NATIONALIZATION OF KUMTOR: POSSIBLE CONSEQUENCES FOR THE ECONOMY OF KYRGYZSTAN

By

Maksat Musaev

Submitted to

Central European University

Department of Economics

In partial fulfillment of the requirements for the degree of Master of Arts in Economic Policy

in

Global Markets

Supervisor: Professor Julius Horvath

Budapest, Hungary

2013

Abstract

One of the biggest and influential companies in Kyrgyzstan became an epicenter of heated debates in the parliament, society and media. Canadian based gold mining company Centerra Gold is now accused of imposing unjust investment terms and of causing environmental damage. In the light of these events, the nationalization of the local subsidiary of Centerra Gold is actively propagated by certain political parties and interest groups. The present work investigated the possible consequences of nationalization for the economy of the country. In order to set a sound ground for analysis the thesis reviewed and evaluated the nationalization experience of the country, the experience at the international arbitration processes, and assessed the performance of the state-owned enterprises. The paper revealed that the policy towards nationalization may lead to negative consequences to the economy for the following reasons: the country does not have adequate experience in managing companies of this scale, high level of corruption in the public sector may degrade the performance of the company, the nationalization will damage the investment image of the country and decrease capital inflows into the country. Based on the current situation around Kumtor, the thesis proposes alternative policy which suggests the government to propose the Centerra Gold other gold fields in the country in return for revision of the current agreement.

Acknowledgements

I thank Professor Julius Horvath for his guidance and support throughout the writing process.

I am also grateful to Agnes Toth for her useful advices and constant encouragement.

Table of Contents

INTRODUCTION

Kyrgyzstan is a small unitary country in Central Asia which has common borders with Kazakhstan, Tajikistan, Uzbekistan and China. The territory is mountainous with no access to sea. The demographics consist of many nationalities where the Kyrgyz ethnicity makes a majority. The total population of Kyrgyzstan is about five million people.

Russian rule played a significant role in the formation of the country. In the late nineteenth century the khanate of Kokand was destroyed by the Russian Empire and the territory of current Kyrgyzstan fell under the rule of the Russian Tsar. The inflow of the Russian immigrants started with the incentives created by the regime. The lands previously owned by locals and mostly used as pastures were partially given to newcomers that intensified social unrest in the region. New Russian settlements were formed.

During the First World War the well-being of local people deteriorated as most of the produced commodities and livestock were sent to Russia to satisfy the needs of war in Europe. The war period was accompanied with massive hunger and some small local revolts. The Russian order to mobilize thousands of young people for rear works had provoked huge anti-Russian waves. In 1916 the biggest revolutionary movements covered the current territory of Kyrgyzstan. Almost two thousand Russian immigrants were killed (Kokaisl and Usmanov 2012). In a very short period of time Russian military suppressed the revolts and thousands of local Kyrgyz and Kazakhs ran to China. Nowadays we may find Kizilsu Kirghiz Autonomous Prefecture in China, where almost 170 thousand Kyrgyz people still live (Jusupzhan 2012).

The civil war which started in 1917 brought huge damage to the economy of the country. The wealth of people in terms of livestock and agricultural lands decreased sharply in those years. The local people have divided into two groups, where one was supporting the power of Bolsheviks and to others who aggressively opposed. Populist slogans of Bolsheviks had its impact on poor and devastated people and the movement against rich "Bays" quickly gained power. Representatives of the local "elite" were arrested and dispossessed.

The New Economic Policy developed by communists in 1921 contributed a lot to the development of the country. Kyrgyzstan at that time being one of the least developed regions and having very simple agricultural structure of the economy gained a lot from those reforms: the natural type of economy was eliminated and the patriarchal-feudal system was destroyed (Toktomushev 2011). The majority of people supported the undertakings of the communist party as ordinary people saw the party as a hope for a better future.

Indeed, relative to what it used to be, the well-being of poor people improved a lot as they could receive lands for cultivation which were confiscated from former elites (kulaks and bays). About 6000 poor households were given two hundred thousands of Russian "desyatins" (about 218 thousand hectares) and most of the nomads were settled and given land together with inventory (Toktomushev 2011). The land and water reforms undertaken by the communist party did facilitate the recovery of the country from after-war damages and losses.

In 1936 Kyrgyzstan gained status of republic and became one of the fifteen Soviet Republics of the Soviet Union with the capital of Frunze (FRU). Industrialization and development of agriculture together with educational programs have turned the historical path of the country to a new qualitative level. For instance, within seven decades the industrial production of Kyrgyzstan increased by 379 times and by 1980 the share of industrial production in GDP was 55.6% (Industry 2013). Compared to many other Soviet States the countries of Central Asia could reap most of the benefits of the Soviet Rule.

By the end of 1980s the Soviet Union experienced huge political shocks. The controversial political reforms made by the last president of the Soviet Union, Mikhail Gorbachev, weakened the power of the communist regime. On 8th of December 1991 the leaders of Ukraine, Russia and Belorussia in Belavezha Accords have signed an agreement on forming of the Commonwealth Independent States which put an end up for USSR (Melnichuk 2011). After this event other states gradually one by one declared their independence.

After the collapse of the Soviet Union in 1991, Kyrgyzstan stepped on a new path of market economy and political reforms. Kyrgyzstan has implemented many reforms in order to establish a well-functioning market economy. Like Russia and Poland, Kyrgyzstan has chosen a radical way of reforming the system which later was called a "shock therapy". Massive privatization took place in order to increase the efficiency in manufacturing and other sectors previously owned by the state. Harsh liberalization brought both positive and negative consequences. The wave of bankruptcies passed throughout the country that led to mass unemployment and a rapid decline in total output. At the beginning of the transition only a few foreign investors were willing to invest in the country. Privatization with the aim of increasing efficiency did not materialize as most of the units were privatized by the same managers who used to work under the communist regime. Having no change in the management that lacked market knowledge led to catastrophic consequences. There were not many but some quite competitive manufacturing units in Kyrgyzstan that were deliberately bankrupted by the new owners in order to get fast profit without thinking of the future prospects of the factories (Musaev 2013). The mentality of people can partially explain many failures of the transformation. High level of corruption, weak legal framework, lack of expertise had created additional barriers for foreign investors. The country needed to create a new development strategy and develop an acceptable climate for investment. Kyrgyzstan compared to its neighbors has implemented by far the most liberal measures as it will be shown later.

For being successful in implementing reforms which were crucial for the proper existence of the market economy, Kyrgyzstan was accepted to the World Trade Organization, and it was a momentous event as the country managed to enter WTO first among other fifteen states. Kyrgyzstan was perceived as one of the most promising states in the region and Askar Akayev (first president of Kyrgyzstan 1990-2005) used to say that the Kyrgyz Republic is the "oasis of democracy" in Central Asia. Indeed, all the reforms undertaken in the country theoretically matched the values of democracy and the freedom literally had no "limits" in the country.

There were many other reasons for the failures of some reforms that can be explained by objective and subjective factors. The most difficult period is attributed to the first five years of independence. Highly integrated economic bonds were eliminated, which led to a huge drop in total income. In the first four years of independence Kyrgyzstan's total national income decreased by 74.1% and the total industrial production decreased to the extent that by 1993 it constituted only 55.3% of what it used to be in 1989 (Cologlu 2010). Taking into account that at the soviet time from 20% to 30% of the national budget was complied of transfers from Moscow (Encyclopedia n.d.), we may imagine how harsh the situation was in Kyrgyzstan.

Pensions, salaries and social benefits have been inflated, which created social discontentment with the policy of the government. Politicians were eagerly looking for new sources of income to increase revenues. The main goal of the government was to stabilize the economy and attract foreign capital into the country as the budget was not capable to finance domestic projects. Tourism, mining and agriculture were main fields that had a potential to contribute the growth. Having no funds to invest in potential projects, the country opened its borders to foreign capital inflows.

One of the first and biggest investment projects which involved the foreign capital was the Kumtor Project. It was an investment into the gold extracting operations in the Northern part of the country. The investment agreement was signed with the world's largest publicly traded uranium company Cameco (Centerragold 2012). According to the information at the official website of Centerragold, total cost of the plant was 450 million US dollars.

Periodically the Kumtor Project becomes a matter of big political and social tensions. It has become a common trend for oppositional powers to use the case of Kumtor in blackmailing the ruling coalition. Mainly the clash points can be divided into economic and environmental issues. The company is accused of tax evasions (Abakirov 2008) and of imposing wane terms of investment which infringe national interests of the country.

The reason for public discontentment with company operations were related to the deterioration of the infrastructure like roads which were actively exploited by heavy trucks. The company representatives on the other hand claimed that it makes financial contributions to the budget of the region and it is the responsibility of local authorities to look after the quality of the roads. The public may just guess where the funds got lost on the way to repairing roads.

The company is also blamed of the artificial increase of costs of production in order to pay less tax. According to the agreement between investors and the Government of the Kyrgyzstan the partners divide the profits, not produced gold. The deputy of the parliament Sadyr Japarov, who is currently in prison for attempts to overthrow the political regime in the country several times, has accused the company of paying extremely high salaries and bonuses to Canadian managers. The company on its side keeps saying that the benefits are paid according to the international standards.

The environmental issues have started in 1998 when a truck full of cyanide (the chemical that is used in the production of gold) got into an accident and overturned, couple of tons of cyanide into the Barskaun River, which flows into the biggest lake in the country Issyk-Kul (one of the most attractive recreational places in Central Asia). The panic started when the local people have found dead fish and some other animals near the river. The hundreds of local people rushed into the hospitals with skin and many other problems relating them to chemicals. In response to that the company gave financial compensation to each family member. It was the first incident that had built a basis for repetitive claims for more financial support from the side of local people. Some experts say that those claims were totally groundless as the cyanide cannot cause skin or any other problems except for death. On the other hand, there are other experts that state the completely opposite view about the issue. Unfortunately the public could not get a clear explanation of the issue and it becomes the reason for misunderstanding of locals with the company representatives.

There are not many academic works that have dealt with the issues related to the Kumtor Project and it gives a wide range of selection alternatives to a person who chooses to work on this issue. The investment project in itself could be a very attractive subject for research as it is now in its peak of popularity and undoubtedly is one of the central issues discussed in the public. There are some works that have directly or indirectly touched upon the Kumtor Project and in order to have a picture of what was already done they will be briefly mentioned below.

Yakisik Harun (2007) has studied relationship between inflation and economic growth rate where he mentions the contribution of Kumtor to the economic growth of 1997 (Yakisik

2007). In his paper he has explained that the policy of intentional devaluation of the national currency in 1996 had uncertain outcomes, which could mislead policymakers if we don't take into account the impact of Kumtor.

The study by Otogonova Anara (2007) has elaborated on the ways of financing mining projects (Otogonova 2007). According to her work the mining industry being a high risk sector needs more complex ways of financing. She states that in compliance with world practices, financing of such sectors mostly relies on stock market where the shareholders have an option of pooling risks.

The Ministry of Economy has prepared a report which reflects claims of the government and became a basis for new route of negotiations on terms of cooperation (State Comission 2013). The company on the other hand has issued the reaction paper stating points where it justifies current terms (Kumtor Report 2013). The reports mainly discuss the following issues: the justification of the share distribution between investors and the host country, corruption mechanisms, the issues related to the ecology of the region.

The situation around the Kumtor Project is extremely heated and it requires special attention as it has a significant place in the economy of the country. Oppositional forces insist on the nationalization of the project and the situation is inflated in the background of increasing nationalistic moods among certain groups of population. The issue of nationalization was not profoundly studied yet and it is difficult to see whether the policy towards nationalization will have a positive or negative impact on the socioeconomic situation in the country. The main research question to be answered in this paper is: "What are the possible consequences of nationalization of Kumtor to the economy of Kyrgyzstan?"

The methodology used to answer the main research question is to analyze the previous experience of the country with nationalized companies and assess the ability of the country to manage such large-scale projects. The impact of the nationalization on the country's economy and the reaction of the world community will also be covered in the paper.

The thesis has been divided into four chapters. In the first chapter the reader is provided with the main theoretical concepts of foreign direct investment and nationalization. We will go through the mechanisms and channels through which they influence the economy. The paper will also explain how these concepts have been evolving through time and what factors fostered those changes. In the second chapter, we will narrow our focus to real implications of the given concepts in a global arena, then in Central Asia and Kyrgyzstan, which will create a basis for better understanding of the main trends in the world and its influence on the country level. The third chapter will focus on the main subject of our interest and will cover the following: overview of the investment project, impact on the economy of the host country and analysis of the problems related to the project. The analysis of the possible consequences of nationalization will be discussed in the fourth chapter.

CHAPTER 1. Foreign Direct Investment, Nationalization: Theoretical Framework

This chapter is devoted to the theoretical principles of the Foreign Direct Investment and Nationalization which will create a basis for further development of the topic. The theoretical concepts of Foreign Direct Investment and the Nationalization are intensively studied subjects in the academic world and its improvement is still in process. The understanding of each of these issues have transformed throughout the history and had significant changes in perceptions.

It used to be a conventional wisdom that the foreign direct investment has a positive impact on the host economies in terms of a wide range of externalities and capital inflows, but recent studies have shown that the case is not that straightforward. Some countries manage to get the most out of capital inflows and there are some cases where we may observe even a negative impact on the country's economic growth. It is rather important to understand the rationale behind the capital inflows in order to get into the central question of the paper.

The concept of nationalization is a controversial issue and each case has its own peculiarities. Throughout the history we could witness how different countries resorted to nationalization measures. We may find a vast number of literature that discuss the pros and cons of such actions. In some cases nationalization is perceived as the only way to save the economy and the recent financial crisis show that some governments were forced to nationalize some private units. In our case we are going to discuss rather different case where we face a confrontation between a foreign company and the host country. Understanding the main concepts of the ingredients of this paper is crucial as it provides a basis for placing it in a structural picture.

This chapter was designed in the following way. The first part of the chapter is devoted to the basic theoretical concepts which will provide the definition for the foreign direct investment, its objectives, methods of settling FDI, information about importance of FDI and will show the impact of FDI on the host country's economy. The second part of the chapter will bring the definition of the nationalization, its objectives, and methods of nationalization.

1.1 Foreign Direct Investment: Basic concepts

1.1.1 Definition

According to the article by Bloningen (2012) in the New Palgrave Dictionary of Economics, Foreign Direct Investment takes place when a foreign company or an individual invests in productive assets abroad and acquires management control (Bloningen 2012). He divides the foreign capital investments into two types, which are Foreign Direct Investment and Foreign Portfolio Investment.

Foreign direct investment is less liquid (Encyclopedia World Economy 2012) compared to Foreign Portfolio Investment and relatively more secure for the host country, as the risk of sudden speculative capital outflow is very low. It usually comes in terms of mergers, acquisitions and joint ventures (Encyclopædia Britannica 2013). Foreign Portfolio Investment usually takes form of investments into the short-term securities, which do not require effective management control (Business Dictionary 2013).

