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Impact of the EU Green Deal on the Natural Resource-Dependent Soviet Successor States: Azerbaijan and Kazakhstan in a Post-Oil & Gas Europe?

By

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Abstract

My thesis attempts to understand why elites in Azerbaijan and Kazakhstan have struggled to wane their economies of oil and natural gas and transition to a more sustainable economic model for growth. This is particularly important considering both countries' largest export destination, the EU, aims to become carbon-neutral by the middle of the century. Using a comparative case study analysis on their export composition, state budgets and export destination dependency ratio, over an eleven-year time period, I find that while Kazakhstan is less dependent on oil and natural gas than Azerbaijan, both are still significantly dependent on revenue derived from these resources. Contrasting with my results I argue that the reason for the lack of interest in reforming both economies comes down to elites' time horizons. In both my case studies, the elites operate within short-time horizons which, in turn, undermine their abilities to implement forward-looking policies. Drawing upon the literature on these post-Soviet countries I find that the reason the elites operate within short-time horizons, rather than long, is due to factors such as Soviet legacy and cultural/regional aspects.

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1 Introduction

The aim of my thesis will look at how the EU Green Deal might impact the oil and gas producing countries of the former Soviet Union. It is a well-known fact that while high-value natural resources such as oil and natural gas yield great profits for countries that are endowed with such resources, they can also impede economic and political development. Moreover, most countries that are endowed with oil and natural gas tend to be classified as rentier states, as the political and economic foundations of these countries rely on the revenue derived from the export of natural resources. More importantly, however, is the fact that such resource-exporting states, particularly in the developing world, struggle to wane their dependence off these resources. Considering that both oil and natural gas are depletable resources coupled with a prevailing rhetoric of achieving climate neutrality; why then has transition away from a dependence on oil and gas exports been so painstakingly slow, particularly in the case of those Soviet successor states that are naturally endowed with such resources?

The European Union, as the second largest economy in the world, launched its climate change strategy in 2020 which aims to make the European Union climate neutral by 2050. Considering the EU is the main import destination of oil and natural gas products for countries such as Azerbaijan and Kazakhstan, a completely climate neutral EU could have serious consequences for the political and economic stability of the regimes in the resource exporting states of the former-Soviet Union. Historically speaking, most economic shocks that have impacted fossil-fuel exporting countries have come in the form of price fluctuations, rather than disruption in volume. If we put this into the current context, the policies pursued by the EU to wane itself of fossil fuels would amount to a massive disruption in the volume of imports. Such an impact leaves only two viable responses on the

part of exporter countries: either export routes are diversified away from traditional markets (in this case the EU) to new lucrative ones, or, a deep structural reorganisation of the whole economic foundation is required. Herein lies the dilemma, establishing new export routes, in particular for land-locked countries, is a long and extremely costly process, but requires little to no political consent, especially in authoritarian regimes. On the other hand, whilst the latter option is less burdensome in terms of economic costs, the political costs for the regimes are immense. Moreover, unlike the Gulf states, hydrocarbon exporters in Central Asia and the South Caucasus face the additional constraint of being situated in a highly landlocked region of the world. The fact that a country like Turkmenistan, arguably one of the harshest dictatorships on the planet, has been struggling ever since the 1990s to find potential investors and lobby countries for the development of the TAPI pipeline (Turkmenistan, Afghanistan, Pakistan, India Pipeline) to diversify away from Russia and China with little to no success is proof of the difficulty in creating new export corridors in the region[1].

This then brings me to my research question: why are neither country well prepared against the potential economic and political fallout associated with a carbon-neutral EU? As I shall elaborate in my thesis, the countries can be categorised as *unstable neopatrimonial post-Soviet rentier states* who derive the vast amount of their revenues from the export of oil and natural gas, with the EU being the main export destination for both. Thus, the main aim of my thesis is to find out what factors can explain the level of **unpreparedness** of the regimes in Azerbaijan and Kazakhstan. My hypothesis is that if structural reforms have been underwhelming and insufficient, this is because elites within the regime operate in **short-time horizons**. As a result, these elites are unable to engage in coherent and consistent

[1] Note that albeit Turkmenistan is an important fossil-fuel exporting country in the former Soviet space, due to the unreliability of information and data within the country, it will be excluded from my analysis.

forward-looking policymaking that can restructure the economy based on a more sustainable growth model. Without a forward-looking approach to policymaking, the potential fallout of a carbon-neutral EU in 2050 will have severe consequences for these regimes, both economically and politically.

Theories on the Resource Curse, Rentier State and the relationship between elite time-horizons and regime stability will be applied to situate both cases within an appropriate framework and allow me to contrast the empirical results from my analysis with the literature that best describes my cases. I will then outline the context by introducing both case studies within an empirical framework. This section will attempt to describe the political and economic trajectory of both states following their independence from the Soviet Union, but also important factors such as export and production capacity, export routes and FDI to lay the groundwork for my analysis. To examine the degree of structural reforms, and thus **preparedness**, I intend to apply a comparative case study analysis. The main factors I will be analysing are the countries' state budget revenues, export composition and export destinations through a time period of 11 years. This will provide me with facts on each country's level of dependency on energy exports, economic diversification and degree of dependency on one importer, in this case the EU. Should either country have a high level of dependency on energy exports, an undiversified economy and be highly dependent on the EU for its energy exports, I can assume that structural reforms were either absent or insufficient. The discussion section will contrast the results and findings from my empirical analysis within the theoretical framework and assess the validity of my hypothesis. I will finally conclude with some personal thoughts.

2 Theoretical Framework

This section aims to present several theories and concepts that characterise resource-abundant countries and thus allow the reader to get a better understanding of where my two case studies fit in the overall literature. The first part will be dedicated to the Resource Curse Theory, looking at its main tenets, arguments and ‘’symptoms’’ but also at other theories that have influenced the Resource Curse Theory. The second part will analyse the Rentier State Theory and briefly define the characteristics of a rentier state. The final part will look at the concept of time-horizons for ruling elites and regimes, drawing on the literature on post-communist countries in Central and Eastern Europe but also the post-Soviet countries. I will particularly attempt to discern the degree of dissimilarities between the former groups of countries and the latter. Drawing upon all these theories and concepts will provide me with the theoretical framework from which to relate to my analysis.

2.1 – Resource Curse Theory

When looking at the literature on the development trajectory of oil and gas exporting countries one almost always comes across the concept of resource-driven economic growth. One of the most renowned models used to explain economic and development in resource-rich countries is the *Staple Theory*, considered a ‘’subset of the export-led growth hypothesis’’ (Altman, 2003, 230). The theory argues that, depending on the primary resource sector’s linkages with other sectors of the economy, the primary resource sector can either positively or negatively influence economic growth (Polterovich, Popov and Tonis. 2010, 3). The idea is that staple products, such as minerals for example, are the ones that drive economic growth and that economic development occurs as a ‘’process of diversification around an export base’’ (Watkins, 1963, 144). This is because the primary resource sector can stimulate ‘’the rise of industries that that supply its inputs (backward linkage), and

industries that process the staple products prior to export (forward linkage), thus diversifying the economy and promoting growth (Polterovich, Popov and Tonis. 2010, 3). The backward and forward linkage, coupled with the final demand linkage, which is the ‘’demand for consumer goods from the staple production … [are what] determine the strength of the spread of effects from the staple to the economy as a whole’’ (Vahabi, 2018, 399). Nevertheless, if the linkages are weak, like when inputs come from abroad, production remains isolated within the resource sector and diversification does not occur, leading to a so-called staple trap of the economy (Polterovich, Popov and Tonis. 2010, 3). Small resource-rich countries are in particular at high risk of falling into the *staple trap*, becoming increasingly dependent on their primary exports with ‘’declining viability’’, which makes them extremely vulnerable to external shocks that can trigger growth collapses (Auty, 2006, 630). These collapses are long-lasting since the ‘’dynamic of the staple trap’’ cause capital flight and only by transitioning from resource-driven growth to manufacturing-led growth can a resource-rich country avoid the staple trap (Auty, 2006, 630-631). The assumptions and arguments of the staple theory laid the foundation for the formulation of the Resource Curse Theory (Vahabi, 2018, 393).

In a similar vein to the Staple Theory, the *Resource Curse Theory* has its roots in the research on economic growth in countries with abundant mineral resource in the second half of the 20th century (Sachs & Warner, 2001, 837). In fact, history has shown that countries with extractivist economies have suffered from high levels of poverty, frequent economic crisis and an entrenched mentality of rent-seeking among the governing elite, at the expense of society (Acosta in Lang and Mokrani, 2013, 63-64).What researchers found was that countries rich in oil and natural gas have seen their economic growth stagnating since the early 1970s, which gave rise to the argument that countries endowed with natural resources struggle to sustain rapid economic growth rates (Sachs & Warner, 2001, 828 & 837). In other

words, these countries are cursed by their natural resources. This then begs the question: what are the factors, according to the Resource Curse Theory, that undermine economic growth in resource-rich countries?

