

THE THEORY AND THE PRACTICE OF NEOLIBERAL TRANSFORMATION
IN KYRGYZSTAN: THE CASE OF GOLD EXTRACTION IN THE
BOZUMCHAK MINING FIELD

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ABSTRACT

THE THEORY AND THE PRACTICE OF NEOLIBERAL TRANSFORMATION IN KYRGYZSTAN: THE CASE OF GOLD EXTRACTION IN THE *BOZUMCHAK* MINING FIELD

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In order to create a market-based economic order in Kyrgyzstan, radical neoliberal reforms were launched immediately after the country gained independence in 1991. Neoliberalism promised efficiency, competition, and growth to the transition countries, but the social reactions that emerged against the new social order in Kyrgyzstan since the 2000s have implied that these promises have to be rethought within the context of concrete social transformations. This thesis intends to make such an investigation by focusing on the country's gold extraction market in general and the *Bozumchak* gold mining field in particular in an attempt to understand how the relations between foreign investors, local and central state authorities, and the local community have been shaped during the formation of the neoliberal order.

This thesis argues that the 'free' gold extraction market in Kyrgyzstan has failed to ensure the tasks attributed to it by neoliberals. For, contrary to the expectations, monopoly rather than competition, informality rather than formality, and paternalism rather than professionalism have started to identify the social relations of gold extraction in the villages providing employment to the *Bozumchak* field. It is interesting to note that the weakening of state authority was compensated

by the strengthening of the political rule of the private company, the Kazakhmys, over the local community.

Keywords: Neoliberalism, Political Economy, Kyrgyzstan, Gold Extraction,
Bozumchak

ÖZ

KIRGIZİSTAN’DA NEOLİBERAL DÖNÜŞÜMÜN KURAMI VE PRATİĞİ: *BOZUMCHAK* ALTIN MADEN OCAĞI ÖRNEĞİ

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1991’deki bağımsızlığı sonrası Kırgızistan’da, serbest piyasa ekonomisi düzenine geçmek amacıyla radikal kararlar alınarak neoliberal reformlar yapılmaya başlanmıştır. Neoliberal reformlar piyasa ekonomisine geçiş sürecinde olan ekonomilere etkinlik, rekabet ve büyüme vaat etmiştir. Ancak 2000’li yıllardan itibaren Kırgızistan’da sosyoekonomik düzene karşı gelişen memnuniyetsizliklerin artması, bu vaatlerin somut toplumsal değişimler bağlamında yeniden gözden geçirilmesini gerektirmiştir. Bu tez bu tür bir sorgulamayı genel olarak Kırgızistan’daki altın madenciliği, özel olarak da Bozumchak altın madenine odaklanarak yapmayı ve neoliberal düzenin kurulması sürecinde yabancı yatırımcılar, yerel ve merkezî hükûmet yetkilileri ve yerel halk arasındaki ilişkilerin nasıl değiştiğini anlamayı hedeflemektedir.

Tezde, Kırgızistan’ın “serbest” altın madenciliği piyasasının neoliberallerin vaat ettiği düzeni oluşturmakta başarısız olduğu öne sürülmüştür. Bozumchak altın madeni etrafında oluşan sosyoekonomik düzen, neoliberaller tarafından öngörülen rekabetçi ortam yerine tekelci bir yapı, resmî ilişkiler yerine gayriresmî ilişkiler, profesyonel yaklaşım yerine vesayetçi bir yaklaşım ortaya çıkarmıştır. Daha da

ilginci, yerel halk üzerinde devletin zayıflayan otoritesinin özel bir şirket olan Kazakhmys'in siyasi güçlenişi ile telafi edilmiş olmasıdır.

Anahtar Kelimeler: Neoliberalizm, Siyasi İktisat, Kırgızistan, Altın Madenciliği,
Bozumchak

To Memory of my Beloved Mother Masuda Manasova

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LIST OF ABBREVIATIONS

ADB:	The Asian Development Bank
CACO:	The Central Asian Cooperation
CDP:	The Comprehensive Development Framework
CIS:	The Commonwealth of Independent States
DB:	Dünya Bankası
DTÖ:	Dünya Ticaret Örgütü
EBRD:	The European Bank for Reconstruction and Development
ECO:	The Economic Cooperation
EEC:	The Eurasian Economic Community
FDI:	Foreign Direct Investment
FEZ:	Free Economic Zones
GATT:	The General Agreement on Tariffs and Trade
GCC:	The Global Capitalist Crisis
GTS:	The Governmental Taxes Service
IFIs:	International Financial Institutions
IMF:	The International Monetary Fund
KOC:	The Kumtor Operating Company
PWC:	Post-Washington Consensus
SAP:	Structural Adjustment Program
TCG:	- Talas Copper Gold
UNCTAD:	The United Nations Conference of Trade and Development
UNDP:	The United Nations Development Program
WB:	The World Bank
WC:	The Washington Consensus
WTO:	The World Trade Organization

CHAPTER 1

INTRODUCTION

1.1. Main Problem

In October 2011, the Talas Copper Gold (TCG) Company experienced a violent attack on its mining field in Talas, Kyrgyzstan. About ten horsed men assaulted the security manager and burned down half of the camp with molotov cocktails. The attackers were arrested by local government authorities. However, as a condition of the *de facto* agreement between the local community and the company, the attackers were released. TCG dropped the charges against them to show its goodwill towards the local community. The company continued to operate in Kyrgyzstan, but significantly reduced its staff. As a result of *de facto* negotiations with local communities, TCG was not allowed to explore in the three mining fields for which it had licenses. In these fields, TCG has conducted only surveying thereafter, having only one field in which exploration is currently being carried out (Gullete and Kalybekova, 2014). Local government authorities have not been able to regulate the event within the framework of legal regulations.

