Current politics of Kyrgyzstan is strongly penetrated by clans trying to pursue their own interests. These clans have the strong parallel with interest groups in democratic countries; however unlike the latter, clans do care about short term (fast) rent-seeking opportunities only once they are in office. It is too costly for them to stay in power for long. Inefficient policies favoring clan members and clan interests are not tolerated for long by other competitors in states, i.e. by other clans. Once they come to power they try to maximize their profit using state resources. Redistribution of resources within the clan is the main goal of them.²⁰

So what are the clans?

It is argued that clans are both primordial and modern. Some find it hard to believe that clans are modern because of the huge amount of examples one can find in reality:

Under the Akaev regime, the northern Talas and Chui regional groupings controlled most of political and economic positions, but in the aftermath of the *Tulip Revolution* almost all of the regional factions have been trying to dominate the system, and the representation of southerners from Osh and Jalalabad (Southern regions) regions has increased.²¹

¹⁸ Johan Engvall, "Kyrgyzstan: Anatomy of a State," *Problems in Post-Communist* 54 (2007): 29.

¹⁹ Engvall, 39.

²⁰ Ibid.

²¹ Ibid.

In addition to that, there was a scandal with Motuev and many other allegations connected to primordial clans are abundant in the republic. Every time someone talks about clans they blame politicians and influential bureaucrats for favoring their relatives firstly. One cannot really dismiss the initial primordial interpretation. However this framework does not explain recruitment of non-Kazakhs and non-Kyrgyz into clans. For instance, how can one explain the existence of ethnic Russian prime-minister during the 2003-2005 when Tanaev was in office? Having these in mind it is rational to include both criteria into the discussion of clans. However in this case the question why both of them exist is not answered.

Olcott and Luong answer to this question. Both scholars state that sometimes it was an “overlap of clan identity and collective farm identity” during the Soviet times. In other words, it was the same to be a member of primordial clan that was modified and changed due to policies conducted in Soviet times. Regional kinship meant being a member of the same primordial clan because of the process of *collectivization*, which implied formation of *kolhozes* (collective farms) on the basis of primordial organizations (i.e. clans); however it was not always the case. Soviets created *Kolhoz* based on one primordial clan living on a specific territory.²²

Gullette gives a different interpretation, describing informal groups in Central Asian countries as “informal, neo-traditional structures of power” with strictly calculated rational behavior aimed at power struggle for resources. However there is one significant modification of the Collins’ model of clans. The author considers clans as rationally calculated networks redistributing resources. This interpretation dismisses primordial types of clans immediately. Why then do blood ties still matter? Gullette argues that clans are not usual corporate groups as Collins defined but “[they] are conceptions developed through different forms of genealogical knowledge.” The author argues that “genealogical imagination”, i.e. relatedness and knowledge

²² Luong, 159.

about ancestors such as, *jeti ata* (Kyrgyz: seven matrilineal ancestors) and common kinship life cycle events within the clan reinforce relations between people and determines later political coalitions.²³

It is impossible to use one classification to define clans in the two republics. Considering Akayev's clan (before 2005) and Nazarbaev's clan it is clear that the discussion whether clans are primordial or modern is not clear because they are mixed. However what is important is to define these informal networks as corporate groups of people that were recruited to their informal political faction through different channels discussed earlier. Collins concludes her book on clans by stating that clans are neither modern nor primordial, and refers to them as social organizations within the society based on rational calculations conducted by the members of these groups.²⁴ In sake of the research it is relevant to keep the studied clans as corporate groups. Schatz contributes to the discussion arguing that "common kinship" takes place in Kazakh politics, but it is also important to understand these groups as political and economic factions "that monopolize state power and economic resources and do not wholly rely on kinship ties."²⁵ The author also argues that clans' behavior in Kazakhstan is characterized as a behavior of "unitary actors with narrowly defined self-interest."²⁶

Processes of informal networks and institutional development

Helmke and Levitsky give several possible explanations explaining the emergence of informal networks in republics. Some of them are explained by the structure of formal institutions, while others refer to unique cultural and historical circumstances. The reality is that clan-based norms have become the rules of the game in states of Central Asia. The first viable

²³ David Gullette, "Theories on Central Asian Factionalism: The Debate in Political Science and its Wider Implications," *Central Asian Survey* 26 (2007): 383.

²⁴ Collins, *Clan Politics*, 142.

²⁵ Collins, *Clan Politics*, 345.

²⁶ Schatz, *Modern Clan Politics*, 249.

explanation given by scholars is that informal networks appear in those places where “formal institutions are incomplete.”²⁷ In other words, they serve as complementary elements that logically eliminate institutional gaps created by formal institutions. Secondly, informal set of institutions might be preferred to formal ones, if formal institutions do not allow the similar favorable opportunities for actors. Rationality leads the behavior of actors, making them choose the most cost efficient mechanisms to achieve redistribution goals.²⁸

Another important conclusion elaborated by scholars, which is relevant in the explanation of the question why informal networks have functioned, is maintenance of informational asymmetry in the society. It happens that some of the objectives pursuits by the actors in the society are publicly unacceptable. It is especially relevant in case of clans of the Kyrgyz Republic and Kazakhstan that are aimed at resource stripping, which is not publicly tolerated. Informal institutions elaborated by clans allow them to conduct processes behind the public’s eyes. They strip resources, steel public assets, and manipulate foreign aid to maximize their benefit. Formally this could not be possible to do; however informally it is possible, since few know about it.²⁹

Process of informal networks development

The crucial element of informal networks’ development is a creation of pacts. Creation of pacts is not a unique phenomenon. The one that was created is similar to elite pact discussed by Schmitter. The creation of new order was strongly dependent on the role of elites and their cooperation and capacity to create pacts. The inability of elites to come up with collective action and create a pact of governance and new system of social and political interaction results in

²⁷ Gretchen Helmke and Steven Levitsky, “Informal Institutions and Comparative Politics: A Research Agenda,” *Perspectives on Politics* 2 (2004): 730.

²⁸ Ibid.

²⁹ Ibid.

contentious actions and civil war in the end. Tajikistan did not produce an elite pact and ended up with a civil war in the end. Collective action was seen unnecessary to conduct in the country because of non-equal power balance among the political elite. The predominant factor was confrontation instead of compromise.³⁰

It has been already said that informal networks such as clans practice their activities outside of the formal structures. The field of their activity is behind the public eyes, since the public will not stand such behavior. The process of development of informal networks and rules they practice are closely connected to the goals of their existence, i.e. power and resources. Levisky argues that “these [informal] rules are unevenly distributed; they can be expected to produce winners and losers.”³¹ Clans tend to conduct their illegal and hidden activities to maximize their profit and leave others with nothing. Having in mind that policy initiation of state capture in the studied countries is “top down” it is relevant to argue that informal distributional coalitions do their best to sustain “themselves as winners and others as losers” in the society. In order to keep equilibrium it is important to achieve such a situation in the society. And the question how these groups, i.e. clans became initial winners that allowed them to dictate their own policies is explained by the model of *partial reform equilibrium*.³²

Defining clans' behavior

Clans' political and economic behavior is discussed by several prominent scholars. According to Collins, informal networks are more connected to resource redistribution. Informal networks try to gain benefit staying in power. Resource extraction- and redistribution-oriented policies that would favor narrow groups' interests are the main driving forces of informal

³⁰ Michael McFaul, “The Fourth Wave of Democracy and Dictatorship,” *World Politics* 54 (2002): 227.

³¹ Helmke and Levisky, 731.

³² Joel Hellman and Daniel Kaufmann, “Confronting the Challenge of State Capture in Transition Economies,” *Finance and Development* 38 (2001): 38.

networks.³³ Clans' main objective is a place in office to conduct Engvall calls *state-capturing*.³⁴ Mobilization during elections and patron-client relations in office are not the final goals *per se* but a way to obtain access to resource redistribution.³⁵

Olson gives a well structured comprehensive framework of understanding how small narrow groups pursue their interests while they access state resources. This is a good theoretical support to understand clan politics in Kyrgyzstan. Olson argues that narrow interest groups such as clans are more successful in resource extraction if they are small because they have better collective action power, in comparison with other actors in the society. Since these groups are small, they usually represent only very small and narrow part of the population. They care about the interests of minor parts of population and "have little or no incentive to make any significant sacrifices in the interest of the society. They can best achieve interests by "striving to seize a larger share of a society's production for them."³⁶ In other words, interest groups care about the distribution of resources "rather the production of additional outcome." Olson calls them "distributional coalitions." The way the author applies the name for these interest groups is justified, since, according to Olson, these small groups do not produce any *additional output*; however they redistribute the existing one. The public stands these groups mainly because it does not know about the activity these groups conduct in the governmental sector. Using a "primitive" understanding of informational asymmetry one can explain the situation occurring between special narrow interest groups and the public, i.e. the public cannot afford costs connected to awareness of governmental activity in specific sectors and the interest groups' activities.³⁷

³³ Collins, *Clan Politics*, 145.

³⁴ Engvall, 42.

³⁵ Collins, *Clan Politics*, 165.

³⁶ Olson, 21.

³⁷ Ibid.

There is no additional production as a result of special interest groups activity, but redistribution only; the prevalence of such small interest groups will lead to the situation of dominant redistribution and absence of economic growth.³⁸ Murphy adds that high level of rent-seeking leads to low output as a result of extensive redistributive activity.³⁹ Hellman refers to these groups as to net winners that manage to benefit from the policies they conducted producing substantial cost for the rest of the society.⁴⁰ Khan and Jomo contribute to the discussion saying that actors use political activities to protect, maintain, or gain rent-generating rights. In other words, groups use legal or illegal mechanisms to obtain special rights that would change the system to deliver rents to the specific group or groups of the society.⁴¹ It is argued by scholars that activity of clans bring overall problems for the whole society. The results of clans' activity are decisive for the economic growth and other important indicators.

Partial Reform Equilibrium

One of the possible outcomes created by clans is *Partial Reform Equilibrium*. The phenomenon is the result of partially run liberalization policies conducted by the government in transition. Hellman argues that comprehensive reforms bring short term costs and long term benefits. Hellman in *Winners Take All: the Politics of Partial Reform in Postcommunist Transitions* is arguing that that in the context of postcommunist states it is relevant to say that more comprehensive reforms lead to faster recovery in the transition. FIGURE 1 illustrates the so called J-curve.⁴²

³⁸ Olson, 47.

³⁹ Kevin M. Murphy, Andrei Shleifer, and Robert W. Vishny, "Why Is Rent-Seeking So Costly to Growth?" *The American Economic Review* 83 (1993): 410.

⁴⁰ Joel Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics* 50 (1998): 217.

⁴¹ Mushtaq H. Khan and Kwame S. Jomo, *Rents, Rent-Seeking and Economic Development* (Cambridge University Press, 2000), 18.

⁴² Hellman, *Partial Reform in Postcommunist Transitions*, 217.