One of the most well-known authors in the academia that has written extensively on the Resource Curse Theory, Michael L. Ross, argues that one of the main economic explanations for why natural resources can impede economic development is that primary commodity markets are subject to unusual sharp price fluctuations (1999, 301). This is because primary commodity goods have low-income elasticity, due to the fact that they can be replaced by ‘’synthetic substitutes’’, and because they are dictated by the ‘’logic of the world market’’ which inevitably determines their price (Acosta in Lang and Mokrani, 2013, 64). As such, primary commodity exporters, particularly oil and natural gas exporting-countries, tend to suffer from a decline in the terms of trade, and as a result they lag behind more industrialised nations (Prebisch and Singer in Ross, 1999, 301). The robust negative effect that price volatility has on long-term growth can however be reduced if a resource-exporting nation has a solid financial system as well as a liberal and open trade policy to cope with sudden and large fluctuations in resource income (van der Ploeg & Poelhekke, 2009, 754). Another important factor that is related to commodity exports is that they create little growth in other sectors of the economy, also termed the ‘’linkage problem’’ by Ross (1999, 305). Whilst the former factor points to a characteristic of the global market, the latter aspect rightly highlights that there are factors within the domestic market that play an equally, or arguably even more important role. Sachs & Warner assert that manufacturing, rather than natural resource production, ‘’leads to a more complex division of labour and hence to a higher standard of living’’ (1995, 5).

Auty picks up on industrialisation as a factor of strong growth with his concept of competitive diversification and contrasts the level of industrialisation in resource poor and resource rich countries (2001). He argues that the reason resource-poor countries have seen high growth rates since the 1960s is because they pursued a model of competitive diversification, which, combined with an export-orientated policy, expanded labour-intensive manufacturing that resulted in sustained levels of rapid economic growth (Auty, 2001, 841). Resource-abundant countries' longer reliance on primary product exports decelerated industrialisation, which resulted in lower levels of accumulation of produced and human capital (Auty, 2001, 843-844). This is most evident when one looks at the composition of fossil-fuel exporting economies. Even though the oil and natural gas industry is the most capital-intensive, this sector contributes very little in terms of job creation in the economy (Karl, 2004, 663). In fact, if one is to characterise labour markets in fossil-fuel exporting nations, only three-major types of jobs exist – oil-related, public sector and private services –, which are themselves inherently linked to the hydrocarbon industry (Karl, 2004, 665). In other words, job perspectives and living standards of the vast majority of citizens are highly susceptible to fluctuations on the global market (Karl, 2004, 665). Arguably then it comes as no surprise that the public sector in resource-abundant economies is extremely bloated (Hertog, 2010, 266-267). In reality, public-owned companies in these countries are often not used as profit-making entities but serve the purpose of being employment providers and to provide subsidised goods (Hertog, 2010, 266-267).

Arguably, one of the most associated economic phenomena with regards to the Resource Curse literature is that of the *Dutch Disease*. The idea is that a resource boom can cause de-industrialisation by undermining the traditional manufacturing sector of a country (Corden & Neary, 1982, 825). A resource boom can affect the economy in two ways. Firstly, a *Resource*

Movement effect occurs whereby the demand for labour in the now more profitable booming-sector (oil and gas) draws labour and capital away from both the tradeable (manufacturing) and non-tradeable sectors, making products in these sectors more expensive to produce (Corden, 1984, 360-361). Secondly, the additional flow of cash in the economy from the booming sector leads to a real appreciation of the local currency, which makes imports of tradeable goods cheaper than their domestic production (Ross, 2012, 48). In other words, the weakening of the tradable sector combined with an overvalued exchange rate will ultimately undermine a country's international competitiveness and increase its import dependence (Stevens & Dietsche, 2008, 57).

While market volatility of commodities, industrialisation and Dutch Disease are all sound economic factors that define the Resource Curse Theory, political factors are equally integral components of the theory. Looking at the type of resources a country is endowed with, Isham et al. argue that point source natural resource, those resources which can only be extracted from a ''narrow and geographic or economic base…'', that is oil and other minerals, ''are strongly associated with weak public institutions'', which then translates to weak or slow economic growth (2005, 143). There is good empirical evidence to prove that there is a correlation between the ability of a government or regime to physically command mineral deposits and the underdevelopment of institutions, such as weak rule of law and lack of decentralised decision-making, which are vital for economic development (Shaffer & Ziyadov, 2011, 18). Karl terms such resource-rich countries petro-states, whose institutions are ''moulded'' by their very own oil wealth, particularly if the exploitation coincides with ''modern state-building'', thus ''skewing'' their institutional capacities (Karl, 1999, 34). Brunnschweiler & Bulte's regression analysis supports this argument by empirical evidence that shows that countries with weak institutions are ''unlikely to develop non-primary

production sectors which could reduce their dependence on exports'' (2008, 261). They furthermore argue that it is not the resource endowment per se that impedes economic development but rather the rents that are derived there from, that then allow incumbent elites to consolidate their power base by either repressing or coercing the opposition and establishing institutionalised patronage networks (Brunnschweiler & Bulte, 2008, 261).
In a similar vein, Robinson, Torvik and Verdier claim that rents from natural resources create political incentives that can induce elites in power to over-extract resources ''because they discount the future by the probability they remain in power'', while permanent resource booms incentivize them to ''allocate more resources to stay in power'' (Robinson, Torvik and Verdier, 2006, 466). Whether institutions are strong or weak determine the policy choices undertaken by elites and thus economic development (Robinson, Torvik and Verdier, 2006, 465). Luong & Weinthal also note that it is the influx of external rents during periods of resource booms and the concentration of these rents that impoverishes the state (2006, 241). They highlight the importance that the type of ownership structure of mineral reserves plays in determining weak economic performance, but also corruption and the potential emergence of authoritarian regimes (Luong & Weinthal, 2006, 259).

2.2 – Rentier State Theory

It is in the political sphere that the *Resource Curse Theory* arguably is linked to and overlaps with that of the Rentier State Theory. The term Rentier State was coined by Hossein Mahdavy and the theory gained widespread prominence in the academia following the publication of Hazem Beblawi and Giacomo Lucini's book, The Rentier State, in the 1980s (see Beblawi and Luciani, 1987). What defines a rentier state is that a state must derive the majority of its revenue from abroad, not from internal sources of production, and that only a small fraction of society is involved in the creation of the rent, in the case of the rentier state,

this would be the government (Beblawi, 1987, 384-385). Such an economy breeds a so-called rentier mentality, which differentiates to conventional economic behaviour, in that income or wealth does not materialise from the traditional economic concepts of work and risk-bearing, but is rather situational or accidental (Beblawi, 1987, 385-386). Alkhater also draws a distinction between the ''classical'' rentier state and a so-called predatory rentier state, which has a higher rate of political repression and, thus, exhibits even weaker levels of economic growth than the former (2012, 29).

There is one important notion that we can take away from these definitions, namely; that the government or regime controls the economic lifeline of the economy. Arguably then this has several implications. Firstly, this strengthens the autonomy of the state by ''eliminating economically motivated pressure groups and by making a segment of the bourgeoise dependent on the state'' (Shambayati, 1994, 307). This point ties in with Ross' concept of the *Repression Effect*, whereby the accumulation of resource wealth enables governments or regimes to increase their funding for internal security, allowing them to subvert any opposition to the government (Ross, 2001, 328). Moreover, in contrast to countries that must devote significant time to extract taxation throughout the economy, rentier states can be considered distributive states (Smith, 2004, 233). This is because the centralisation of control over state revenue, enable regimes to relieve themselves of much accountability by offering citizens low tax rates, implementing a system of patronage and impeding the formation of social groups that are independent from the state (Ross, 2001, 332-335). However, this should be regarded as a double-edged sword since this arguably creates a system of expectations and dependency on the state and could quickly breakdown if rents are not forthcoming. The final effect that Ross notes, and is central to his main argument that resource endowment impedes democratization, is the modernization effect, whereby

resource-based economic growth does not bring about the social and cultural changes needed for a country to democratise (2001, 336-337).

The size of rents accrued from natural resources make rentier states fiscally reliant on resource rents, combined with a lack of other significant sources of revenue, ‘’concentrates rent-seeking on the resource sector’’ (Barma et al. 2012, 49). Since, as mentioned earlier, the state is the sole manager or gatekeeper of the flow of rents from this sector, ‘’public office or access to public office becomes the most valuable commodity’’ in a rentier state (Barma et al. 2012, 48). From such an outlook one can imagine that once a certain interest group has managed to install itself as the new regime, it creates a system of personal self-enrichment for its members through the use of state power. Nevertheless, even in rentier state that are very predatory and where power is highly centralised, the ruler or rulers cannot rule alone and have to consent some form of economic or political power to different interest groups to consolidate their complete hold (Lundahl, 1997, 32). In fact, even the most autocratic rulers are inevitably forced to share their power with other elites as a way of co-opting any potential rival leader or faction that could overthrow them in the future (Magaloni, 2008, 738). Thus, by delegating the power to appoint certain members of the elite to government positions, rulers strengthen their hold on power (Magaloni, 2008, 738).