1.1.2 Objectives

There are many reasons for companies or individuals to invest abroad. Terms of investment in each country differ from another and investors choose the most suitable locations for their businesses. Jeffrey P.Graham lists the following incentives for business to move abroad and for the host country to attract foreign capital inflows (Graham 2005):

For investors:

- Opens access to new markets, resources

- Lower costs of labor, facilities
- Access to new technologies, skills
- New financing opportunities
- Other incentives

For the host country:

- New technologies, capital
- Management skills
- New job places
- Other positive externalities

Natural resources are one of the common reasons for companies to invest abroad. Many developing countries lacking internal capital and technology to extract natural wealth on their own have to resort to help of international corporations as gold mining, oil extraction and many other projects require huge financial and human capital investment. Without external finance it would be problematic for developing countries to bring their intentions to life.

Increasing competition forced companies to look for innovative ways to minimize costs. Because of huge wage differences many businesses have moved their operations to less developed countries (Bajaj 2010). In addition, developed countries usually have stronger labor unions and more harsh environmental standards (Hawkins 2011), which makes production costs higher than in developing countries.

Some firms move abroad in order to gain access to more advanced technology which might be available in the host country (Graham 2005). Developing countries have keen interests in investing in more developed countries to increase human capital and possibly imitate some achievements of the recipient country (Xiaojing 2011). Technology-seeking investment flows also take place between developed countries.

The recipient countries may gain in terms of increasing efficiency in domestic companies as they tend to internalize externalities from foreign companies. FDI inflows also create new job places for locals and usually improve their productivity. In addition, the host country may increase budget revenues.

1.1.3 Methods

Foreign direct investment has many different methods which significantly vary in structure and forms. Here is the classification described in the paper by Economic and Social Commission for Central Asia and the Pacific (United Nations 2003):

- Greenfield investment: type of investment when the investors start a business from the scratch by building new factory or plant.
- Reinvested earnings: investment which is made out earning gained from other investment projects.
- Intra-company loans: happens when the parent company transfers money to its subsidiary where the capital has to be repaid back with interest.
- Mergers and acquisitions: when an investor buys the shares of the domestic company right enough to gain management control.
- Non equity forms of FDI: licensing, franchising and etc.

The Greenfield investment is more desirable for the host country compared to Mergers and acquisitions from the development perspective (United Nations 2003). The Mergers and Acquisitions are perceived to make less contribution in the long run and in addition, the parent companies are usually outside the jurisdiction of the host country.

1.1.4 Importance

The foreign direct investment plays a significant role in the development of the economy and it's especially important in emerging countries as in most of the cases they lack internal capital to finance domestic projects. In addition to it, there are some cases when countries try to attract foreign capital in order to bring in up-to-date knowledge and experience into the country. One of the additional advantages for the host country might be the positive externalities as the domestic workers can improve their skills and firms can learn from multinationals. Usually there are also firms that support basic operational needs which give them opportunity to increase their profits. On its turn it increases the overall employment in the country.

In many developing countries a part of local people perceive foreign direct investment inflows as a form of neo-colonialism (Glushak 2004), where others accept FDI as something vital for the development of the country within current realities. FDI inflows are often blamed of creating problems to host countries in terms of increasing unemployment (Govindacharya 2011), and creating restraints on exports (Ebrahimzadeh 2012). The high share of foreign ownership in the country sometimes perceived as a loss of national sovereignty as big multinationals are said to have enough resources to influence internal decisions (Moosa 2002).

Foreign Direct Investment plays a significant role in transformational processes that are taking place in most of the post soviet countries. Having very low rates of savings those countries extremely need sources for new investments. In addition, foreign direct investment gives an opportunity for a host country to access foreign export markets (Moosa 2002). There are many examples where we can observe deviations from the commonly perceived mechanism of FDI inflows and there are still many unanswered questions to be studied.

1.1.5 Impact of FDI on the Economy

We may find a variety of academic papers that address issues related to the importance of the foreign direct investment for a national economy. As a matter of conventional wisdom it is commonly accepted that foreign direct investment brings more than just capital investments but also has positive externalities on other sectors of the economy. One would think that it would trigger economic growth and increase the welfare of the state. Despite this, there are many researchers that have raised questions about the impact of the FDI on the economy of the host country.

Dierk Herzer (n.d) made a cross-country analysis with an interesting outcome (Herzer n.d.). The analysis shows that lower income developing countries do not enjoy substantial growth benefits from FDI compared to developed economies that do gain much more from foreign investment. By combining many other econometric studies he states that education, openness of the economy, the level of development of the financial institutions and many other aspects play a crucial role when we come to a point of assessing the positive effects of foreign direct investment.

There are also views saying about detrimental impact of Foreign Direct Investment on other sectors of the economy (Ebrahimzadeh 2012). Increasing revenues from exports may force the national currency to appreciate which on its turn has a negative impact on other export-oriented sectors of the economy. This phenomenon is widely known as "Dutch Disease" (Saad-Filho and Weeks 2013). Some scholars state that the problem is not that straightforward and needs further study as the fundamental concepts taken into account in identifying resource curse may be misleading and not applicable to all countries.

Richard M. Auty (Auty 2001) based on the studies that were done by Ranis, Lal, Sachs and Warner has concluded that countries rich for natural resources might have shown lower growth rates compared to those ones which were poor for resources. In his book he has shown that there are several studies with different approaches and definitions of resource abundance, but despite those factors research results seem to be insensitive to the differences of measurement types of resource abundance. For instance Auty (Auty 2001) has listed following measurement approaches used in different studies:

1. Single indicators:

- Dependence on primary product exports (referring to Sachs and Warner 1995)
- Per capital land area (referring to Wood and Brge 1997)
- Labor force in the primary sector (referring to Gylfason et.al. 1999)

2. Dual indices:

- Export orientation and population size (referring to Syrquin and Chenery 1989)

Having no change in results with different types of measurements he has looked at time differences of studies and found out that taking into account different time horizons we may come up with different outcomes (Auty 2001). According to his observation Latin American countries rich for natural resources have shown higher rates of growth in the 19th century. In addition, in the 1960s they had higher average per capita income compared to those countries which were poor for natural resources.

Another work by Alfredo Saad-Filho and John Weeks (Saad-Filho and Weeks 2013) sheds light to the confusions which accompany most of the works in general that relate to resource curse issues. In their work they analyze the implications of generally accepted views on resource curse. They state that the concept of resource curse is mainly the outcome of political decisions made by authorities. By saying that resource curse in itself is an outcome of inefficient macroeconomic policies, they give the following explanations in support of their statements. In particular they have listed different views on resource abundance, which arose by time in different schools and periods.

1. The first wave of economists (before mid 1980s), according to Saad-Filho's and Weeks (Saad-Filho and Weeks 2013) categorization, stated that resource abundance has a positive influence on the economy's growth and investment. The channels through which the economy could rip the benefits: decreased restrain on foreign exchange, increased investment opportunities by means of additional revenues, infrastructure improvement and enlarged domestic market.
2. Referring to Hirschman – the representative of the "structuralist" school, they have shown a different view on resource abundance impact on the economy. In contrast to we have seen, "structuralists" believe that resource driven growth is not a desired pattern as it has less positive externalities on other sectors of the economy and "generate little employment". According to structuralists big resource export revenues together with low employment leads to higher imports of inputs and consumption goods and the authorities should take an active position in tackling these challenges using appropriate policy tools (Saad-Filho and Weeks 2013).
3. The studies that took place in the early and mid 1980s have shown the negative correlation of economic growth and resource abundance, particularly taking some resource rich African countries. Mainstream economists got similar results stating that resource abundant countries were more vulnerable for illnesses such as low growth, low savings, less diversified exports, increasing unemployment, inflation and corruption. (Saad-Filho and Weeks 2013).
4. Neoclassical school has narrowed its research and focused more on the relationship between resource abundance and corruption. According to their study, the main

beneficiaries of revenues generated from resource exports would be small groups of people called "urban elites" (Saad-Filho and Weeks 2013)

In many countries the presence of foreign multinational companies sometimes becomes the reason for local discontentment. There are varieties of reasons why people perceive multinationals as a source of their problems. The study on the Peruvian mining sector gives an interesting insight on how local mining operations influence social and economic well-being of people living in districts close to plants and those who live geographically far from operation sites (Loayza, Mier y Teran and Rigolini 2013). Using a sample of 87 districts with mining plants and 1195 districts without plants taken from 142 provinces with an average of 9 districts per province the study showed the following outcomes (Loayza, Mier y Teran and Rigolini 2013):

- On average per capita expenditure in districts with mines was higher by 10% compared to districts without mines within the same province.
- Districts with mines had 2.5 percentage points' lower rates of extreme poverty.
- Compared to districts from other non-producing provinces the producing districts had 14% higher per capita expenditure.

The study then gives some possible reasons for social discontentment which arises despite the average positive impact of mining operations on the economy of the country. Based on findings researchers stated that one possible reason might be that increasing differences in socioeconomic performance between producing and nonproducing districts create the basis for social tensions (Loayza, Mier y Teran and Rigolini 2013). In addition to it the study observed widening inequality within producing districts, which could contribute to the social discontentment (Loayza, Mier y Teran and Rigolini 2013).

While studying the Peruvian case we may observe similar features in Kyrgyzstan. The possible reasons mentioned in the paper might be applicable for social tensions which are related to the Kumtor Gold project managed by the multinational company in Kyrgyzstan. Calls for nationalization of the company have become a wide spread phenomenon. From this point we may advance further and go into the theoretical basis of nationalization.

1.2 Nationalization: Basic concepts

1.2.1 Definition

The Encyclopedia Britannica defines the nationalization as an “alteration or assumption of control or ownership of private property by the state” (Encyclopædia Britannica 2013). According to the source nationalization is recent development in the history and mostly accompanied communist and socialist theories. The nationalization was observed in Russia after 1918, in England where the government nationalized electricity, coal and transportation industries, in France during 1945-1950s, in Mexico in 1938 (nationalization of oil industry), in Iran in 1951, and in Cuba in 1960 where the government nationalized foreign businesses in the country (Encyclopædia Britannica 2013).

Another definition of the term states that nationalization is a transfer of ownership from private ownership to state ownership (Informbureau 2013). The objects of the nationalization can be: land, industrial enterprises, banks, and transportation, communications industries. Mainly the nationalization covers the production industries which require big and long-term investments. It can have positive and negative impacts on the growth of the economy depending on many factors.

1.2.2 Objectives

The nationalization has been a tool in the hands of different parties and leaders to direct socio-economic life of the country according to their vision on how the economy should be settled. The aims also differed based on the political and economic system of the country. Results of the nationalization are rather controversial. Lushnikova Tatyana (2012) has listed the following common objectives of the nationalization (Lushnikova 2007):

- To save strategic sectors of the economy which have vital importance to the socio-economic well-being of the country and its security. Mostly these are sectors which are less attractive to private sector as they require big capital investments, have long-term payback period and are exposed to high risks (infrastructure, atom industry and others).
- To preserve sovereignty of the country. The sectors which might have threat to the sovereignty of the country are exposed to nationalization.
- To save the environment.
- To protect the rights of local customers from mistreat usually created by the privately owned monopolies. In these cases the government intervenes when the market forces cannot prevent abuses.
- To implement structural reforms in the economy. These are the rare cases when the structural reforms cannot be made through traditional methods of government intervention and by the intervention of private capital.
- To prevent unlawful withdrawal of profits out of the country.
- In extreme situations (e.g. crisis).
- To ensure the implementation of the main socio-economic goals.

There are countries which had a history of several waves of nationalization and renationalization. For instance, in England the nationalization or privatization policies were implemented depending on the ruling political party (Schifferes 2008). The Labour party after the World War II was actively propagating the policy towards nationalization and many industrial objects were nationalized under their rule, where the Conservative party viewed the privatization as more desirable option (Pym 2013).

1.2.3 Methods

According to Lushnikova (2007), the nationalization can be conducted in the following modes: without compensation of the value of the nationalized property, used as a punitive measure (the case with nationalization of French companies such as “Renault” and “Gnome and Ron”), and with compensation of the value of the nationalized property (Lushnikova 2007). The way how the nationalization is conducted differs from one country to another according to national laws on nationalization. She adds that, compensation amount depends on the type of the property. When it comes to property that was originally privately established and owned, the compensation might be based on the market price of the property. There are also practices of compensation of the lost profits to the owners of the private property. The compensation for the nationalized property, which was previously owned by the state, is usually much less than for the originally owned property. The compensation, as world experience shows, can take the following forms (Lushnikova 2007): in the form of cash payments, in the form of government bonds (French law on nationalization of 1982), and in other forms in accordance with the national laws of the country.

In the article by Lin and Allison (1994) the authors have stated the developing and developed countries have different preferences on the approaches to the issue of compensation (Lin and Allison 1994). According to them, the United Stated since 1938 have favored the standard of “prompt, adequate, and effective” compensation, which was developed by the U.S Secretary of State Cordell Hull, during the negotiations with the Mexican government. They have defined the terms in the following way:

> “Prompt” means that the government must either pay compensation from the time of taking or make a definitive commitment at or before the taking to

> determine, by an expressed future date, the amount of compensation with interest at reasonable rates. "Effective" essentially translates to "readily convertible and repatriable". Payment with nonconvertible currency or relatively illiquid assets, such as bonds not tradable on an established market, is not effective compensation, nor is payment accompanied by significant restrictions on repatriation. "Adequate" generally has been interpreted as "full".

The standard developed by Hull was not generally accepted in the developing part of the world as emerging countries had objections to the way the compensations were conducted (Lin and Allison 1994). In their study they state, that developing nations have created their own standards of compensation, which were adapted to the specific features of each case. Some countries have expressed opinion that there is no need for compensating the losses of the foreign company as their countries have suffered a lot during the times of colonialism.

Lin and Allison (1994) have described standard of "appropriate compensation" which was broadly accepted by the developing countries (Lin and Allison 1994). According to their paper the General Assembly adopted a Resolution 1803, which has included the term "appropriate" compensation in case of compensation, but have not given any definition or explanation for the term. Steven Johnson has equated this term to Hulls rule, which was later rejected by the Soviet Union (Lin and Allison 1994). Soviet Union insisted on the compensation which was based on the national legislation.

1.2.4 Importance

The importance of nationalization can vary depending on the socio-political factors. There is no clear consensus which would provide a standard approach to the importance of the nationalization. However there are some cases when nationalization measures are thought to be important to achieve socio-economic goals. Here are some common reasons why some countries believe in importance of nationalization and why some reject this type measures (Fysul 2011):

Arguments for:

- Prevent Monopolies
- Improve living standards in poor regions
- Improve working conditions
- Protect Public Interests
- Improve National Security
- Others

Arguments against:

- High management costs
- Red tape
- Lack of incentives
- Lack of efficiency
- Others

1.2.5 Impact on the Economy

There are many countries that have experienced the policy towards the nationalization such as England, Soviet Union, Venezuela, Mexico, Cuba, Bolivia, Pakistan and others. The issue of nationalization is rather controversial and it is difficult to generalize the outcomes reaped by one country on others. Each country had unique circumstances which later determined the impact on the national economy. This paper concentrates on the impact of the nationalization on the economy of Kyrgyzstan (which will be expanded in the fourth chapter) bearing in mind the current realities in the country.