At the same time both partial and comprehensive reforms produce net winners in short term with excessive “gains determined by rents generated by the existence of distortions in the developing market economy”.⁴³ When reforms are wholly conducted economic distortions producing concentrated rents for the small amount of winners disappear. In the context of Kazakhstan and the Kyrgyz Republic in the beginning of 1990s, one keeps reforms partial, while the short term gains become stable for the winners. The so called equilibrium later became a major technique used by firms and other influential actors of the society in order to “create zones of relative security and advantage for themselves at the expense of all other firms [actors].”⁴⁴ The author states that this model, initiated by formal structure, “creates the narrow constituency of short-term winners, while the burden of costs of the reform is dispersed throughout the economy.”⁴⁵ Those who benefit from the partial reform equilibrium are insiders of the system, i.e. those who were directly involved in the process of elaboration of reforms in the early years of independence. It is relevant to look at ruling elite during the early period of independence of the researched states. “Partial reformers” produced the highest level of state capturing, while the most thoroughly conducted reformers produced the lowest level of state capturing. In case of “partial reform equilibrium” winners have very strong motivation to freeze the current partial stage of reforms when the losers tend to lose the most, while the winners get the most. Winners being insiders and initiators of reforms have blocked any institutions and policies that come from other factions.⁴⁶ Partial Reform Equilibrium best describe the situation with state capture techniques used in first half of 1990s. For example, the process of privatization without fair legal mechanism of assets reallocation was captured by the most powerful actors in the society.

⁴³ Hellman, *Partial Reform in Postcommunist Transitions*, 217.

⁴⁴ Joel Hellman and Daniel Kaufmann, *State Capture in Transition Economies*, 24.

⁴⁵ Hellman, *Partial Reform in Postcommunist Transitions*, 217.

⁴⁶ Joel Hellman and Daniel Kaufmann, *State Capture in Transition Economies*, 34.

State Capture

In the context of the current research it is relevant to consider *state capture* as the outcome of clans' activity. The term of state capture is often used by Hellman as a phenomenon when different factions within the society penetrate the formal structure of the state. These are the strategies of private firms or coalitions in the society aimed at the shaping of the policies and formal institutions that would increase the advantage of those groups.⁴⁷

All forms of state capture are directed toward extracting rents from the state for a narrow range of individuals, firms, or sectors through distorting the basic legal and regulatory framework with potentially enormous losses for the society at large.⁴⁸

The phenomenon is negative in terms of its outcome for the system's functioning. The practice brings not only public losses (i.e. lower level of growth or its absence) and increased win set for the state-capturing actors but also it causes poor performance of the formal structure in general. Hellman puts "state capture has become not merely a symptom but also a fundamental cause of poor governance."⁴⁹ The author adds that "the capture economy is trapped in a vicious circle, where institutional reforms necessary to improve governance are undermined by collusion between captors and officials who reap substantial private gains from the continuation of weak governance."⁵⁰

State capture is deeply connected to significant social costs, according to Hellman. "The capture economy weakens the state and undermines the provision of basic public goods. It creates obstacles to the entry of small and medium-sized enterprises, undermining the key sources of sustainable growth."⁵¹ Hellman gives evidence stating that groups, chasing private benefits, inflict tremendous cost on a state. They found that the overall enterprise sector in post-

⁴⁷ Joel Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition," World Bank Policy Research Working Paper 2444 (2000), <http://ssrn.com/abstract=240555>.

⁴⁸ Hellman, *Partial Reform in Postcommunist Transitions*, 215.

⁴⁹ Ibid.

⁵⁰ Joel Hellman and Daniel Kaufmann, *State Capture in Transition Economies*, 29.

⁵¹ Joel Hellman and Daniel Kaufmann, *State Capture in Transition Economies*, 24.

communist transition economies reduced by ten percentage points.⁵² The issue of state capture is negative for the overall development of the country. Special redistributive coalitions need resources, money, and power to capture. If it is scarce, competition over those resources rises and leads to interest overlapping and competitive redistribution of resources among actors. This kind of situation leads to pact instability and possible problems rising among clans over the scarce amount of resources.

The concept elaborated by Kaufmann and Hellman is a good explanation of the processes happening in the majority of Post-Communist countries, although the concept needs to be modified in order to be relevant for the countries of our interest, i.e. Kazakhstan and the Kyrgyz Republic. One significant deviation from the model created by Hellman explaining the concentration of power in hands of few in Post-Communist world is the different direction of the policy initiation of the phenomenon. The classical model looks at business groups and other actors in the society that started the process from the bottom. Quite oppositely, the situation in the Kyrgyz Republic and Kazakhstan, as well as, in other countries of Central Asia was different. Redistributive coalitions, in terms of clans, did not need special policies and mechanisms that would change the formal structure in order to work in sake of their mercantile interests. These clans are in charge of the formal structure. In other words, there are no actors more superior in the society than these clans and their leaders. They are the powerful actors that conduct state capturing of the state resources and public assets of their own society that by some virtue have not been caught by clans. In the case of Central Asian republics, the policy initiation of *state*

⁵² Hellman et al, *Seize the State*.

capture is from the above, not from the bottom, while in other respects the concept is sufficient enough to explain the processes happening in the republics.⁵³

Role of resources

It is discussed earlier in this chapter, the role of resources is vitally important for the model of clan behavior is closely connected to resources. Clans live in order to extract resource and conduct stripping of state resources. There are two cases where amount of resources is different. The case of Kazakhstan will show that amount of resources is ample in the republic, while the case of the Kyrgyz Republic is different. The framework elaborated by Collins proposes that amount of resources is crucial. Therefore, one surmises that abundance of economic and power assets gives a chance for clan elites in Kazakhstan to stay calm and loyal towards the group of Nazarbaev, while the resource scarcity and greedy behavior of the ruling clan of Akaev did not give the chance for the regime to live through for a long time.⁵⁴

The ruling clan redistributes money not only within its own clan but also among rival clans in order to buy their loyalty. Collins calls this an *informal* clan *pact*. The lack of resources is the situation that will immediately lead to confrontation or even an open conflict among clans that have been suddenly cut from the access to resources. The so called Tulip revolution is the result of the ruling clan activity depriving other factions in the country in resources they used to have access to. Keeping in mind that leaderships of both countries are based on clan pacts one can conclude that resources in terms of money and state assets play significant role in clan pact stability.⁵⁵

⁵³ “Measures addressing State Capture in Russia/Ukraine/Central Asia.” U4 Anti-Corruption Resource Centre, <http://www.u4.no/helpdesk/helpdesk/queries/query18.cfm>.

⁵⁴ Collins, *Clan Politics*, 361.

⁵⁵ Ibid.

The question of clan pact stability is clearly determined by the amount of resources the ruling elite possess. It is true that Kazakhstan is richer in resources due to oil revenues, than Kyrgyzstan. Consequently, it is rational to surmise that the regime of Nazarbaev managed to survive because of substantial revenues, while the Kyrgyz case is opposite in that concern.

Alternative explanation

The role of resources seems to be the obvious factor influencing the regime durability. Moreover, there are many scholars arguing that resource abundance was positive for Nazarbaev, and negative for Akaev. However one cannot definitely conclude that Akaev ran out of resources. However the last years of Akaev's presidency occurred during the profit years of fighting against international terrorism. One US military base was deployed to the republic, accompanied with a generous flow of investments, credits, and FDIs (see appendix). Moreover, Russian Federation expressed its substantial interest in the republic at the same period of time. This also included the deployment of one Russian military base to the city of Kant. In other words, did Akaev really run out resources? It seems the answer to the question is not obvious. Moreover, despite the current stability, the ruling clan of Nazarbaev experienced the amount of serious problems consolidating his power in mid 1990s.⁵⁶ Oil revenues did not play stabilizing role that time. Then what is the crucial variable that allows a ruling clan to maintain itself in power. What is the role of resources and clans?

The closer look at empirical examples will show that resources and power have been important for clans. But the second most probable explanation of the regime stability of the

⁵⁶ N. Mustafaev, "Social-Political Situation in Northern Kazakhstan," <http://www.kisi.kz/old/Parts/IntPol/02-22-02Mustafaev.html>

ruling clans remains to be the so called clan *pact*, according to Collins, and clan *balancing*, according to Schatz.⁵⁷

⁵⁷ Schatz, *Modern Clan Politics*, 111.

THE CASE OF THE KYRGYZ REPUBLIC

This chapter discusses the case of the clan's state capture in the Kyrgyz Republic. It shapes the image of the ruling clan of the first president of the republic – Akaev. The chapter gives the timeline of the clan evolution and its final demise on the 24th of March, 2005. The main developments such as the formation of the ruling clan into a powerful coalition, the initial stage of state capture in terms of resource accumulation during the process of privatization, and the creation of the elite pact in the beginning of the 1990s are discussed. While the special attention is paid to the later developments of the clan's state capture in late 1990s and early 2000s. The phenomenon of the so called Tulip revolution is defined as the change of the political ruling elite in the context of the clan politics. The main reason behind the collapse of the elite pact is argued to be resource scarcity of the ruling clan; however amount resources seems to be not obvious explanation of the clan pact collapse.

Defining the clan

The focus of the empirical chapter is aimed at the presidential clan of the Kyrgyz Republic. The theoretical part argues that it is relevant to consider clans in the country as the rationally calculated coalitions with some primordial features. The ruling elite in the country has always been considered as the most powerful clan. Huskey argues that the majority of Communist leaders of the republic belonged to different clans e.g. that served as resource redistributing grounds of state resources. The example is described by Huskey in his *The Rise of Contested Politics in Central Asia*. The scholar argues that during the Soviet Times the ruling elite of Usabaliev was strongly dependent on clans.⁵⁸ As for the independent period of the republic, both presidents found themselves increasingly relying on clans' support to keep

⁵⁸ Eugene Huskey, "The Rise of Contested Politics in Central Asia: Elections in Kyrgyzstan, 1989-90," *Europe-Asia Studies* 47 (Jul 1995): 816.

themselves power. There is a huge amount of scholars arguing that the first president of the republic - Akaev was constantly pursuing interests of his clan. While Engvall in his article *Kyrgyzstan: Anatomy of a State* compares the two presidential regimes and comes to conclusion that Bakiev's regime has also been significantly connected to the promotion and state capture of state resources by his clan.⁵⁹

The focus of the current research is the regime of the first president of the republic. Akaev's ruling era has always been connected to corruption, tribalism, and clanism. After 1995 "the Sarybagysh clan, the president's own clan, emerged as another very powerful network; it was represented by families from the Kemin region. Those received the main positions in Presidential office and high ranked bureaucratic positions"⁶⁰. By 2000 the ruling clan became the most powerful informal network existing in the country.

The clan pact

The first president of the Kyrgyz Republic – Askar Akaev came to power due to the wide support of other actors in the country. The reason why the person satisfied the main part of the political elite in the country was his clanless nature. In 1989 the person was a scholar, not a politician or professional bureaucrat. Akaev was considered to be a clanless actor in the republic. Moreover, he spent substantial amount of time abroad working in Saint Petersburg. His victory during the presidential elections in 1991 was smooth and did not produce significant tensions in the society. "In October 1991, Akayev ran unopposed and was elected President of the new independent republic by direct ballot, receiving 95% of the votes cast."⁶¹ The fact that the person was considered as neutral was crucial for his election; since the candidate satisfied all parts of the

⁵⁹ Engvall, 39.