In another example, local activists are managed by the mediation of local authorities. A local activist's interview provides one such example:

One day I received a call from a Talas *atkaminer* [big man] that a new investor is seeking to meet local activists. Shortly after this call, we were invited to come over to the capital. Turkot received us at the luxurious hotel Hyatt. He treated us nicely and wanted us to work for his side (Doolot and Heathershaw, 2015: 9).

In a 2013 annual report, the Kyrgyz State Agency of Geology and Mineral Resources highlighted that local resistance creates serious and reoccurring problems in almost every gold-mining field. Blockades of traffic, unlawful raids, the capture of equipment, and attacks on companies led to the discontinuation of operations in mining fields. There were more than 40 such cases in 2013 nationwide that led to

serious problems. The former president of Kyrgyzstan, Atambaev, said that the state had pampered such protestors for the last 5 years. “Now it is time to use the power of the state. The government will use power if necessary” (Guneev, 2013).

These three examples out of many in Kyrgyzstan are sufficient to show the general state of the political economy of the mining industry in the country. On the one hand, it is the most important sector of the country’s economy, to such an extent that the entire national economy depends on it. On the other hand, it is the country’s most problematic sector, due to relations between local communities and private companies. Can these developments really be considered as expected phases of a market order? Despite reforms improving mining legislation in the country, are these problematic developments the expected or the desired results of the socioeconomic order built in Kyrgyzstan after the dissolution of the Soviet Union? In other words, what was theoretically expected from the market order and what actually emerged in the country remains to be investigated.

Kyrgyzstan entered the transition process to a free market economy as a pioneer among the post-Soviet states by implementing the structural reform programs of international financial institutions (IFIs) such as the International Monetary Fund (IMF), the World Bank (WB), the World Trade Organization (WTO), and other regional multilateral development banks such as the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD). As main elements of the “top to bottom” structural reform program, deregulation, introduction of a new convertible currency, price and trade liberalization, reform of the financial sector, land reform and the privatization of small-scale enterprises were carried out (Gleason, 2003: 28). IFIs provided financial aid upon the implementation of those structural reforms. Kyrgyzstan made major efforts during the 1990s to follow through with the advised reform programs for the establishment of a market-based economy. As it lacked strategic bargaining chips in international affairs in comparison to neighboring countries due to the small size of industry, limited energy resources, and small population, attracting little attention from western markets, businesses, and governments, it seemed that the only choice was to open the economy and follow an aggressive programme towards market economy and democratization.

As a result, Kyrgyzstan was ranked fourth by the IMF among the former Soviet republics (behind the three Baltic States) in the sphere of economic reform and

was nominated as the *Wunderkind* of transition by the international donor community. Towards the middle of the 1990s Kyrgyzstan adopted more neoliberal ideas proffered by the IMF and WB, and the country continued to remain at the forefront of efforts to liberalize the economy and create a favorable environment for foreign investment and local business (Huskey, 2002; 75). Starting in the mid-1990s, the macroeconomic situation began to improve, although external debt also grew rapidly and was not always used efficiently (Jeffries, 2003: 254). As a result of these shock reforms and the country's interest in entering the international trading system, in December 1998 Kyrgyzstan became the first country from the Commonwealth of Independent States (CIS) to join the WTO (Gleason, 2003).

Parallel to these reforms, the Kyrgyz government also started creating a legal system and institutions compatible with the market order. A comprehensive foreign investment law was adopted in September 1997. The law was the first of its kind in the CIS due to its foreign investment-friendly stand. However, due to the ignorance of local communities in the legislation processes, the public and local communities' interests were not protected by the laws. Continuity of old institutional structures provided a basis for the maintenance of the formal existence of the newly independent state, while informal power relations enabled the practical functioning of society at all levels (Wilkinson, 2010: 139). It seemed that the legal system and institutions in the country prioritized short-term gains rather than the building of stable socioeconomic organization in the long term.

Moreover, law enforcement in the post-communist countries was weak as the judiciaries were unprepared to deal with the market problems, the new rules were not properly known by the public, and the overloaded and corrupt judicial systems could not properly work. According to Winiecki, the laws passed in Kyrgyzstan were "good" laws, by which we can understand laws that were consistent with other parts of the legal system, transparent, and ensuring a market economy and democratization. However, in practice, these laws were anything but good laws. These laws were passed quickly, with little legal knowledge and experience, and a high level of corruption (Winiecki, 2002: 129).

The socioeconomic developments in the mining sector of Kyrgyzstan have shown that assumption on the markets as autonomous and legitimate self-adjusting spheres was not realized. For in the transition countries, social and economic

organization requires more than just the reformation of the old system. In order to form a properly working market with proper market institutions and government bodies and to implement social protections, redistributive policies, institutions of conflict management, and social partnerships, local beliefs and practices must also be taken into consideration.

In this thesis, I will question the validity of the optimism for the sustainability of the newly established socioeconomic order in Kyrgyzstan by focusing on the formation of the neoliberal order formation in the country's gold extraction market. Attempts are made to address the main question of the thesis by exploring local communities' protests. Related to this question, the sustainability of the state in transition and the trends in Kyrgyzstan's current neoliberal economic and social policies will also be evaluated. These questions are connected to the larger question of whether shock neoliberal reforms could deliver what was expected from them and whether it was possible to build relations based of the rule of law among the economic actors in Kyrgyzstan.

