

Former Soviet Petrostates and Democratic Accountability:
The Cases of Azerbaijan, Kazakhstan and Russia

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Chairman Hastings, Senator Cardin, members of the Commission and staff, thank you for calling this important hearing today and for inviting Freedom House to comment. This hearing could not be timelier. With oil prices reaching \$80 per barrel – and the possibility that they will climb still higher – there is an urgent need for attention to the implications of this profound price shift on the democratic trajectory of key states in whose fate US interests are intertwined.

Today, given the strong global demand for energy, the likelihood that this demand will keep prices at high levels for the foreseeable future and the troubling governance profile of the states on which we must rely for supply, there is in essence a “perfect storm” of factors that should raise bright flags for the international policy and business communities.

Indeed, one of the major byproducts of the skyrocketing price of energy is the emergence of a group of energy-rich, but democracy-poor countries in the former Soviet Union that

are wielding newfound clout in ways that are posing difficult challenges for the United States, as well as the European Union and wider community of democratic states.

Drawing on significant energy windfalls, these post-Soviet petrostates – among them Azerbaijan, Kazakhstan and Russia – are becoming increasingly repressive at home. In the case of Russia, petrofinanced democratic pushback is not confined to domestic affairs. The Kremlin is applying the tactics that have come to define domestic politics under the leadership of President Vladimir Putin to challenge democratic institutions beyond Russia's borders, including the OSCE.

With oil prices spiking in recent years, the petrostates' windfall is staggering. This sort of wealth should be a godsend for impoverished, post-Soviet countries. However, such positive impact is by no means certain in unaccountable governing systems where a small group of elites tend to control a large part of the resources. Other than Norway, which enjoyed the advantage of having accountable institutions in place when it came into its energy wealth, the track record of countries rich in energy resources is quite poor.

Petrostates' Poor Track Record on Democracy

Much of the study concerning energy rich states and democratic accountability has historically focused on the Middle East and resource rich lands in other regions. However, the recent spike in the price of oil has brought into sharper relief a number of issues relevant to countries of the former Soviet Union that enjoy an abundance of energy resources. The earlier research conducted on this issue may help in providing a window of sorts into the governance performance to be expected in newly emerging energy rich countries.

Among the key features often identified with states falling prey to the resource curse – that is to say the negative development and growth outcomes associated with hydrocarbon-led development – include:

- The growth of state bureaucracy and transformation of state institutions toward greater seeking of rents;
- A crackdown on the news media in an effort to limit access to independent information;
- Poor and opaque mechanisms for policy development – and policy failure; and
- “Fiscal pacification” enabled by energy wealth, used among other things to mask underlying societal problems and to co-opt would-be political opposition or movements not acting in conformance with the regime.

Whether the post-Soviet petrostates can escape the poor development outcomes of the earlier generation of countries that relied on oil and gas as their principal economic engine remains a significant question. No less important, and indeed directly linked to domestic development issues, is how these countries choose to exert growing influence internationally.

While there is no iron-clad definition of a resource-based economy, a frame of reference is those in which natural resources account for more than 10 percent of GDP and 40 percent of exports (OECD). This threshold is easily met in the cases of Azerbaijan, Kazakhstan and Russia. More than half of Azerbaijan’s current GDP and 90 percent of exports come from oil and gas. In the Kazakh case, GDP is 30 percent and nearly 60 percent of exports come from oil. Oil and gas exports account for about 60 percent of Russia’s federal budget revenues and two-thirds of its exports.

The “Resource Curse”: Already Rearing its Head

The “resource curse” – along with associated pathologies of energy-led development – may in fact already be rearing its head. In each of these post-Soviet countries, there is an increasing dependence on energy as the chief economic driver, as well as growth of state bureaucracy and the corruption that accompanies it.

I would prefer that my assessment were not so gloomy. But the fact is that in many respects institutional reform has actually regressed in recent years in Azerbaijan, Kazakhstan and Russia, suggesting that the resource curse may already be growing roots. In all three of these cases the countries have been stuck or are moving in the wrong direction on the fundamental indicators that Freedom House evaluates that represent the brick and mortar of sound and accountable systems. Whether we speak of political parties, the media, non-governmental organizations and even the independent business community, all have come under growing pressure by the authorities over the past several years.

All three of these countries are categorized as “Not Free” in Freedom House’s annual survey of political rights and civil liberties, *Freedom in the World*, and in the annual survey of media independence, *Freedom of the Press*, indicating that basic safeguards and guarantees are absent in these systems.

In the Russian case, for example, today there are no domestic challenges to President Putin. This means no real public discussion, or serious debate that should serve as a catalyst for policy innovation or economic diversification. In Russia, as in Azerbaijan and Kazakhstan, corruption remains a festering sore that creates severe obstacles to further political and economic development.

With so much money flowing into these countries the stakes are raised for powerful elites who dominate these systems and control these formidable resources. To protect their lucrative positions they seek to limit scrutiny of their activities by silencing the press, political opposition, civil society and other independent institutions.

Petrostates and Crackdown on Press Freedom

The crackdown on the press has been particularly systematic. Journalists’ murders, increasing media takeovers by regime-friendly concerns and domination of broadcast

news in order to manage what ordinary citizens can and cannot see have become standard operating procedure.