⁶⁰ Collins, *Clan Politics*, 27.

⁶¹ Global Security "Kyrgyzstan: History," <http://www.globalsecurity.org/military/world/centralasia/kyrgyz-politics.htm>

society. After the president was elected with more than 90 percent of people voted, Akaev was informally expected to conduct policies of resource redistribution of state assets among the political forces supported him. “Most of the powerful or lucrative positions were given to those who had helped Akaev to come to power: Tursunbek Chinguishev, Jumagulov, Chingiz Aitmatov, Askar Aitmatov, and Dastan Sarygulov.”⁶² For example, Chingiz Aitmatov for his generous support of Akaev in 1991 was awarded with ambassadorial post in Benelux states.⁶³ While his son Askar Aitmatov became a minister of Foreign Affairs of the Kyrgyz Republic in 2002. Together with some governmental posts Dastan Sarygulov was given a position of the president of “KyrgyzAltyn” gold company. These people were crucial clan leaders to promote Akaev’s candidacy to the post of the president of the country. Their support of the president was appreciated by the vast redistribution of resources and governmental positions.⁶⁴

Although some believe that the clan of the first president was dominating the economic and political life of the country, statistics (governmental appointments) shows that northern elite was not the only one that ruled the country and benefited from resource redistribution. Other clan elites also received their rents. Collins argues that stability of some of the Central Asian countries is connected to the creation of *informal* clan *pacts*. Those clan pacts imply negotiation among elites within the state and redistribution of roles and benefits in political and economic sphere of the state. Akaev “generously fed several northern Sarybagysh clans – especially the Kemin, Aitmatov, and Sarygulov networks and his wife’s clan – while simultaneously doling out to rival clans just enough to prevent open conflict.”⁶⁵ Collins discusses the precedent when Akaev gave ministerial posts as life gifts in order to maintain the support of other clans and

⁶² Collins, *Clan Politics*, 126.

⁶³ Iraj Bashiri, “Chingiz Aitmatov: A Biography,” <http://www.angelfire.com/rnb/bashiri/Aitmatov/aitmatovlife.html>

⁶⁴ Naryn Aiyup, “Zoloto – tyazhelyi metal” (Russian: Gold – a heavy metal), http://www.ca-c.org/journal/16-1998/st_15_ajip.shtml

⁶⁵ Collins, *Clan Politics*, 156.

avoid a confrontation with the southern elite. The example deals with the position of the Minister of Transportation. Akaev gifted the ministry to Kubanchibek Jumaliev in the early 1990s as a measure to receive political support of Jumaliev's clan (Southern one). Informal pacts between clans played a role of the mechanism of resource redistribution. They allowed the ruling elite to buy loyalty of rival clans in Kyrgyzstan. Despite the fact that resources were redistributed among rival clans also, in terms of the governmental positions and financial assets, the position of the ruling clan was still overrepresented. The main winner of the game remained to be Akaev's clan.⁶⁶

The existence of the so called pact was possible to create due to the existence of the strong financial and resource base. Already in 1992, the president had to face the problem of resource shortage. Its ruling surrounding needed resources in order to keep the economy alive and preserve stability among factions. The Kyrgyz Republic is a country with scarce natural resources and few industrial sectors that might bring substantial profit for the state. The source of money was found among foreign donor organizations and states that provided the country with aid under the conditions to implement radical economic and political reforms. The country was the first one to implement national currency among all Central Asian republics. Akaev in his book *Kyrgyzstan: an Economy in Transition* indicates several stages of liberal reforms to be conducted in the country. Liberalization of economy, macroeconomic stabilization, political liberalization, and reforms almost in every sector of economy was the direction of the new president.⁶⁷ These developments created an image of a candidate for the successful transition in authoritarian neighborhood of Central Asian states. Anderson refers to the republic from 1991-

⁶⁶ "Kyrgyzstan: Striving towards democracy and economic development," <http://www.winne.com/kyrgyzstan/vi09.html>

⁶⁷ Askar Akaev, *Kyrgyzstan: an Economy in Transition* (Asia Pacific Press, 2001), 58.

1995 as “the island of democracy” of the region.⁶⁸ The flow of unconditional credits and other forms of financial aid projects was significant. “[President’s] economic and political reforms were giving them [clan elites] access to flows of foreign funds as well as newly privatized state and party assets.”⁶⁹ At the same time, the set of radical reforms implemented in the country led to drastic hyperinflation, cuts of social benefits, decline in industrial production, and other J-curve problems called short term reform costs.⁷⁰

Radical reforms were necessary to implement in order to attract attention of foreign donor organizations and states. Akaev was extremely popular within the country by other clans despite reform costs because of generous flow of foreign investments. “By 1993 Akaev had convinced the World Bank, the United Nations, and the Western embassies of his commitment to democracy and the market, and the aid packages and programs began to grow.”⁷¹ It is estimated that only in 1994 the republic received 580 million USD of foreign aid. At the same year, the inflow of Foreign Direct Investments was estimated as 95926.4 thousand USD.⁷²

The situation with the promotion of democratic reforms declined in 1995. Moreover, the whole process of democratization started collapsing. Collins argues that the decline of the liberalization process happened due to the ruling clan tried to consolidate its own “power base” and ensure its places at the economic and political Olympus of the republic. Akaev was no longer capable and willing to impose liberal reforms from the above because the clans that brought him into power opposed those reforms and tried to consolidate their own assets. The ruler found himself in the situation to be strongly dependent on the clans that already were in charge of the key economic sectors of the state. The scholars identify the following clans to be

⁶⁸ John Anderson, *Kyrgyzstan: Central Asia's Island of Democracy?* (London: Harwood Academic Press, 2001), 24.

⁶⁹ Collins, *Clan Politics*, 178.

⁷⁰ Joan Hellman, *Partial Reform in Postcommunist Transitions*, 225.

⁷¹ Collins, *Clan Politics*, 190.

⁷² National Statistical Committee.

strongly favored in mid-1990s in the republic: Kush'chu (Chingiz Aitmatov, and people close to him), Sarybagysh (president's own clan plus Cholpon Baekova – the head of the Constitutional Court, also Osmanakun Ibraimov – head of president's staff), Solto (the clan from the Chui oblast, mainly represented by Feliks Kulov), Kochkor (Usubaliev – former Communist party first secretary), and Buguu clan.⁷³

Clan's state capture

Although the president was considered to be clanless in the beginning of 1990s, already in 1995 it was clear that Akaev was creating his own informal network of patronage. The clan supported the president and gained cars and business licenses in reward. During the later years, the whole system of the country fell under the control of the ruling clan. There is evidence that the major economic enterprises and bureaucratic institutions of the country were redistributed among the clan members of Akaev and his wife. *Goskominvest* (the committee on investments), Ministry of Finance, Central Bank, Tax Inspectorate, Custom Service, Road police department, and *KyrgyzAltyn* (gold mining company) became to be headed by Akaev's clan members. "Relatives of Akaev ran monopolies on sugar, cooking oil, bars, and minibuses. Public assets were informally treated as private within this regime of clan politics."⁷⁴

The scale of state capturing has always been different. In the early years of Akaev's presidency it was a wide manipulation with reforms, i.e. something Hellman calls *partial reform equilibrium*. Mainly it used to be the insiders of the political system of the former Kyrgyz Soviet Republic such as Usubaliev, Aitmatov, and other people close to political elite who captured state enterprises through the privatization process. Collins contributes to the discussion saying that the process "the sale of substantial state assets would be stalled and corrupted by insider

⁷³ Collins, *Clan Politics*, 226.

⁷⁴ "Kyrgyzstan: After the Revolution," *Crisis Group Asia Report* no. 97 (2005), <http://www.crisisgroup.org/home/index.cfm?id=3411&l=1>

involvement.”⁷⁵ Privatization of big and small enterprises was the policy of the state in mid 1990s. Joomart Otorbaev, economic advisor to the president of Kyrgyzstan in 2002 said in his interview to Khamidov that “during the early 1990s privatization of major state assets and key positions in government went to insider clans, which became entrenched in power and then resisted reform.”⁷⁶

State enterprises, natural resources, real estate, and foreign aid were only part of the state capture policies conducted by the ruling clan of the president and pact members. The formal institutions were also attacked. The most well-known case of the informal network of Akaev destroying the formal institution was in 1998, when the head of the constitutional court – Cholpon Baekova, Akaev’s appointee and his clan member, conducted several manipulations with the constitution of the Kyrgyz Republic and initiated a precedent in accordance with which the president of the republic had a right to run for one more term in office. The legitimization of the third term in office was capable due to the fact that the first time Akaev was elected not as a president of the Kyrgyz Republic but as a president of the Kyrgyz Soviet Republic. In other words, the first election did not count. The nature of the constitutional court’s decree was aimed at improvement of the situation of the ruling clan in power. This kind of manipulation of formal rules by special Supreme Court decision organized along clan line was one of the numerous examples existed during the presidency of the first president of the republic. The chain of such manipulations was aimed at the maintenance of the ruling clan in power, so it could continue feeding its clan.⁷⁷

⁷⁵ ICG, *Kyrgyzstan: After the Revolution*.

⁷⁶ Alisher Khamidov, “Clan Politics at the Base of the Kyrgyz Political Crisis,” *Central Asia-Caucasus Institute* (2002): 23.

⁷⁷ “Political Transition in Kyrgyzstan: Problems and Prospects,” *Crisis Group Asia Report* no.81 (2004), <http://www.crisisgroup.org/home/index.cfm?id=2905&l=1>

Processes happening in the republic were seen both by ordinary people and rival clans. Although Akaev's rating was lower among the population of the republic in later 1990s, he gained substantial amount of votes without serious electoral fraud. The crucial source of voters that supported president's third term was the mobilization along clan lines, both Akaev's clan and those clans that received resources from him. The president managed to win the presidential elections of 2000 receiving 74, 47 percent of the votes cast.⁷⁸

Staying in power per se was the paramount goal of the ruling clan of Akaev because it provided the network with resources that were dwindling in the republic; since stagnant or better say declining democratization and liberalization attracted less foreign donors and organizations. The flow of money shrank, while the majority of enterprises were either privatized or collapsed already. The clan was looking for other possibilities of resource extraction from domestic area. Collins agrees that there was no sphere of society that has not been usurped by clans. Civil society, small and big business, as well as trade unions, media, education, and social movements were deeply intervened by the informal clan network. Media was another important liberalization mechanism that was needed to be shut down because of its ability to produce improper information blaming the ruling clan. In 2002, Adil Toigonbaev, a close kin of Akaev, bought the major printing press in the republic, controlling all major *independent* media.⁷⁹

It is also widely argued in media that president's son Aidar Akaev was seriously involved into the illegal business connected to the oil supply projects for the US military base in the Manast International Airport.⁸⁰

In early 2000s the ruling clan managed to intervene in all sectors of the society with the only strict idea to capture enterprises or any other object that might be beneficial in terms of

⁷⁸ "Akev, Askar," *Rambler izdanie Lenta.ru* (2007), <http://www.lenta.ru/lib/14159652/full.htm>

⁷⁹ ICG, *Kyrgyzstan: After the Revolution*.