2.3 – Elite time-horizons in Post-Communist Regimes

The actions of groups and individuals during periods of socio-political and economic upheavals in history, wherein the old system breaks down, can leave a long-lasting impact on the future trajectory of a country. The difficult transition following the collapse of communism in Central and Eastern Europe as well as the former Soviet Union, provided fertile ground for various interest groups to capture political institutions and carve up sectors

of the economy for their personal gains (Hellmann, 1998, 203-204). While these groups were not opposed to ‘’the initiation of the reform process’’, they often used their positions to block or distort certain reforms that posed a threat to their interests (Hellmann, 1998, 204). In post-communist countries these elite interest groups morphed into different regime types but arguably all of them engaged, to various degrees, in predatory practices to extract as much rent from the economy as possible (see Grzymala-Busse, 2008). Depending on time horizons, a regime can either engage in predation or domestication. According to Vahabi, elites engage in predation, which he refers to as ‘’occasional pillaging’’, if their time in power is uncertain, while domestication implies a longer process that requires a ‘’combination of protection and aggression to develop the prey’s long-run productive capacity’’ (2020, 235). Moreover, for the regime to maximise its extraction of rent there needs to be long-term political stability (Vahabi, 2020, 235-236).

Grzymala-Busse argues that the type of elite strategy, which is omnipresent in the post-Soviet space, is that of fusion of party and state, or, distribution without contestation (2008, 643). Here the strategy of the regime is to pacify society by distributing rents based on societal acquiescence while at the same time eliminating any opposition (Grzymala-Busse, 2008, 643-644). Auty and Gelb explain that some of the typical methods predatory states use to allocate the rents to gain public acquiescence is through trade protection, job creation and overspending in terms of public expenditures (Auty and Gelb in Auty, 2001, 142). The bottom line is that the ability to pacify society effectively lowers the ruling elites’ probability of early exit (Grzymala-Busse, 2008, 643-644). In authoritarian regimes, the autocrat usually attempts to extract assets in the economy that could have yielded more profit over time than at present (Olson, 1993, 567). This plus the uncertainty in succession in autocratic regimes is the reason why autocracies have poor long-term economic performance (Olson, 1993, 567).

Foreign direct investment plays an important role in economic growth and development. Whether an autocratic regime has a short or long-time horizon can impact the willingness of foreign investors to enter the market. Since autocratic regimes who have short time horizons fear internal opposition to their rule, they are more likely to the state's resources for repression and bribes for coercion (Wright, 2008, 973). Spending state resources on both repression and bribery undermines growth, as consumption is substituted for investment, whilst also deterring private and foreign investment and encourages rent-seeking behaviour (Wright, 2008, 973). Autocratic regimes with short-time horizons ''resemble *roving bandits*'' whose ultimate aim is to extract as much as possible in the present ''at the expense of domestic economic productivity (Bak and Moon, 2019, 3). The only way to achieve this is for the regime to construct ''rent-extraction mechanisms that require significant government control over domestic assets, economic activities, and markets'' (Bak and Moon, 2019, 3-4). On the other hand, designing institutions that are market-orientated and that guarantee the rights of investors can be very costly for a regime because it weakens the state's power vis-à-vis the market, thus undermining the autocrat's ability to extract rents (Cui and Moon, 2020, 2768). Secondly, market reforms undermine the competitive edge of businesses who are affiliated with the regime, as these companies are not profit generating without state support (Cui and Moon, 2020, 2769). Finally, market liberalization encourages political democratisation (Cui and Moon, 2020, 2769). In sum, whether a country has ''growth-friendly institutions and policies'' largely depends on an ''autocrat's policy preferences'', which, in turn, depends on the autocratic regime's time horizons (Bak and Moon, 2019, 1).

It is also important to distinguish between the type of rents in highly centralised systems. Taking the example of the Russian Federation, Gaddy and Ickes argue that while formal rents

from oil and natural gas props up the economy, informal rents play an equally important role, particularly when informal rent-sharing is centralised (2005, 564). This is because informal-rent sharing ‘’affords the regime flexibility in directing where the rents will flow’’ (Gaddy and Ickes, 2005, 571). However, the misapplication of resource rents causes addiction because the ‘’experience of large rents induces policymakers to expect that these will continue’’, with too many claimants leading to an ‘’oversubscription’’ on rents (Gaddy and Ickes, 2005, 569). Bearing in mind the aforementioned negative correlation between economic growth and resource abundance, this begs the question of how sustainable this strategy or model can be.

While the countries in Central and Eastern Europe and those in the former Soviet space do share a degree of similarities rooted in their communist past, the latter group share certain traits and characteristics that set them apart from the rest. Henry Hale provides the most coherent explanation for the development of systems of power in the former Soviet republics. Hale explains that politics and power in almost all post-Soviet countries has manifested itself in the form of a ‘’single pyramid of authority, a giant political machine based on selectively applied coercion and reward, on individualised favour and punishment’’ (2014, 11). The building blocks of these pyramids of power are networks of collective actors who either rose to prominence from the reforms of the early 1990s, as a product of ‘’giant politicised corporate conglomerates’’, or from different state branches that managed to capitalise on their resources or coercive capabilities (Hale, 2014, 10). The collapse of the old communist system left a historical void in these countries, where these informal groups with roots in ‘’old systems of social relations’’ from the communist period became ‘’empowered by the erosion of a centralised state and enticed by a myriad of new opportunities for making money and wielding influence’’, rushed in to field the void (Wedel, 2003, 429). Thus, the political

institutions and economies in these post-communist regimes are a *product* of the *legacy* of the *Soviet patrimonial system,* its habits and political culture (Franke, Gawrich and Alakbarov, 2009, 110 & 112).

In other words, it is important to understand the legacy of the Soviet Union and the transfer of its systematic elements through the concept of neopatrimonialism. *Patrimonialism* is ‘’a politico-economic order based upon appropriation of public political and economic power for private purposes [with its ideological foundation in] traditional authority’’ (Gelman, 2016, 458). On the other hand, neopatrimonialism is simply ‘’considered to be a manifestation of this traditional order in modern societies, [where this element of traditional authority] was so deeply embedded in the social and political organisations that it either cannot be eliminated in the process of modernization or becomes a kind of traditionalist reaction to modernization’s failures’’ (Eisenstadt in Gelman, 2016, 458).

In sum, this chapter has outlined how oil and natural gas impacts the economies of resource abundant nations (Resource Curse Theory), how the accrued rents are used by those states that derive the majority of their revenue from the extract of resource rents (Rentier State Theory), the effect of time horizons in post-communist regimes as well as co-optation and coercion strategies, and the impact of the legacy of the Soviet system on the regimes of the successor states. These concepts will provide the theoretical foundation for my thesis and will help me to better understand and address the results of the analysis.

3 Case Studies: Azerbaijan and Kazakhstan

In this section I will outline my two case studies that will set the framework for the forthcoming analysis. As I mentioned earlier, a common history under as part of the Soviet Union and the legacy it left shaped the post-independence institutions in Azerbaijan and Kazakhstan. However, what arguably sets them apart from other post-Soviet states is how networks based on kinship and clans, unique to the region, is an equally important factor in explaining the post-Soviet political systems that formed in both countries. Collins explains that as the Soviet system collapsed, and with it the old vertical of power (Moscow to Republics), clans – ''*informal identity networks based* on *kin* or fictive kin bonds'' – emerged, in Central Asia, as the main political actors (2004, 224). In contrast to other post-Soviet regimes, informal clan politics, where clans are ''the primary source of political and economic power'', infused the post-communist governments and their institutions (Collins, 2004, 226). Collins argues that these ''clan pacts'' and tightly knit kinships that are omnipresent in these regimes explain in part the durability of these states (Collins, 2004, 228). At the same time, clan politics can also undermine regime stability. Economic mismanagement in Azerbaijan and Kazakhstan has led to intra-elite and clan in-fighting in recent years. The dismissal by the current president, Ilham Aliyev, of several high-ranking officials from the Nakhichevan clan and ties to the late Heydar Aliyev points to a re-concentration of power around the country's first lady and vice-president Mehriban Aliyeva and her family, who are known as the Pashayev clan (Meydan TV, 2019). These events all started following the rapid devaluation of the national currency in 2015 during the oil price collapse (Meydan Tv, 2019). Similarly in Kazakhstan, the violent protests triggered by the sudden increase in the price of car fuel and the subsequent dismissal of high-ranking officials

close to former leader Nursultan Nazarbayev prompted speculations of a consolidation of state bodies by current president Kassym-Jomart Tokayev and his loyalists (Lillis, 2022).

