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How the free market created rentiers and plutocracy in post-Soviet Central Asian countries

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How the free market created rentiers and plutocracy in post-Soviet Central Asian countries

In his book *The Road to Serfdom*, Friedrich Hayek claimed that state socialism would lead to a loss of economic and political freedoms, and eventually to tyranny. Only a free market capitalism would ensure that individual freedoms would be preserved. But ironically neoliberal economic reforms have helped to create another road to serfdom. The free-market ideology has promoted and celebrated rent extraction, sometimes over wealth creation (Hudson 2014). Neoliberalism has concentrated wealth and power into the hands of a few, and has emerged economic and political elites into the rentier class. Individuals who extract income based on existing assets are called rentiers. Plutocracy, the rule of the rich, has prevailed in many parts of the world (Standing 2016).

In a reversal of the classical ideal of a 'free market' (a market free from land rent, monopoly rent and interest), neoliberalism has sought to free markets from state control and regulation. This has allowed rent and rentierism to become dominant in the economy. Rentiers do not contribute to the provision of new goods and services, but receive rent based on the ownership and control of existing scarce assets. This is unearned income, because rentiers free-ride on the labour of others (Sayer 2015).

Since the collapse of the Soviet Union almost 30 years ago, economies have been transformed around the ownership and control of scarce assets, including but not limited to natural resources. Assets, such as credit money, real estate, shopping malls, radio spectrum and intellectual property, have become important sources of rent for the rich and powerful. Understanding the role of rent is crucial to understanding the transition from a planned economy to a free market capitalism in post-Soviet economies (Mihalyi and Szelenyi 2017).

Rent-seeking vary from classical forms, such as interest, rent and capital gains from financial and landed assets, to contemporary forms, including service charges from broadband internet access services and service contracts (Christophers 2019). These forms of rent are widely viewed to be justified, legitimate and normal. Rent-seeking is not limited to state officials or illicit or corrupt practices. It is strange that while public rent-seeking is rightly condemned as an abuse of power, private rent-seeking largely evades critical scrutiny.

A private property rights regime has been a moral architecture for the rentierisation of post-Soviet economies. During the Soviet Union, property rights to dispose at a profit, speculate and obtain unearned income did not exist in Soviet law. Rent, interest and speculative gains were 'non-labour' income, and were condemned and not permitted. After its demise, constitutions and legislations re-bundled rights to allow property owners to dispose of their assets without state restrictions. This was explained and justified by international financial institutions as how 'free markets' work.

The rentier class in Kazakhstan

While the significance of rent in the economy cannot be accurately measured, it is possible to draw out some conclusions about its relative importance.

Of the 20 richest individuals in Kazakhstan, ten extracted income through banking activities, in particular creating and lending credit money (Forbes Kazakhstan 2019). The same number siphoned off income through managing a broad range of financial assets and services. Ten business people had property companies that extracted rent through the

ownership and control of residential and commercial real estate. There were six property developers, who facilitated and participated in rentier activities.

Given the abundance of natural resources in Kazakhstan, it is not surprising that energy and minerals have been significant sources of rent. Eight business people wholly or partly owned companies that had leasing rights to extract and/or distribute oil and gas. Owning petrol stations allowed some individuals to have a degree of control of the local market, and make quasi-monopoly rent. Seven on the list were involved in the mining sector.

Shopping malls, retail centres and marketplaces have also been significant source of economic rent for owners. They were often located in prime sites, giving owners local monopoly power. Six individuals on the rich list owned several high-end shopping malls. Moreover three business people had a degree of local monopoly power in specific retail markets – cars and fast food.

Technological change and innovation have made radio spectrum a valuable asset. Five wealthy individuals owned telecommunication companies, which had exclusive rights to provide broadband internet access services and mobile networks

The rentier class in Kyrgyzstan

The list of top twenty richest people in Kyrgyzstan was formed from a range of open sources, including local newspapers and media platforms (e.g. Vecherniy Bishkek, Kloop.kg, Sputnik.kg, Gezitter.org, Stan Radar and Beli Parus).

Owning real estate was the most popular way to obtain unearned income. Sixteen wealthy individuals had a substantial number of residential apartments and other properties, which were either rented or re-sold. There were ten property developers, who engaged in extractive and speculative investment in the real estate sector. Six individuals siphoned off interest and other charges based on the ownership and control of credit money.