⁸⁰ "Akaev Aidar Askarovich," *Gazeta.kg*, <http://gazeta.am/people/junior/>

resource extraction. After the democratization projects started to decline, the flow of foreign assistance declined also. Because of that reason, the ruling clan had little incentive to sustain economic and political reforms in the country. Moreover, it had no incentive to develop and keep economy alive, but to strip resources from captured objects and enterprises. Olson would say that this redistributive coalition was short-sighted. It cared only about the short term benefit that could be taken out of state resources.⁸¹ The state became the property of one group of population that controlled and benefited from the majority of the society.

Recent investigations and disclosure of the Akaev family financial and property possessions revealed numerous illegal activities with astounding revenues. The Akaev family controlled major business in the country and was suspected of involvement in money laundering.⁸²

After the so called revolution, the new acting president ordered Daniyar Usenov to conduct an investigation and find out the real scale of state capture the previous president Akaev conducted while in office. The results of the special governmental commission are often criticized; since the main purpose was to discredit the previous regime of Akaev and remind the real purpose of the contentious action produced by the population in 2005. Toursunof argues that the investigation was not fair and its results were seriously exaggerated.⁸³ Despite the criticism, there are many sources that consider the results of the commission legitimate. Kimmage from *Radio Free Europe* supports Usenov's commission arguing that it was a significant contribution against the corrupt regime of the ex-president. The commission produced the list of approximately 100 companies such as Bitel and Kant concrete factory to be "milked" by the ruling clan of Akaev.⁸⁴

⁸¹ Olson, 47.

⁸² Saltanat Berdikееva, "National Identity in Kyrgyzstan: the Case of Clan Politics," http://www.eurasia21.com/cgi-data/document/files/National_Identity_of_Kyrgyzstan_-_the_Case_of_Clan_Politics.pdf

⁸³ Muzaffar Toursunof, "Kyrgyzstan: From Tulips to Roses," *Transitions Online* (2005), <http://www.ceeol.com/aspx/getdocument.aspx?logid=5&id=CBCE5F6C-D16E-4C52-8FF8-D35DE4B3749D>

⁸⁴ Daniel Kimmage, "Kyrgyzstan: Follow the Money – The Akaev Investigation," *Radio Free Europe* (2005), <http://www.rferl.org/featuresarticle/2005/05/44deaece-777c-4828-81ee-5a6e54d29562.html>

Resource scarcity?

According to Olson behavior of such groups is irrational; clans being special redistributive coalitions do not care about their future. They are short-sighted groups caring about the current profit. They strip resources dooming businessmen and enterprises for bankruptcy. The situation created in the republic had a bad impact on people in the republic, creating very low incentive for people to start business. High level of bureaucratic corruption and instant informal payments to the so called *krysha* (protection), which are protected by clans eventually, and low level of democratization in the country deprived the state in financial aid from abroad and lowered the economic level of development. It is endless to talk about the bureaucratic corruption in the country. At the same time the amount of foreign aid lowered from 680 million USD in 1996 to only 268 million USD in 2005.⁸⁵ The country was deprived in financial assistance from abroad, while the ruling clan needed substantial resources that it used to have in order to feed its own clan and keep other clans that helped Akaev to be loyal to the Akaev's clan behavior. Collins argues that resource scarcity of the ruling clan was essential for destabilization of the situation in the country. "Dividing shrinking resources while maintaining a pact and balance of clans has proven to be increasingly difficult."⁸⁶ Lack of resources and declining economic situation started provoking tensions among the clans that started receiving less than before. Resource scarcity persuaded the ruling elite to exclude some previous insiders from the stage of resource redistribution. For example, one of the most vivid supporters of Akaev in the beginning of 1990s, Felix Kulov, was excluded from the clan pact. Kulov was considered

⁸⁵ "Kyrgyzstan: country page," CIA factbook (2008), <https://www.cia.gov/library/publications/the-world-factbook/geos/kg.html>

⁸⁶ Collins, *Clan Politics*, 245.

to be the head of the most prominent Chui oblast clan. He was accused in unsuccessful coup against the president and consequently imprisoned.⁸⁷

However the later cooperation of Akaev with the United States in military sphere contributed to the positive inflow of financial assets into the country. Substantial amount of contracts were conducted between USA and the Kyrgyz Republic, contributing to the stability of the ruling clan. The deployment of the US military base to the Manas International Airport, within the framework of the war against the international terrorism, brought substantial resources into the country. Those were, of course, redistributed along the ruling clan line. The similar cooperation with Russian Federation was also beneficial for the state budget and the clan in particular. Although the new sources of money appeared, they were still not enough to cover the rising demand of the ruling clan. After 2000 elections “Akaev and his allies were excluding the south [from the clan pact] through both force and corruption.”⁸⁸

Unilateral rule

There is an alternative explanation of the exclusion of the southern actors (and many others) from the clan pact. The ruling clan might not ran out of resources, especially having new deals with the United States and Russia; however it might decided to leave everything in its own hands. Empirical evidence shows that late 1990s posed the period of the extensive state capture of the ruling clan. The son-in-law of the president became in charge of the media, while the president’s daughter was running its own party *Alga, Kyrgyzstan!* Moreover, the author indicates that approximately 20 presidents’ distant relatives were ready to run for parliamentary elections.⁸⁹ It is worth to argue that declining resources play the role in the clan pact collapse in the Kyrgyz Republic; however it is also important to take into account the growing appetite of

⁸⁷ Collins, *Clan Politics*, 246.

⁸⁸ Collins, *Clan Politics*, 249.

⁸⁹ ICG, *Kyrgyzstan: After the Revolution*.

the ruling clan that developed throughout the years. The republic could not tolerate huge amount of actors, this made the ruling elite to exclude some pact members from it and capture their profit because of the limited amount of resources available. “As resources declined and Akaev’s family clans became greedier, Akaev cut rival clans from power.”⁹⁰ It is not hundred percent obvious why the clan pact of Akaev collapsed. Was it because of resource scarcity and inability to provide other factions with stable amount of resources? Or maybe, it is due to the extensive state capture of the ruling clan and its great confidence to rule unilaterally. The topic of informal politics is very sensitive and it is hard to exclude one of this hypotheses. Clan pact declined because of the two important factors. The country has never had enough resources for everyone, plus the ruling clan was growing. It was rational decision of Akaev to leave those not numerous assets for his own clan only and deprive others. Despite the issue whether it was resource scarcity or greedy behavior, there is only one thing, which is obvious: the excluded clans started its vast campaign to destroy the ruling clan in power, and capture their positions in government.

The Revolution

It is argued that the so called Tulip Revolution was the inevitable reaction of the population against the corrupt regime of Akaev; since by 2002 his clan was in charge of all main spheres of life in Kyrgyzstan. The president’s corrupt practices, resource stripping, together with the total control of bureaucracy had a negative impact on the situation in the country in the late 1990s. The events happened on March 24, 2005 are usually referred as the Tulip Revolution and considered to be in chain with other ‘color’ revolutions that took place in the early 2000. Although the recent research showed the event’s uniqueness unlike other color revolutions. Radnitz argues that parallel interpretation of events happened in Georgia, Ukraine, and

⁹⁰ ICG, *Kyrgyzstan: After the Revolution*.

Kyrgyzstan is not relevant, especially in case of the Central Asian republic. The event has a different nature. Sources that drove the so called revolution were business interests, informal networks, and patronage ties. The general trend did not change after revolution significantly. It was not a type of revolution that happened in Ukraine, because the scenario lacked significant factions that participated in color revolutions. The event did not have any student movement, urban population, or civil society participating in the event. It was not people who revolted, but “elites lacking broad-based support that had banded together for tactical reasons.” People started mobilization after their parliamentary candidates were eliminated from the first round of elections or they lost. Candidates drove their country mates to the streets of Bishkek, giving some material support or even nothing in reward. People followed because they viewed their candidates as a possible source of support, once he is in office. The whole organization ruined just after the affair was conducted.⁹¹ In other words, the events happened in the Kyrgyz Republic are seen as the collective action of the rival elite groups that were deprived in resources and political power due to the excessive state capture of the ruling clan of Akaev.

It is common to believe that the so called Tulip revolution in the Kyrgyz Republic was the Olympus of the politics practiced by the ruling clan. “Akaev has stripped state coffers and “privatized” state enterprises in order to feed his clan of relatives and friends, his wife’s clan, and their closest cronies.”⁹² The special commissions’ reports published after the coup was finished stated that the ruling clan controlled almost 95 percent of state and private enterprises in the country. Engvall argues that stealing of economic assets, stripping of enterprises, diverting investment flows into private hands, and, last but not least, lack of resources and greedy politics of the ruling clan led to the coup in March of 2005 to happen. The historic moment in the current

⁹¹ Scott Radnitz, “What really happened in Kyrgyzstan?” *Journal of Democracy* 17 (April 2006): 140.

⁹² Engvall, 39.

history of the Kyrgyz Republic arguing that clan mobilization is possible and clan *pacts* are not eternal. Clan politics is powerful, as long as, the ruling clan has resources to feed their supporters, and keep rival clans calm. The lack of resources threatens regime durability and leads to the collapse of a regime.⁹³

Rise of informal clan networks that control, contest, and divide economic and political power, and by weak formal regime institutions. Clan elites and their networks pervade formal institutions and “capture” the state’s resources; they prevent the consolidation of both democratic and authoritarian regimes and weaken their overall durability.⁹⁴

In the aftermath of the revolution the situation in the republic did not change significantly. Engvall states that “under the Akaev regime, the northern Talas and Chui regional groupings controlled most of the power positions, but in the aftermath of the so called Tulip revolution, happened in the country in March 2005, almost all of the regional factions have been trying to dominate the system, and the representation of southerners from Osh and Jalalabad (Southern regions) regions has increased.”⁹⁵ Although it is believed that Tulip Revolution in the country was the immediate reaction of the public to enormous corruption flourishing in the country and instant clanism; however two years later the results argued the opposite. *Eurasia Network* NGO journalist argues that bribe rates to low and middle bureaucracy in the country raised from 200 to 500 percent. The new government of the country does not seem to struggle the issue of corruption, but developing it. According to International Business Council (IBC) NGO situated in Bishkek, the overall investment climate is decreasing in current conditions in the republic. Bureaucratic obstacle is considered to be the major problem in the eyes of entrepreneurs.⁹⁶ In other words, rent-seeking behavior of bureaucratic structure, according to

⁹³ Engvall, 39.

⁹⁴ Collins, *Clan Politics*, 210.

⁹⁵ Engvall, 39.

⁹⁶ “Rampant Corruption Makes Kyrgyzstan A “Faltering State,” EURASIANET.ORG (2005), <http://www.eurasianet.org/departments/business/articles/eav122105.shtml>

local entrepreneurs, is the main problem that keeps business circles from further development in the country.