Chapter 2. Foreign Direct Investment in a Global Arena and Kyrgyzstan

After having discussed the main mechanisms and concepts of foreign direct investment, we proceed by explaining foreign direct investment trends in a global arena and then particularly FDI flows in Kyrgyzstan. This chapter has an important role in approaching the topic of interest as it sheds light to the level of competition in the region and explains core incentives behind directing capital into the developing countries in Central Asia. The insight on the FDI trends in the region will help to place the topic in a bigger picture in order see possible market reaction to the possible policy towards nationalization. The main points which will be discussed in this chapter are: the main foreign direct investment trends in global arena, how FDI flows changed geographically and discuss foreign direct investment peculiarities in Kyrgyzstan.

2.1 Foreign Direct Investment: Global Trends

The globalization of the world market played an important role in the development of foreign direct investment (Leitao 2012). The times when the national capital was mainly invested within the national borders are left behind and the international society has made a new qualitative step forward in pursuing higher aggregate welfare. The liberalization of economies brought significant structural changes to the way business relations are settled. The companies were forced to move to a new level of competition where they had to face global challenges.

The history of foreign direct investments was changing over time in terms of geography, time and other factors. The historical data shows that FDI flows have increased dramatically in the last two decades, with a decreasing flows trend to developed countries (Velde 2006). Velde (2006) shows that for the past 100 years FDI flows were mainly concentrated in certain developing countries, but now the pattern has changed. Previously two thirds of the FDI flows were going to developing countries, and now the most of the flows are concentrated in developed countries despite its decreasing trend (Velde 2006). In the (Table 1) we may clearly observe how situation has changed over time.

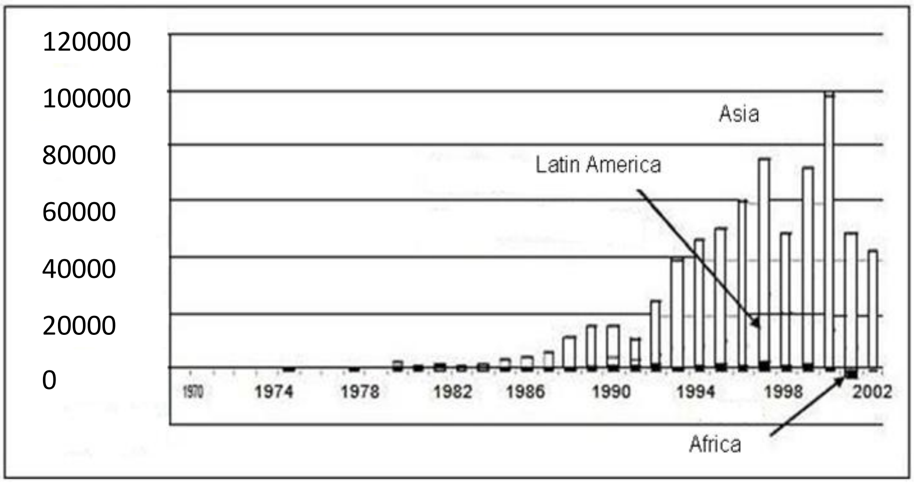
Table 1: Stock of inward investment, main recipients

	1913/14 USD billion	*1913/14 %*	*Cumulative (%)*		*2001 USD billion*	*2001 %*	*Cumulative (%)*
USA	7.1	15.8	16	USA	6277	26.9	27
Russia	3.8	8.4	24	United Kingdom	2204	9.4	36
Canada	3.7	8.2	32	Germany	1866	8.0	44
Argentina	3	6.7	39	France	1431	6.1	50
Austria-Hungary	2.5	5.6	45	Netherlands	1027	4.4	55
Spain	2.5	5.6	50	Italy	943	4.0	59
Brazil	2.2	4.9	55	Japan	871	3.7	63
Mexico	2	4.4	60	Belgium/Luxemb.	741	3.2	66
India and Ceylon	2	4.4	64	Hong Kong (China)	608	2.6	68
South Africa	1.7	3.8	68	Canada	597	2.6	71
Australia	1.7	3.8	72	China	534	2.3	73
China	1.6	3.6	75	Switzerland	521	2.2	76
				Brazil	443	1.9	
				India	130	0.6	

Source: Velde (2006, p.6)

FDI flows in 1913 were mainly concentrated in developing countries and by 2001 the picture has changed significantly where the large portions of flows are concentrated in developed countries (Velde 2006). The reason for such transformation is a subject for future research. Here are some possible factors that might have influenced the situation: the level of financial development and risk factors. Velde (2006) shows that bigger countries tend to attract larger amounts of investments as they usually have bigger markets (Velde 2006). He states that amongst developing countries, the following recipients: China, Russian Federation, Brazil, Singapore, Mexico, Hong Kong, Mexico, Chile and India are accountable for almost 75% of the total inward foreign direct investments. According to his findings, African developing countries have attracted very little foreign direct investment relative to Asian and Latin American countries and the Sub-Saharan Africa's share in world FDI was at 6% in 1980, which decreased to 0.5% in 2000. In the last two decades the developing countries have increased their investments in other countries (Al-Sadig 2013). Mainly the investments were made within regional borders, but in some cases developing countries have directed investment flows to developed countries (Velde 2006). In 1970 the share developing countries in total world investments was 1% (see Chart 1), which by 1990 has increased to 6% (Velde 2006).

Chart 1 Developing country outward FDI (US$ million), 1970–2003

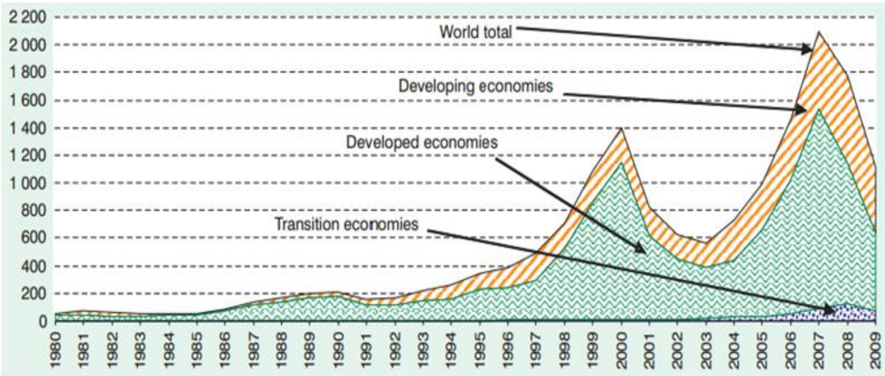


Source: Velde (2006, p.7)

The sectors into which the investments were mainly directed have changed over time (Velde 2006). He shows that in 1914 the biggest share of US outward investment to the developing countries was mainly made into the agriculture and mining sectors (70%). But by the 1998 the services constituted 59% of investments. Investments into the manufacturing sector had also experienced a sharp increase from 1% to 27% of total outward investments into developing countries (Velde 2006). At the beginning of the 20th century investors were looking for places rich in natural resources, but with time the trend has changed into a more efficiency seeking and strategic seeking FDI (Velde 2006). Now the large multinational corporations invest in textile sector and automobile sector. Also there are investments flowing to countries seeking talents and skills (e.g. India, China, Singapore etc.) (Velde 2006).

The Global Financial Crisis had a negative impact on FDI flows (World Investment Report 2010) because many investors were reluctant to invest at time of uncertainty (See Chart 2). According to the World Investment Report (2010) in 2009 there was a 37% fall in global FDI inflows and the 43% drop in outflows. The biggest shocks were experienced in developed countries and by 2009 the FDI flows have plummeted by 44%, where the developing and transition economies had the 24% decline (World Investment Report 2010).

Chart 2 FDI inflows, globally and by groups of economies, 1980–2009 (Billions of dollars)



Source: World Investment Report (2010)

Although in a period from 2008-2009 developing and transition economies managed to attract more Greenfield investment in comparison to developed countries (World Investment Report 2010). After 2008 the interest of investors in developed countries has slightly declined and switched to emerging economies and this trend seems to continue in the near future (World Investment Report 2010). The same report shows that by 2010 the market had shown first signs of recovery and the speed of economic decline had slowed down.

In 2012 the global foreign direct investment inflows decreased by 18% (UNCTAD 2013). The FDI flows in developed countries decreased dramatically to the levels witnessed ten years ago. For the first time in history the amount of FDI flows to developing countries surpassed those in developed ones and has declined only by 3%. Foreign direct investment flows to transition economies have fallen by 13% and in particular Russia has experienced a 17% decline (UNCTAD 2013). One of the reasons why developing countries surpassed developed countries is that biggest economies like USA, EU and Japan which were accountable for 90% of the total FDI flows contraction. (VestiFinance 2013).

2.2 Foreign Direct Investment in Central Asia

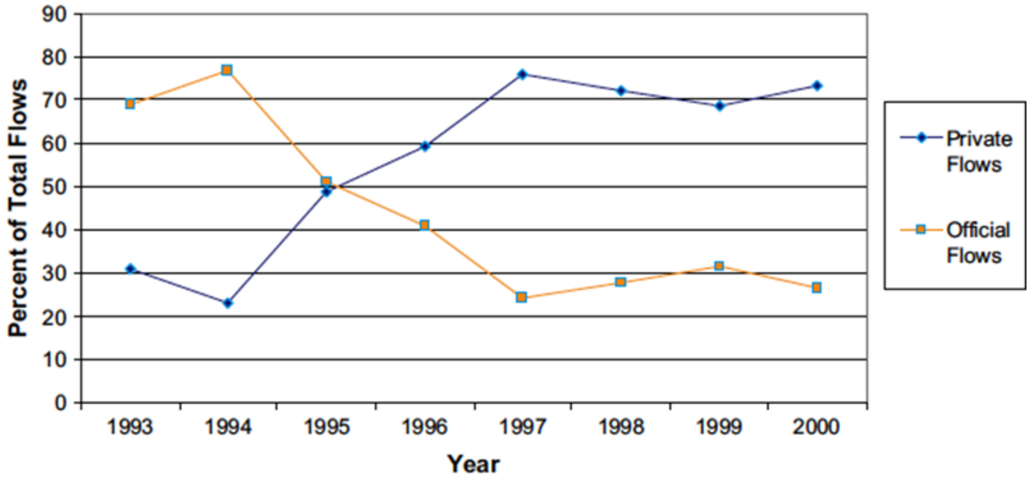
The countries included in Central Asia change depending on the source of definition chosen. There are different methods of drawing the borders of the region which can be based on the following criteria: ethnical, geographical and geopolitical. One of the definitions of Central Asia includes the following countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan (Encyclopedia Britannica 2013). The different source shows that Central Asia includes Mongolia, Western China, Punjab, Kashmir, Northern Pakistan, North-Eastern Iran, Afghanistan, some Asian parts of Russia, Kyrgyzstan, Uzbekistan, Tajikistan, Kazakhstan and Turkmenistan (UNESCO 2012).

Central Asia being rich in natural resources like oil, gas, gold and coal became one of the dynamically growing regions. Rapidly developing financial markets, investment regulatory frameworks together with attractive incentive packages provided by the host countries created a solid basis for future investment perspectives. Lacking internal resources for investing in domestic projects, most of the Central Asian countries have been competing for capital inflows from Russia, US, EU and China. The deposits of oil, gas and gold are not evenly distributed in Central Asia and as a result there is a huge difference in the level of living standards and domestic output. In the paper by Farra, Gurio and Cernov (2011) it is stated that Kazakhstan alone holds 65 years of oil reserves, where the Turkmenistan holds 223 years of gas reserves and together with Uzbekistan are currently one of the major cotton exporters in the world (Farra, Gurgio and Cernov 2011). The 8th biggest gold mine is currently operating in Kyrgyzstan and there are some perspectives to build the aluminum producing plant in Tajikistan (Farra, Gurgio and Cernov 2011).

The region has a strategic location as it is surrounded by one of the fastest growing countries like China, Russia and India (Farra, Gurgio and Cernov 2011), which creates additional incentives to invest in Central Asia. There are several projects that are devoted to developing infrastructure in order to boost trade. Currently China is having negotiations with Kyrgyzstan and Uzbekistan on building railroad through their territories, which will increase access to new markets for Chinese products (Abdyraeva 2013). Russia is heavily investing in hydropower plants (Oreshkin 2013) in Kyrgyzstan and actively propagating the country's accession to a newly established Customs Union (Kazakhstan, Russia, and Belorussia).

Central Asia has experienced several severe economic and political shocks. The collapse of the planned economy was one of them. According to the study by Bayulgen (2005), the structure and source of foreign capital inflows was changing depending on time and the political situation in the region. At the beginning of the independence of newly established Central Asian Countries, 77% of the total capital inflows were coming from international donors (Bayulgen 2005), mainly in the form of grants to assist the reforms taken towards the market economy. Bayulgen (2005) explains that low amounts of private investments at that period were dictated by the unique situation that was formed in the region. Most of the reforms were not fulfilled yet and the commitment of the national governments lacked credibility. But after 1995, when some of the reforms gave results and institutions were established, the private capital inflow (See Chart 3) to Central Asia intensified (Bayulgen 2005).

Chart 3 Comparison of capital flows to Central Asia and Caucasus by source.



Source: Bayulgen (2005, p.57)

The inward foreign direct investments in Central Asia are mainly Greenfield type (the parent company starts business operations from scratch) and are export oriented (only a small share of FDI inflow is oriented on the domestic market) (Arazmuradov 2011). Multinational companies may enjoy investor oriented legislation having only stability in mind as a matter of concern (Arazmuradov 2011).