The trajectory of transition of the Soviet successor states arguably varies by country, however, with regards to Azerbaijan and Kazakhstan, who are both autocratic regimes, it is vital to understand the institutional framework that these regimes are founded upon. Autocratic stability in these regimes differ significantly to other similar states in regions such as Latin America or Africa (Franke and Gawrich, 2011, 72). There are several factors that explain the stability of these rentier regimes: characteristics of neopatrimonialism, ‘’an informal personalised style of rule combined with a pyramidal power structure’’, the availability of rent-seeking options which has created ‘’rent-seeking orientated power circles’’ but afforded the regime a certain degree of stability, and the ‘’strategic alimentation of society’’, by using social policy as a mechanism to secure support of their citizens (Franke and Gawrich, 2011, 72-73 & 92). On the other hand, the relative few social uprisings in both countries can also be attributed to the Soviet legacy, which turned the local population passive and cautious to political issues (Franke and Gawrich, 2011, 92). Yet, while the two countries are often grouped together, they do have various differences. Radnitz argues that Kazakhstan was an ‘’enthusiastic early reformer’’, which lead to the emergence of an ‘’independent capitalist class that gained control of major privatized assets’’, and only following the high windfall of oil and gas revenue in the early 2000s was the Nazerbayev regime finally able to co-opt and coerce these independent elites (2010, 141). In the case of Azerbaijan, any independent capitalist class failed to materialise because initial privatisation was very limited and economic power remained highly concentrated, which meant that the opposition had relatively few resources to challenge the regime (Radnitz, 2010, 139-140). It is important to note however that unlike Kazakhstan, Azerbaijan was locked in a war with

Armenia in the early years of its independence, which arguably impeded the formation of a stable and functioning government and effective policy-making. In fact, the choices and actions taken by actors in the period of difficult transitions can have a huge impact on the future path trajectory of states. It was through informal backroom deals, personal relations and buying loyalty that Nazerbayev managed to establish a ‘’new institutional order’’ based around him and his close kin after 1995 (Isaacs, 2009, 18). Azerbaijan’s brief spell with democracy between 1992 and 1993 ended after its first and only democratically elected president got overthrow in a coup d’état in 1993 by Heydar Aliyev, whose family and descendants have ruled the country ever since (Bashirov, 2021, 4).

In fact, following their independence from the Soviet Union both regimes in Azerbaijan and Kazakhstan found themselves with vast sources of oil and natural gas, yet lacked the capabilities to extract these resources (Esanov, Raiser and Buiter, 2001, 1). It was not until the signing of several big production-sharing agreements in the mid-1990s, such as the Contract of the Century in 1994 and the North Caspian PSA in 1997, with the major international oil companies that oil and natural gas revenue began to fill the coffers of both governments. Esanov, Raiser and Buiter point out that their initial reliance on foreign investment and investors to develop the extractive sector initiated a brief period of liberalisation, only to eventually be supplanted by ‘’a phase of increasing national assertiveness’’ (Esanov, Raiser and Buiter, 2001, 1). This assertiveness can be explained by the gradual increase in the price of Brent Crude following its collapse due to the Asian financial crisis in 1997. The commodities boom of the early 2000s is the reason the two countries recorded such high levels of economic growth but also the main event that allowed both governments to exert more control over their own economies (Bashirov, 2021, 7; Kaiser and Pulsipher, 2007, 1312). As the government expanded its control over the economy,

economic growth and development became highly correlated to the level of rent distribution (Bashirov, 2021, 7). Moreover, the high windfall from oil and natural gas revenue enabled both regimes in Azerbaijan and Kazakhstan to consistently secure their re-elections, which allowed them to increase their spending while maintaining low levels of taxes prior to elections, ‘’when the public is most focused on their country’s political development’’ (Kendall-Taylor, 2012, 737). In Azerbaijan, rent distribution took the form of state-owned enterprises that created monopolies over entire sectors of the economy and private companies partially or fully-owned by members of the regime, who dominate the private sector (Bashirov, 2021, 7-8). Similarly, in Kazakhstan, the size of the public sector accounts for an estimated 70% of the economy, while the revenue of the largest state-owned company, Samruk-Kazyna, accounts for 13% of the country’s GDP (Kapparov, 2016, 2-3).
To understand the role that oil and natural gas plays in the economies of these countries it is important to look at two factors. Firstly, oil and natural gas reserves, production capacity and forecast. Secondly, transportation systems and the major destinations.

Currently, Azerbaijan has a proven reserve of about 7 billion barrels and 1.7 trillion cubic metres of natural gas (U.S Energy Information Administration, 2021). The country’s annual production capacity currently stands at 716,000 barrels of petroleum per day and just over 22.7 billion cubic metres of natural gas (U.S Energy Information Administration, 2021). Kazakhstan, on the other hand, has a reserve of 30 billion barrels and its natural gas reserves amount to 1.1 trillion cubic metres (The Energy Year, n.d.). Its yearly production capacity is 1.83 million barrels of oil per day and 27.1 billion cubic metres of natural gas (The Energy Year, n.d.). Two conclusions can be drawn from these facts. Firstly, Kazakhstan has bigger oil reserves and produces more oil and slightly more natural gas than Azerbaijan. However, the latter has bigger proven reserves of natural gas. Based on data from the US Energy

Information Administration, Kazakhstan's production capacity of both oil and natural gas is set to continue growing (U.S Energy Information Administration, 2019). However, the EIA notes that while Azerbaijan's natural gas production will be increasing in the coming years, its production of oil will keep declining, as it has since 2010 (U.S Energy Information Administration, 2021).

There are three oil pipeline and one gas pipeline that exports Azeri natural gas and oil westward, but only the gas pipeline is directly connected to the Trans-Anatolian pipeline which ships natural gas directly to Europe. Due to its landlocked position, Kazakh oil and natural gas has to enter the Russian transmission system to be exported westward, with the exception of its small tanker fleet that ships to Baku. Yet, at the same time, being a neighbour of China allows Kazakhstan to easily export its oil and natural gas to its eastern neighbour. In conclusion, Azerbaijan has a much more secure security of supply because most of its export routes circumvent Russia to reach the European market. However, Kazakhstan's geographical position means that it has an easy access to an alternative big and lucrative market.

As mentioned in the previous section, foreign direct investment is vital for economic development and growth. Based on available data, 70% of Kazakhstan's FDI stock is concentrated in oil and natural gas extraction (Lloyds Bank Trade, 2022). The scenario is slightly worse in Azerbaijan where in 2021 the oil and gas sector represented 83.5% of FDI (Report News Agency, 2022). This is because while foreign companies can operate freely in that sector, they are ''largely prohibited from entering the non-oil market, which [is] dominated by SOEs and oligarchic interests connected to the government (Bashirov, 2021, 15).

Moreover, while the forecast mentioned above point to an increase in both countries' export capacities (albeit not for oil in the case of Azerbaijan), extraction and production of oil and

natural gas has become increasingly more technologically difficult. In fact, foreign oil and gas companies and their service providers are the main sources of innovation in this field and are essential for further development (see Chapter 11, Gustafson, 2017). However, no company will invest unless there are profitable reasons to and in the context of the rhetoric of a transition to carbon neutral economies, foreign investors might be reluctant to go ahead with new agreements, having to re-evaluate their investment plans for the future.

In sum, we can see that the institutional foundations in both regimes; the *legacy* of the *Soviet past* and an engrained culture amongst the elite based on *kinship* and *clan relations*, fit well within the concept of *neopatrimonialism* and explain partly the composition and trajectory of these post-Soviet regimes. On the other hand, there are prevailing elements of the aforementioned *staple theory* in the thinking of the elite; the belief in economic growth based on primary commodities exports. In both Azerbaijan and Kazakhstan, the combination of these two factors created an unsustainable system where natural resource endowment affords the regime its stability, through coercion and co-optation, whilst the regime plunders away at state coffers. Not only does such a system led to weak growth and development but it is extremely fragile to exogenous factors that could break it down completely. The forthcoming analysis section should be able to prove whether the aforementioned factors undermine elite policy-making abilities in these two countries. Thus, leaving them unprepared and incapable to adapt to the ramifications of a future carbon-neutral EU.