The situation with corruption and other informal institutions practiced in the country within the framework of clan *politics* has flourished. After the collapse of one authoritarian regime of Akaev in 2005, Bakiev (the second president of Kyrgyzstan) appointed his brother as a head of SNB, while his son served as his assistant.⁹⁷ Presidents are not the only who promote their relatives at the governmental positions. “A new minister would fire the whole staff and hire only his relatives. The next minister would do exactly the same thing.”⁹⁸ Engvall also states that both political and bureaucratic appointments at the higher governmental level are the major victims of clan behavior in Kyrgyzstan, while resource redistribution has become the major main of those actors.⁹⁹

⁹⁷ Engvall, 39.

⁹⁸ Ibid.

⁹⁹ Engvall, 42.

THE CASE OF KAZAKHSTAN

This chapter discusses the developments in postcommunist Kazakshtan. It will discuss several important issues, such as the existence of clans in the republic, the extent of state capture the ruling clan conducted, and the mechanisms used by the ruling clan to maintain its governance. The significant part of the paper is devoted to the question of resource abundance and regime maintenance in the country.

Defining clans in Kazakhstan

The main focus of the research is aimed at the presidential clan of Kazakhstan. President Nazarbaev is ruling the country for more than fifteen years. This period of time according to many scholars such as Olcott, Shatz, and Collins is marked by the substantial activity of informal networks. The prominent one is referred as a presidential clan. These types of clans described in previous chapters have survived throughout the history of development of the country. Nazarbaev himself argued in mid 1990s that the former leader of the republic in Soviet times was widely practicing clannism. The group of people together with Kunaev decided everything in the republic during Brezhnev's time. "A person who was a part of the family of D.A. Kunaev could decide the fate of another person: give him a promotion or an award, fire him, or give him an apartment."¹⁰⁰

The situation after the collapse of the Soviet Union did not change dramatically. Powerful informal clans of previous apparatchiks continued the era of their ruling in the republic. During the independence period of time clans became even more important political actors in the republic. "Clan emerged as distinctly political, by becoming ensnared with questions of distribution and exchange."¹⁰¹ According to Olcott, the independence period of time brought

¹⁰⁰ Schatz, *Modern Clan Politics*, 69.

¹⁰¹ Schatz, *Modern Clan Politics*, 97.

members of the Great Horde into very favorable political conditions. Members from this political elite group, especially those who were in charge of political power in Kazakhstan during the collapse of the Soviet Union, benefited from the collapse the most. These families “accumulated considerable fortunes, some of which have gone offshore.” The first and the only president of Kazakhstan – Nazarbaev and his extended family has been able to capture significant amount of powerful positions and resources in the country, controlling assets almost in all sectors of the Kazakh economy. The so called “ruling family” has essential control over many sectors in the society.¹⁰² Nazarbaev created a system of “clan-based authoritarianism” in which the clan controlled the main economic assets. Presidential clan managed to divert the substantial amount of state resources disproportionately in comparison with other clans.¹⁰³

In mid 1990s the picture of Nazarbaev’s clan was clear. All of the following people belong to Elder Umbrella Clan (Nazarbaev’s clan): Nurtai Abykaev – president’s closest advisor, Alnur Musaev – director of the Committee on National Security, Mukhtar Abliazov – minister of Energy, Industry, and Trade. Moreover, if one includes middle level bureaucrats, one can continue the list endlessly.¹⁰⁴

The Clan Pact

Throughout the history, the types of informal networks changed dramatically. Olcott argues that governmental policies in 1990s were significant to revive clan identity as a “building block of Kazakh statehood.” Primordialists argue that during the Soviet period rent-seeking behavior of clans in the republic was obvious. Since 1938 political elite purges, members of the Small and the Middle Hordes (Kazakhstan has the Small, Middle, and Great Hordes) used to be in charge of almost all sectors of Kazakh economy, while the leadership in politics has always

¹⁰² Martha Brill Olcott, *Kazakhstan, Unfulfilled Promise* (Carnegie Endowment for International Peace), 144.

¹⁰³ Collins, “The Logic of Clan Politics,” *World Politics*, 56 (2004):252.

¹⁰⁴ Schatz, *Modern Clan Politics*, 98.

been privileged for members from the Great Horde. It was monopoly of power for specific groups of society to be in charge of power and resources in specific areas of industry and service.¹⁰⁵ However the role of presidential clan has been always favored more than the role of any other faction in the republic. The fact Nazarbaev used significant support of other clan elite factions in the country. Ostrowski puts that the first years of independence the vast share of oil and gas industry was controlled by local notables that supported Nazarbaev's candidacy for the presidency. "Nazarbayev used their greater state revenues to appease clan rival and increase their personal power."¹⁰⁶ The ruling clan elite managed to intervene in the oil sector of economy and strip resources for personal aim. "Nazarbaev privileged his umbrella clan and extended family, but he also sought to avoid a fundamental imbalance in the relative power of the three umbrella clans."¹⁰⁷

Ostrowski in his PhD thesis supports Schatz's point of view regarding the development of Nazarbaev's rule. He argues that the process of political and economic power consolidation was impossible to conduct "amidst the post-Soviet chaos". The head of the republic had to approach kin and fictive kin elites, i.e. both people that were considered as informal leaders of primordial tribes and former *nomenklatura* leaders that remained to be powerful in postcommunist era. "The Kazakh president Nursultan Nazarbaev has relied heavily on the *zhuz*-hordes system, the logic of which is based in pre-Soviet structures."¹⁰⁸

Ostrowski finds evidence of the so called clan *pact* analyzing actors in the early administration and political structure of the republic. The findings were the following: Nazarbaev belongs to *Elder zhuz*, Chairman of the Senate Baigeldi belongs to *Elder zhuz*, State

¹⁰⁵ Olcott, 144.

¹⁰⁶ Wojciech Ostrowski, "Regime Maintenance in Post-Soviet Kazakhstan: The Case of the Regime and Oil Industry Relationship (1991-2005)" (PhD diss., University of St. Andrews, 2007), 17.

¹⁰⁷ Schatz, *Modern Clan Politics*, 95.

¹⁰⁸ Ostrowski, 27.

Secretary Kekilbaev *Younger zhus*, Chairman of the Majilis Ospanov belongs to *Middle zhus*, and Prime Minister Balgimbayev comes from *Younger zhus*. In other words, during the early years of the presidency Nazarbaev tried to share political power with all main factions in order to have no strong political opposition. Governmental positions were mainly delivered in reward for political loyalty.¹⁰⁹

Schatz contributes arguing that clan politics was not only based on primordial interpretations but also on modern corporate networks. More than 60 percent out of 320 elite members, working as public officials or high ranked bureaucrats in Kazakhstan in 1997, used to be *apparatchiki* during the Soviet period of time.¹¹⁰

During the different years of Nazarbaev's presidency the country witnessed different tactics used by the ruling elite in order to stay in power. Ostrowski argues that mid 1990s used to be the playground for informal practices in the country, including the vast use of primordial clan based institutions, while recently the whole system of regime maintenance resembles formal one, with strict rules of the game in the society, at least from the outside. The scholar argues that the regime of Nazarbaev tolerates opposition parties because oppositional groups make the whole system look more democratic, creating no danger for the ruling elite. The main thesis formulated by Nazarbaev seems to be popular among the population of the republic sounds the following way: "[Color revolutions, in terms of protest leading to political change] are the results of the logic of internal developments. Poverty and unemployment are fertile grounds for people's dissatisfaction with the authorities."¹¹¹ Nazarbaev argues that the population of the republic should have no intention for any political change and redistribution of resources again, since no

¹⁰⁹ Ostrowski, 37.

¹¹⁰ Schatz, *Modern Clan Politics*, 100.

¹¹¹ Ostrowski, 260.

one knows what kind of consequences might be. “[The population] is in a much better condition than their counterparts [abroad].”¹¹²

Schatz contributes to the discussion of the clan pact existence. The scholar uses different terminology arguing that Nazarbaev used clan *balancing*. Table 1 shows the proportional representation of different elite factions in the society. One can conclude that the predominant feature of power and resource redistribution in the period from 1997 to 2001 was primordial kin based. “Of the 481 republic-level appointments evaluated, 218 were rural-born Kazakhs, 141 were urban-born Kazakhs, and 122 non-Kazakhs.”¹¹³ Clan balancing was important because in mid 1990s there was a real opportunity of a separatist movement by non-Kazakhs and russified Kazakhs in northern Kazakhstan. “Cossack groups whose political identification leaned toward Russian agitated for cultural and political autonomy.”¹¹⁴ The example of separatism is one but not the only one that made Nazarbaev to share his power and resources with other factions in the society. Cummings contributes to the discussion of informal balance existing in the country:

The final cornerstone of Nazarbaev’s power bloc is his ability to balance the demands among various constituencies, both at home and in his foreign policy. We have already outlined how his approach to recruitment plays off both the central and regional ethnic Kazakh elites.¹¹⁵

Clan’s state capture

Once Nazarbaev managed to obtain substantial power to sustain its clan in office, he started the process of capturing of the main resources in the republic. The biggest profit comes from oil and gas industry, while other sectors of the economy were also aimed by the clan. The political trend of Nazarbaev’s policies since 1991 is clearly defined as positive in terms of

¹¹² Ostrowski, 260.

¹¹³ Schatz, *Modern Clan Politics*, 99.

¹¹⁴ Schatz, *Modern Clan Politics*, 101.

¹¹⁵ Sally N. Cummings, *Power and Change in Central Asia*, (Routledge 2002), 67.

resource and power accumulation. “Entire agencies and state committees were shifted to direct subordination to presidential authority.”¹¹⁶

Natural resources

During the Soviet times, natural resources of the country were controlled directly by Moscow, while after the independence “patronage and the pilferage of state assets had the value of economic goods and were a prerequisite of power.” Independence brought previously informal networks to the control over natural resources. The result was that the group of elite that used to be in charge of political life of the country at the eve of political demise of the Soviet Union took over and seized the control over resources in the country. “These people have managed to turn much of that wealth into their own personal property precisely because of mechanisms afforded them by turning Kazakhstan into a quasi-market economy.”¹¹⁷

Substantial amount of natural resources is the variable that strongly differentiates the country from the Kyrgyz Republic. It is widely argued that the ruling clan of Nazarbaev managed to capture this profitable sector of the society. The most profitable sector is oil industry of the country. The country is very rich in natural resources, especially oil and gas. Kazakhstan also possesses substantial veins of copper. In addition, it is one of the biggest geographical countries in the world. Olcott states that Kazakhstan’s economy is “increasingly based on the export of raw materials. Kazakhstan is second only to Russia in the variety and abundance of its natural resources.”¹¹⁸ Basedau and Lacher released data arguing that oil profits constitute 55.3 of

¹¹⁶ Schatz, *Modern Clan Politics*, 87.

¹¹⁷ Martha Brill Olcott, *Kazakhstan, Unfulfilled Promise* (Carnegie Endowment for International Peace), 48.