In Azerbaijan, the government's attempt to increase its control of independent information sources is cause for particular concern. In recent years, the Azerbaijani government has faced heightened international criticism over entrenched corruption and a lack of transparency. Under existing conditions, an independent press would seem a critical component in avoiding poor outcomes associated with states rich in resources, but with poorly developed institutions. Analysis produced by the OECD identifies the lack of press freedom as one of the key factors enabling corruption to flourish in resource-based economies. The authorities' recent ratcheting up of pressure on selected media outlets, therefore, raises concerns about Azerbaijan's ability to take the steps needed to avoid the "resource curse."

Freedom House findings identify a host of obstacles for independent media in Azerbaijan's legal, political, and economic spheres. *Freedom of the Press*, Freedom House's annual survey of global press freedom, places Azerbaijan in the "Not Free" category. Another annual Freedom House publication, *Nations in Transit*, reports that "Azerbaijan's media sector encounters numerous obstacles to conducting its work and maintaining independence." Among the issues highlighted in the report was the fact that media "continue to operate under governmental and legal pressure, with most opposition outlets facing substantial financial hardship in the face of unreasonably high libel penalties." The increase in defamation suits in 2006 led the Organization for Security and Cooperation in Europe (OSCE) Media Freedom Representative, Miklos Haraszti, to urge President Aliyev to decriminalize defamation, a proposal Freedom House strongly endorses.

Russia has seen the most precipitous press freedom decline in recent years. Today, all of the major national television channels (Channel One, RTR, and NTV), from which most Russians get their news and information, have come under state control and are effectively censored. Control of national television news broadcasting is, however, only one piece of a broad and comprehensive campaign to bring independent media under the

sway of the authorities. The energy industry has had a significant hand in the pacification of independent news media. Gazprom-Media, an arm of the state-controlled gas behemoth, has acquired control of a number of previously independent news outlets and either closed their doors or drained them of independent reporting. In July 2006, President Putin signed a law that expanded the definition of extremist activity to include public slander of a government official related to his or her duties, using or threatening violence against a government official or his family, and publicly justifying or excusing terrorism. The definition of extremism in this new law is so broad that it allows the authorities to use unchecked power against their critics, including in the media.

In Kazakhstan, broadcast media have been taken into the hands of members of the presidential family and those with close ties to it. Meanwhile, the screws have been tightened on journalists who take an independent line. A campaign to silence critics who reported on official corruption caught in its web journalists such as Sergei Duvanov and Nuri Muftakh. In 2006, Kazakh President Nursultan Nazarbayev signed into law media legislation that increased government control over news media by imposing costly registration fees for journalists, expanding criteria for denying registration to media outlets, and requiring news outlets to reregister in the event of a change of address.

The battering of the independent news sector is no idle issue in these resource rich environments. As the economic windfall from high oil prices rockets upward and the temptations of oil money grow, it is all the more important to have a vibrant and independent news media sector, along with other critical independent institutions capable of placing basic checks on rents, runaway patronage and other variants of corruption.

The Kremlin's Autocratic Practices Projected Abroad

The Kremlin, meanwhile, having already effectively constrained independent organizations and voices at home is now pursuing an international dimension to its anti-democratic campaign. Russia's leadership has apparently set its sights on limiting the ability of important international organizations to scrutinize its conduct.

Institutions in which Russia enjoys membership such as the Council of Europe and the OSCE have become the objects of Moscow-inspired obstructionist campaigns. The Kremlin, for instance, is determined to limit the election monitoring capacity of the OSCE, whose Office of Democracy and Human Rights (ODIHR) has set the standard for evaluating the conduct of elections in the Europe and Eurasia region. Russia is apparently pursuing this strategy to limit these organizations' ability to effectively monitor upcoming elections in Russia (in 2007 and 2008) and in Kremlin-friendly autocratic states.

In its immediate neighborhood, Russia's leadership has also played the energy card to exert pressure on countries that represent the critical test cases for democratic reform in the former Soviet Union – such as Georgia and Ukraine – as well as on supposed allies including Armenia and Belarus.

The energy stakes are particularly high for Europe. EU imports of Russian energy are expected to grow from 50 percent to 70 percent over the next decade and a half.

However, with these petrostates' coffers already swollen with cash and no significant shrinking in energy prices in sight, the countries within the Commission's purview are likely to confront increasingly assertive petrodplomacy for the foreseeable future. These factors suggest that the community of democratic states should devise a coordinated response to the challenge, including the pursuit of a serious policy of energy independence.

I would note that Russia, Kazakhstan and Azerbaijan all have ambitions of more deeply integrating into the global economy, doing business with the EU and western community and being accepted as normal countries. They seek the prestige and benefits of membership in western, rules-based organizations, while typically offering up only the trappings of accountable democratic institutions. Russia is poised to join the WTO and is already a member of organizations such as the Council of Europe and the OSCE, as is

Azerbaijan. Kazakhstan is eager to obtain the OSCE chairmanship, as well as admission into the WTO.

This suggests that these countries should at a minimum be required to live up to the commitments they've made to these rules-based organizations, where they not only enjoy the prestige these institutions confer, but also should adhere to rather than lower their standards.

I would like to thank you again for the opportunity to present these remarks.