Kyrgyzstan and natural resources: Challenges ahead

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Executive summary

* Kyrgyzstan remains one of the least developed former Soviet republics. In 2012 her GDP dropped by 2.6%.
* In contrast with some other Central Asian republics, it is not considered to be particularly rich in natural resources. An exception, hydro power, suffers from lack of capital to complete long standing dam projects.
* However, recent years have produced increasing reports of potential mineral and energy riches.
* At the same time, tensions between authorities and foreign investors have also featured often in the media. Also popular hostility towards Chinese investors and workers.
* More generally, there is the question of the always complex relationship between natural resources and economic development. Some voices are warning about the “resource curse”, and cautioning that minerals and energy do not always lead to higher development.
* It is in the British national interest to promote equitable economic relations with Kyrgyzstan, in the context of an open Central Asia.
Introduction

A couple of decades after independence, it is perhaps time to have a look at the Kyrgyz economy and examine the possible foundations of its future growth. Very broadly speaking, we could say that while the country was a pioneer in Central Asia when it came to opening up to the world economy, as clear in Bishkek’s early decision to join the WTO, there is a feeling that this has not led to the expected increase in foreign trade and investment. Instead of a deep and well balanced range of foreign economic relations, Kyrgyzstan finds herself heavily dependent from Russia on the one hand, while on the other also significantly reliant on China, be it bilaterally or in the form of triangular trade. This is clear in the debate on whether to join the Russia-Belarus-Kazakhstan customs union. While this debate has many sides and we should avoid painting the different positions in too broad a brush, at least to some extent the discussion is between those who would like to persist in opening up the country’s economy in a number of directions, towards different actors, and those who see it as more realistic to consolidate existing relations with Russia. Although this is not formally covered by the customs union, the welfare and status of the myriad Kyrgyz citizens working in the Russian Federation are clearly a major point featuring in this public debate. At the same time, some observers express concern at the possible loss of Chinese-originated triangular trade. Other voices, however, see the Customs Union as a counterbalance to Beijing’s growing presence in the region.

From a British point of view, it is clearly in the country’s national interest to see a Kyrgyz economy open to trade and investment by our companies. As a country heavily reliant on international trade, and with plenty of global corporations, the emergence of closed regional blocks would clearly be harmful. This should not in any way be seen as criticism of economic ties between Bishkek and Moscow, which can well contribute to the development and stability of Kyrgyzstan and the wider region. It is however beneficial for any country to have a wide spectrum of economic partners.

Since we will next be discussing energy and natural resources, it is necessary to stress that these are industries where Great Britain has indeed much to offer, in terms of science, expertise, and know how.

Property rights, foreign investment, and "resource nationalism"

The management of natural resources in a country is always a controversial topic, for a number of reasons, from the environment to the balance between domestic and foreign enterprises, not to mention health and safety, and the so called “resource curse”, that is the observation that countries rich in energy and minerals are often less, not more, developed than those devoid of them. Let us just concentrate on the issue
of ownership and management by domestic and foreign actors. This has been in the news recently in many areas of the world, including Central Asia and more precisely Kyrgyzstan.

The basic situation is often that a country rich in a given natural resource will not have the technology, the capital, or the skilled labour, to exploit it. On the other hand, these may be available from foreign partners, but the country’s authorities and public opinion may fear the ensuing dependency or “unfair” distribution of the resulting benefits. At one extreme, a country may try to develop autarchically, without recourse to any foreign corporations. At the other, these may take over certain industries, with little, if any, domestic participation. A look at history shows how both extremes tend not to work well. A balance, on the other hand, should allow natural resources to get to the market more quickly, while contributing to domestic development and gradually leading to more added value being generated in the country. This balance can be achieved through many different mechanisms, including for example joint ventures and agreements whereby foreign partners train local personnel.

While this flexibility is important, it is essential to have predictability and the rule of law. Otherwise, should companies fear sudden regulatory changes, or pressure to renegotiate closed deals, investment will suffer. The impact will go beyond the economy, since any political system which does not respect existing rights and obligations in that arena will likely disregard them too when it comes to basic human rights. This is an area where British history is very relevant, with the gradual development of the common law being the bedrock on which the country's liberties rest. For any country trying to consolidate a democratic system, it is equally important to make sure that property rights are safe.

Such property rights, together with the right balance between foreign and domestic interests, in the context of an open-door policy featuring equal opportunities for companies from different countries, may be the best foundation for the growth and development of the natural resources industry in Kyrgyzstan.

**Chinese companies and workers**

A sensitive issue is that role played by Chinese companies and their workers. Recent years have seen some incidents, with local protests against Chinese-operated gold mines. While the particular circumstances of each incident differ, the background to this is in part a widespread unease at Beijing’s perceived economic and political expansionism. Despite the signing of border agreements after the fall of the Soviet Union, many people in Central Asia are afraid that China may push for territorial transfers. The constant stream of incidents in the East China and South China Seas,
and in the Himalayas, and the failure to settle disputes there, does not help allay such fears. Neither does Beijing's diplomatic support for Argentine claims on the Falklands.

Another often resented practice by Chinese corporations is the wholesale import of their labour force. While many people in Kyrgyzstan may welcome Chinese capital, they do not see the need for these companies to bring most if not all of their employees from China, instead of recruiting locally. Furthermore, this deprives Chinese investors of local support, and instead of gaining them friends in their areas of operations it only prompts opposition.

*The role of British companies*

We have already mentioned that many British companies are leading actors in the natural resources industry. Furthermore, and in connection to the above section, the UK has no territorial designs on any Central Asian. Also, British corporations tend to be much more flexible when it comes to their labour force, and will often seek a mix of expatriate and local workers. As a result, they are well placed to seek mutually beneficial agreements with the Kyrgyz authorities whereby the country's natural resources may be developed through joint ventures, with local workers being trained in order to gradually increase their participation in the resulting companies.

In order for this to become a reality, however, an active government role is necessary, with the relevant departments in London and diplomatic authorities on the ground in a supporting role. This fits with the current trend to diversify the UK's political and economic relations, keeping strong bonds with continental Europe but stressing that by no means can it be the only focus. A trading nation must look beyond, including both the United States and the Commonwealth, and regions of the world like Central Asia.

Concerning Europe, the UK can play a useful role in shaping the content of agreements with countries like Kyrgyzstan. At the same time, however, should EU regulations and policies impede the normal flow of trade and investment, or pose obstacles to political relations, we must not be afraid of going our own way.

**Conclusions: Balanced policies as the key to development and stability**

There are no easy answers in the field of economic development, and we should be wary of any simplistic approach. However, it seems reasonable to try to find a balance among economic partners, and between foreign and domestic actors. This is even more so in the always sensitive field of energy and natural resources. Kyrgyzstan as a country with a huge potential in this area, and the United Kingdom as a trading nation with plenty of experience and expertise in these industries, are natural partners.
London is not seeking any exclusive relationship, nor is she trying to displace other significant actors. British companies, however, can play a meaningful role and are better prepared to work with local partners than those from China. They need government support though, as part of a comprehensive policy looking beyond Europe. This bilateral economic relationship is particularly valuable at a time when Bishkek may choose to join the Russia-Kazakhstan-Belarus customs union while seeking to retain a measure of diversification in its foreign relations, and in an era characterized by popular pressure against any agreement with foreign partners which does not seem conducive to local development, included the training and employment of the country's workers.

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