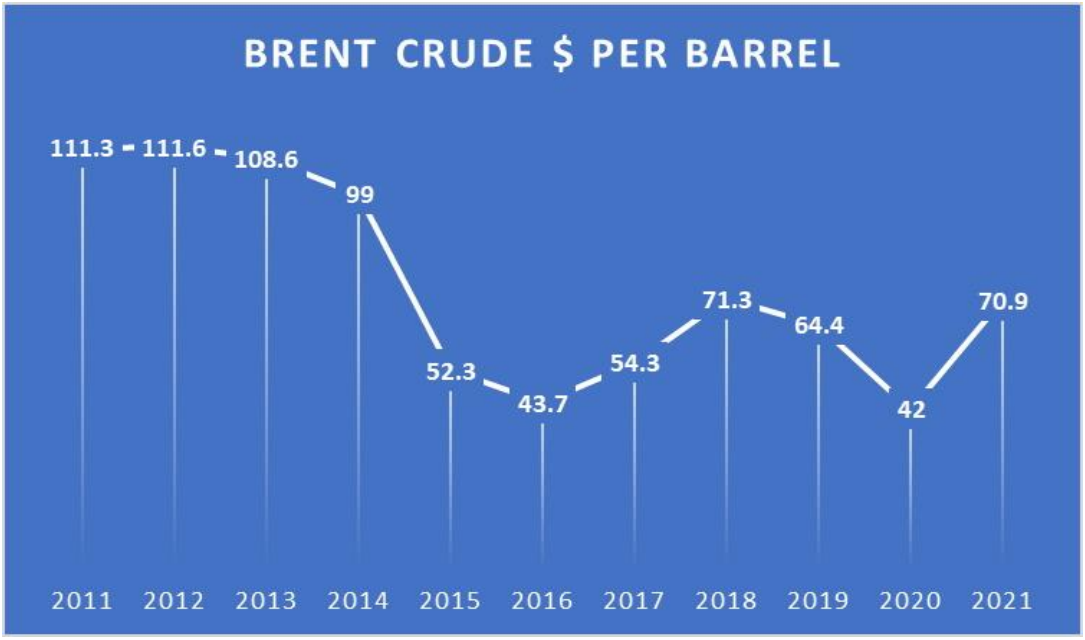
4 Analysis

The previous sector gave us a general idea, based on the literature, that both countries are highly dependent on energy exports, that the state and state-owned companies are the main economic actors in both economies and that FDI is highly centralised in the resource-extraction sector. Contrasting this information with the aforementioned theories, we can deduct that neither regime has taken a **forward-looking** policy approach to restructuring their economies, rendering both regimes unprepared for the potential negative effects of a carbon-neutral EU. The aim of my analysis is precisely to empirically discern, with the help of the compiled data, the degree of this **unpreparedness**. To achieve this, I will analyse three economic factors over a timeline of 11 years (from 2011 to 2021)[2], namely: the *composition of exports*, the *structure of the state budget* and the *export destination dependency ratio*. The first factor highlights the level of economic diversification by looking at how much oil and natural gas exports dominate total exports. The second factor provides an insight on how dependent these regimes are on resource rents by looking at how much oil and natural gas revenue constitute in their state budgets. I will also contrast the budgets and export composition of both countries with those of the biggest energy exporter in Europe[3], Norway. Finally, the third factor, demonstrates how important the EU is as an export destination for both Azerbaijan and Kazakhstan by looking at the EU's share in total exports in each country. The last part of the analysis will sum up the main findings of both cases and compare them with each other. From this I can deduct what the main differences are between the two countries.

[2] The reason for choosing a 11-year timeline is purposely made because it includes the year 2021, which saw some signs of global economic recovery following the covid-19 out break in 2020
[3] Note that this excludes the Russian Federation

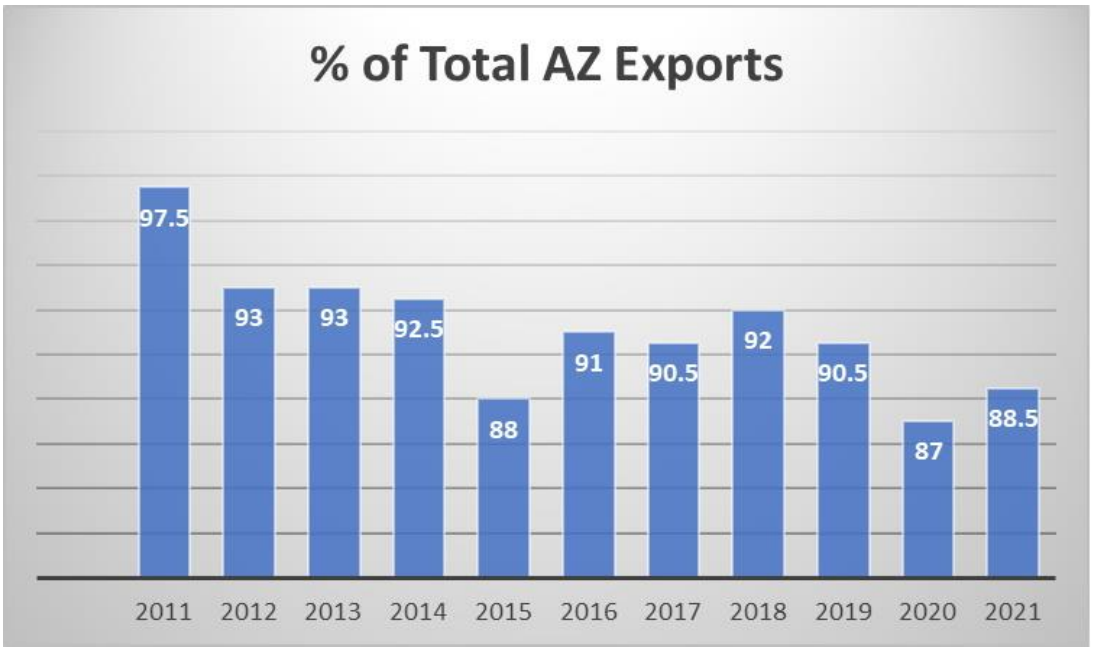
4.1 – Export Composition

The composition of trade and exports is a good indicator of the level of economic diversification and how developed other sectors such, as manufacturing, are in each specific country. The more diversified the composition of trade is in a respective country, the likelier its economy is more industrialised. What is important to bear in mind, however, when analysing oil and natural gas exports and state budget revenue is to track and reference to the trajectory of Brent Crude Price. Hence why I have included a graph of the price of Brent Crude oil in this part. The following graphs[4] indicate the average annual share of oil and natural gas exports of total exports per country over an eleven-year period, from 2011 to 2021.

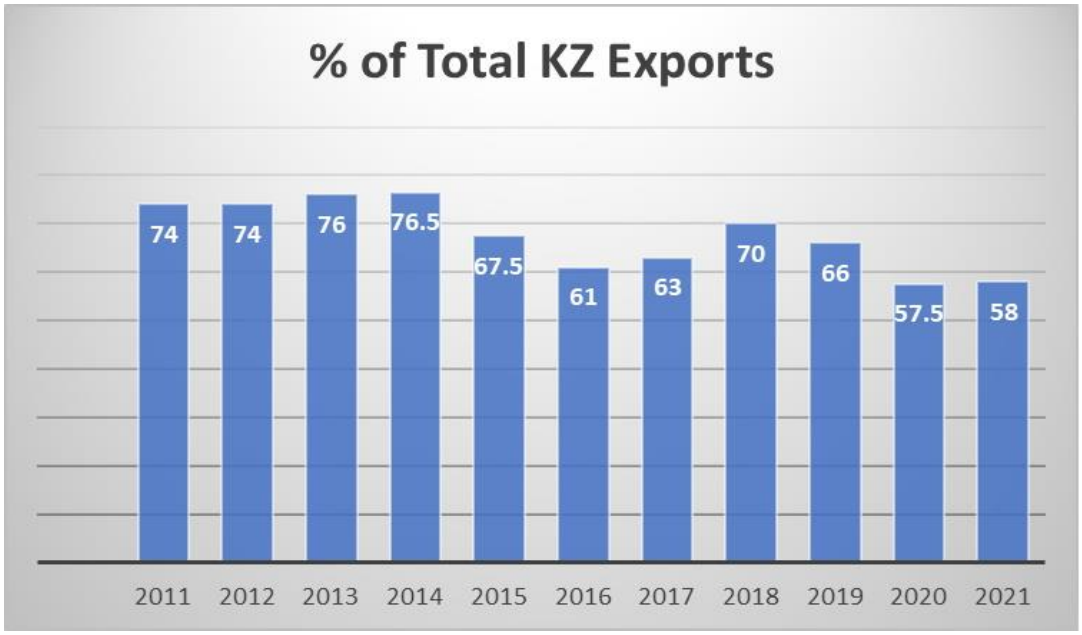


(*Nasdaq*[5])

[4] Note that **all graphs** were created by myself, based on official information and data
[5] Brent Crude Price: Latest Futures Prices, Charts & Market News | Nasdaq