All these questions will be problematized in this thesis on the basis of a field research made in the village of Kok Serek near the *Bozumchak* mining field, which has been operating since 2007. The focus on the Bozumchak mining field is not coincidental but has some specific reasons. Firstly, the mining field was opened after the transition to market economy in Kyrgyzstan, hence there had been no socialist mining practice preceding the current socio-economic order in Kok Serek. Secondly, Bozumchak is considered to be one of the leading success stories among other gold-mining fields with the least local social unrest. This thesis aims to move beyond this appearance and demonstrate that the socioeconomic organization of activities formed in accordance with market values in the country has led indeed to serious challenges and contradictions especially at the local level. These challenges will be problematized with reference to the weakness of representative institutions, the established institutions' giving priority to the interests of the powerful companies in the market and disregard of the interests of local communities. It will be shown that although the state recognizes and supports the market-based socioeconomic order in the country theoretically, the lack of mechanisms to synchronize and adjust with local practices and traditions has resulted in serious social and political problems.

This study will also reveal the undeniable impact of local communities' practices and traditions on the nature of the relationship between economic actors, and especially between investors and local communities. However, it is not to be said, at least not in our research case, that local communities determine the feasibility of relations among actors. On the contrary, here the local community seems to be a victim of the unclear responsibilities divided between the state and the gold-extracting private company. While there are some cases in Kyrgyzstan in which local communities did determine the feasibility or the outcome of relations between these sides, this was realized by force, not through legal ways. Moreover, this study will also show that the local practices of companies are generally linked with certain political or corrupt interests. The practice of misusing official institutions and authorities is often seen in the built market-based structure.

The present research will demonstrate the importance of including the practices and interests of local communities in the formation of socioeconomic order in the country. This is particularly true for the mining sector, which is mainly located in remote areas of the country and works directly with local communities. Instead, as a better alternative, first the development of an institutional framework including interests of local communities and second the strengthening of the enforcement of laws and regulations should be ensured.

1.2. Method of the Study

As defined by Njie and Asimiran (2014: 35), qualitative research “is multimethod in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them”. They also indicate that you cannot get quick and easy results from qualitative research; in qualitative research you need to have the enthusiasm and patience to spend a longer period of time to observe, make interviews, and repeat them when required. The qualitative method is thus used in academic research, to reveal complex phenomena or one for which little prior information is available.

Mason (2002: 1) highlights that the purpose of qualitative research is to “explore a wide array of dimensions of the social world, including the texture and

weave of everyday life, the understandings, experiences and imaginings of our research participants, the ways that social processes, institutions, discourses or relationships work, and the significance of the meanings that they generate”. Peshkin (1993: 23) argues that: “description, interpretation, verification and evaluation”. He further elaborates that “in the descriptive sense qualitative research reveals the nature of a situation, setting or process; in the interpretative sense it helps in gaining new insights, concepts and discover problems that exists in a given situation; in the verification setting it helps experiment certain assumptions and in the evaluative sense it helps provide the means of judging the effectiveness of particular practices, innovations and processes” (Ibid, 23).

1.2.1. The Case Study as an Application of the Qualitative Method

A case study is almost a must to conduct qualitative research (Stake, 2000). Zainal (2007) describes the case study method as a research method that provides the researcher with the chance to work on the data in detail and by paying attention to its specific context. Mostly, such a study comprises a limited geography or limited number of individuals as its subjects. Yin (2003: 18) argues that case study “investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”.

Njie and Asimiran (2014) state that a case study focuses on determining the characteristics of a particular entity, providing its key distinguishable attributes and an in-depth description of the phenomenon, anchored on real-life scenarios and using multiple methods for data collection. This is the method of qualitative research specifically used for the present study. The purpose of a case study is to gain as many in-depth details as possible about an event, person, or process. Hartley (2004: 323) explains that case study research “consists of a detailed investigation, often with data collected over a period of time, of phenomena, within their context”, with the aim being “to provide an analysis of the context and processes which illuminate the theoretical issues being studied”.

The case study method of qualitative research is particularly appropriate for the thesis work presented here, since it provides the opportunity to explore and

analyze how activities of the local government and especially the everyday life of the local community, namely residents of the village, are affected by the *Bozumchak* mining field.

1.2.2. Description of the Field

It will be beneficial to clarify the relevant parties of this research at the outset of this study. There are three main parties: the state (local self-government, *ayil okmotu*), the company (the Kazakhmys Gold Kyrgyzstan Company), and the local community (residents of the Kok Serek village). Interrelations among these actors will be analyzed. Subjects for analysis include the social and economic effects of the company in daily life; the nature of mutual relations, expectations and realities, contentment, and frustrations; and other closely linked issues that affect the social and economic organization of local communities. These issues will be examined within the framework of the theory and practice of neoliberalism, the main strategy chosen by the political regime of Kyrgyzstan for the organization of economic and social order in the country.

The local self-government is the lowest governmental body that manages the daily affairs in villages and the countryside. In accordance with the Law of the Kyrgyz Republic, “On Local Self-Government”, of July 15, 2011, local self-government is defined as the “independent activities of a local community directed towards the solution of questions of local value”. Local self-governance is performed by local communities through a representative, a local *ayil keneshi*, and executive bodies, *ayil okmotu*. Generally the head of an *ayil okmotu* is the head of the village council, while a local *ayil keneshi* unites local village deputies. The deputies are generally well known and trusted people from the community. Deputies thus have intimate information and knowledge about the community. They know the budget of the *ayil okmotu*, they know the situations of needy families and the problems of the local community, and so on (Tiainen, 2012: 12).