¹¹⁸ Olcott, 158.

all exports of Kazakhstan in 2002, while the percentage contribution of oil revenues to GDP is 21.¹¹⁹

Country's significant natural resources have always attracted attention of different special groups in Kazakhstan. Kalyuzhnova states that the field of natural resources is the area of corruption that diverts enormous amount of resources from the state budget.¹²⁰ Collins claims that energy resources are extraordinarily important for clan based rent-seeking.¹²¹ Ostrowski contributes to the discussion stating that Nazarbaev considered oil and gas industries as the most important areas of economy that would provide him with enormous amount of money. In order to achieve that, according to Ostrowski, two goals should have been achieved, i.e. to capture National Oil Company and the oil regions in the republic.¹²² Collins gives the evidence borrowed from Kusainov arguing that Nazarbayev's son-in-law became a head of the company controlling the majority of pipelines in Kazakhstan. The influence the family had over oil and gas sectors was evident in 2003.¹²³

Ostrowski adds that in mid 1990s the President started restructuring his relations with local notables who were in charge of oil and gas industries in peripheries, trying to establish a firm control over resources. Privatization process was the mechanism used conduct restructuring of relations. The scholar also puts that local elite did not like the process of reform and significantly condemned the whole affair, since it benefited the ruling elite only.¹²⁴ According to Energy Information Administration, in 1998 the government of Kazakhstan strengthened control over its natural resources, especially in the field of oil production and refining, creating Kazakoil

¹¹⁹ Matthias Basedau and Wolfram Lacher, "A Paradox of Plenty? Rent Distribution and Political Stability in Oil States," *GIGA research program: Dynamics of Violence and Security Cooperation* no.21 (2006), 25.

¹²⁰ Yelena Kalyuzhnova, James Pemberton and Bulat Mukhamediyev, "Natural Resources and Economic Growth in Kazakhstan," <http://www.eerc.ru/default.aspx?id=170>

¹²¹ Collins, *Clan Politics*, 132.

¹²² Ostrowski, 14.

¹²³ Collins, *Logic of Clan Politics*, 258.

¹²⁴ Ostrowski, 11

corporation. This is closed joint-stock company with “100% of its shares under government control.” The year was crucial in monopolization of oil industry by governmental structure, which is strongly dominated by Nazarbayev and his network.¹²⁵

Privatization

During the first years of independence, the country experienced *privatization*. Kazakhstan followed the track of radical reforming of its economic and political institutions. The country tried to implement the mechanism Russia introduced with one significant difference – no macroeconomic stabilization was conducted. Pomfret argues that this period is significantly influenced by interests of the political elite of the country. “This period of time is associated with the “wealth accumulation by the elite.”¹²⁶ Schatz argues that Kazakhstan and Russia had the same situation regarding the role of informal groups, mainly former *nomenklatura* in Russia and clans in Kazakhstan that mainly benefited both from privatization of the biggest enterprises in the republic and “massive flow of foreign direct investments into the country.”¹²⁷

The first period of privatization started in 1991 with the so called *Denationalization Act*. During this period, mainly, real estate was privatized via coupon system. While in 1993 voucher system followed and allowed the population of Kazakhstan to buy shares of enterprises in Investment Privatization Funds. According to Pomfret, the biggest benefit belonged to the ruling political circles of the republic. Later on, former state enterprises started to be sold for enormous amount of money. Examples of deals conducted during that period of time are numerous. “Philipp Morris received a 49% share in the Almaty Tobacco Factory paying 313 million USD.

¹²⁵ Energy Information Organization, *Kazakhstan: Energy Market Privatization* (2008) <http://www.eia.doe.gov/cabs/kazapriv.html>

¹²⁶ Richard Pomfret, “Kazakhstan’s Economy since Independence: Does the Oil Boom Offer a Second Chance for Sustainable Development?” *Europe-Asia Studies* 57 (2005): 856.

¹²⁷ Schatz, *Modern Clan Politics*, 98.

RJR Nabisco received 90% of the Shymkent Confectionery Factory for 70 million USD.”¹²⁸ The deals themselves had many problems. Pomfret argues that “companies were sold in part or whole for a specific period, “under individually negotiated agreement” – “making this the most corrupt stage.” In other words, no one could really know the real price the enterprises were sold for. The information revealed from the former insiders concludes that the overall sum of the deals concluded in the mid 1990s was more than 7 billion USD. Large amount of these financial resources were later controlled by top officials of Kazakhstan. “Some privatization contracts were reassigned to groups associated with Balgymbaev or president Nazarbayev’s family.”¹²⁹ Moreover, there were few legal trials connected to the Kazakh top officials.¹³⁰ The process of privatization was run to ensure better win set for the ruling elite. Olcott argues “profits obtained from these sales went largely into a small number of private hands and were not reinvested in the country’s economy.”¹³¹

Investments

There is another area of the Kazakh economy showing the extent of the ruling clan intervention and rent-seeking. Both Olcott and Collins agree that foreign direct investments into the country were disproportionately benefiting the ruling elite, i.e. the one that was in charge of politics in the late years of the Soviet Union and the first years of the independent country. In other words, it was insiders of the system that benefited from FDI the most.¹³² Kazakhstan was the most successful among all CIS countries in FDI attraction. Many supranational corporations contributed to the development of the country. The period of less than five years from 1996 to

¹²⁸ Pomfret, 859.

¹²⁹ Pomfret, 866.

¹³⁰ Pomfret argues “The US court had concerns about payments by US oil companies during the period 1995-2000 which led to millions of dollars being paid through a US intermediary into offshore accounts to senior Kazakh officials”

¹³¹ Olcott, 132.

¹³² Schatz, *Modern Clan Politics*, 90.

2000 brought to the country more than one billion USD, while in 2001 the flow of FDIs only exceeded.¹³³ Although the country was substantially successful in attracting investments from abroad, according to Olcott, the flow of investments did not contribute to the development of Kazakhstan because the substantial amount of investments was redistributed within small part of population, leaving nothing for overall development of the country.¹³⁴

Investment projects have been highly corrupt. Foreign investors had to bribe public officials of the country in order to receive the agreed conditions. Schatz argues that “members of the presidential entourage opened Swiss bank accounts with enormous bribes from foreign investors.”¹³⁵

Other sectors

Similarly, as in the Kyrgyz Republic, media has been also attacked by the ruling clan. The situation with independent media was less harsh as in other countries of Central Asia. However criticism of the presidency and political development was crucial for the independent media collapse. “Papers such as *Vremya po Grinvichu*, *XXI vek*, and *Dat* were all the target of inquiries by the Tax Police, as well as the victims of more run-of-the-mill forms of physical intimidation”.¹³⁶ Schatz provides an example of the ethnic Russian journalist Sergei Duvanov, who was arrested for journal articles about presidential corruption. The president’s clan was also successful to influence the media of the state. According to the *Kazakh News*, the president’s son-in-law, Rakhat Aliev, and daughter-in-law, Dariga Nazerbayeva, controlled the majority of the so called “independent” media in the country in 2001.¹³⁷

¹³³ Pomfret, 854.

¹³⁴ Olcott, 145.

¹³⁵ Schatz, *Modern Clan Politics*, 88.

¹³⁶ Schatz, *Modern Clan Politics*, 89.

¹³⁷ Collins, *Logic of Clan Politics*, 258.

Oil and stability

The above statements argue that the ruling clan of Nazarbaev has deeply dependent of natural resources of the republic. Oil and gas revenues and privatization deals in mid 1990s brought enormous amount of money to the president of the country. This money was crucial for the regime maintenance in Kazakhstan. However to what extent it is worth saying that oil and gas revenues will be positive for Nazarbaev in future years.

There is a huge debate among scholars regarding ample amount of natural resources and country's success. Sachs and Warner run the cross-country regression, concluding that there is a negative relationship between two variables (oil abundance and economic growth). They argue that substantial revenues from natural resources will discourage other sectors of economy from development. Moreover, the level of corruption and rent-seeking will grow. Oil revenues will produce high level of rent-seeking. The scholars give examples of Venezuela and Nigeria in 1970s saying that substantial oil revenues affected negatively in the future. Oil boom was followed by more than ten years of economic recession.¹³⁸ The work by Sachs and Warner is considered to be very powerful in the context of 1995; however strongly criticized. Mehlum, Moene, and Torvik find out that rich resource countries create both outcomes. Oil and gas revenues create both winners and losers. In other words, it is not axiomatic to think that resource abundance will bring economic problems. It is not revenues per se that constitute high or low economic growth eventually, but institutions. "More natural resources push aggregate income down, when institutions are grabber friendly, while more resources raise income, when institutions are producer friendly."¹³⁹ The scholars conclude that institutions are crucial for the outcome. Moreover, Pomfret in his *Kazakhstan's Economy since Independence: Does the Oil*

¹³⁸ Jeffrey Sachs and Andrew Warner, "Natural Resource Abundance and Economic Growth," *Harvard Institute of Economic Research Discussions Paper no. 517* (1995), 126.

¹³⁹ Halvor Mehlum, Karl Moene, and Ragnar Torvik, "Institutions and the Resource Curse," *The Economic Journal* 116 (2006): 15.

Boom Offer a Second Chance for Sustainable Development? argues that Sachs' arguments are not relevant for Kazakhstan. For example, oil prices have a strong positive growing trend, and hardly are considered as volatile.¹⁴⁰ As for the negative rent-seeking, this also indicated as a possible problem that keeps economy's growth low, it is also not clear whether the effect is negative or positive. Empirical data from South East Asia shows that rent-seeking did not influence the boosting tempo of Malaysian and Thai economies; however it does not prove the opposite, there are still huge amount of cases where rent-seeking performed as destructive element stagnating or decreasing economic growth.¹⁴¹

Moreover, although there is a huge debate about the so called "resource curse" and possible negative impact on countries' development. There is no strict evidence that possible "Dutch disease" will destroy the current regime in Kazakhstan. Habor and Melando argue that abundance of natural resources bringing substantial profit to a state do not undermine democracy and do not make authoritarian regimes more authoritarian. Substantial revenues keep the regime for a longer period of time. According to the authors, in the majority of cases revenues keep regimes stable and even sometimes fuel road for democratization.¹⁴² It seems that the easiest argument might be made stating that the ruling elite possess more financial resources to use them staying in power.

Morrison analyzed natural resource revenues in more than 30 countries from 1973 to 2001, concluding that revenues were beneficial for regime support. The scholar explains that the mechanism is the following. "Revenue provides the regime with a greater ability to appease

¹⁴⁰ Pomfret, 860.

¹⁴¹ Mushtaq H. Khan and Kwame S. Jomo, *Rents, Rent-Seeking and Economic Development* (Cambridge University Press, 2000), 141.

¹⁴² Stephen Haber and Victor Melando, "Do Natural Resources Fuel Authoritarianism?" Stanford Center for International Development working paper no. 351 (2007), 45.

citizens (the threat to the regime in this framework), and thereby prevent a revolution or transition.”¹⁴³

It is reasonable to argue that the activity of the ruling family of the president Nazarbaev in Kazakhstan led to something Hellman and Kaufmann describe as state capture. Although instead of poor governmental performance, low economic growth, and general public discontent, the country experiences more or less stable regime type. Morrison and other scholars would argue that oil and gas revenues are significant supporting elements of the current regime. Ostrowski contributes arguing that oil industry under the president’s control was critical to maintain power, and consequently to have priority over other countries in the region such as the Kyrgyz Republic. However oil per se was not enough to keep the ruling clan of Nazarbaev in power. It is also important to include the role of the clan pact into the explanation why the regime of the current president of Kazakhstan maintained itself in power.