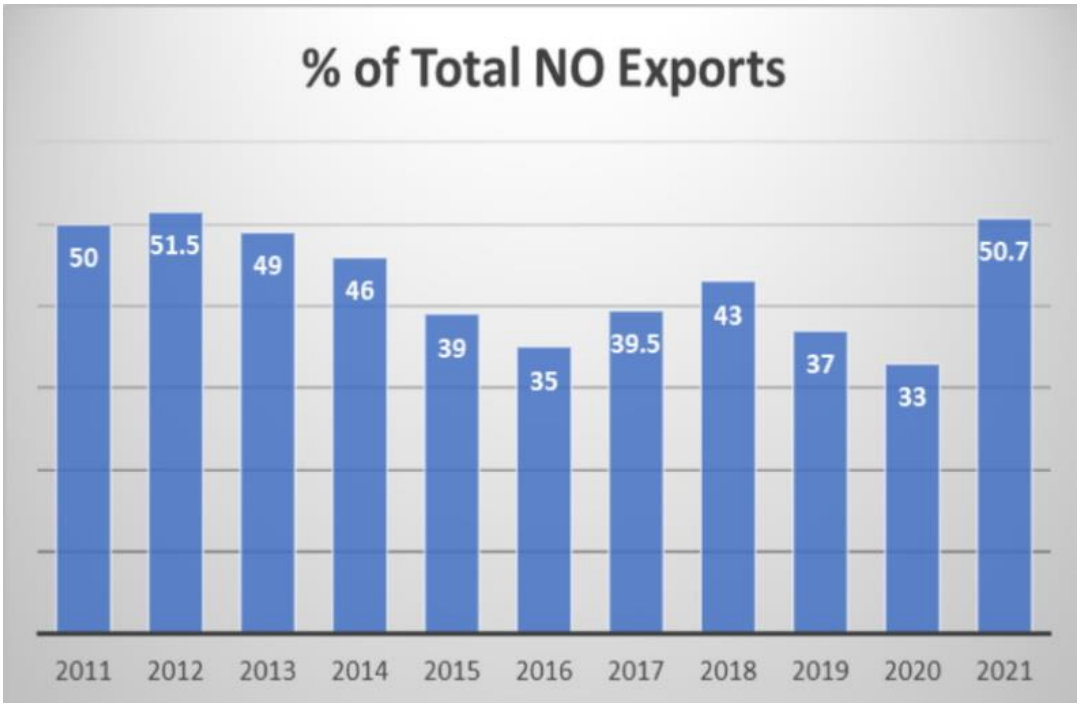


(*Azerbaijan Statistical Information Service*[6])



(Agency for Strategic planning and reforms of the Republic of Kazakhstan Bureau of National Statistics[7]*)*

[6] ASIS (azstat.org)
[7] Ұлттық статистика бюросы (stat.gov.kz)



(Norwegian Petroleum Directorate & Norwegian Ministry of Petroleum and Energy[8])

Two main points can be observed here. Firstly, while it may seem that Azerbaijan's oil and natural gas exports are more prone to fluctuations, if one looks at the percentage points, Kazakh energy exports have fluctuated much more in the previous decade than its Caspian counterpart. The average annual fluctuation rate of oil and gas exports of total exports for Kazakhstan is 3.7%, but for Azerbaijan this is almost half, at 1.8%. The highest percentage drop for both countries was in 2014-2015, when the price of oil collapsed. Here, similarly, Kazakhstan experienced a much bigger drop, 8.8%, than Azerbaijan, 4.5%. Nevertheless, the share of oil and gas in total exports began to expand once oil prices rallied in 2016, only to drop again in 2019, in line with Brent Crude. The price of oil collapsed to a 11-year low due to the outbreak of the covid-19 pandemic in 2020, and both countries saw the share of their energy exports fall by 8.6% and 3.4%. Thus, the covid-19 pandemic caused an almost identical drop in oil and gas's share of exports as the oil price collapse in 2014-2016.

[8] The government's revenues - Norwegianpetroleum.no (norskpetroleum.no)

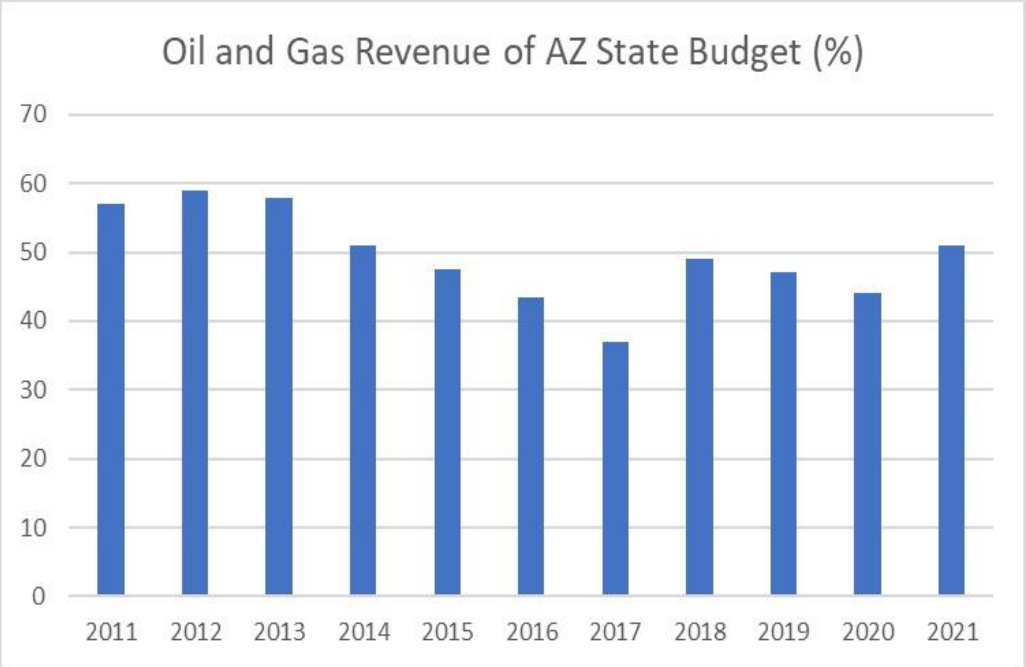
However, already by 2021 the share of oil and natural gas exports of total exports recovered with a 1.5% increase in the case of Azerbaijan and slightly less with 0.5% in the case of Kazakhstan.

Secondly, and of equal importance, one can easily notice that oil and natural gas exports have almost never surpassed more than ¾ of total Kazakh exports. On the other hand, Azeri energy exports have consistently hovered around 90% or more of total exports. Based on my calculations, the average annual share of oil and natural gas of total Kazakh exports for the period 2011-2021 is **68%**. In the case of Azerbaijan this number rises to **91%**. The main conclusion that can be drawn from this is that, while Kazakhstan's export composition is more prone to big fluctuations, at least 25% of the country's exports have consisted of none-oil and gas exports. In other words, Kazakhstan is less dependent on its exports of natural gas and oil than Azerbaijan and, thus arguably, has a slightly more diversified economy than the latter. Nevertheless, the fact that these fluctuations swing so drastically year-on-year means that the Kazakh economy is quite unstable. Moreover, if we compare these figures with those of the biggest energy exporter in Europe, in this case **Norway**, for the same period, the country's annual share of oil and natural gas of total exports was **43%**.

4.2 – State Budget Structure

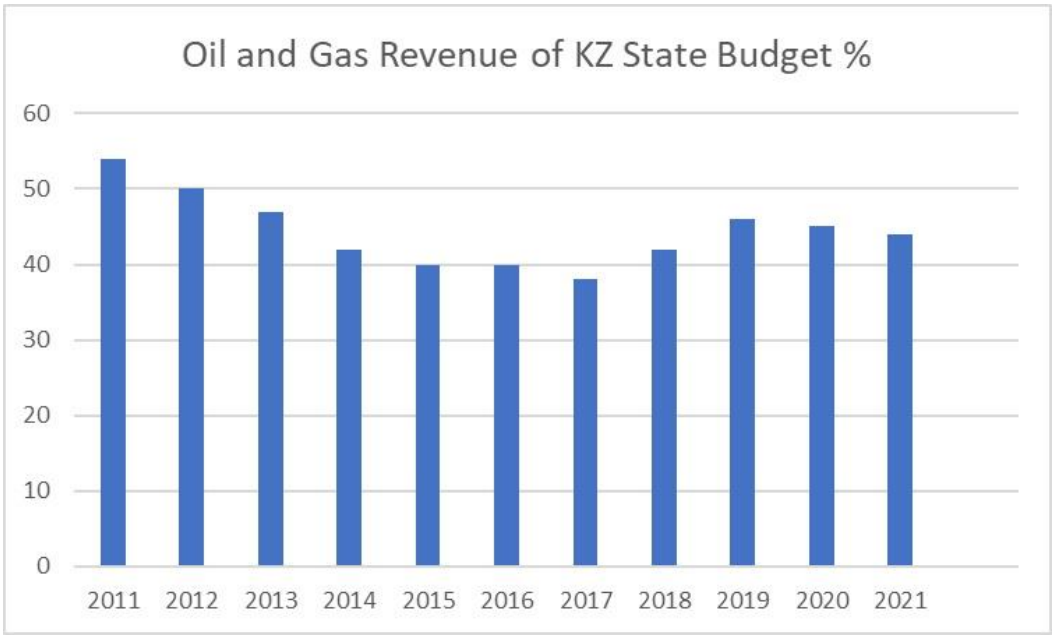
Looking at the constitution of the state budgets of Azerbaijan and Kazakhstan we can see relatively similar patterns. Revenue from oil and natural gas constitute almost 50% of the budget in both countries. The yearly average for Azerbaijan in the given period is **49.5%** and for Kazakhstan this figure stands at **44.5%**. Moreover, both graphs show a similar trajectory in the fluctuation of oil and gas revenue for the given period. The year in which oil and gas revenue had its highest share in both countries' budgets, as we can see, is in the early years,

2011-2013. The highest share in the budget recorded in Azerbaijan was in 2012 when oil and gas constituted almost 60% of the budget. Kazakhstan's highest share was the previous year, in 2011, when almost 55% of the budget came from oil and gas. If we contrast this to the trajectory of Brent Crude, this makes sense, since the price of Brent Crude only lost substantial value from 2014 onwards. Once Brent Crude price recovered following the 2014-2016 price collapse, the share of oil and natural gas revenue in both countries' budgets also rallied until the pandemic outbreak in 2020. In other words, there is a strong correlation between the trajectory of Brent Crude price and the share of energy revenues in each's state budgets. Even though a 50% share might not seem a lot, if we compare this to other oil and gas exporters, that number is quite high. If we again contrast to **Norway**, the average annual share of oil and natural gas revenue of its state budget, the value is significantly lower, at **21%** of overall budget revenue for the given period.