Related to the content of the field study, it should also be taken into consideration that controlling of activities of the companies, organizations, and other business entities on execution of the legislation on environmental protection, based on the use of the earth and natural resources, observance of regulations and rules,

sanitary standards, and carrying out ecological actions according to the procedure established by the legislation is performed by the central authorities (Law of the Kyrgyz Republic, “On Local Self-Government”, Chapter 2, Article 10).

Although in accordance with this law all duties and responsibilities of the *ayil okmotu* and *ayil keneshi* are defined and regulated by the central authorities, the activities of local self-governance are in fact not easily identifiable. First, it is not easy to separate the duties and responsibilities of the representative and executive bodies. Second, it is also difficult to clarify the relations between local self-governance and the upper executive body of the government, a regional administrative body.

The Kazakhmys Gold Kyrgyzstan is a member of the KAZ Minerals PLC¹ group. The company has been operating in Kyrgyzstan since 2007 and holds licenses for the exploration and development of the *Bozumchak* copper-gold deposit in the Ala-Buka administration district of Jalal-Abad oblast. *Bozumchak* is an open copper and gold pit mine located at an altitude of 2400 meters above sea level. The first concentrated copper and gold production at *Bozumchak* started in the second half of 2014. According to a company report, during the period from 2007 to 2013, the company invested more than 140 million US dollars for the development of the mining field and construction, with more than 3 million US dollars for the development of local infrastructure and social programs. As will be analyzed in detail in later chapters, these expenditures targeted mostly the improvement of relations with local communities (*Bozumchak Newspaper*, 2014, February).

The local community of this case study comprises the residents of the Kok Serek village, located near the *Bozumchak* mining field. It is about 12 kilometers away from the mining field. Kok Serek is one of the 8 *ayil okmotu*, or local administrations, of the Ala-Buka administrative district of Jalal-Abad oblast. Residents primarily rear animals and practice farming and agriculture. According to *ayil okmotu* documents, there are 1158 families and about 6500 people living in the village.

¹ It was established by the Government of Kazakhstan in 1992 as OJSC Zhezhgantsvetmet. However, as a result of a series of privatization acts between 1992 and 2002, the Kazakh government's share decreased to 0. In 1996, Samsung Corporation of Korea bought a 40% share and subsequently sold it. On August 15, 2014, independent shareholders approved a major restructuring of the group. Upon completion of that, Kazakhmys PLC was renamed KAZ Minerals PLC. KAZ Minerals is a high-growth copper company, listed in Kazakhstan, London, and Hong Kong, and produces zinc, gold and silver as well.

The field research of this thesis consists of interviews, field notes, observations, and conversations with members of the local community. The in-depth interview method was used extensively to obtain first-hand evidence concerning economic and social relations, networks, social and cultural backgrounds, and activities of the local community. I conducted forty-five in-depth interviews in Kok Serek, the closest village to the *Bozumchak* mining field, in order to get detailed information about residents' thoughts and behaviors. The interviews were carried out during my stay in Kok Serek, which lasted a total of 12 weeks.

The interviews were conducted in Kok Serek village in May, and July 2015, and May and July 2016. The interviews were semi-structured. They included group interviews as well as individual ones, making the actual number of participants to interviewee larger than the number of interviews. The interviews were mainly conducted in homes, as that was the most suitable and comfortable place to get more information from interviewees. It was also the best way to make people feel comfortable, because there was an unofficial company prohibition against workers talking about the company. In addition, much information was obtained from informal conversations within the local communities, from my relatives and circle of contacts, from discussions with local government workers, from workers of subcontracting companies, and from the study of the *Bozumchak* newspaper, published or prepared by the Kazakhmys Gold Kyrgyzstan Company monthly. I also had several opportunities to talk with mining field workers and residents while traveling to the regional administrative center, Ala-Buka, which takes about 90 minutes.

The participants of interviews did not constitute a homogeneous population. They can be classified into three different groups. The first group comprises workers of the company, and involves a wide range of positions. This group will be referred to as “workers” throughout the case study. The second group includes residents of the villages, of different age groups. I tried to particularly concentrate on the older age group, which has experienced all the social and economic changes of the village. This group represents the majority of the respondents (thirty of forty-five interviews) who I interviewed for this study. This group will be referred to throughout the case study simply as “residents”. The third group comprises representatives of local governments and unofficially powerful people of the villages. These individuals were the most unwilling ones in terms of sharing information and engaging in conversations.

The interviews covered several topics, requiring approximately 1,5 to 2 hours per interview. One group of questions was about social backgrounds, including such variables as age, structure of family, and livelihood. The second group of questions aimed to find out how the *Bozumchak* mining field affected the respondent's everyday life and changes or transformations in daily life. The third group of questions was linked to the formal and informal regulations of social and economic order in the village and prevailing as well as the old social relations or attitudes, customs, and behaviors.

The field research was facilitated by my speaking the same language; understanding the local values and cultural prohibitions, knowledge, and traditions; and knowing the formal and informal power structure of the village. Being a member of the local community myself and sharing the same background allowed me to gain more rapid and more complete acceptance by respondents and automatically provided a basic level of trust. Moreover, having grown up among the residents helped me to understand the contexts of unstated messages. It also allowed the respondents to comfortably ask me about points they did not understand. My acquaintance with the residents facilitated our interactions. When respondents were hesitant to share information during a conversation, I think this was not generally due to his or her doubts about me as a researcher, but rather due to his or her own character and situation. At the same time, living outside of not only the village but also the country itself for eleven years and acquiring the education necessary for observation, analysis, and objective evaluations made me an “outsider” as a researcher. It allowed me to assess the information without adding individual experiences or feelings.

