

Dissertation Research Project

Vitaliy Levchuk

Central European University

Department of International Relations and European Studies

The Political Economy of the Energy Sector: the cases of Azerbaijan, Nigeria and the Russian Federation

I would like to study how resource abundance and domination of a specific sector based on that resource in the economy shape the political economy of the specific country. These specific resources are energy resources represented by oil and gas deposits. The exploration of these energy deposits and their export to the world markets could bring enormous prosperity through the energy revenues inducing economic growth based on market economy and increase in the living standards of the inhabitants of the countries which possess the resources. In addition, such economic development could facilitate stable political regime based on democratic principles of governance. However, historical evidence shows that resource-rich developing countries have performed markedly worse in terms of GDP development than resource-poor countries (Auty 1994). From 1960-1990, the latter grew more than twice as fast as those countries that were more generously endowed by nature.

There are two types of explanation dealing with the resource abundance and its influence on the developmental prospects of the states: economic and political.

There are several most widely used economic theoretical frameworks as summarized by Ross (Ross 1999) explaining the misgivings of the resource-rich countries such as the decline of terms of trade for primary commodities, the instability of international commodity market (Prebisch 1950), the poor resource linkages between resource and non resource sectors (Hirschman 1958), the Dutch disease phenomenon.

While still relevant, explanation of the misgivings of developing and transition countries richly endowed with energy resources and one leading export sector demands a search beyond purely economic framework. This purely economic framework does not answer the question why governments fail to take corrective action against negative economic developments? My future study is about understanding the flagrant contradiction between the natural resources abundance and the miserable social and economic conditions in most of oil rich countries. How it can be that oil is not a blessing but a curse? What is it about petro-states that make it so difficult to turn abundant natural resources into affluent societies?

Shafer and Karl (Safer 1994; Karl 1997) have worked out the explanatory model that pays close attention to political variables. They have found out that the process of constant and complex interaction between the dominant sector and the state and its institutions could explain the phenomenon of more slow economic development of resource rich countries because this sector is the main contributor to the state budget. Because of such one sector dependence by the state for its revenues, the state and its institutional capacities are altered by the one sector dominance in the economy, which consequently leads to the specific political democratization and economic transition path. The state capacities are altered differently depending on the state choice of nationalizing or privatizing the energy industry and consequent interaction between the private/public industry and the state institutions. Such state choice could give the advantage/disadvantage to the dominant sector influence on the state institutions and

developmental path. My puzzle is how such one sector dominance is influencing the state capacities contingent upon the dominant sector ownership type and thus economic and political transition path of the energy-exporters such as Russian Federation and Azerbaijan as transition counties compared to a pure case of the established energy-exporter - Nigeria. More specifically, I would like to see whether the dominant sector ownership matters in shaping the state institutions and the developmental trajectory outcome. Thus, the main questions of this study are if and how different types of ownership of the dominant energy sector are introduced and whether the ownership type increases/decreases the state capacity and autonomy which heavily influences the developmental trajectories of the resource-sector dominated economies. My hypotheses would be that the private dominant industry induces the state institutions and infrastructures to develop with increased state autonomy and provide full-fledged services while the main industry dominated by the state-owned company would induce the underdevelopment of the state institutions, their weak relative and absolute capacity with null autonomy. Therefore, it is possible to predict the future development of countries with the state-owned energy industry to follow the pattern of deterioration while the country with the private industry of sustainable development.

In my research strategy I will pursue the **most-dissimilar research design** of comparative case study which is interested in theory and my hypothesis testing. I have 3 very dissimilar cases which are similar in one dimension - they all three could be classified as the petro-states: two emerging/continuing petro-states (Russia and Azerbaijan) would be compared with the established one (Nigeria). The cases of Nigeria and Azerbaijan represent the state-owned dominant energy industry. In the Russian Federation the situation is different. During the transition process, the energy industry was restructured into 13 vertically integrated oil companies (VICs), "Gazprom" and privatized with the remaining ranges of state ownership from 17 to 51 percent.

As a result of my case selection I have contrasting cases with the help of which I can test my hypothesis. I expect to find that the private ownership will ensure the role of the state as a regulator, non-captive of vested interest, ensuring competitive order or at least a contestable market, which in turn would bring sustainable uninterrupted economic development. The opposite hypothesis with the state ownership of the dominant industry would create incentives structure, which impedes stable sustainable economic development.

The data will be acquired by looking at the reports and research done by different international financial institutions such as the IMF, the World Bank, and the European Bank for Reconstruction and Development. In addition, the Organization of Petroleum Exporting Countries could provide useful data on the energy sector interaction with the state institutions in Nigeria, how this interaction varies depending on the ownership of the energy sector in other member countries. OPEC has also an extensive information files on the Russian Federation and Azerbaijan, their energy companies, state policies in the energy sector. I will study yearly corporate reports of the NNPC in Nigeria, SOCAR in Azerbaijan and 13 oil VICs and "Gazprom" in the Russian Federation in order to study their interactions with the state and its institutions. In addition to this information, a number of open-ended interviews with the managers of the oil companies and state-officials supervising the operations of the oil companies are planned in the process of the research. On the part of intervening variable, local primary

data of the case countries such as the state budget, different governmental policies, practices and regulations such as developmental long-, medium- and short-term plans will be assessed in order to measure how they are shaped by dominant private/public industry.

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