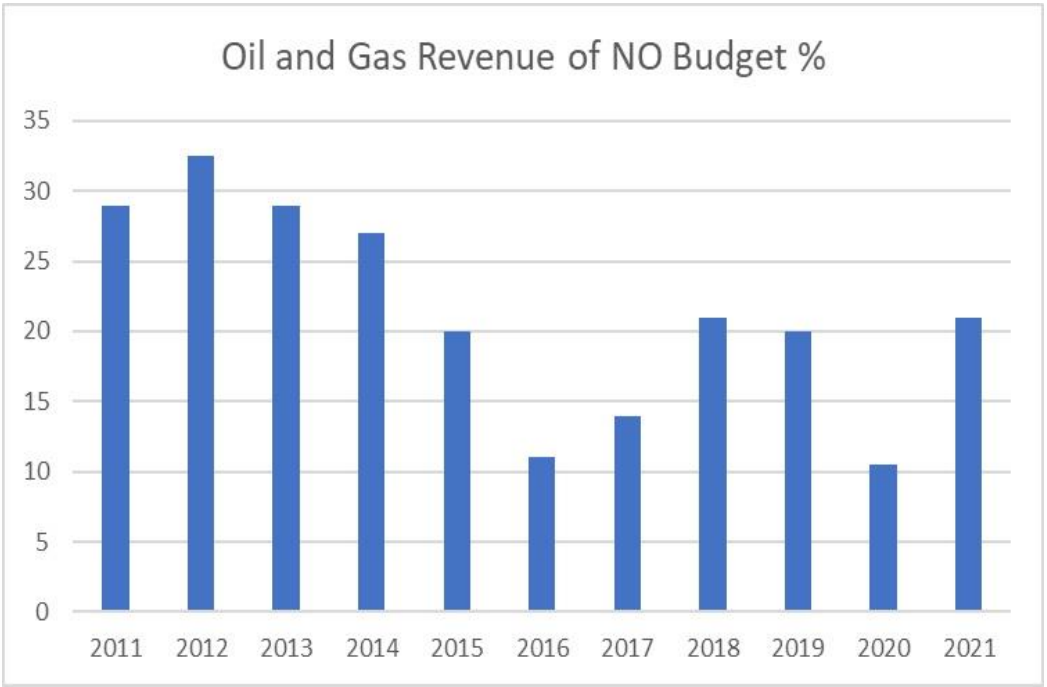


(Ministry of Finance of the Republic of Azerbaijan[9])

[9] Azərbaycan Respublikası Maliyyə Nazirliyi (maliyye.gov.az)



(Agency for Strategic planning and reforms of the Republic of Kazakhstan Bureau of National Statistics[10]; National Bank of Kazakhstan[11])

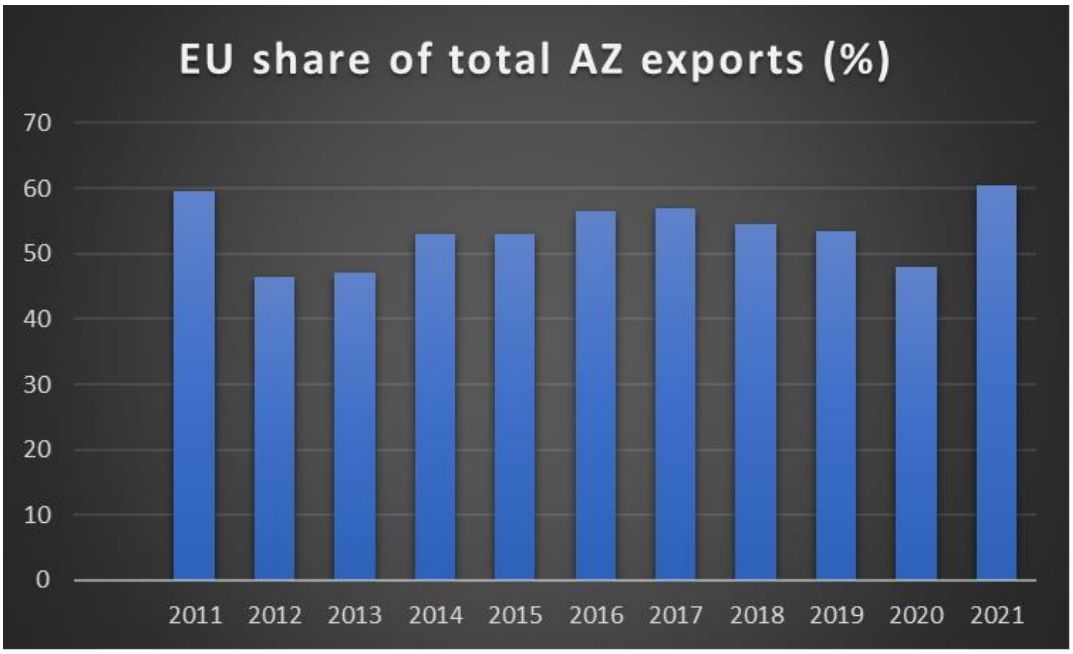


(Norwegian Petroleum Directorate & Norwegian Ministry of Petroleum and Energy[12])

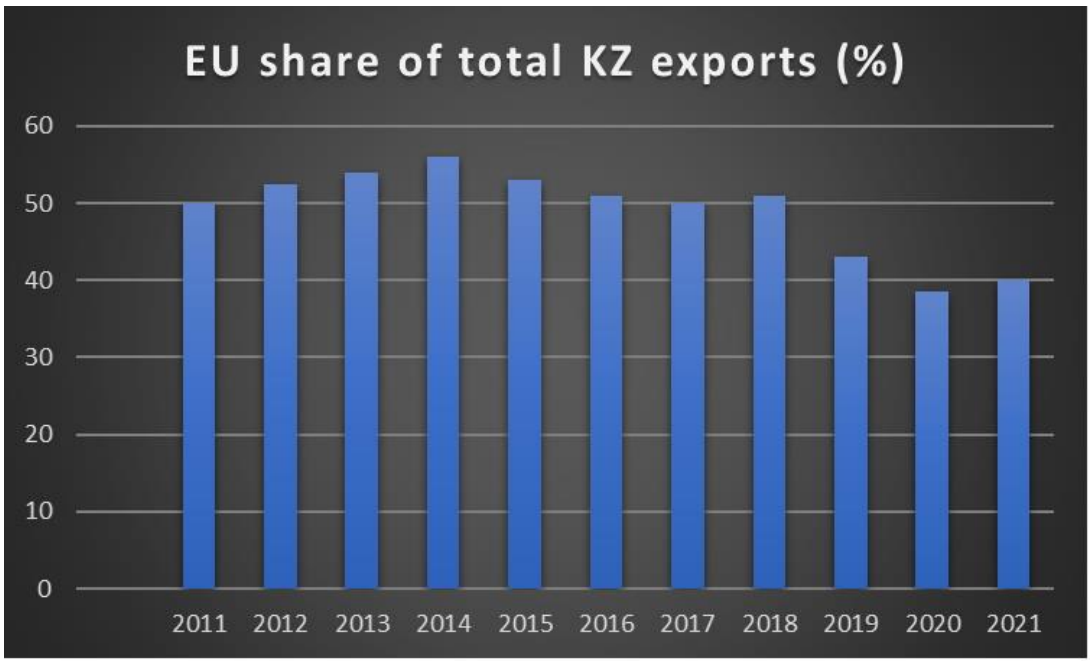
[10] Ұлттық статистика бюросы (stat.gov.kz)
[11] National Bank of Kazakhstan
[12] The government's revenues - Norwegianpetroleum.no (norskpetroleum.no)

4.3 – Export Destination Dependency Ratio

The last two graphs indicate the EU's share in Azerbaijan and Kazakhstan's overall exports. It becomes evident looking at these graphs, that the EU is by far the main destination for both countries' exports. In fact, almost 50% of their annual total exports go to the EU. In more concrete figures, the average annual share of exports to the EU out of total Azeri exports is about **53.5%** for the eleven-year period, while for Kazakhstan this figure stands at about **49%**. What is equally important to note is that following a sharp drop in 2020, due to the covid pandemic, both countries saw their exports to the EU rebound. Kazakhstan saw its exports to the EU rebound slightly but what stands out in these graphs is Azerbaijan. The EU's share in Azeri exports jumped from 48% to over 60% in 2020-2021, the highest record in the 2011–2021 timeframe. Yet, one can also notice a sharp drop in the EU's share of Kazakh exports from 2018 to 2019, i.e., from 51% to 43%. At the same time the share of oil and gas revenue to the state budget increased with 4%, only to stabilise the following years at a fluctuation rate of 1%. We can assume that this hike was caused by a re-direction of energy exports to another market, most likely China. As mentioned in the previous section, China can prove to be a very lucrative alternative market for re-directing Kazakh exports in the future, something Azerbaijan lacks.