Table 1.1. Demographic characteristics of Interviewees.

Gender	Number	%	Status	Number	%
Male	31	69	Married	6	13
Female	14	31	Unmarried	39	87
Totally	45	100	Totally	45	100
Years Old	Number	%	Employment Status	Number	%
Under < 20 Years Old	3	7	Employed	15	33
20-55 Years Old	30	67	Unemployed	23	51
Over 55 < Years old	12	26	Self Employed	7	16
Totally	45	100	Totally	45	100

Such a general presentation is preferred as most of the interviewees did not want their names and identities to be manifested. This was a general attitude observed among both the employed and unemployed interviewees as well as the young and the old ones. Two students openly expressed their concerns about losing their scholarships from the Kazakhmys Company in case their responses would disturb the company managers. Due to the same concerns, the interviewees did not want their voices to be recorded. This is indicative of the vulnerability of the local population to the Kazakhmys Company, a problem that will be problematized in detail in Chapter 5.

1.3. Plan of the Study

In order to properly analyze the data and information obtained during the field research, this study starts with a detailed analysis of the theoretical assumptions and practice of neoliberalism in the second chapter. After a brief overview of the debate between liberalism and Keynesianism, the main assumptions of neoliberalism are identified. As the dominant ideology shaping the content of “transition” reforms, the assumptions of neoliberalism are the main concerns of this chapter. The implementation of neoliberal ideas are examined within two periods: from the mid-1970s to the end of the 1980s, and from the 1990s to the 2008 crisis. The Chilean case as a laboratory, Reaganism and Thatcherism as promoters, and the East Asian countries after the 1997 crisis as victims of neoliberalism are addressed here. The practice of neoliberal ideas across the globe has become prevalent thanks to the role of the IFIs. In the framework of the assessment of neoliberal failure in the world, the changed roles of Bretton Woods institutions in accordance with neoliberal ideas and their implementations and critics will be highlighted here, along with structural adjustment program (SAPs), the Washington Consensus (hereinafter WC), and the Post-Washington Consensus (hereinafter PWC). The global financial crisis of 2008 will be assessed as the last crisis of neoliberalism.

The third chapter concerns the implemented neoliberal reforms in Kyrgyzstan during the transition period from a command economy to market economy. The neoliberal order in the organization of socioeconomic activities in the country has been adopted by all governments in the country so far. After a short historical background of Kyrgyzstan’s economy under the Soviet Union, transformations in the

political and the economic spheres immediately after independence in the country will be analyzed. An attempt is made to show that, although the background and initial conditions of the country were important in the transition period, these neoliberal reforms mostly targeted the speedy implementation of the reforms on a top-to-bottom basis. The only concern was to immediately affect deregulation, liberalization, and privatization through the implementation of the SAPs of the IFIs. Under these quick reforms, it was arguably hoped that private enterprises under a free market economy would organize the most effective socioeconomic order and the economy would recover in a short period of time. In this regard, the main neoliberal reforms, namely fiscal and trade liberalizations and privatizations, are examined in different subchapters. Among these, trade liberalization is particularly important, because it is related to not only the internal reorganization of socioeconomic order but also the external links of the country. Therefore, the trade liberalization reforms in the country are assessed within the framework of the WTO accession reforms.

The fourth chapter examines the formation of the mining sector after independence. In this regard, starting from the adoption of legislations to the implementations of reforms, the formation of a suitable environment for foreign direct investment (FDI), issuance of mining licenses, and the responsibilities of government bodies are assessed. After a short historical background of gold extraction development in Kyrgyzstan, the newly established mining sector and the organization of the gold industry are evaluated. The importance of mining for the development of the country and the relations between the state and foreign companies as well as among economic units are also analyzed.

While intensive reforms were conducted and new policies were introduced in the mining sector, these were accompanied by contradictions and conflicts. There has even been continuing intense discussion about nationalization initiatives for the largest gold-mining company in the country. Therefore, the fourth chapter also includes a detailed analysis of the reasons, motivations, and inducements of the nationalization issue and possible results and side effects.

The fifth chapter starts by explaining the reasons for choosing the *Bozumchak* mining field as an example, after brief information about the Kazakhmys Gold Kyrgyzstan Company and the *Bozumchak* mining field. In order to clarify features of the field in which the research was conducted, the history of the Kok Serek village is

given briefly. This chapter also includes the analysis of the social and economic transformations or changes that have been experienced in the village since the emergence of the mining field in the region. These transformations and changes in everyday life are addressed based on the opinions and thoughts of interviewees and observations obtained during field research. Like other mining companies, the *Bozumchak* mining field has also experienced protests. However, these protests have not been as violent as those in other cases. This most probably resulted from the Kazakhmys Company's strategies towards the local communities as well as the local and central state representatives. Therefore, the politics and strategies of the company are discussed in detail. In order to be able to assess the perspectives of all parties objectively, the protests are evaluated separately in accordance with each side's point of view. Finally, all developments in the Kok Serek village relating to the *Bozumchak* mining field are assessed in the relation to the main neoliberal assumptions.

Finally, in the last chapter of the thesis, a short conclusion of the study will be presented.