Table 2. Inward FDI and GDP for the period 1992-2009

Country	**FDI**		**GDP**	
	Average FDI Flows ($)	Annual Average Growth (%)	Average GDP ($)	Annual Average Growth (%)
Kazakhstan	245.73	98.57	2.869.23	10.60
Kyrgyzstan	17.83	79.92	461.39	4.81
Tajikistan	13.96	95.53	294.66	6.67
Turkmenistan	105.34	36.92	1.364.01	10.72
Uzbekistan	7.71	17.84	633.32	5.12

Source: Arazmuradov (2011, p.8)

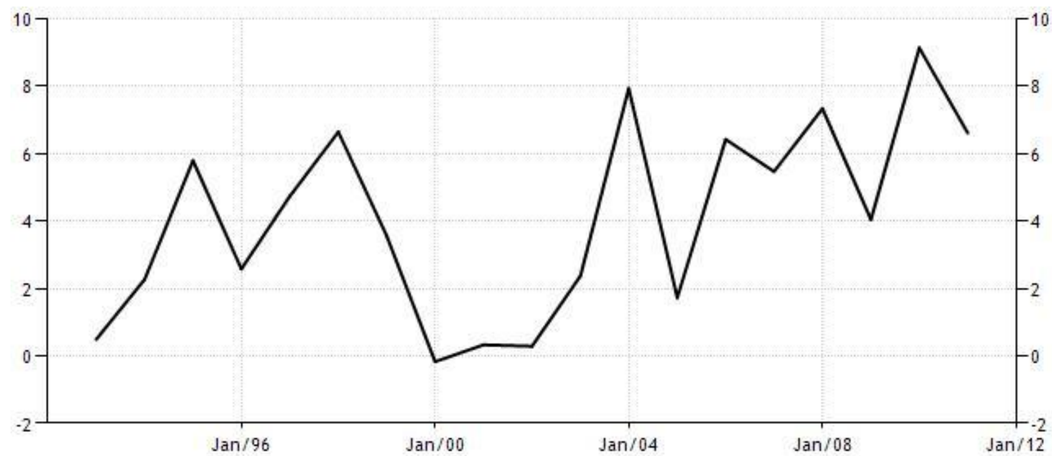
Since 1992 the amount of FDI inflows to Central Asia has increased by 2009, from 188 million to 18.6 billion (from 8.14 USD per capita to 1710 USD per capita) (Arazmuradov 2011). The huge share FDI inflows to Central Asia are absorbed by Kazakhstan (See Table 2) (Nurashev 2006). One of the possible reasons might be the investments made to oil extraction activities. During the period from 1993-2006 Kazakhstan alone managed to attract almost 80% of total inflows to the region (Nurashev 2006).

This was a brief overview of the situation with the foreign direct inflows in Central Asia. The region has a promising perspective to become one of the major FDI recipients in the future, taking into account the untapped potential. Among other Central Asian states Kyrgyzstan is of a special interest for this paper and the next session will be narrowed to a single country level describing the investment climate in the country.

2.3 Foreign Direct Investment in Kyrgyzstan

According to the analysis prepared by the Council for Business Development and Investment under the Government of the Kyrgyz Republic the foreign direct investment inflow to Kyrgyzstan from 2001 to 2005 experienced a steady growth (See Chart 4) by 19.5% annually (Investment Council 2013). After 2005 there was a decline in investment inflows (Trading Economics 2013) due to political instability in the country. There were two other shocks that had a negative impact on the FDI inflows to the country (2008, 2010). In the first half of the 2011 the investment inflows increased by 1.7 times (MID 2013).

Chart 4 Foreign direct investment; net inflows (% of GDP)



Source: Trading Economics (2013)

U.S. Department of State reports that the foreign direct inflows are mainly directed to the mining, manufacturing, banking and food processing industries (U.S. Department of State 2012). Table 3 shows the list of the main transnational companies that have established their business in Kyrgyzstan.

Table 3 Foreign multinational companies in Kyrgyzstan

Joint Ventures and Foreign Companies	Business activity
Reetsma Kyrgyzstan Company	cigarettes
Plaskap Bishkek Company	packaging/bottling
Central Asian Group	entertainment/garments
Hyatt Regency Bishkek	hospitality
Coca-Cola Icecek	beverages
Kyrgyz Petroleum Company	oil industry
Canadian gold-mining firm Centerra Gold	mining industry

Source: U.S Department of State (2012)

According to the National Statistics Committee the biggest foreign direct investment flows (See Table 4) in 2011 were form Canada and China (National Statistics Committee 2011).

Table 4 FDI inflows by countries 2007-2011 (percent of total)

Country/Year	2007	2008	2009	2010	2011
Canada	1,4	11,1	12,2	30,8	42,6
China	6,7	6,6	7,8	10,6	15,2
England	13,8	8,5	16,7	11,1	8,9
Kazakhstan	41,8	41,7	32,2	6,2	4,7
Russia	3,1	4,2	6,8	14,6	3,7
USA	3,0	0,7	3,5	1,8	2,7
Germany	6,6	5,5	1,3	1,8	5,8

Source: National Statistics Committee (2011)

The biggest foreign direct investment since regaining independence was the Canadian based investment into the mining sector of the country. It was a very controversial deal which led to confrontation of the president and the parliament refusing to ratify the agreement. The president used his power and dissolved the parliament. Stating that legislative body was putting constraints to the development of the country, Askar Akayev successfully let project to proceed further.

2.3.1 Regulatory Framework

The government of the Kyrgyzstan guarantees predictable and favorable conditions for foreign investor which is clearly stated in the investment policy of Kyrgyz Republic, where the Ministry of Finance with the assistance of other ministries and governmental committees is responsible for defining main investment targets and development of state investment strategy (Embassy of the Kyrgyz Republic in Ukraine 2013). The information given in the official webpage of the Ministry of Economy of the Kyrgyz Republic states that, the legislation of the country is rather investor friendly and provides the following guarantees (Ministry of Economy of the Kyrgyz Republic 2012):

- Right to repatriate profits in a convertible currency after paying all necessary taxes
- Protection from nationalization and expropriation (except for certain cases which relate to public interests, in this case the government guarantees compensation)
- Equal investment rights for local and foreign investors
- Protection of rights and interests of investors in accordance with the legislation of the Kyrgyz Republic and international agreements
- Freedom of monetary transactions (no exchange restrictions, free capital mobility etc.)

The US Department of State also classifies the laws on investments in Kyrgyzstan as liberal and investor friendly, but only on paper (U.S. Department of State 2012). As it is stated in the official webpage the laws are not *consistently implemented* and they lack enforcement practices, which creates concerns on the side of investors. According to the report Kyrgyzstan have successfully established Commercial Arbitration Court in 2004, but failed to make use of it. The report also adds that country has a high rate of corruption which puts restraints on the efforts of the government to attract foreign capital. The investment policy of the government propagates non-discriminatory practices towards foreign investors, but when it comes to licensing process, the investors face rather opaque procedures which create a basis for discriminatory practices on places (U.S. Department of State 2012). Regarding the laws on commercial banking, they do not discriminate against foreign banks and the vast share of the banking sector in the country belongs to foreign entities.

The dispute settlement procedures in Kyrgyzstan were also included in the report. It is stated that the country has flexible legislation on matters of resolving disputes with foreign investors, which can be regulated at the international or domestic courts depending on what was stated in the agreement. In addition, Kyrgyzstan in 1997 had ratified agreement on membership at the International Center for the Settlement of Investment Disputes (U.S. Department of State 2012). The legislation of the Kyrgyz Republic allows foreign investors to own business in the country, except for owning land and farmlands, but there is an option of long-term lease of land for 99 years (U.S. Department of State 2012). The legislation regarding foreign ownership of the land is very sensitive issue in the country as the majority of the population is against the initiatives of giving land ownership to foreigners.

2.3.2 Political Situation

Kyrgyzstan is perceived as politically instable country in the region which creates a negative image for potential investors. The country is highly vulnerable to political and social shocks which can be related to economic well-being of the population. There were four major events which had detrimental impact on the investment climate in the country.

- 1999, August – armed intervention of terrorists to the Southern part of the country.
- 2005, March – First Revolution

- 2010, April – Second Revolution
- 2010, June – Ethnic conflict in the Southern part of the country.

After each revolution the country had experienced sharp drop in investment inflows (National Statistics Committee 2011). The changing political regimes raise concerns about the property protection. The country had never practiced nationalization and expropriation since 1991, but after the revolution of 2010, such tools were applied towards several companies which were accused of having bonds with the former president, Kurmanbek Bakiev (U.S. Department of State 2012). Some companies included foreign investments.

Chapter 3. Kumtor Investment Project

Up to this stage the paper has shown the basics of foreign direct investment, the concepts of nationalization, introduced the foreign direct capital flow trends in global, regional and country levels. On that note, the scope of the paper narrows down to the main topic of interest. The first section of this chapter will be devoted to the overview of the Kumtor Investment Project. The second section will show the significance of the company in the economy of the country. It is important to understand the level of reliance of the economy on Kumtor in order to see the scope of possible consequences of nationalization on the socio-economic well-being of the country, which will be discussed in greater details in the fourth chapter. The third section will summarize the main clash points between the government and the company. It will explain the main arguments of parties propagating for nationalization and will show the position of the company concerning these issues.

3.1 Overview of Kumtor Project

The Kumtor mine is located in the Jeti-Oguz of Issyk-Kul region along with the Tien-Shan Mountains range, close to the border with China, at an altitude of 3700-4500 meters above the sea level (KyrgyzAltyn 2011). The Kumtor mine is one of the world's largest gold deposits and according to recent reports, it contains 731 tons of gold reserves (IssykkulInvest 2013). Discovered by Soviet geologists in 1989, the Kumtor gold mine was considered as not profitable, given the complexity of the mining operations in difficult natural conditions of permafrost, however in 1992 in Toronto the Government of the Kyrgyz Republic, the State Concern "Kyrgyzaltyn" and the Canadian corporation Cameco Corporation signed an agreement giving the Cameco Corporation exclusive rights to develop the deposit (IssykkulInvest 2013).

In accordance with the agreement, the State Concern "Kyrgyzaltyn" on behalf of the Government of the Kyrgyz Republic and the Cameco Corporation have founded CJSC

"Kumtor Gold Company" (IssykkulInvest 2013). As per the agreement, two thirds of the shares in the company belonged to Kyrgyzstan, the rest went to the Cameco Corporation. The gold processing plant had started its operations in 1996 and on 31st December of the same year, the company produced its first gold bar (KyrgyzAltyn 2011). The distribution of shares in the Kumtor Gold Company in percentages:

- The Government of the Kyrgyz Republic – 66.67%;
- Cameco Corporation – 33.33%

By 2004 the Cameco Corporation had acquired interest in several mining sites in Mongolia such as Boroo and Gatsuurt, which were managed through Cameco Gold (there were also other units owned by Cameco Gold) (Centerragold 2012). Two years before Cameco had proposed the Government of Kyrgyzstan to reorganize the Kumtor Project and as a result of negotiations on 31st December 2003, the Cameco Corporation and the Government of the Kyrgyz Republic signed an agreement on restructuring the Kumtor Project and forming a new joint venture company, the Centerra Gold Inc. (State Comission 2013). The restructuring process led to the following distribution of shares in the new joint company Centerra Gold (State Comission 2013):

- The Government of the Kyrgyz Republic – 33%;
- Cameco Corporation – 67%

The process of the restructuring of the Kumtor Project, which took place in 2003-2004, was conducted by combining the following assets of Cameco Gold and Kyrgyzaltyn (State Comission 2013):

- Kyrgyzaltyn – Kumtor Mine (67%).
- Cameco Gold – 53.6% of interest in AGR (Australian Gold Comp.) which owned 95% interest in Boroo mine, loans from Cameco Barbados to build a

plant Boroo in Mongolia and investments into Kumtor, 73% interest in Gatsuurt mine and 62.14% in the REN (Nevada, USA).

Currently there are only two operating mines in Centerra Gold, which are Kumtor and Boroo (State Comission 2013). According to the report of the commission, other eight available properties (See Chart 4) of the Centerra Gold are currently under geological exploration or the preparatory stage. The main revenue generator of the company is the Kumtor mine which made up 92% of total revenues in 2011 (State Comission 2013).

According to the prospectus issued by the company in June 2004, the structure of the reserves (See Table 4) at the two main operating mines was as follows (Centerra Gold 2004):

Table 4 Mineral reserves information

	PROVEN			PROBABLE			TOTAL				
Property	Tonnes	Grade	Contained Gold	Tonnes	Grade	Contained Gold	Tonnes	Grade	Contained Gold (100%)	Centerra's Share[(2)(3)]	Mining Method[(4)]
		(g/t)	(oz)		(g/t)	(oz)		(g/t)	(oz)	(oz)	
	(tonnes and ounces in thousands)										
Kumtor	21,814	3.3	2,330	8,616	3.3	924	30,430	3.3	3,254	3,254	OP
Boroo	33	4.2	4	10,136	3.5	1,154	10,169	3.5	1,158	909	OP
Total	21,847	3.3	2,334	18,752	3.4	2,078	40,599	3.4	4,412	4,163	

1. The reserves have been estimated based on a gold price of $325 per ounce.
2. Kumtor is 100% and Boroo 79% are owned by Centerra Gold.

Source: Centerra Gold Prospectus (2004, p.5)

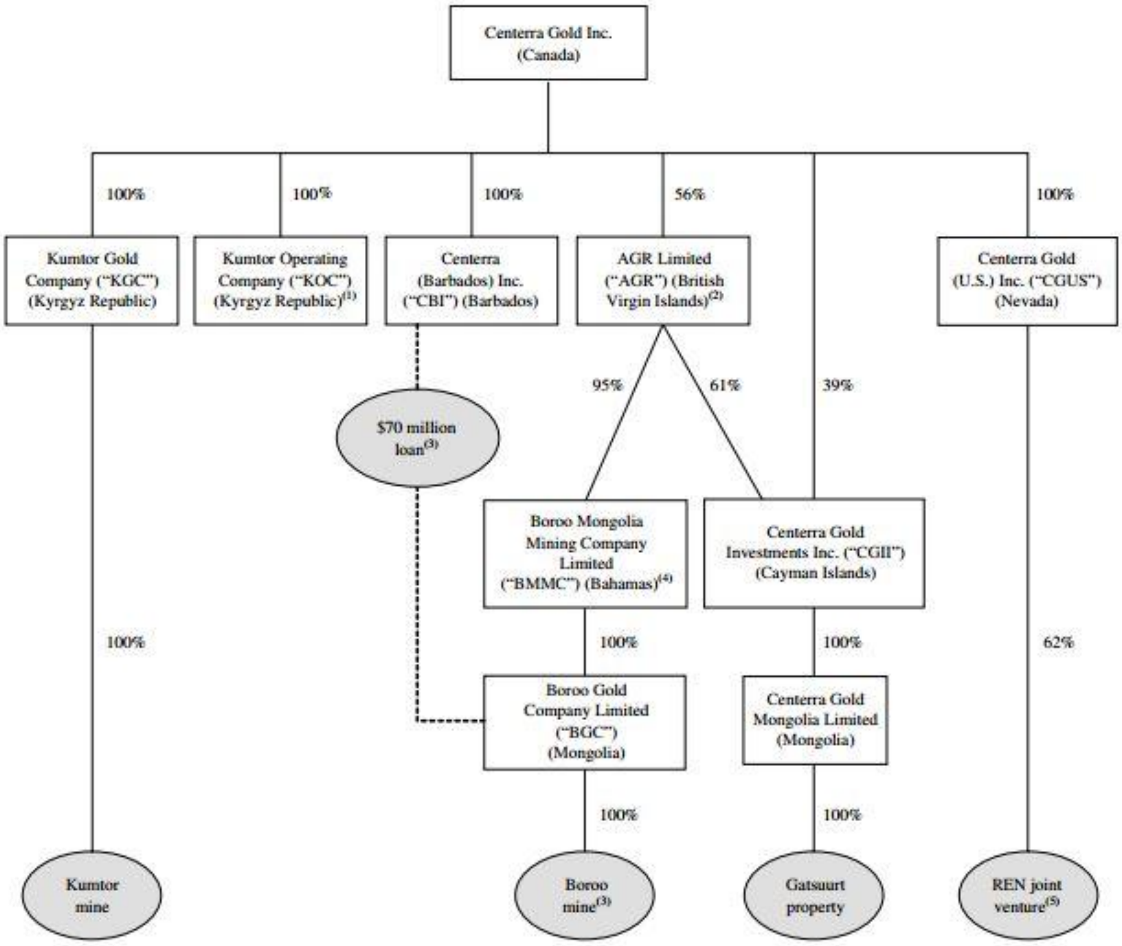
On 9th January 2004 the shareholders of the Centerra Gold agreed to undertake initial public offering (State Comission 2013). As a result of placing shares of Centerra Gold at the Toronto Stock Exchange, the distribution of shares in the Centerra Gold was as follows:

- Kyrgyzaltyn (Kyrgyz State Company) – 15.66% (from initial 33% interest in Centerra)
- Cameco – 52.68%
- Other shareholders – 31.66%

According to the agreement, the share of Kyrgyzstan in the Centerra Gold had to be 33%, but after the IPO it declined to 15.66%. The main reason for decline was that Kyrgyzstan had sold 7.5 million of common shares (the budget received revenue of 83.4 millions of US dollars) during the process of IPO (State Comission 2013). On 22nd May 2007, the Prime Minister Almazbek Atambaev ordered to create a group of experts to renegotiate the terms of restructuring (State Comission 2013). The government claimed that at the time of reorganization, the share of Kyrgyzstan in the Centerra Gold had to be at least 52%. The negotiations with the Cameco resulted in the increase of the share of Kyrgyzstan in Centerra Gold from 15.66% to 29%, but the agreement was not approved as on 2nd June 2007 the parliament was dissolved (State Comission 2013). Finally, on 24th April 2009, another rout of negotiations took place and resulted in the following (State Comission 2013):

- The share of the country in Centerra Gold was increased from 15.66% to 32.75%.
- Centerra Gold managed to increase the concession area by 16 300 hectares.
- The company received additional tax-exemptions (except for taxes included in the agreement)

Chart 4 Inter-corporate relationships of the Centerra Gold Inc.



Source: Centerra Gold Prospectus (2004, p. 20)

The Chart 4 shows the structure of the Centerra Gold Inc. and explains the equity participation of the company in different projects in several countries such as the USA, Mongolia, Turkey, Russia and Barbados to the date of 2004. The company experienced several structural changes since then (e.g. REN was sold in 2010) (State Comission 2013).

3.2 Importance of the project to the economy of Kyrgyzstan

In this section the paper will elaborate on the importance of the Kumtor Project to the economy of the Kyrgyzstan. The section has been divided into the following subsections: Kumtor's contribution to the budget of the country, share of the company output in the total exports and industrial production, company's impact on employment and its impact on the Issyk-Kul region's economy.

3.2.1 Contribution of the company to the Budget, Exports, and Industrial Output

In 2011 Kumtor alone made up 11.7% of the gross domestic product of the country and constituted 51.1% of total exports (Kumtor 2013). However, in 2012 the share of the Kumtor in the GDP of the country decreased to 5.5% and its share in the overall industrial output was 18.9% (Kumtor 2013). One of the reasons for decreased share in the total output of the country was that the company faced temporary problems related to the moving ice on the site and was forced to decrease gold production by 66.4% in 2012 (Infogeo 2012). As a result the government had to change the GDP growth forecast for the year of 2012 from the planned 7.5% to 1.8% (Dzyubenko 2012). The sharp drop in growth forecasts clearly shows the level of dependence of the country's economy on the output of the Kumtor mine. According to information provided on the official webpage of the company, since 1994, the Kumtor Project has paid (See Table 5) to Kyrgyzstan more than 2.15 billion US dollars in terms of taxes, salaries and other contributions (Kumtor 2013).

Table 5 Kumtor Gold Project's payments within the Kyrgyz Republic

USD millions	2012	1994 – 2012
Taxes, customs & other mandatory payments	103.194	627.453
Social Insurance Fund	19.886	92.362
Issyk-Kul Development Fund	4.638	27.674
Licenses & permits	0.259	2.279
Pollution tax and payments to the Environment Protection Agency	0.310	3.749
Payments to Kyrgyzaltyn	-	11.421
Refinery	1.884	36.081
Revenue from the sale of Centerra shares	-	86.000
Dividends	5.836	50.249
Purchases in theKyrgyzRepublic: *– supplies & services*	54.178	537.014
- foods	5.278	46.471
Kyrgyz-infrastructure-related payments: *– electricity*	10.941	119.340
– *roads outside the mine site*	1.530	35.333
– *Tamga-Kumtor power-transmission line*	-	41.612
KOC employees' net wage	66.575	378.652
Sanatoria treatment	0.136	0.744
Education, scholarships & training	0.074	3.839
Sponsorships & sustainable development projects	2.921	14.992
Government contributions	21.000	31.000
Payments to communities	-	4.400
Total	**298,641**	**2 150,664**

Source : Kumtor (2013, Contribution to the economy)

3.2.2 Impact on the employment

According to the official information published on the company's webpage, there are 3361 people employed at Kumtor, out of which 2644 are Kyrgyz citizens, 97 expat staff and 620 people employed on a contractual basis (Kumtor 2013). For the country, where the official releases stated that the number of unemployed reached 212 000 people (Ajihodjaeva 2012), the Kumtor plays an important role. If we assume that an average family in

Kyrgyzstan consists of 4 people at least, we come to the number of 13056 people being dependent on the Kumtor's operations.

3.2.3 Contribution to the Issyk-Kul region

In order to help the region to develop, the government created a special "Issyk-Kul Development Fund" (Kumtor 2013). It was designed to finance the socio-economic projects of the region using extra-budgetary sources. The Centerra Gold is the biggest contributor to the Issyk-Kul development fund.

In 2012 the company transferred almost 308 million soms to the Issyk-Kul Development Fund (Tynaeva 2012). Using these funds, the officials built several schools, sports centers, hospitals and other social objects. In 2012 the funds were used to build the following objects: one school in Sary-Kamysh village, one school in Saruu village, an assembly hall in Chong-Oruktuu village, and one medical post in Chong-Toguzbai village (Tynaeva 2012). In addition, 19 million soms were spent to buy equipment for the needs of the local government. Each sector in the region benefited from transfers and the funds of 2012 were distributed in the following proportion (Tynaeva 2012):

- Healthcare – 95 million KGS
- Education – 50 150 000KGS
- Culture – 12 079 000 KGS
- Sports – 57 952 000 KGS
- For development needs of the local government – 91 097 000 KGS

3.3 Summary of the clash points between the Government of the Kyrgyzstan and Centerra Gold

The Kumtor Investment Project has been a very controversial deal since the beginning of its establishment. Since then, several state commissions have issued reports covering the problems related to the Kumtor Project. In this section the paper summarizes the last report (2013), which was prepared by the special state commission formed by the Parliament and Government of the Kyrgyz Republic. Each subsection begins with listing the arguments of the government against the Centerra Gold and then the company's response follows.

3.3.1 The agreements of 1992 – 1994

The State Commission Report states that the terms of investment given in the agreements with the Cameco Corporation did not meet the interests of Kyrgyzstan due to the following reasons (State Comission 2013):

1) The offers from other companies which had much better terms were rejected by the Kyrgyz side.
2) The management over the company was practically on the Canadian side (Executive committee consisted of 3 people where the 2 of them were representatives of the Cameco).
3) The agreement also assumed division of profits, not the output (gold). Based on this structure the company was interested in increasing costs of production.
4) According to the report the investments of the Cameco to the project constituted only 3.4% of the total costs. Cameco used Kumtor as collateral to raise the rest of the necessary funds.
5) The company had exceeded the planned construction costs by 175.6 million US dollars.
6) Other violations of the laws of Kyrgyz Republic.

The company representatives have responded by stating that all agreements were reviewed and approved by the Government of the Kyrgyz Republic and the company does not understand the reasons for accusations expressed by the commission (Centerra Gold 2013).

The excess costs were audited and later the issue was settled with the state commission of 1997/1998 (Centerra Gold 2013)

3.3.2 The agreement on restructuring the Kumtor Project (2003-2004)

According to the report, the agreement terms of 2003-2004 on the restructuring of the Kumtor Project were much worse than the one signed in 1992 (State Comission 2013):

1) By signing that agreement Kyrgyzstan exchanged 67% of its interest in the Kumtor Project to 33% interest in Centerra Gold, which limited the control over the Kumtor.
2) The reserves of the Kumtor mine and the shares of Kyrgyzaltyn were undervalued during the process of restructuring.
3) The loan given by Cameco to build the Boroo mine was transformed into shares in Centerra Gold, instead of registering it as a debt. This factor significantly increased the share of Cameco in Centerra Gold
4) According to calculations of the Standard Bank, 38% of interest in Centerra Gold had to be transferred to Kyrgyzstan, but the government decided to sign a new agreement where the share of Kyrgyzstan was decreased to 33%, which explicitly violated the interest of Kyrgyzstan.
5) The assets of Cameco such as Boroo, Gatsuurt and REN were overvalued as the data was provided by the Cameco itself and was not checked.
6) The subordinated debt of 20 million USD provided by the EBRD and IFC was transformed into 3 061 212 shares in Centerra Gold. The report states that the debt was overvalued in the process of transforming it to shares.

Centerra Gold rejected the fact of overvaluing of the Boroo, REN, Gatsuurt and the debt of EBRD and IFC (Centerra Gold 2013).). The report claims the Government of the

Kyrgyz Republic had full access to all information about the Boroo, REN and Gatsuurt. Based on this, the company believes that accusations are groundless. In addition, the whole process of restructuring went through detailed negotiations with the involvement of experts representing each side (Kyrgyzstan was represented by the Standard Bank and Graydon LLP) (Centerra Gold 2013). The company added that the restructuring of the project brought several benefits to Kyrgyzstan such as increased liquidity of the shares in Kumtor, ability to cash part of shares which brought 87 million USD to budget of the country, and finally Kyrgyzstan became the co-owner of the other assets of Cameco Gold (Boroo, Gatsuurt etc.) (Centerra Gold 2013). The report also stated that in the period from 2006-2007 the Boroo mine was more profitable than the Kumtor mine and during that time Boroo was financing activities in Kumtor (115 million of US dollars).

3.3.3 The agreement of 2009

As it was mentioned in the Kumtor overview section, the agreement of 2007 was not approved by the Parliament as it was dissolved by that time. The new round of negotiations took place in 2009 resulting in changes in terms of agreement. The State Commission have accepted that the terms of 2009 were relatively more favorable to the one signed in 2004, but have expressed discontentment with some case points below (State Comission 2013):

1) According to the new agreement the Centerra Gold received the additional 40.43 tons of gold reserves in the Kumtor mine. The commission points that in the case of additional emission of shares, taking into account new reserves, the capitalization of Centerra Gold could be increased to 700 million USD, which means that the benefits gained by Kyrgyzstan are not adequate to the amount of benefits received by the Centerra Gold.
2) The concession area was increased by 16.3 thousand hectares, without assessing the future gold reserves and potential damage for the environment of the area.

3) The number of representatives of Kyrgyzstan in the board of directors was increased to 2 people (one representative must be independent from the government and another must be presented from Kyrgyzaltyn). The commission argued that this structure limited the interests of Kyrgyzstan taking into account the 32.75% interest in the Centerra Gold.
4) The project REN, which was included into the assets of the Centerra Gold by Cameco, did not bring any benefits. In 2003 the REN was bought for 35 million USD and in 2010 it was sold for 34.9 million USD. The gold prices since 2003 have increased from 400 USD p/o to 1100 USD p/o. The commission has calculated loss of 11.5 million USD for Centerra Gold. It was the result of ineffective management of the Centerra Gold, the commission added.
5) The profitability of the Boroo mine is winding out. In 2011 the Kumtor mine brought 11.8 times more revenue than Boroo and Gatsuurt taken together. In addition, Kyrgyzstan being owner of the largest portion of shares in the company is currently ineffective in the management of Kumtor (KOC, KGC). The commission states that Kyrgyzstan has to take steps to change the current situation.
6) The Comparative analysis (AngloGold Ashanti, Polyus Gold, and African Barrick Gold taken as a benchmark) conducted by the commission shows that Kumtor has higher capital costs, depreciation costs and lower yields on dividends. The commission has raised concerns about the efficiency of the current management.

The report by the company states that the benefits gained by the Kyrgyzstan were adequate for the following reasons (Centerra Gold 2013):

1) Kyrgyzstan managed to increase its share in Centerra Gold from 15.66% to 33.1%,
2) Kyrgyzstan’s budget received 1 750 000 USD.

3) The new tax regime was accepted, which increased the budget revenues of the country, plus a *catch up tax payment of 20 692 921 USD.*
4) The Kumtor Gold Company also forgave the debt of the government which amounted 4 400 000 USD.
5) The number of Kyrgyzstan representatives in the board of directors was increased to 2 people.

The company added that the agreement of 2009 was reviewed and approved by the following bodies: the Government of the Kyrgyz Republic, the Parliament of the Kyrgyz Republic, the Constitutional Court and the Department of Justice (Centerra Gold 2013). The company also reminds that these issues were raised before. In March 2006 Centerra Gold already initiated an international arbitration process against Kyrgyzstan concerning the issued presented in the report. The whole process took 3 years and ultimately both sides agreed on signing the new agreement, which settled all issues up to 6th June 2009 and the arbitration process was stopped. The State Commission claimed that the current government should not take responsibility over the agreements signed by the previous governments which contradicted the interests of the country (State Comission 2013). Centerra Gold on its turn points to the public international law, which states that obligations cannot be reversed due to the change of the government (Centerra Gold 2013).

3.3.4 Recommendations

Based on the investigation results, the State Commission recommended the following (State Comission 2013):

1) Initiate negotiations with Centerra Gold about termination of the agreement of 2009, as the current share of Kyrgyzstan in the Centerra Gold is not adequate to

the financial contribution of the Kumtor mine, which is the main revenue generator.

2) Negotiate the possibility of signing new the agreement with new terms based on the legislation of the Kyrgyz Republic concerning the following issues: the compensation for environmental damage, tax regime, reclamation of the site and other compensations.
3) Submit the proposal to create a new managing company instead of KOC and KGC.
4) Increase the number of representatives in the board of directors (to 4 out 12).
5) Renegotiate the management structure in the company (increase the number of Kyrgyz citizens in the managing positions).
6) Eliminate the facts of environmental violations and increase the amount of compensation for the environmental damage.
7) Other recommendations.