Shopping malls and marketplaces were important rent-generating assets for eleven wealthy individuals. Askar Salymbekov owned Dordoi Bazaar, one of the largest marketplaces in Central Asia. Of the eleven individuals, several either wholly or partly owned retail marketplaces, and some were large shareholders of prestigious shopping malls.

Energy was a source of rent for four individuals on the rich list. Two of them owned a number of petrol stations, which gave them some local monopoly power, especially in Bishkek. Three wealthy individuals used minerals to extract rent. Given that about a half of foreign direct investment in the country has been directed towards the mining sector, it was surprising that that it did not appear more prominently in the table. But gold mining companies have used shareholding companies to hide final beneficiaries.

Four wealthy individuals owned companies with exclusive rights to broadcast radio and television, and to provide mobile broadband. One of the largest mobile operators, Megacom, was owned by former President Bakiyev's son, Maxim. It was later confiscated and nationalised by the state after Bakiyev's overthrow in the 2010 uprising.

Contract rents were significant for two wealthy individuals. At the height of the US's military campaign in Afghanistan, Omurbek Babanov had exclusive rights to supply jet fuel to Manas Airport and the US airbase. His contract guaranteed income for a period of time, and protected him from competition, thereby allowing him to receive economic rent.

Plutocracy

The two lists of top twenty richest individuals in Kazakhstan and Kyrgyzstan reveal how economic and political structures have become intertwined, partly as a result of nepotism, patronage, fraud and corruption.

In Kazakhstan, some rentiers were related or close to ex-President Nursultan Nazarbayev. Dinara Kulibayev was his second eldest daughter, and her husband was Timur Kulibayev. Vladimir Kim was part of Nazarbayev's inner political circle, and Bulat Utemuratov was for a long time the head of the presidential administration. Several rentiers have benefitted from Nazarbayev's patronage: resources and assets were distributed to them on the basis of their loyalty to the president.

In Kyrgyzstan, several rentiers occupied powerful political positions. Omurbek Babanov and Almazbek Atambaev were former Prime Ministers. Atambaev was also an ex-President. Nariman Tuleyev, Isa Omkurkulov, Askar Salymbekov, Melis Myrzakmatov and Dinara Isaeva's husband were former city majors. Some rentiers were cabinet ministers, and several were speakers and members of the Parliament.

In promoting neoliberalism and rentierism, Western governments and international financial institutions have helped to create and sustain the post-Soviet political landscape (Cooley and Heathershaw 2017). The rentier class has largely captured the state, and political elites have often been allied to rentier interests. Wealth and power has been derived from the mere ownership and control of assets. Contrary to international expectations, plutocracy, and not democracy, has prevailed. Despite its moral and legal legitimization, rentiership has been harmful and damaging. It has produced social inequalities, suffering, violence and corruption (Sanghera 2015).

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Short biographies

Dr Balihar Sanghera is a Senior Lecturer in Sociology at University of Kent's School of Social Policy, Sociology and Social Research. His main interest is the political and moral economy of Eurasia, exploring how economic institutions and relationships relate to moral values and norms. His current research examines how global powers and associated international financial institutions shape and contest Central Asia. His papers have appeared in *Europe-Asia Studies*, *Cambridge Journal of Economics, Theory and Society*, *International Sociology*, *International Journal of Sociology and Social Policy*, *The Sociological Review*, and *Sociological Research Online*.

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Dr Elmira Satybaldieva is a scholar in Eurasian politics and development, currently based at Conflict Analysis Research Centre, University of Kent. Previously she was a research fellow at the Karelian Institute, University of Eastern Finland and a visiting fellow at the Davis Center for Russian and Eurasian Studies, Harvard University. Her main area of research interest is political and economic development in the post-Soviet space, with a particular focus on economic strategies, political agency, and state institutions in Central Asia. In addition, she has examined the role international donors in pursuing development and conflict prevention in Central Asia. Her research has resulted in publications in several journals, including *Europe-Asia Studies*, *Central Asian Survey* and *International Journal of Politics, Culture and Society*. She has advised a range of diplomats and development actors on strategies of engagement in Central Asia.

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