CHAPTER 2

THE THEORY AND PRACTICE OF NEOLIBERAL TRANSFORMATION

2.1. Introduction

As highlighted by scholars including Harvey (2005), Clarke (2005), Gamble (2006), and Dumenil and Levy (2004), neoliberalism has become the defining political economy perspective transforming the world since the 1970s onwards, including the transformations taking place in the post-Soviet geography. This chapter aims to provide a brief overview of neoliberalism as both an ideology and a policy practice by examining the main political aims, policy tools, and implications of neoliberalism, which has arguably aimed to transform and build efficient and free economies.

2.2. Understanding Neoliberalism

2.2.1. Definition of Neoliberalism

As a term, “neoliberalism” refers both abstract ideas and ideologies, and real practices. It would not be meaningful to attempt to define neoliberalism with particular concepts or frames because, as stated by Springer et al., “neoliberalism is a slippery concept, meaning different things to different people” (Springer, Birch, and MacLeavy, 2016: 2). Neoliberalism can thus be associated with different concepts including development (Hart, 2002), violence (Springer, 2011, 2012), nature (McCarthy and Prudham, 2004), labor (Aguair and Herod, 2006), migration (Lawson, 1999; Mitchell, 2004), discourse (Springer, 2012; 2016), and others².

² For more detailed information, see Springer et al., 2016, *The Handbook of Neoliberalism*, Routledge International Handbooks.

Larner (2006: 450) also tells us that neoliberalism can be examined as a policy project, or as an ideology, or as a specific form of governmentality. Howard and King (2004: 40) define neoliberalism as a doctrine that includes social issues, as well. In accordance with their description, economic and social problems always have a market solution. It is argued that neoliberalism does not necessarily reduce the weight of the state's role, but it does restructure and redirect its activities.

Thorsen and Lie (2007: 1) classify neoliberalism under the liberal tradition, namely "economic liberalism". According to them, in economic liberalism, states must leave as much space as possible for market self-regulation. From their point of view, the most important thing is that economic liberalism and neoliberalism are different from liberalism in general. Their common ground is a tendency to favor laissez-faire economic policies. They also describe liberalism as a complex and highly contested concept (Ibid: 7). This approach highlights individual liberty and the political culture of a country. Saad-Filho and Deborah (2005) argue that it is hard to make purely theoretical definition of neoliberalism, while from the point of view of Clarke (2005), neoliberalism needs to be approached as a novel economic theory and policy making paradigm.

At the most basic level, neoliberalism has become a means of identifying sets of market-oriented policies and reforms associated with a wide range of political, economic, and social problems. It refers to new market-based political, economic, and social arrangements, and is mostly seen as the extension of the competition into all areas of life, including politics, economy, and society (Springer, Birch, and MacLeavy, 2016: 2-4). Therefore, in this chapter, neoliberalism is analyzed as a set of market-oriented political, economic, and social ideas rather than a single particular concept.

2.2.2. Historical Background

Neoliberalism, as an ideology, is based on the fundamental assumptions of 19th century liberalism. Its foundation goes back to Adam Smith's *Wealth of Nations*, which was based on Smith's criticisms of the mercantilist state. According to Smith, the mercantilist state derived its revenues by restricting trade; however, in the free exchange of goods, both parties would ultimately benefit. From his point of view,

restrictions on the freedom of exchange reduce well-being by denying individuals' opportunity to improve their situations. Therefore, such restrictions limit the growth of the wealth of the nation and the prosperity of its citizens (Clarke, 2005: 50). At the beginning of the 19th century, Smith's doctrine was transformed from a criticism of the mercantilist state to the ideological orthodoxy of "*laissez-faire*", or "let people do as they choose".

According to the work of Dag Einar Thorsen and Amund Lie (2007), over time, different varieties of liberalism emerged. These included the 'classical' and 'modern' types of liberalism where the former is associated with theorists such as Adam Smith and John Locke and the idea that the state ought to be minimal. From the classical point of view,

practically everything except armed forces, law enforcement and other 'non-excludable goods' ought to be left to the free dealings of its citizens, and the organisations they freely choose to establish and take part in. This kind of state is sometimes described as a 'night-watchman state', as the sole purpose of the minimal state is to uphold the most fundamental aspects of public order (Thorsen and Lie, 2007; 4-5).

Modern liberalism, meanwhile, is characterized by a greater willingness to let the state become an active participant in the economy. In accordance with the analysis of Thorsen and Lie, participation of the state in the economy might include a tendency to regulate the marketplace and to have the state supply essential goods and services to everyone. Therefore, modern liberalism is perceived as a revision of liberalism, and especially of economic policies. It is also important to note that, contrary to classical liberal *laissez-faire* economic policies, thought to bring freedom and democracy, modern liberals propose that this "*laissez-faire*" analysis is misleading as it neglects the significant role of the state in the economy.

Beside these distinctions in the academic field, in practice it is also known that freely operating markets lead to periodical crises from time to time. However, these crises and bankruptcies have been considered as normal for the healthy operation of the market. From the liberal point of view, such a market would penalize inefficient and incompetent actors and reward the enterprising and hardworking ones. Clarke (2005) tells us that this means that success would be assessed not on "the basis of an individual's ability to contribute to society, but on the basis of the individual's ability to contribute to the production of surplus value and the accumulation of capital" (

2005: 56-57). Towards the end of the 19th century, the rise of the organized working class led to growing demands for 'social reform'. It was not the efficiency of a freely operating market, but in the 20th century, reform came to mean more direct intervention of the state in the markets to protect the less powerful from the full force of competition. The main idea of this reformism was to keep the recognized 'good' aspects of capitalism. However, as Clarke mentions, for liberals the good and bad parts are the same. They are two sides of the same coin (Clarke, 2005: 52).