¹⁴³ Ostrowski, 79.

COMPARATIVE ANALYSIS

The empirical chapter on Kazakhstan concludes that revenues from natural resources had a positive impact on the regime of the ruling clan. Schatz states that the process of privatization and other reforms, followed by the massive flow of Foreign Direct Investments made the ruling family in Kazakhstan extremely rich and powerful. Natural resources have been very successful in regime maintenance of the ruling elite in power. The case of Kazakhstan seems to fit the classical debate concerning regime durability and resource abundance.¹⁴⁴ Sachs and Warner carried out a very important and powerful study on economic growth and an amount of natural resources, running cross-country regression. They found out that natural resource abundance promises low economic growth, while the so called *Dutch Disease* is negative for non-oil and gas sectors development. The scholars also predicted that resource dry up will be the point of complete collapse of the system.¹⁴⁵ Basedau and Lacher also contributed to the discussion arguing that political stability can be undermined by enormous revenues from natural resources.¹⁴⁶

Despite the predictions of Sachs and Warner the situation in Kazakhstan remains to better off than its neighbors without natural resources, such as Kyrgyzstan. At the same time, Basedau and Lacher conducted a research on many countries finding that *resource curse* takes place among resource rich countries; however during the research they found out few outliers. One of those is Kazakhstan. In spite of enormous revenues from gas and oil the country's regime remains stable and durable, although it is highly criticized for being penetrated by clans and other informal networks.¹⁴⁷

¹⁴⁴ Schatz, *Modern Clan Politics*, 89.

¹⁴⁵ Sachs and Warner, 130.

¹⁴⁶ Basedau and Lacher, 18.

¹⁴⁷ Basedau and Lacher, 25.

Some would believe that a reverse logic can be applied to Kyrgyzstan. The events of March 24, 2005 are recorded as revolution. Indeed, it has been argued that the ruling elite could not maintain its regime and had to leave office because of the successful contentious action in the society. Such prominent scholar as Collin seems to be very convincing. The scholar argues that regime of Akaev was not capable to provide its clan pact members with resources it used to have before. The system of constant resource redistribution used to be created in the beginning of 1990s. The initial clan pact implied that the president redistributed resources among powerful elite factions in the country (the nature of factions was discussed earlier), while in reward the regime of the president was supported by those factions. The nature of resource was power and money, in terms of revenues from enterprises working in the country and governmental positions. According to Collins and many other authors discussed earlier, it was a terrible circumstance for benefit recipients, when resources started to be exhausted. Collins' explanation of Akaev's regime collapse is supported by the case of Tajikistan. Collins argues that Tajikistan's civil war was, mainly, due to the failure of elite groups within the country to negotiate an elite pact (clan *pact* in Collins' terminology).¹⁴⁸

Although oil and stability argument seems to be very convincing and powerful explaining regime trajectories of the Kyrgyz Republic and Kazakhstan, there are some contradicting empirical developments. At first sight, it is obvious that Akaev's regime could not provide its supporters and rivals with enough resources, because the country has never had enough in comparison with its northern neighbor. According to Radnitz, southern clans mobilized for a short revolutionary action to get rid of a corrupt president who dismissed themselves from an access to power and resources.¹⁴⁹ At the same time, if one takes a closer look at the situation in

¹⁴⁸ Collins, *Clan Politics*, 159.

¹⁴⁹ Radnitz, *What really happened in Kyrgyzstan?* 140.

the Kyrgyz Republic, one will find that there were no signs of substantial resource reduction. To start with, the country never had substantial resources. The pie has been always relatively small, unlike the situation in Kazakhstan. Moreover, late years of Akaev's presidency showed significant developments in revenue increase. Late years of Akaev's presidency brought enormous profits for the regime. The flow of foreign direct investments had a positive trend during his presidency. Figure 2 (see appendix) shows the flow of foreign direct investments into the country. The positive trend argues that revenues had risen up until March 2005. The ruling clan had more chances for buying loyalty of rivals in the country. At the same time, Figure 3 shows that the budget of the Republic had been developed positively (see appendix). Although Kyrgyzstan is not rich in resources and has always been less favored by foreign investors, the ruling elite has never experienced a total shortage of financial resources. It is reasonable to surmise that the financial resource scarcity was not a reason of the political demise of the ruling clan.¹⁵⁰

At the same time, considering Kazakhstan in mid-1990s one surmises that stability was also fragile sometimes. The fact that the country was close to break up into separate states is a proof (in mid 1990s the country was close to experience secession of its northern territories). In other words, oil revenues were not able to avoid power consolidating problems immediately. The problem of separatism was negotiated and solved, but their impact was crucial for Nazarbaev. Kazakhstan is, mainly, the only country in Central Asia that faced separatist movements.

Late years of the presidency of Akaev and mid-1990s events in Kazakhstan give an image of the issue that an abundance of natural resources is not a universal remedy for regime stability. It did not save Nazarbaev from separatist moves within the society, while Akaev's resources never vanished, but the collapse still happened.

¹⁵⁰ National Statistical Committee.

The alternative explanation might be provided by Schatz and also found among Collins' arguments. Both authors refer to some kind of an elite pact (Collins: clan pact, Schatz: clan balancing) to explain informal institutional framework used by the ruling clan leaders to redistribute resources among other clans and buy their support. This informal mechanism seems to be important in explaining regime durability of Nazarbaev's clan and regime collapse of Akaev's clan. Both authors give examples of countries with scarce and resource abundant resources to argue that *pact* matters. Collins refers to Tajikistan, while Schatz give an example of African countries to argue that *pact* absence did not save corrupt neopatrimonial regimes to stay in power, despite enormous diamond and oil revenues. The author states "Somali actors did not care whether or not their equilibria were stable, or they had very different goals than most rational-choice analysts would in their place."¹⁵¹ The same is found in Nigeria, where Hausa-Fulani try to exclude other tribes from governmental and economic issues. Schatz's example supports the possibility of regime instability even in countries with high level of revenues.

Pact: stable vs. unstable

In order to understand whether an elite pact is enforced or not, it is worth considering elite composition in the country. But it might also happen that clan pact is enforced by means of monetary mechanisms without any governmental positions given as a power share. Moreover, defining the composition of elite, it is always difficult to understand whether a person belongs to one or another clan or one does not belong to any clan at all. Ethnic Russians, for example, might be, sometimes considered as clanless actors (usually clan connected, in terms of Soviet regional clans). That is why in the case of this research an approximate assessment of the ruling clans' state captures will be estimated. The extent of state capture will give a picture whether the ruling

¹⁵¹ Schatz, *Modern Clan Politics*, 111.

clan managed to intervene in all spheres of society leaving nothing to other factions or it still gives some space for other factions in the society to function and receive benefit from enterprises and business projects. Substantial state capture gives no room for other clans in the society to survive. While limited state capture gives chances to other clans in the society to conduct rent-seeking.

Both leaders, according to Collins, did conduct clan pacts back in the beginning of 1990s. Later developments diverge due to many reasons. An oil and gas profit is a substantial variable, but not crucial one that characterized regimes' disabilities. A closer look at the ruling clans' behavior explains their state capture capacities that are considered to be extremely powerful in terms of regime maintenance.¹⁵²

State capture and clan pact

The case of Kazakhstan

It has been widely argued by Schatz that Nazarbaev has practiced clan *balancing*. Kazakhstan is bigger than Kyrgyzstan in many respects, such as size and amount of groups in the country. Moreover, some regional elites live in oil and gas rich areas. Their influence and image among the local population is very important. Nazarbaev could not consolidate his power easily in such regions without regional clans, giving them informal rights for controlling the region and its economy. In reward, the president's clan receives a part of their profits, usually the bigger part. Schatz argues that the president practiced both privileging of his family and enormous extended family members and maintaining quite fair redistribution of bureaucratic, governmental, and other important positions among regional clan members. "Nazarbaev apparently calculated that, even as he sought to privilege his own kind and bring his family

¹⁵² Collins, *Clan Politics*, 65.

material benefit, he ought to avoid the most fundamentally destabilizing practices of clan-based patronage.”¹⁵³ Although the activity of the ruling clan is significant, the amount corporations and business projects connected to the ruling family is proportionally less than that in the Kyrgyz Republic during Akaev’s presidency. The ruling elite of Nazarbaev and his family deal not only with capturing of resources and businesses in the country, but about clan balancing.

The case of the Kyrgyz Republic

The opposite situation can be found in the Kyrgyz case. The trajectory of Akaev’s clan pact was declining since Aksy events 2002. It can be compared to clan pacts in some African countries. “Dominant kin groups simply privatized the state’s resources, undermined alternative clans, and thereby fostered the unraveling of the state itself.”¹⁵⁴ A similar type of behavior can be found in Kyrgyzstan. As well as Nazarbaev, Akaev had always tried to favor his own clan, but unlike his neighbor, he did not prefer to share with other factions in the country, especially during the late years of his presidency. Akaev came to power as clanless leader in 1991, while in 2005 he became the most powerful clan leader in the country. Unlike Nazarbaev, the president did not care a lot about clan balancing. The first to get rid of from the pact were southern clans. Later on, it was partial collapse of the northern regional alliance. The most prominent clan leader who was considered dangerous for Akaev’s regime and potential rival at elections in eyes of the population was Felix Kulov, who was imprisoned for 7 years in 2000. During the revolution in Kyrgyzstan the leader was released and put in coalition together with the current president Bakiev. Slowly but surely, all major clan elite members who supported the president Akaev during his first years of presidency were eliminated from the political stage. Moreover, their economic powerbase in regions started to be attracted by the expanding clan of the president.

¹⁵³ Schatz, *Modern Clan Politics*, 111.

¹⁵⁴ Ibid.

The empirical chapter shows the results of Daniyar Usenov's special investigation commission. During the investigation the people of the country managed to see the scale of state capture of Akaev's clan. The result of the commission was the list of more than one hundred enterprises in the country that were somehow connected to the president's family.¹⁵⁵

Significant extent of state capture practiced by Akaev was an important variable that deviates from Nazarbaev's case. Akaev and his extended family members were able to create a massive powerbase that allowed the president to stay in power for some period of time receiving the absolute majority of revenues from enterprises and all other possible sources in Kyrgyzstan.