In case of unsuccessful negotiations with Centerra Gold, the commission recommended the government to take the following actions (State Comission 2013):

1) Repeal the law that ratified the agreement on new terms.
2) Repeal the law on amendments to the tax code from April 30, 2009.
3) Terminate the revised investment agreement from June 6, 2009.
4) Terminate the revised concession agreement from June 6, 2009.
5) Terminate other agreements related to Kumtor Project.
6) Initiate legal proceedings about confiscation of land property, based on termination of the decrees of the previous government.

The company accepted the statement of the commission concerning the importance of the Kumtor as the main revenue generator of the company (Centerra Gold 2013). However, the company reminded that Kumtor was the main recipient of capital investments in the previous years, which influenced the Kumtor's ability to generate the current revenues. It is stated that capital investments into the Kumtor mine were financed from other units of Centerra Gold. Concerning the issue of changing the tax regime, the company explained that current tax regime was accepted by both sides and it cannot be a subject for future amendments according to the agreement of 2009. The ecological damage compensation is also said to be according to the international standards and along with the agreement. The company agreed on the idea of creating one managing company instead of two (KOC, KGC), and added that company is already working on this matter. Regarding the request to increase the number of Kyrgyz citizens at the managing positions, the company stated that the country legislation does not oblige investors to appoint Kyrgyz citizens.

To summarize, the government of the Kyrgyz Republic wants to renegotiate the terms of investment as the country's share in the Centerra Gold is not adequate to the contribution and the value of the Kumtor. Another reason is that the current government does not want to execute the obligations made by the previous government, because the terms of agreement contradict the interests of Kyrgyzstan. Thereby, the government insists on revision of the agreement and threatens to denounce all agreements related to the Kumtor Project in case of unsuccessful negotiations. The Centerra Gold on the other hand refuses to revise the agreement stating that demands of the government contradict the principles of international laws. The next chapter will elaborate on the consequences of the nationalization on the economic well-being of the country.

Chapter 4. Nationalization of Kumtor: Possible consequences for the economy of Kyrgyzstan

The issue about the nationalization of the biggest investment project in the country became one of the most discussed subjects in the country. The coalition of the parliamentary majority approved the denunciation of the agreement on the Kumtor, in case the consensus between the government and the Centerra Gold will not be reached (Fergananews 2013). Several meetings took place in the capital of the country demanding the nationalization of the Kumtor (Denisenko 2012) (Sultanbekova 2013). This chapter is devoted to the assessment of the possible consequences of nationalization to the economy of Kyrgyzstan. In order to set a sound ground for the analysis, the chapter is divided into four sections. The first section explains the nationalization experience of the country, which sheds light on the outcomes of the previous policies towards nationalization. It elaborates on how the government managed the nationalized property and describes the results of subsequent actions. The second section examines the performance of the state-owned enterprises in Kyrgyzstan, which shows how successful are public companies and demonstrates the level of expertise of the government in managing them. The final section elaborates on the possible impact of nationalization to the socio-economic well-being of the country.

4.1 The experience of nationalization in Kyrgyzstan.

Since gaining independence, Kyrgyzstan had never nationalized any company or privately owned property, but after the second revolution of 7th April 2010, the new interim government for the first time nationalized several companies, enterprises and properties (U.S. Department of State 2012). The main rationale behind the nationalization was to return back the property which was acquired by the previous regime (Tynaliev 2012). In total the interim government had nationalized 47 objects (See Table 6), which can be divided into the following groups (FNI 2011):

Table 6 Groups of nationalized objects by type

Type	Quantity
Land	3
Land with premises	18
Companies (shares)	19
Transport vehicles	7
Total	47

Source: FNI Report (2012)

In order to effectively manage the nationalized property, the government created a special managing fund for nationalized objects. The fund had developed a program for effective management and disposal of the state property, which implied the privatization of certain objects. The program was approved by the government on 15th April 2011 and as a result 26 nationalized objects (See Table 7) had to be privatized through auctions.

Table 7 Properties subject to privatization

№	Title	Share of the State
1	ОАО «Нарынгидроэнергострой» (Naryngidroenergostroy)	90 %
2	ОАО «Нарынспецгидроэнергомонтаж» (Naryngidroenergomontaj)	71,3 %
3	ОАО «Дитис» (Ditis)	33 %
4	ОАО «АзияАгроресурс» (Aziyaagroresurs)	35 %
5	ОАО «Чакан ГЭС» (Chakan GES)	100 %
6	ЗАО «Альфа телеком» (Alfa Telecom)	49 %
7	ОсОО «Телерадиокомпания "Пирамида» (Teleradiokomp. Piramida)	100 %
8	ОсОО «Петрол Групп» (Petrol Group)	100 %
9	Others	-

Source: FNI Report (2012)

The nationalization mechanism chosen by the interim government raised serious concerns among legal and business experts. Gulnara Kalikova, the founder and Senior Partner of Kalikova and Associates Law Firm, has stated that the whole process of nationalization contradicted the constitution of the Kyrgyz Republic (Dudka 2010). As per analysis prepared by the lawyers representing the Kalikova and Associates Law Firm, the interim government used its own decrees as the legal basis for nationalization, which have the questionable legal ground for the following reasons (Saaduev and Saynazarova 2013):

- Decrees of the interim government contradict the main law of the Kyrgyz Republic, because according to the constitution the country has to pay compensation in the case of nationalization.
- The decree is not a law. According to the constitution, nationalization can be conducted only based on approved laws.
- The interim government did not have the authority to make decisions on nationalization, because nationalization can be conducted based on law, which can be approved only by the parliament.

As a result by the 12th June 2011 there were already 66 legal complaints filed against the decrees of the interim government (FNI Legal 2012). The government's program which was designed to bring revenues to the budget faced legal obstacles as several nationalized objects were returned to private ownership by the decision of the court (Bystrovskaya GES, land properties in Issyk-Kul, Aikol-5 (24%) and others) (FNI Legal 2012).

The policies of the interim government towards nationalization were negatively accepted by the investors and most of them were reluctant to invest or get engaged in buying nationalized objects. For instance, the Deputy Chairman of Board of JSC "Samruk-Kazyna" (Sovereign Wealth Fund, Kazakhstan) Aidan Karibjanov kindly rejected to buy 49% of the shares in Alfa Telecom, which was proposed to him by the government by saying that the object is controversial and advised to sell it to another investor (Otorbaeva 2011). The EBRD

Business Group Director for South Eastern Europe, Central Asia and the Caucasus expressed the following opinion about the actions of the government: "the events of 2010 showed an absolute disrespect for private property in Kyrgyzstan" (Mazykina 2011). Many attempts of the government to sell nationalized property by auctions failed mainly due to the applicants' absence. See Table 8 for auctions results (FNI Auction Results 2012):

Table 8 Results of auctions for sale of the nationalized objects (2011-2012)

Object	Date of Auction	Starting Price	Result
Alfa Telecom - 49 % of shares.	22nd May 2012	4 900 000 000 KGS	No single investor expressed an interest in object. The auction declared invalid.
Chakan GES – 100% of shares.	25th October 2011	1 048 383 600 KGS	No single investor expressed an interest in object. The auction declared invalid.
Petrol Group – 100% of shares.	17th October 2011	123 189 803 KGS	Sold for 137 000 000 KGS ***(under special circumstances)**
Holiday Center "Dostuk"	22nd May 2012	63 556 000 KGS	No single investor expressed an interest in object. The auction declared invalid.
Ditis – 33% of shares.	11th October 2011	7 620 904 KGS	Sold for 9 920 904 KGS
Aziyaagroresurs – 35% of shares.	11th October 2011	3 634 085 KGS	Sold for 16 084 085 KGS
Other minor properties	-	-	-

Source: FNI Auction Results (2012)

*The auction related to Petrol Group requires special attention as the whole process of selling the company was surrounded with suspicious circumstances. There were 9 applications submitted for participation at the auctions (FNI Petrol Group 2011), seven local companies, one company from Kazakhstan and one citizen of Kazakhstan. On 17th October 2011, the local company BNK (Bishkek Petroleum Company) was declared the winner of the auctions with the final price of 1 555 000 000 KGS (12 times higher the starting price). Later, the company rejected to sign the auctions protocol and refused to buy the company. According to the auction regulation, the company which offered the second highest price ("Bishkek Oil" offered - 1 550 000 000 KGS) had to be declared the winner, but the second company also refused to sign the protocol and pay the price (FNI Auction Results 2012). As a result, the Fund for State Property Management had to organize the new auction to sell the Petrol Group. On the second round of the auction there were only 2 companies (Shnos and CRM) and one citizen of Kyrgyzstan (Kurbanov K.M). On 7th December 2011, the Petrol Group was sold for only 137 000 000 KGS to Kurbanov K.M (FNI Auction Results 2012).

Table 8 shows that the government was successful in selling the assets of minor importance and value mainly to internal investors. Strategic foreign investors did not show interest in buying any of the nationalized assets. In the case of the Petrol Group there were a couple of investors from Kazakhstan participated in the auction, but then after suspicious events, both Kazakhstani investors decided not to attend the second round of auction.

To summarize, the whole process of nationalization was held in contradiction to the main law of the Kyrgyzstan, which led dozens of lawsuits against the decisions of the interim government. As a result, several nationalized properties were returned to private ownership and some of the objects are still under trials. The government approved the program for effective management and disposal of the state property, which implied the privatization of the nationalized property. One of the reasons for privatization was to increase budget revenues. Foreign investors and international institutions negatively accepted the nationalization process in Kyrgyzstan and did not show any interest in buying nationalized property. In the face of these events, Kyrgyzstan worsened its investment image and deterred investors which might have brought investments of better quality and impact to the economy of the country compared to internal investors.

4.1.1 The experience of the country at the international courts

Kyrgyzstan already had the experience in expropriating foreign assets. According to the award of the International Centre for Settlement of Investment Disputes, in 1992 the Turkish company "Sistem Muhendislik Insaat Sanayi ve Ticaret A.S" and the Kyrgyz company "Ak-Keme" formed a joint stock venture in order to build and manage the world class hotel of 400 beds at the center of Bishkek (Cisarbitration 2009). The ICSID states that on 19th December 1995, Ak-Keme had terminated the contract with Sistem saying that the Turkish side failed to fulfill its obligations and took control over the project. From 1995 to 1998 the Sistem did not participate in the operations of the hotel and as a result the company's foreign investment and construction licenses were revoked, which consequently led to the termination of the venture (Cisarbitration 2009). On its turn, the Ak-Keme in 1997 formed a new joint venture with the Business Focus Cdn Bhd (Malaysian company) (Cisarbitration 2009). A year later on 10th December 1998, by the decision of the Supreme Court, the Ak-Keme company was declared bankrupt and subject for liquidation (Cisarbitration 2009).

In 1999 as a result of discussions between the Kyrgyz and Turkish delegations, during the visit of the President of Kyrgyzstan to Turkey, the liquidator of the Ak-Keme created the new company "Hotel Ak-Keme De Luks" and sold 100% of its shares to Sistem (Cisarbitration 2009). The terms of the new agreement assumed the following mechanism of purchase, "The payment in exchange of the purchased shares shall be provided with the remittance of 50% of the profit to be gained from the operation of the Hotel until the amount deemed by this Agreement is wholly covered." (Cisarbitration 2009). In other words the Sistem was not obliged to pay anything from the budget of the company, but pay from the profits generated by the Hotel. Finally in 1999 the Sistem became the sole owner of the hotel.

In 2005, the political regime in the country changed and Mr.Sarymsakov, the chairman of the previously liquidated Ak-Keme, took over the Hotel (Cisarbitration 2009). In response to the complaints of the Sistem to the authorities of the Kyrgyz Republic, the Assistant Prosecutor of Bishkek gave order to return the hotel to the owner, which was formulated as follows: "You are obliged to return "Pinara Bishkek" Hotel's premises which were usurped unlawfully, in order to cure the injustice regarding "Pinara Bishkek" LTD's property rights." (Cisarbitration 2009). But the order was not executed and the Turkish company again filed the complaint to authorities asking to resolve the case (Cisarbitration 2009). In 2005, by the decision of the Leninski District Court, the Bishkek City Court and the Kyrgyz Supreme Court the agreement of 1999 was invalidated and the ownership over the hotel was transferred to the Joint Kyrgyz-Malaysian Enterprise (Cisarbitration 2009).

On 11th October 2005 the Turkish company seeking for justice addressed the International Centre for Settlement of Investment Disputes requesting arbitration (Cisarbitration 2009). According to ICSID, Kyrgyzstan's main arguments against Turkish company included the following: bribing the Kyrgyz authorities and violating the terms of agreements. In addition, Kyrgyzstan stated that the agreement of 1999 was not ratified by the parliament and did not have any legal force. All arguments of the Kyrgyz side were declined by the arbiter (Cisarbitration 2009). Whether by chance or not, the arguments of the government used almost 4 years ago reminds the arguments operated today against the Centerra Gold. After reviewing and analyzing the case, the ICSID declared the actions of Kyrgyzstan as an expropriation (investor did not receive compensation) and ordered the following (Cisarbitration 2009):

i. To compensate the Sistem 8.5 million USD, plus interest.
ii. To compensate the Sistem its legal expenses - 400 000 USD.
iii. To reimburse the Sistem its expenses related to ICSID - 247 410 USD

To summarize, Kyrgyzstan has acquired the property of foreign owned company, which later addressed the international arbitration body. The country justified its actions by accusing the foreign investor of bribing, not fulfilling the agreement terms and by stating that the agreement with the investor was not ratified by the parliament. The international arbiter rejected the arguments of the respondent and classified the actions of the country towards the foreign property as expropriation because the investor did not receive any compensation. Kyrgyzstan was obliged to compensate the losses and expenses of the investor. The main importance of this subsection is that it helps to project possible decision of the court towards the arguments used by the government against the Centerra Gold.

4.2 Performance of the state-owned enterprises in Kyrgyzstan

Kyrgyzstan is a small, open, transition economy, which gained independence only 22 years ago. The industrial potential of the country collapsed after the fall of the communist regime due to lack of transfers, broken ties with other countries, lack of experience and other reasons. The US Department of State has stated that most of the companies owned by the state are uncompetitive (U.S. Department of State 2012). According to the Transparency International Corruption Perception Index, Kyrgyzstan was ranked 154 among 176 countries studied (Transparency International 2012). This section describes the situation at the state-owned enterprises on the example of the energy sector. The reason for choosing the energy sector is because it is the only public division independently audited by the American engineering and consulting company (Denisinko 2012).

