Elite preferences and transparency promotion in Kazakhstan

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ABSTRACT

This paper evaluates the factors that shape the establishment of transparent institutions in resource-rich countries with a specific focus on Kazakhstan. Specifically, it draws upon in-depth interviews and analysis of key institutions to understand the pace and intensity of transparency reforms in the Central Asian state. It argues that external transparency promotion can lead to institutional reform only when it is matched with strong elite incentives in favor of reforms. Kazakhstan has had few incentives to comply with Western-initiated norms before 2014, an era of relative economic security. As a consequence, the political elite often stalled the successful implementation of reforms. However, the economic turbulence following the fall of oil prices and Russia’s annexation of Crimea have motivated the Kazakh government to embrace the norm of transparency in order to attract foreign investment.

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Transparency is a rational remedy to corruption in resource-rich countries as it allows citizens to monitor a government’s revenues from the sale of hydrocarbons and minerals. As such it can create public awareness and motivate responsible policies. International financial institutions (IFIs), multinational companies, and transnational advocacy networks (TANs) promote transparency in the extractive industries, meanwhile they expect developing resource-rich countries to comply with this norm. Yet, in many resource abundant countries the appeal of absolute political control over hydrocarbons is so strong that concrete reforms towards more transparency are difficult to realize.

In this paper, I evaluate the factors that shape establishment of transparent institutions in hydrocarbon-rich countries with a specific focus on Kazakhstan.¹ I argue that external transparency promotion facilitates institutional reforms only when it is matched with strong elite incentives in favor of reforms. These incentives, in turn, are determined by the relative economic security of the political elite. Prior to 2014, which corresponds to a period of relatively high commodity prices for hydrocarbons, Kazakhstan has had few incentives to comply with such Western-initiated norms as transparency, thanks to increasing revenues and a diversified composition of foreign direct investment. As a consequence, in Kazakhstan, while external influences have helped to make natural resource management relatively more transparent, the lack of elite incentives limited the extent of reforms. However, since 2014, with the dramatic fall of oil prices and Russia’s annexation of Crimea, Kazakhstan has now more incentives to address the issue of transparency, primarily in order to attract foreign investment from OECD countries.

The interaction between domestic and international spheres is key in understanding how external agents initiate over-reaching reforms in developing countries. Neglecting the contexts that influence elite preferences could severely undermine...

¹ This paper draws upon in-depth interviews of the author with twenty government officials, non-governmental organization and representatives of international financial institutions in Kazakhstan conducted in June-July 2010. These interviews reveal the limitations of transparency promotion in Kazakhstan in this era.

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these efforts not only in the area of transparency, but also in human rights and environmental legislation. This paper proceeds as follows. I first present transparency as a potential remedy for the so-called resource curse and lay out a framework that explains why some resource-rich countries might be more eager to adopt the norms of transparency. I then evaluate the particular interaction of transparency promotion and elite preferences in Kazakhstan that has contributed to the state of reforms in the country before and after the fall of oil prices in 2014.

1. Transparency in resource-rich countries

Abundance of natural resources, particularly hydrocarbons and minerals, puts a strain on the economic and political system of a country, a phenomenon often described as a "curse". In economic terms, resource dependency is associated with a lack of diversification and sluggish long-term growth; whereas the common political and institutional symptoms include rent seeking behavior and corruption (Anderson, 1987; Auty, 2001; Beblawi, 1987; Chaudhry, 1989; Karl, 1997; Larsen, 2004; Mahdavy, 1970; Mehlum et al., 2008).

As the resource curse literature developed, an institutionalist perspective on the management of natural resources has become more prominent (Mehlum et al., 2006). This focus concentrated on the concepts of good governance and institutional quality as well as their roles in mitigating corruption and mismanagement in extractive industries. The emphasis on the quality of institutions assumes that rather than being an inevitable outcome, the so-called resource curse results from a government’s inability or lack of intent to sustainably manage resource revenues (Atkinson and Hamilton, 2003). Some examples of institutional qualities are the rule of law, accountability of government officials, freedom of speech, economic freedom, and transparency in government affairs (Krause, 2007).

Among these institutional qualities, transparency is arguably the most popular one since it is easier to implement compared to other aspects of good governance. Transparency acts as a precipitator that leads to better decisions, actions, and processes without intruding the political setting of a country (Kolstad and Wiig, 2009, p. 529). With transparent institutions, decision makers are inclined to make choices that are acceptable to the population as a whole. This enables public involvement in policy making and helps citizens to hold officials accountable (Lindstedt and Naurin, 2010).

Transparency in the extractive industries applies to the complete natural resource value chain, which includes the decision to extract, contracts, production data, revenues, and investments for sustainable development (NRGI, 2010). It often requires “a clear definition of goals, and rules-based operation; the public availability of information; and the adequacy of internal accounting and auditing of the funds; and arrangements for the appointment of officials and managers” (Kalyuzhnova, 2006, pp. 606–607). Governments that satisfy these conditions throughout the complete resource value chain could be considered as transparent.

Transparency as a norm in extractive industries emerged partly through the work of several TANs, such as Revenue Watch and Publish What You Pay (PWYP), which make a constant effort to highlight transparency as a remedy for extreme corruption and mismanagement in oil-rich countries. Similarly, IFIs, such as the World Bank and the International Monetary Fund (IMF) help redefine and standardize norms in order to improve the likelihood of their global adoption. For example, the IMF published its ‘Guide on Resource Revenue Transparency’ in 2007 as a measure to identify a set of best practices of revenue transparency (IMF, 2007, p. vii).

These transnational groups and financial institutions were also influential in the creation of the Extractive Industries Transparency Initiative (EITI), arguably the single most effective mechanism that addresses transparency in resource management. The EITI is a public-private partnership that includes supporters from a broad range of actors including states, businesses, and civil society groups. In the EITI framework, both participating governments and extractive companies publish their respective accounts meanwhile civil society groups monitor their progress. These accounts are eventually consolidated in an annual EITI report that is widely distributed and publicized (EITI, 2016b). As such, the EITI aims to diffuse the norm of transparency across developing resource-rich countries (EITI, 2016d). The following section analyzes norm diffusion mechanisms that apply to extractive industries, focusing also on elite preferences.

2. Transparency through norm diffusion and elite incentives

Norms, such as transparency, prescribe certain types of behavior. Their promoters consider these norms appropriate and ‘good’, hence they recognize and appreciate actors who follow the norms, and disapprove and stigmatize those who break them (Finnemore and Sikkink, 1998, p. 892). In that way, norms both constrain actors’ behaviors and constitute their identities and interests (Checkel, 1997; Finnemore and Sikkink, 1998). Here, using the norm diffusion literature, I focus on two mechanisms that contribute to institutional reform in resource-rich countries.

Firstly, as mentioned in the previous section, transnational ideational networks make an effort to spread the norm of transparency across borders. Since many resource-rich developing countries either lack the necessary capacity or the intention to adopt complete transparency in extractive industries, these external influences play a significant role. They specifically target political elites in order to transform their identities and goals. This process signifies the learning mechanism (Graham et al., 2013), which implies that political leaders realize the potential benefits of transparency and internalize the norm. As such, an increase in the intensity of external influences from states, IFIs, and TANs is likely to facilitate the process of internalization of transparency in government bureaucracies.
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