(*Azerbaijan Statistical Information Service*[13])



(Agency for Strategic planning and reforms of the Republic of Kazakhstan Bureau of National Statistics[14]

[13] ASIS (azstat.org)
[14] Ұлттық статистика бюросы (stat.gov.kz)

Nevertheless, the EU remains a highly important trade partner and the main export destination for both countries' energy resources. While exact data, based on government statistics, on how much of these exports to the EU constitute oil and natural gas are not available, figures from the European Commission's country trade data show that **93.7%** of EU imports in 2020 from Kazakhstan and **98.5%** of EU imports in 2021 from Azerbaijan were categorised as fuel and mineral products (European Commission, n.d.).

4.4 – Summary

Several conclusions can be drawn from this analysis. Firstly, the fact that oil and natural gas constitutes an average of **91%** of annual Azeri exports suggests that the country's economy is highly undiversified. While Kazakhstan performs better in this respect, with **68%** constituting oil and gas, it is still significantly more than Europe's largest energy exporter, **Norway**, whose average annual share for the period was **43%**. Thus, in both cases energy exports dominate by far all other exports. However, it is in the share of oil and gas revenue in these countries' state budgets that the differences are most striking. For Azerbaijan and Kazakhstan almost 50% of their budgets (**49%** and **44.5%** respectively) comes from rents derived from these resources. In the case of **Norway**, only **21%** of its annual budget revenue is dependent on oil and natural gas in the given period. Finally, the EU represents the major export destination for Azeri and Kazakh oil and gas exports, with 53.5% in the case of the former and 49% of the latter. In other words, almost 50% of their energy exports are diverted to the European Union. In sum, both countries are highly reliant on oil and natural gas exports and their transportation to Europe to prop up their economies.

5 Discussion

There are several key takeaways from my analysis. The first conclusion that can be drawn is that both Azerbaijan and Kazakhstan do fit in the category of rentier states, in contrast to other oil and gas exporting countries like Norway. Oil and natural gas dominate the structure of their exports, of which the majority is exported to the EU market, which indicates that their economies are significantly undiversified. Moreover, these exports are highly prone to market volatility. This confirms with the symptoms of the Resource Curse Theory, as growth in both countries is strongly correlated to the export of these primary commodities. Resource-driven growth and an undiversified economy, according to the literature, are classic characteristics of countries caught in the staple trap. Secondly, we saw that the state budgets of both countries are highly reliant on rents accrued from these resources. Resource rents are essential for the stability of a rentier regime, in terms of economic stability but also for their defence mechanisms, to repress or coerce any opposition to the regime's rule.

Another indicator concerning diversification is that FDI is highly concentrated in the oil and gas sector. This coupled with the fact that non-oil sectors are dominated by state-owned companies and companies connected to the government suggests that both regimes are predatory and act as roving bandits. As mentioned earlier, regimes that are predatory have short-time horizons as they anticipate that the current status quo might change and the regime itself might collapse at any moment. This arguably encourages and nurtures a mentality of plundering among the elites in power, extracting as much as possible in the present at the expense of future economic development and growth. In addition, fluctuations in the global oil market have not only led to growth collapses that negatively impacted both economies but, as a result, has led to violent protests and elite and clan-infighting over resources as rents shrunk, precipitating a scramble for control.

The literature in my theoretical framework goes a long way to explain why elites in these regimes are so averse to reforms. The current regimes in Azerbaijan and Kazakhstan are a *product* of their *past legacy*, being constituent parts of the Soviet Union and its system that nurtured a certain mindset and way of thinking, both amongst the elite and the wider society as a whole. The Soviet Union itself, from the 1970s onwards had turned into a type of *rentier state*, where oil and natural gas had become the main source of revenue that propped up an unsustainable economic system (see Gaddy and Ickes, 2005). Whole industries and sectors became dependent on these rents from the centre and once oil prices collapsed in 1985 the whole system started to unravel (Gaddy and Ickes, 2005, 569-570). Whilst the Soviet Union ceased to exist, the political and economic systemic mindset that it had nurtured remained engrained in the thinking of the elites in these newly nascent nations. This coupled with the peculiar regional/cultural aspect of *clan politics* and *kinship* gives us a good understanding of how the regimes in these countries formed into **neopatrimonial rentier states**. Arguably then, this engrained mindset amongst the elite is the very reason why they have short-time horizons, and as long as it is ‘’business as usual’’, this way of thinking becomes self-reenforcing.

If we put this into the context of the EU Green Deal, the future looks bleak. Considering that about 50% of their annual exports and revenues come from the EU, a carbon-neutral European economy would have huge consequences on the economic stability of both countries. Since neither regime is willing to risk and undertake deep structural reforms to diversify their economies away from the export of primary commodities, the size of rents will gradually diminish. The lack of other alternatives for revenue will not only undermine the state’s capacity to perform its basic duties that society expects it to fulfil, but the reduced honeypot will undoubtedly lead to rifts within the regimes, as different groups scramble for

the shrinking resources. The combination of social discontent among the wider society and a weakened repression and coercion mechanism to stamp out both internal and external opposition will increase the likelihood that these already unstable regimes will likely collapse.

In sum, my analysis of the aforementioned economic factors has proved that reforms have been negligible at best in both countries and thus have failed to wane off the regimes' dependency on mineral resources for their survival. The fact that no structural reforms have been undertaken in the given time period, proves my hypothesis that elites within these regimes do indeed operate within **short-time horizons**. The reason for this lies in **regime instability**, brought about due to *historical* and *cultural factors*, as pointed out earlier. This discourages reform-minded thinking amongst the circles of power and results in a deficiency in **coherent** and **forward-looking policymaking**, that can lead to sustainable economic growth and development. In conclusion, we see that both Azerbaijan and Kazakhstan are **unprepared** for a post-oil and gas Europe and the repercussions associated with a new reality.

6 Conclusion

The aim my thesis has been to discern whether the oil and gas exporting Soviet successor states, Azerbaijan and Kazakhstan, are prepared or preparing to counter the economic fallout of a potential future carbon-neutral European Union. The main takeaway from this, which became my research question, is why there have been little to no reforms that could reshape the structure of their economies toward a more sustainable and diversified economic model? My hypothesis was that the lack of structural reforms can be attributed to elites operating on short-time horizons. This results in uncoherent, inconsistent and not-*forward-looking* policymaking on the part of the elites in these regimes, which ultimately hampers economic growth and development.

To frame my two case studies within the wider literature I have drawn upon the staple theory, resource curse theory and the rentier state theory as well as looking at the relation between elite time horizons and regime stability. This provided me with a theoretical structure from which to build my empirical analysis. Looking at what other academics have written on Azerbaijan and Kazakhstan I found that the legacy of the Soviet past as well as cultural/regional factors such as clan and kin politics are the key factors that explain the post-Soviet trajectory of these countries, both in terms of institutions and regime stability. For my analysis I looked at three different economic factors for the two case studies: their *export composition*, *state budget structure* and the so-called *export destination dependency ratio*. Contrasting with the biggest oil and gas exporter in Europe, Norway, I found that Azerbaijan and Kazakhstan have highly undiversified economies, state budgets that are heavily dependent on revenue derived from the exports of oil and natural gas, and that the European Union is their main export destination for these exports.

The results from my empirical analysis within the theoretical framework has shown that elites in these countries *do* indeed operate within short-time horizons. The reason for this comes down to the instability of both regimes, which is a product of the aforementioned Soviet legacy as well as clan and kin politics which have shaped both countries trajectories following their independence from the Soviet Union. These factors coupled with an ideology based on resource-driven growth, which also created the dependency on oil and natural gas, allows one to classify both countries as *neopatrimonial post-Soviet rentier states*. These are all integral components that created the environment in which the elites in these regimes operate, narrowing their capabilities to think in the long-term and thus leaving them at the mercy of external forces that threaten the very stability of their regimes.

Finally, it is worth mentioning that until the present, elites in both regimes have adhered to the general held view that whilst oil prices tend to fluctuate, they eventually rebound. This, has also, arguably, enforced such a narrow-minded mindset. The difference is that as the global rhetoric on climate change and decarbonisation has moved from the fringes of policymaking to the political spotlight, the question can no longer be viewed only through the prism of *price* but must also take into account *volume*. This will arguably have graver implications for oil and natural gas exporting countries, particularly those that lack maritime access. In this sense, Kazakhstan has a geographical advantage compared to Azerbaijan, due to it being located next to China, the second largest economy in the world. Yet, as irony would have it, it seems that the EU is not the only superpower that intends to become climate neutral this century.

Word Count: 9931

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