Starting from 1996 the energy sector of Kyrgyzstan was supervised and operated by the vertically integrated joint-stock company “Kyrgyzenergo”, which was responsible for generation, transmission and distribution of the electricity (Abdyrasulova and Kravcov 2009). In 1997 the government decided to implement market mechanisms into the sector and the company experienced unbundling process (Abdyrasulova and Kravcov 2009). As a result of reforms by 2001 the country had 8 companies in the sector which are (Abdyrasulova and Kravcov 2009):

Generating companies:

1. OAO “Elektircheskiye Stancii”
2. OAO “ Chakan GES”

Transmission Company:

3. OAO “ Nacionalnaya Elektricheskaya Set Kyrgyzstana”

Distribution companies (electricity):

4. OAO “ Severelektro”
5. OAO “Vostokelektro”
6. OAO “ Oshelektro”
7. OAO “Djalal-Abadelektro”

Distribution Company (heat):

8. OAO “Bishkekteploset”

Despite the policy towards privatization the controlling interest (93.72%) in all eight companies are in the hands of the state and the government manages the sector through the following state bodies (Abdyrasulova and Kravcov 2009):

- State Fund for State Property Management
- Ministry of Energy and Industry

In 2011 by the request of the Ministry of Energy the American engineering and consulting company Tetra Tech conducted an audit of performance of the companies in the energy sector (Tetra Tech 2011). The main findings of the Tetra Tech are listed below:

- The distribution companies tend to report 30% of technical losses. Based on own calculations, Tetra Tech reported that such high loss is impossible. It was stated that the audit company suspects the distribution companies of deliberately increasing technical losses to hide commercial losses.
- The organizational framework is structured in a way that it is difficult to detect underperforming agents and take measures to increase efficiency.
- The organization of work is reported to be weak and inefficient as the employees of the companies are not well-trained and lack appropriate equipment.
- The companies lack inventory controls.
- The financial reports are not used to develop plans and are prepared only for formal purposes.
- The companies lack control over procurement activities. Tetra Tech reported that some purchases were overpriced and the suppliers sometimes do not stick to their obligations.
- In some companies the management resisted the changes.
- The corporate governance is reported to be weak.
- The companies in general are reported to be ineffective and inefficient.

Another report prepared by the Anticorruption Business Council, Fuel Energy Sector Transparency Initiative in Kyrgyz Republic and UNISON had similar findings. The report states the energy sector of the country is highly corrupted, lacks proper financial control and lacks effective management (ADC 2012). In January 2013 the Ministry of Energy registered

537 cases of electricity power outages (VB 2013), which clearly shows that the whole energy system of the country is in a critical situation. The company "Kyrgyzgaz" (natural gas) is another example of poorly performing state-owned enterprise, which is going to be sold to Russian Gazprom for 1 USD in autumn of 2013 due to high indebtedness and inability to provide adequate services to the population (Tribuna 2013).

To summarize, Kyrgyzstan is one of the most corrupted countries in the world which has poor management in the state-owned enterprises. The reports of independent audit companies show that state-owned companies are highly inefficient and lack effective management. The outcomes of this section have special implications to the main topic of this thesis. It shows the possible obstacles and problems that the Kumtor may face after being nationalized. Kyrgyzstan never had the experience of managing gold companies of this scale like Kumtor and the consequences of ineffective management can have the negative impact on the economy.

4.3 Possible outcomes and recommendations

Kyrgyzstan does not have sufficient resources (Sultanov 2012) to compensate the foreign investors their losses in accordance with the international standards which require "prompt, adequate, and effective" compensation. In order to fulfill the recommendations of the State Commission, which require the denunciation of all agreements related to Kumtor in the case of unsuccessful negotiations with the Centerra Gold, the government will have to expropriate objects related to the project. The action of the government will inevitably lead to the international arbitration process. The thesis has shown that the country has high chances to lose the case and will be ordered to compensate the losses of investors.

Based on the previous nationalization experience of the country, the thesis has shown that such policies worsen the investment climate in the country. In the case of nationalization, Kyrgyzstan risks to lose support from international donors, as they do not appreciate such actions, which was openly stated by the EBRD representative. It was shown that the country is highly dependent on the international capital inflows (Aideffectiveness 2009) and the international assistance breakup may worsen the economic situation.

The future of the Kumtor after the nationalization seems to be rather opaque. The thesis has shown that some of the previously nationalized companies were sold under questionable circumstances to internal investors. The level of corruption in the country creates serious doubts about the effective disposal of the company. The claims of political leaders stating that the country can manage the mine itself seem to be rather optimistic as the analysis has shown that the state-owned enterprises in the country lack competitiveness and lack effective management. The thesis has shown that the Kumtor Project is the first big investment project and the country doesn't have experience in managing companies of this scale.

The current government does not have much room for maneuver as all agreements were reviewed and approved by the Government, the Parliament and the Department of Justice. In case the Centerra Gold rejects to review the agreement of 2009, the range of policy tools is rather limited. Aside from the policy options which may damage the investment climate in the country, the thesis proposes the alternative that can possibly benefit both sides. In 2009 Centerra Gold had already shown interest in other gold field in Kyrgyzstan (Avdeeva 2013) and now there are more goldfields available for exploration. The government should offer these new fields to Centerra Gold in return for revision of the agreement of 2009. It seems the only way out from the stalemate situation.

CONCLUSION

The thesis has assessed the possible consequences of the nationalization policy towards the biggest foreign direct investment project in the country. In order to set a sound ground for analysis the thesis evaluated the experience of the government in nationalizing private property, the experience at the international arbitration processes and assessed the performance of the state-owned enterprises. The analysis revealed that policy towards nationalization may lead to negative consequences for the socio-economic well-being of the country for several reasons.

The present study has shown that by nationalizing Kumtor, Kyrgyzstan puts itself into an unfavorable position and risks to bear high losses. The recommendations of the State Commission to denounce all agreements related to Kumtor in case of unsuccessful negotiations seem to be a bit hasty and needs further analysis. Due to significance of the company operations to the economy of the country it is desirable to take more weighted decisions based on the rule of law and stick to all international obligations taken by the country. The chances to win the international arbitration process are extremely low and therefore going for this option seems to cause additional costs without meaningful return.

The thesis proposes to offer other goldfields in return for revision of the agreement of 2009. On what terms the goldfields will be bargained is a matter of bilateral negotiations. Currently the government and Centerra Gold are holding negotiations about the issue and the decision is expected in near future.

BIBLIOGRAPHY

Abakirov, Nurshat. "ETH Zurich." *ethz.ch.* March 5, 2008. kms1.isn.ethz.ch/serviceengine/Files/ISN/48349/ichaptersection_singledocument/36c360e5-6ad2-491d-b9f8-fce4b5b8ce81/en/2.pdf (accessed March 22, 2013).

Abdyraeva, Aiganyw. *Osnovnye zatraty na stroitelstvo jeleznoy dorogi Kitay-Kyrgyzstan-Uzbekistan doljen nesti Kitay / The main costs of building railroad China-Kyrgyzstan-Uzbekistan must be covered by China.* March 18, 2013. http://www.knews.kg/ru/econom/29355/ (accessed April 25, 2013).

Abdyrasulova, N., and N. Kravcov. "Upravleniye Sectorom Elektroenergetiki v Kyrgyzstane: Institucionalniy i prakticheskiy analiz / Energy Sector management in Kyrgyzstan : institutional and practical analysis." *http://open-society-kz.org/.* October 2009. http://open-society-kz.org/attachments/165_164_EGI_final%20version_RUS.pdf (accessed May 06, 2013).

ADC. "Korrupciya v energosektore Kyrgyzstana / Corruption in the energy sector of Kyrgyzstan." *http://adc.kg/.* Septermber 2012. http://adc.kg/images/stories/files/otchet%20minenergo.pdf (accessed May 06, 2013).

Aideffectiveness. *Country Profile: Aid.* 2009. http://www.aideffectiveness.org/Country-Kyrgyz-Republic.html (accessed May 08, 2013).

Ajihodjaeva, A. *Chislo bezrabotnyh v Kyrgyzstane dostiglo 212 tysyach chelovek / The number of unemployed people reached 212 thousand.* 2012. http://www.kyrtag.kg/?q=ru/news/26962 (accessed Arpil 29, 2013).

Al-Sadig, Ali J. "Outward Foreign Direct Investment and Domestic Investment: the Case of Developing ." *http://www.imf.org/.* 2013. http://www.imf.org/external/pubs/ft/wp/2013/wp1352.pdf (accessed April 25, 2013).

Arazmuradov, Annageldy. "Foreign Aid, foreign direct investment and domestic investment nexus in landlocked economies in Central Asia." *http://mpra.ub.uni-muenchen.de/.* December 21, 2011. http://mpra.ub.uni-muenchen.de/36958/1/MPRA_paper_36958.pdf (accessed April 19, 2013).

Auty, Richard M. *Resource Abundance and Economic Development.* New York: Oxford University Press, 2001.

Avdeeva, E. *Dlya kogo fond razvitiya Kyrgyzstana budet razrabatyvat Djeruy? Zoloto utekayet mimo kazny / For whom the Development Fund will explore Djeruy? The gold is flowing by the treasury.* 2013. http://www.centrasia.ru/newsA.php?st=1256633760 (accessed May 08, 2013).

Bajaj, Vikas. *Bangladesh, With Low Pay, Moves in on China.* July 16, 2010. http://www.nytimes.com/2010/07/17/business/global/17textile.html?pagewanted=all&_r=0 (accessed April 24, 2013).

Bayulgen, Oksan. *Foreign capital in Central Asia and the Caucasus: Curse or Blessing? .* Connecticut, March 2005.

Bloningen, Bruce A. *The New Palgrave Dictionary of Economics : Foreign Direct Investment* . 2012. http://www.dictionaryofeconomics.com/article?id=pde2008_F000168&edition=current&q=Foreign%20direct%20investment&topicid=&result_number=1 (accessed April 24, 2013).

Business Dictionary. *BusinessDictionary.com.* 2013. http://www.businessdictionary.com/definition/portfolio-investment.html (accessed April 24, 2013).

Centerra Gold. *Kumtor publikuet otvety na otchety gosudarstvennoi komissii / Kumtor publishes the response to the report of State Comission.* 2013. http://www.kumtor.kg/ru/otvet-centerra-gold-ink-i-kompanii-kumtor-na-otchety-gosudarstvennoj-komissii/ (accessed May 1, 2013).

Centerra Gold. *Prospectus.* Prospectus, Toronto: Centerra, 2004.

Centerragold. *History of Centerra Gold.* 2012. http://www.centerragold.com/corporate/history (accessed April 28, 2013).

Cisarbitration. "International Centre for Settlement of Investment Disputes. In the proceeding between Sistem Muhendislik Insaat Sanayi ve Ticaret A.S and Kyrgyz Republic." *http://cisarbitration.com/.* Sepetmber 09, 2009. http://cisarbitration.com/wp-content/uploads/2012/07/Sistem-v.-Kyrgyz-Republic.pdf (accessed May 04, 2013).

Cologlu, Ziya. *The Wahington review of Turkish and Eurasian Affairs* . July 2010 . http://www.thewashingtonreview.org/articles/poverty-in-kyrgyzstan.html (accessed April 16, 2013).

Denisenko, Dmitriy. *Na miting za nacionalizaciyu Kumtora sobralos okolo tysyachi chelovek / The meeting on Kumtor gathered about 1000 people.* October 3, 2012. http://www.vb.kg/doc/201446_na_miting_za_nacionalizaciu_kymtora_sobralos_okolo_tysiachi_chelovek.html (accessed May 2, 2013).

Denisinko, Evgeniy. *Audit Velit / Audit Orders.* . 2012. http://members.vb.kg/2012/01/11/enerj/3.html (accessed May 06, 2013).

Dudka, Irina. *Nacionalizaciya po kyrgyzski - reiderskiy zahvat ili vozvrasheniye narodnogo dobra? / Kyrgyz style of Nationalization - seizure or an act of returning things that belong to people?* June 28, 2010. http://www.centrasia.ru/newsA.php?st=1277722200 (accessed May 03, 2013).

Dzyubenko, Olga. *Gold mine ice crushes Kyrgyz economic growth hopes.* June 15, 2012. http://www.reuters.com/article/2012/06/15/kyrgyzstan-gdp-idUSL5E8HF79520120615 (accessed April 29, 2013).

Ebrahimzadeh, Christine. *Dutch Disease: Wealth Managed Unwisely.* March 28, 2012. http://www.imf.org/external/pubs/ft/fandd/basics/dutch.htm#author (accessed April 25, 2013).

Embassy of the Kyrgyz Republic in Ukraine. "Ivesticionnaya politika Kyrgyzskoy Respubliki / Investment Policy of the Kyrgyz Republic." *http://kyrgyzembassy.com.ua/.* 2013. http://kyrgyzembassy.com.ua/?page_id=12667 (accessed April 27, 2013).

Encyclopædia Britannica. *Foreign direct investment (FDI).* 2013. http://www.britannica.com/EBchecked/topic/1025379/foreign-direct-investment-FDI/ (accessed April 24, 2013).

—. *nationalization.* 2013. http://www.britannica.com/EBchecked/topic/405796/nationalization (accessed April 26, 2013).

Encyclopedia Britannica. *Central Asia.* April 19, 2013.

Encyclopedia World Economy. *Hot money and sudden stops: Importance of Financing via Foreign DirectInvestment.* November 11, 2012. http://world-economics.org/467-hot-money-and-sudden-stops-importance-of-financing-via-foreign-direct-investment.html (accessed April 24, 2013).

Encyclopedia, Travel. *Celestial Mountains Travel Encyclopedia of Kyrgyzstan.* http://celestial.com.kg/articles/travel/Basics-on-Kyrgyzstan/Economy/Economy_81.htm (accessed March 22, 2013).

Farra, Faddi, Claire Gurgio, and Marina Cernov. "The Competitiveness Potential of Central Asia." *oecd.org.* 2011. http://www.oecd.org/daf/psd/46974002.pdf (accessed April 19, 2013).

Fergananews. *Kyrgyzstan: Koaliciya parlamentskogo bolshinstva odobrila denonsaciyu soglasheniya po Kumtoru / Kyrgyzstan: Majority coalition approved the denunciation of the agreement on Kumtor.* January 25, 2013. http://www.fergananews.com/news.php?id=20124 (accessed May 2, 2013).

FNI. *Akcii i doli v ustavnom kapitale / Shares and common stock.* 2011. http://www.fni.kg/view_material.php?id=180 (accessed May 03, 2013).

FNI Auction Results. *Rezultaty otkrytyh aukcionov po realizacii obyektov gosudarstvennoi sobstvennosti 22 Maya 2012 / Open auctions results on selling the state proprty, 22 May 2012.* 2012. http://www.fni.kg/view_material.php?id=217 (accessed May 04, 2013).

FNI Legal. *Otchet i tekushey situacii s sudebnymi delami po nacionalizirovannym obyektam / Report on current legal issues concerning the nationalized objects.* 2012. http://www.fni.kg/view_material.php?id=221 (accessed May 03, 2013).

FNI Petrol Group. *100% of shares in Petrol Group.* 2011. http://www.fni.kg/view_material.php?id=162 (accessed May 04, 2013).

FNI Report. *Otchet fond po nacionalizirovannym obyektam / Report on nationalized objects.* February 02, 2012. http://www.fni.kg/view_material.php?id=216 (accessed May 03, 2013).

Fysul, Mirza. *http://studypoints.blogspot.hu/.* March 18, 2011. http://studypoints.blogspot.hu/2011/03/advantages-of-nationalization_8368.html (accessed April 30, 2013).