Clan pact creation seems to be a better explanation of the regime durability. One is possible to conduct sharing revenues and power within a political entity. "Clan balancing is the successful management of clan ties (as this book's conclusion explores); it is not the absence of clan as a political factor."¹⁵⁶

The outcome of clans' activity – state capture – is very important to estimate. One can see a good positive correlation between the extent of state capture and clan pact stability. The substantial amount of state capture leads to the decline of clan pact, while less intensive practices used by Nazarbaev's clan are more successful to preserve other factions loyal towards the ruling clan. In an e-mail message to Gullette, the author revealed that "Akaev upset too many of his former supporters and badly managed the period following the Aksy tragedy."¹⁵⁷

Clan pact seems to be more connected to the extent of state capture in the society, rather than to the amount of natural resources a country has. The fact that regime of Akaev failed in Kyrgyzstan was not because the country did not have substantial financial resources to maintain the so called clan pact. At the same time, Nazarbaev's regime durability is hardly explained by

¹⁵⁵ Kimmage.

¹⁵⁶ Schatz, *Modern Clan Politics*, 112.

¹⁵⁷ David Gullette, e-mail message to author, May 20, 2008.

the ample amount of natural resources. The creation and further maintenance of the elite pact is the variable that seems to be the most important for the study of clans in power.

CONCLUSION

How did Nazarbaev manage to sustain in power from 1991-2008? Why did Akaev could not stay in power and had to leave the country because of the so called Tulip Revolution? These two questions are the most important to be discussed in the context of the current research on informal politics in Central Asia. Dealing with the two Central Asian countries and trying to explain their regimes' failure and durability, one needs to pay significant attention to clan *systems* functioning in the countries because those are the crucial actors, according to a huge amount of scholars writing about the region. Since the actors are informal, it is difficult to define them. There are many points of view regarding origins of the clans. In the context of the research, those are not identity groups or purely modern corporate groups as lobby groups in consolidated democracies, but unique rationally calculated redistributational coalitions with primordial features. Those are dynamic groups that changed throughout the history of Central Asian republics. What makes those redistributational coalitions special is not their origin (since it can be different from country to country); however their short-sighted resource extracting behavior and their significant impact on the rest of the society.¹⁵⁸

It has been widely argued by Collins and other scholars that clans' regime durability is strongly dependent on the amount of resources available for redistribution among clans. It is worth claiming that clans will compete over resources more aggressively, if those are scarce. The majority of scholars agree that Akaev's clan was greedy about resources and, actually, was running out of them. Eventually, Akaev did not have enough resources to buy the support of other clans, and the president had to leave the stage. Collins, precisely, formulates her argument in the same way. On the other hand, the case of Kazakhstan fits the model perfectly. The country

¹⁵⁸ Olson, 47.

experiences durability of the regime of Nazarbaev due to the enormous financial flows the country receives from oil and gas reserves.¹⁵⁹

However in reality, the situation is different. One can hardly say that Akaev ran out of resources, while Nazarbaev also experienced problems despite significant oil revenues in the mid 1990s.¹⁶⁰ Moreover, such scholars as Sachs and Warner do not believe in economic and political prosperity going hand in hand with oil abundance.¹⁶¹

The crucial factor influencing the regime durability, in case of the two Central Asian countries, seems to be not oil revenues, but the creation of elite pacts. Both Schatz and Collins agree upon the issue. A properly supported clan pact brings stability and regime durability in case of Kazakhstan. The president mainly uses proportional representation, distributing bureaucratic and governmental positions among the clans. Schatz argues that the leader uses clan *balancing*, in order to stay in power. While in case of the Kyrgyz Republic, it has been argued that the ruling clan of Akaev excluded others from political participation, and tried to rule unilaterally without sharing the pie with other clans.

The extent of state capture performed by the ruling elite seems to be the crucial variable that breaks the so called clan pact. In case of Kazakhstan, the ruling clan of Nazarbaev tried to preserve fair redistribution of resources and power in the republic by means of clan *balancing*, while the president Akaev and his clan conducted excessive state capturing, excluding other actors from the clan pact.

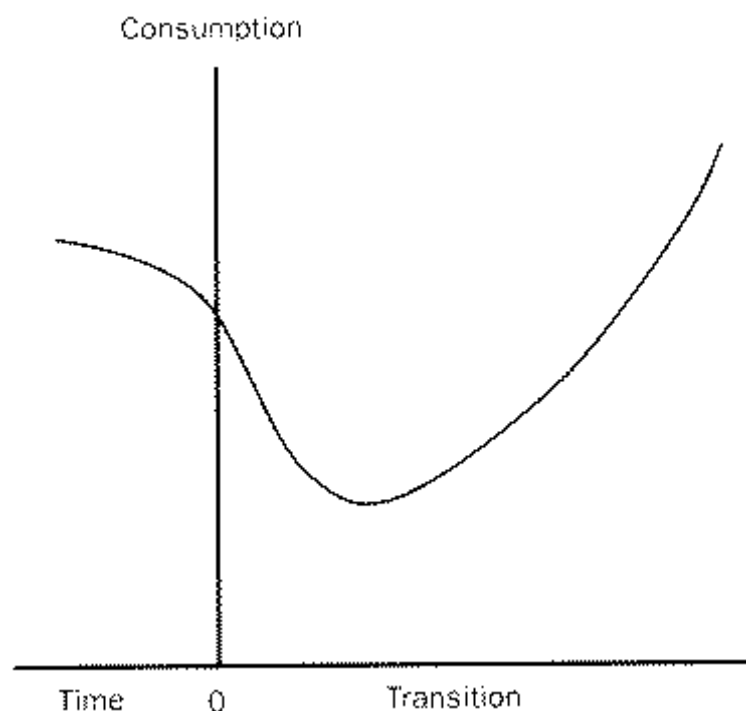
¹⁵⁹ Collins, *Clan Politics*, 139.

¹⁶⁰ National Statistical Committee.

¹⁶¹ Sachs and Warner, 126.

Appendix

Figure 1. The J-curve.¹⁶²



¹⁶² Hellman, *Partial Reform Equilibrium*, 217.

Figure 2. FDI inflow (without outflow).

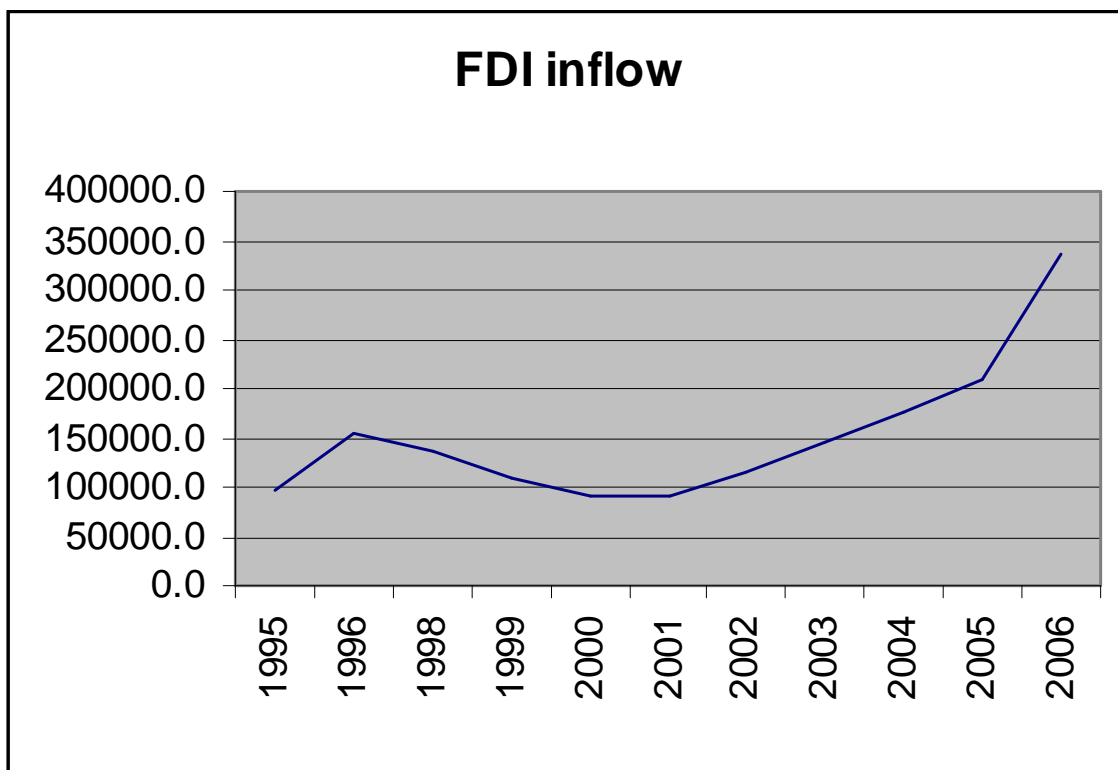


Figure 3. The budget trend of the Kyrgyz Republic.

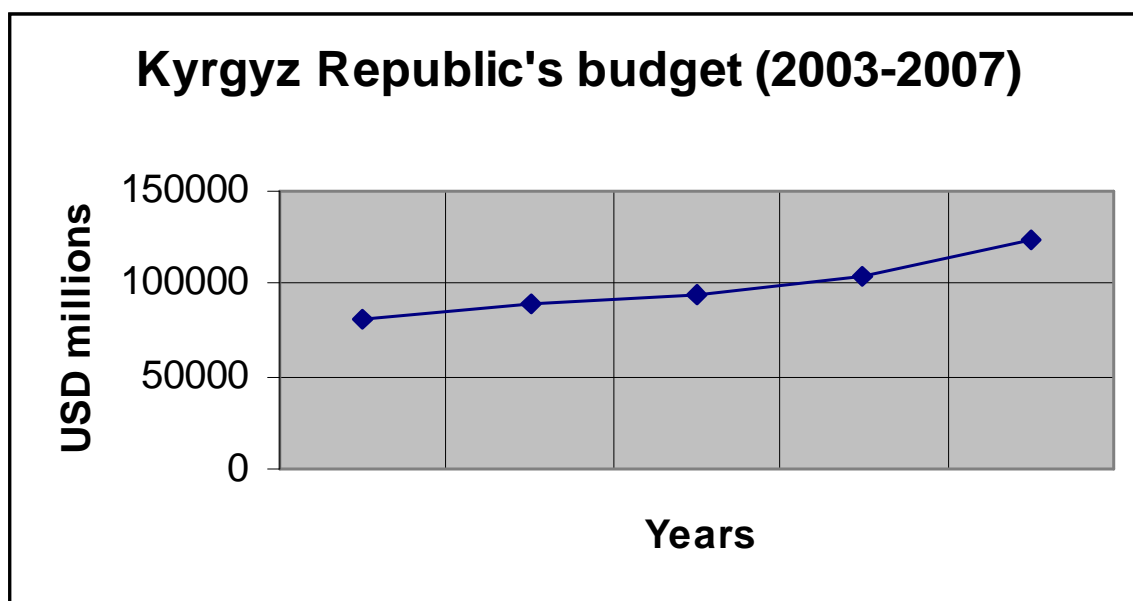


Table 1. Elite representation in Kazakhstan¹⁶³

Origin	Percentage of total	Amount
Rural-born, Younger	5.2	25
Rural-born, Middle	17.5	84
Rural-born, Elder	17.3	83
Rural-born, unclear	5.4	26
Urban-born, Kazakh	29.3	141
Non-Kazakh	25.4	122
Total	100	481

¹⁶³ Schatz, *Modern Clan Politics*, 104.

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