According to Plehwe, it was the Great Depression in the 1920s that set the foundation for the emergence of neoliberalism. The Great Depression undermined the very existence of capitalism and private property. Neoliberals competed with social and political liberalism about how to stabilize the capitalist order. However, neoliberal ideas did not gain widespread support (Plehwe, 2016: 65-66).

The end of World War II brought about changes in the political and economic order of the world. The laissez-faire doctrine of classical liberalism, which had failed during the interwar period, was widely rejected as a main doctrine in economic development. After the end of World War II, a variety of interventionist economic theories, such as welfare economics and Keynesianism, set the agenda for economic development and the role of state. These interventionist theories criticized previous economic doctrines by identifying market failures and argued that state involvement was necessary to correct these failures.

In the 25 years after World War II (1945-1970), Keynesianism became the dominant understanding of economic development and economic policy-making. In the literature, it was also referred to as 'welfare economy'. During that period, modern monetary tools policy (control of interest rate) and fiscal policy (control of governmental spending and taxes) were developed. In accordance with the dominant liberal understanding, these policies would regulate mass employment and income distribution. According to the policy of mass employment, "the level of economic activity [was] determined by the aggregate demand and capitalist economies [were] subject to periodical weakness" (Palley, 2005: 29). Therefore, through monetary and fiscal tools, the state had to regulate economic activity. With regard to the theory of income distribution, Keynesians advocated that income distribution should depend on institutional arrangements, trade unions, and laws governing minimum wages and the rights of workers.

At the domestic level, Keynesianism was considered the most effective economic model for capitalism. It legitimated an interventionist state to ensure demand and full employment through public spending on welfare services. However, in the 1970s, Keynesianism started facing difficulties because of accelerated inflation that led to fiscal crises in many states. The role of the state in economic development has been questioned since then due to the subsequent economic and political turmoil at domestic and international levels. The energy crisis of the 1970s provided neoliberals with a particularly key empirical example of political interference in markets. It has been argued that government intervention in the market may fail and may worsen problems due to inefficient bureaucracies and lack of market-based incentives (Huber, 2016).

In their criticism of Keynesianism, neoliberals have generated a counterargument out of the Keynesian concept of 'market failure': 'government failure'. Thus, the income distribution and mass unemployment policies of Keynesianism have become two main critical points of neoliberalism. According to neoliberals, factors of production (labor and capital) should be paid what they are worth. Their price should be determined through supply and demand in the market. Markets would thus adjust to full employment. Otherwise, if these factors are neglected by Keynesian monetary and fiscal policies, it may lead to inflation, not to adjustment in the economy.

Clarke (2005: 48) makes sense of this ideological controversy in relation to the global dynamics of capital accumulation. He argues that neoliberalism emerged as an ideological response to the crisis of the 'Keynesian welfare state'. The crisis emerged due to the slowing of the pace of global capitalist accumulation and increased inflation, which resulted in big state budget deficits. All these developments forced governments to implement tight monetary policies and cut state expenditures. What was seen as a mark of the failure of Keynesianism was treated as a positive change by neoliberals.

In addition, the emergence of neoliberalism was based on more political fundamentals than economic ones. For example, the fundamental ideas of the Chicago School, accepted as a main school of neoliberalism and playing a turning point in the history of neoliberalism, are based on political ideas. According to Nik-Khah and Van Horn (2016), there are misperceptions about the Chicago School fundamentals. First,

“Chicago is not, however, coextensive with orthodoxy. Chicago neoliberals are not merely exponents of the logic of economics; they expound neoliberal ideas via economic language” (Nik-Khah and Van Horn, 2016: 27). Secondly, the school includes more non-academics, often representatives of think tanks rather than scholars. Think tanks operate between politics, academia, and the media. Thus, it is a program addressed to economists, political scientists, and judges.

2.2.3. The Theory and Main Assumptions of Neoliberalism

The emergence of neoliberalism was characterized as a revival of the free market, both as ideology and as political economy. The supremacy of the free market in academic thought and ideas and in practical policies began in the second half of the 1970s. This process was defined by Gamble (2006) as a transformation in world capitalism. The agenda of this transformation was shaped by neoliberal economists like Milton Friedman, Friedrich von Hayek, James Buchanan, Anne Krueger, and Alan Peacock (Chang, 2001; Gamble, 2006; Springer et al., 2016). According to such economists,

the market is the most efficient and moral institution for the organization of human affairs, which seems to suggest that it could and perhaps even should replace all other institutions (e.g. family, state, community, and society) as the primary mechanism for producing, promoting, and preserving social order (Springer et. al., 2016: 3).

Hence, neoliberalism is associated with both positive (e.g., the efficient market) and normative assumptions (e.g., the proposal that other institutions should be replaced with the efficient market). Winning the Nobel Prize in Economics in 1974 and in 1976, respectively, Hayek and Friedman consolidated neoliberal assumptions in an argument that the free market was the optimal organizing mechanism for capitalist economies. Hayek positioned himself for the creation of an institutional framework, or what he later called a ‘competitive order’ (Nik-Khah and Van Horn, 2016: 28), while Friedman emphasized the maintenance of macroeconomic stability by minimizing the role of the state as opposed to the Keynesian goals of full employment and alleviation of poverty (MacLeavy, 2016). These approaches have become the main assumptions in economic policies since then, while the implementation of these assumptions has had real political, ideological, institutional,

and social implications (Lapavistas, 2005: 30). Hayek also argues that a market-based society fosters individual freedom. It is personal and individual freedoms performed in market that attributes responsibility to each individual; and government intervention in the economic would disturb this process (Clarke, 2005). Smart (2002: 95) comments on the freedom of individuals in the market by saying that “society achieves its coherence not through design but through the market and through processes of free exchange, through supplying goods and services for others and seeking, in turn, goods and services from others”. Moreover, Friedman (1962:62) argues that “the market is not only the most efficient way to allocate resources, but also the optimum context to achieve a human freedom”. As a result, for neoliberals, the order created by the market seems to be superior in terms of individual freedom compared to any other established form of societal organization.