Glushak, Ekaterina. *Specialnye, ekonomicheskiye i politicheskiye posledstviya privlecheniya inostrannyh investiciy v ekomiku prinimayushih stran / Special economic and political consequences of FDI for recipient countries.* April 2004. http://www.referat.ru/referats/view/17250 (accessed April 25, 2013).

Govindacharya, K N. *FDI in retail will lead to unemployment* . November 24, 2011. http://www.ibtl.in/news/exclusive/1588/fdi-in-retail-will-lead-to-unemployment---k.n.-govindacharya/ (accessed April 25, 2013).

Graham, Jeffrey P. *Understanding Foreign Direct Investment (FDI).* June 18, 2005. http://www.going-global.com/articles/understanding_foreign_direct_investment.htm (accessed April 24, 2013).

Hawkins, John. *5 Reasons Unions Are Bad For America.* March 8, 2011. http://townhall.com/columnists/johnhawkins/2011/03/08/5_reasons_unions_are_bad_for_america/page/full/ (accessed April 24, 2013).

Herzer, Dierk. "How does the FDI really affect developing countries' growth?" *uni-graz.at.* http://www.uni-graz.at/socialpolitik/papers/Herzer.pdf (accessed April 16, 2013).

History of Kumtor. *Kumtor.kg.* 2013. http://www.kumtor.kg/en/deposit/history/ (accessed March 22, 2013).

Industry, Kyrgyz. *Stanovlenie Promyshlennosti Kygryzstana / Development of industrial sector of Kyrgyzstan.* 2013. http://www.welcome.kg/ru/economics/industry/ (accessed April 16, 2013).

Infogeo. *Proizvodstvo zolota na Kumtore za 7 mesyacev 2012 goda snizilos na 64.4% / The production of gold in Kumtor decreased by 64.4% in first 7 months of 2012.* 2012. http://www.infogeo.ru/metalls/news/?act=show&news=38365 (accessed April 29, 2013).

Informbureau. *Nacionalizaviya / Nationalization.* 2013. http://abc.informbureau.com/html/iaoeiiaeecaoess.html (accessed April 26, 2013).

Investment Council. *Tendencii razvitiya na 2006 god / Growth trends for the year of 2006.* 2013. investmentcouncil.kg/.../0_Invest_policy290708.doc (accessed April 30, 2013).

IssykkulInvest. *Project Kumtor.* 2013. http://www.issykkulinvest.kg/ru/publications/success/project-kumtor/ (accessed April 28, 2013).

Jusupzhan, Janyl. *V poiskah Kyrgyzov v Kitae: Reportaj iz Sinzanya / In pursuit of Kyrgyzs in China: Report form Sinzhan.* 2012. http://rus.azattyq.org/content/china_kyrgyz_/24269672.html (accessed April 16, 2013).

Kanekeev, Dair. *Nichto iz nacionalizirovannogo imushestva ne ushlo na levo / All nationalized objects are in order and under the control of the Fund.* 2011. http://delo.kg/index.php/health-7/2894-2011-06-15-09-48-16 (accessed May 03, 2013).

Karamaev, Sergey. *lenta.ru.* August 19, 2004. http://lenta.ru/articles/2004/08/18/coup/ (accessed April 16, 2013).

Kokaisl, Petr, and Amirbek Usmanov. "Czech University of Agriculture." *www.hks.re.* 2012. http://www.hks.re/ (accessed April 16, 2013).

Kumtor. *Contribution to the Economy.* January 1, 2013. http://www.kumtor.kg/en/media-relations/contribution-to-the-kyrgyz-economy/ (accessed April 29, 2013).

—. *Kumtor.kg.* 2013. http://www.kumtor.kg/ru/media-relations/contribution-to-the-kyrgyz-economy/ (accessed March 22, 2013).

—. *Provision on Issyk-Kul Region Development Fund.* 2013. http://www.kumtor.kg/en/region-development-fund/ (accessed April 29, 2013).

Kumtor Report. *Kumtor Publikuet Otvety na Otchety Gosudarstvennoy komissii / Kumtor publishes the respose to the report of State Comission.* February 22, 2013. http://www.kumtor.kg/ru/otvet-centerra-gold-ink-i-kompanii-kumtor-na-otchety-gosudarstvennoj-komissii/ (accessed April 24, 2013).

KyrgyzAltyn. *Project Kumtor.* December 8, 2011. http://www.plusit.biz/ka/index.php?option=com_content&view=article&id=46:proekt-kumtor&catid=36:invest-proekti&Itemid=2 (accessed April 28, 2013).

Leitao, Nuno Carlos. "FOREIGN DIRECT INVESTMENT AND GLOBALIZATION." *http://repositorio.ipsantarem.pt/.* 2012. http://repositorio.ipsantarem.pt/bitstream/10400.15/608/1/NunoLeitao_APE_2012.pdf?referer=http%3A%2F%2Fscholar.google.com%2Fscholar%3Fq%3Dforeign%2Bdirect%2Binvestment%2Band%2Bglobalization%26hl%3Den%26as_sdt%3D0%26as_vis%3D1%26oi%3Dscholart%26sa%3DX%26ei (accessed April 25, 2013).

Lin, Lianlian, and John R. Allison. "An Analysis of Expropriation and Nationalization Risk in China." *http://heinonline.org/.* 1994. http://heinonline.org/HOL/Page?handle=hein.journals/yjil19&div=8&g_sent=1&collection=journals (accessed April 26, 2013).

Loayza, Norman, Alfredo Mier y Teran, and Jamele Rigolini. *Poverty, Inequality, and the Local Natural Resource Curse.* Bonn, February 2013.

Lushnikova, Tatyana. "Uprvaleniye gosudarstvennoi i municipalnoi sobstvennostyu / Public property management. ." *http://do.gendocs.ru/.* 2007. http://do.gendocs.ru/docs/index-149811.html?page=6 (accessed April 26, 2013).

Mazykina, Julia. *Nationalization. Kyrgyzstan as a dog in-the-manger.* April 06, 2011. http://eng.24.kg/business/2011/04/06/17361.html (accessed May 04, 2013).

Melnichuk, Tatyana. *BBC Russian.* December 23, 2011. http://www.bbc.co.uk/russian/international/2011/12/111222_melnichuk_viskuli_ussr.shtml (accessed April 16, 2013).

MID. *Economika Kyrgyzskoy Respubliki / Economy of the Kyrgyz Republic.* 2013. http://web87381.vhost056.cn/ru/content.asp?cid=282&id=179 (accessed April 30, 2013).

Ministry of Economy of the Kyrgyz Republic. "Investicionnyi klimat / Investment climate." *http://www.mineconom.kg/.* September 22, 2012. http://www.mineconom.kg/index.php?option=com_content&view=article&id=1481&Itemid=653&lang=ru (accessed April 27, 2013).

Moosa, Imad. "Foreign Direct Investment Theory, Evidence and Practice." *petritgashi.com.* 2002. http://www.petritgashi.000space.com/Fakulteti%20Filologjik,%20UP/Master/Mbi%20Investimet%20e%20Jashtme%20Direkte/FDI_Theory%20evidence%20and%20practice_kapituj%20te%20zgjedhur.pdf (accessed April 16, 2013).

Musaev, Ardakbek, interview by Maksat Musaev. *Kadji-Say Electrotechnical Plant* (April 15, 2013).

National Statistics Committee. "Postupleniya pryamyh inostrannyh investiciy po stranam / FDI inflows by country." *http://stat.kg/.* 2011. http://stat.kg/images/stories/docs/KZ/Invest/invest12%20.pdf (accessed April 27, 2013).

Nurashev, Timur. *Kazakhstan -lider SNG po investicionnoy privlekatelnosti / Kazakhstan is the most attractive to foreign investors.* December 14, 2006. http://www.nomad.su/?a=4-200612140019 (accessed April 19, 2013).

Oreshkin, Andrei. *V respublike reshayut, kto budet proektirovat Kambaratinkuyu GES -1 / The decision on who will prepare the plan for Kambarata GES - 1 is in process.* March 14, 2013. http://www.rg.ru/2013/03/14/ges.html (accessed April 25, 2013).

Otogonova, Anara. "Nauka Tsentralnoy Azii / Science of Central Asia." *oel.bik.org.kg.* 2007. http://www.oel.bik.org.kg/ru/view/5/ (accessed April 16, 2013).

Otorbaeva, Asel. *Kyrgyzstan. Exproproatsiya = Nacionalizaciya / Kyrgyzstan: Expropriation = Nationalization.* 2011. http://www.ia-centr.ru/expert/10796/ (accessed May 04, 2013).

Petrov, Artem. *Milliardy v plyus / Billions for plus.* March 16, 2013. http://www.rg.ru/2013/03/06/milliardy.html (accessed May 03, 2013).

Pym, Hugh. *Margaret Thatcher: How the economy changed.* April 8, 2013. http://www.bbc.co.uk/news/business-22073527 (accessed April 26, 2013).

Saad-Filho, Alfredo, and John Weeks. "Curses, Diseases and Other Resource Confusions." *Third World Quarterly* , 2013: 34:1, 1-21.

Saaduev, Magomed, and Pamira Saynazarova. "Nacionalizaciya kak institut prava i instrumentariy politiki v Kyrgyzstane / Nationalization as an institute of law and the policy tool in Kyrgyzstan." *http://www.k-a.kg/.* 2013. http://www.k-a.kg/ru/natsionalizatsiya-kak-institut-prava-i-instrumentarii-politiki-v-kyrgyzstane (accessed April 27, 2013).

Schifferes, Steve. *The lessons of nationalisation.* February 18, 2008. http://news.bbc.co.uk/2/hi/business/7250252.stm (accessed April 26, 2013).

State Comission. *Otchet Gosud. Komissii po proverke i izucheniyu soblud. ZAO "Kumtor Operating Company" norm i treb. po racionalnomu ispol. prirodnyh res., ohrane okrujayushey sredy, bezop. proizvodstv. processov i soc. zashity / State Comission report on KOC.* Bishkek: Ministry of Economy of the Kyrgyz Republic, 2013.

Sultanbekova, Zarema. *Miting za nacionalizaciyu Kumtora obeshayut prodoljit v regionah / The meeting are promised to take place in the regions.* April 24, 2013. http://kloop.kg/blog/2013/04/24/miting-za-natsionalizatsiyu-kumtora-obeshhayut-prodolzhit-v-regionah/ (accessed May 2, 2013).

Sultanov, Marat. *Trouble in Kyrgyzstan — Centerra's Kumtor gold mine is under political attack.* June 2012. http://business.financialpost.com/2012/07/25/trouble-in-kyrgyzstan-centerras-kumtor-gold-mine-is-under-political-attack/ (accessed May 07, 2013).

Tetra Tech. *Management Diagnostic of the Electricity Distribution Companies of the Kyrgyz Republic* . 2011. http://www.energo.gov.kg/site/images/documents/124.pdf (accessed May 06, 2013).

Thestar Business. *Centerra Gold shares plunge after cutting production forecast.* March 2012. http://www.thestar.com/business/2012/03/27/centerra_gold_shares_plunge_after_cutting_production_forecast.html (accessed April 29, 2013).

Toktomushev, K. *Kirgizskaya SSR / Kyrgyz SSR.* 2011. http://www.kirghiz.ru/enc/istoriya_182/kirgiziya_v_period_229/ (accessed April 16, 2013).

Trading Economics. *Foreign direct investment inflows, Kyrgyzstan.* 2013. http://www.tradingeconomics.com/kyrgyzstan/foreign-direct-investment-net-inflows-percent-of-gdp-wb-data.html (accessed April 30, 2013).

Transparency International. "Corruption Perceptions Index 2012." 2012. http://cpi.transparency.org/cpi2012/results/ (accessed May 05, 2013).

Tribuna. "Gazprom kupit Kyrgyzgaz osenyu 2013-goda / Gazprom will buy Kyrgyzgaz in autumn 2013." 2013. http://www.tribuna.ru/news/economy/gazprom_kupit_kyrgyzgaz_osenyu_2013_go_goda/ (accessed May 07, 2013).

Tynaeva, Nurzada. *http://www.kumtor.kg/.* 2012. http://www.kumtor.kg/ru/kumtor-otchislil-pochti-308-millionov-somov-v-issyk-kulskij-fond-razvitija/ (accessed April 29, 2013).

Tynaliev, Urmat. *Nacionalizaciya: Komu polza, komu vred? / Nationalization : Winners and Losers.* November 30, 2012. http://www.gezitter.org/economics/16391_natsionalizatsiya_komu_polza_komu_vred/ (accessed April 03, 2013).

U.S. Department of State . "2012 Investment Climate Statement - Kyrgyz Republic." *http://www.state.gov/.* June 2012. http://www.state.gov/e/eb/rls/othr/ics/2012/191179.htm (accessed April 27, 2013).

UNCTAD. "Global Investment Trends Monitor." *http://unctad.org/.* January 23, 2013. http://unctad.org/en/PublicationsLibrary/webdiaeia2013d1_en.pdf (accessed April 18, 2013).

UNESCO. *History of Civilizations of Central Asia.* 2012. http://www.unesco.org/new/en/culture/themes/dialogue/general-and-regional-histories/history-of-civilizations-of-central-asia/ (accessed April 19, 2013).

United Nations. "Foreign Direct Investment in Central Asian and Caucasian Economies: Policies and Issues." *Studies in Trade and Investment.* Bangkok : United Nations, July 2003.

VB. "Kolichestvo avariynyh otklucheniy v setyah prevysilo 500 za mesyac / The cases of emergency outages exceeded 500 in one month." February 2013. http://www.vb.kg/doc/215740_kolichestvo_avariynyh_otklucheniy_v_setiah_prevysilo_500_za_mesiac.html (accessed May 06, 2013).

Velde, Dirk Willem. "Foreign Direct Investment and Development: An Historical Perspective ." *odi.org.uk.* January 2006. http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/850.pdf (accessed April 18, 2013).

VestiFinance. *Pritok Pryamyh Investiciy v mire upal na 18% / The world FDI flows dropped by 18%. .* January 25, 2013. http://www.vestifinance.ru/articles/22470 (accessed April 19, 2013).

World Investment Report. "Global Trends in FDI ." *http://unctad.org/.* 2010. http://unctad.org/en/Docs/wir2010ch1_en.pdf (accessed April 19, 2013).

Xiaojing, Chen. *Study on technology-seeking FDI strategy of Chinese enterprises.* 2011. http://ieeexplore.ieee.org/xpl/login.jsp?tp=&arnumber=6015741&url=http%3A%2F%2Fieeexplore.ieee.org%2Fxpls%2Fabs_all.jsp%3Farnumber%3D6015741 (accessed April 25, 2013).

Yakisik, Harun. "Sosyoekonomi." *sosyoekonomi.hacettepe.edu.tr.* July 2007. http://www.sosyoekonomi.hacettepe.edu.tr/070201.pdf (accessed March 22, 2013).