Neoliberals also argue that the market distributes resources rationally and organizes economic and social order efficiently. Intervention impairs the rationality and efficiency of the market. In other words, neoliberalism maintains a policy program that would further transform societies towards economic life characterized by market domination. State intervention, on the other hand, is undesirable. MacEwan (2005: 171) evaluates this argument, saying that by minimizing the role of the state and maximizing the role for the market in the organization of economic life, “neoliberalism provides an agenda for, to use Polanyi’s formulation, ‘running of society as an adjunct to the market’”. According to MacEwan, by restricting as much activity as possible from the political realm and by forming barriers between the economic and political realms, neoliberalism tries to restrict the dependence of the economy on politics.

Considering Chang’s point of view, the main argument of neoliberalism is that the costs of state failure are typically greater than the costs of market failures (Chang, 2001: 2-3). Neoliberals see the state as an organization run by self-seeking politicians and bureaucrats. For them, the state could never be the impartial and omnipotent social guardian that was assumed by Keynesianism. They argue that the state has an imperfect nature and it results in failures: regulatory capture, rent-seeking, corruption, and so on. However, the role of the state in neoliberalism involves some serious tensions. It can be sustained only through some intellectual inclination and/or political compromise. The more serious problems of the neoliberal discourse about the role of

the state are the very way in which it conceptualizes the market, the state, and institutions and the way in which it theorizes them. According to Chang, neoliberalism emerged as a result of an ‘unholy alliance’ between neoclassical economics and what was called the Austrian-Libertarian approach, with neoclassical economist interrelationships (Ibid: 6).

According to Harvey, under neoliberalism, everything began to be associated with finance. In other words, neoliberal transformation has meant the financialization of everything. All neoliberal developments are connected to the world of finance. A wave of innovations in financial services such as securitization, derivatives, and future trading (Harvey, 2005: 32) led to more sophisticated interconnections in the global market. As a result, most areas of internal economy have become dependent on international financial politics. Put differently, as argued by Harvey (2005: 33), there has been not only a redefinition of social, political, and economic relations, but also a power shift from production to the world of the finance. For this reason, the support of financial institutions and the integrity of the financial system became the central concerns of neoliberal states. The emergence of the G7 and G20 groups of states can be given as proof of this. Gamble also stresses that neoliberalism has given priority to capital as money and not as industrial output. Therefore, for neoliberalism, the financial circuit has become more important than the production circuit (Gamble, 2006: 20). By considering capital in general rather than industrial capital, neoliberalism can be analyzed at the global level.

As a global regime of accumulation, neoliberalism has gained some other distinctive new features in the reorganization of market relations. These features have become not only a part of the reorganization of market relations, but also the main characteristics of neoliberalism itself. They led to the development of neoliberalism as a global discourse and practice in the 1990s. Free movement of capital, free trade, flexible labor markets, and macroeconomic management becoming fully compliant with the market are accepted ‘truths’ of public discourse (Munck, 2005: 62). Additionally, free movement of capital among sectors, countries, and regions has led to new dimensions in market relations. Internal market relations have become internationalized.

All these transformations show that neoliberalism has become more than just a revival of liberal ideas. Neoliberalism has aimed at extending values and relations

of the market into a model for the organization of society and politics by restricting the state's role and reforming it as the most suitable actor to provide strong individual private property rights, rule of law, and institutions that support free markets and free trade. Harvey (2005: 64-65) emphasizes that neoliberal states try to ensure "the freedom of business and corporations to operate within institutional frameworks of free markets and free trade" through appropriate legal frameworks.

Besides the neoliberal state, the developmental state also supports competition among firms and rules of free trade. In that context, a developmental state is consistent with the goals of neoliberals (Harvey, 2005: 72). However, in the developmental state approach, state bureaucracy plays a strategic role in economic development (Kwon, 2005: 6). The concentration of a developmental state on social and physical infrastructure and state investment in the social sphere are against neoliberals' notion of non-intervention.

What are supported under a developmental state's social protection policies and institutions are seen as indirect barriers by neoliberals. On the other hand, as mentioned by MacGregor (2005: 145), different societies have adopted different social policies under neoliberalism. The shape and form of social policies vary among neoliberal states, depending on government participation, relative power of trade unions, and the system of interest mediation. In other words, neoliberal states do not share clearly formed social policies.

However, despite the fact that neoliberalism has preserved its theoretical dominance in policy debates, in the following sections we will see that economic and social policies of neoliberalism in practice were issues for criticism in the 1980s. Under this criticism, in the early 1990s neoliberalism recreated itself through new political combinations such as the Third Way approach (Kiely, 2005: 93). Through the Third Way, neoliberals tried to create a new form of social governance, defined as being between free market ideology and social democracy. Arestis and Sawyer argue that the Third Way can also be viewed as neo-Keynesian (2004: 178). According to them, it can be described as 'neoliberalism with a human face'. The Third Way was focused on the reorganization of social welfare and public spending rather than their elimination as desired by neoliberals. However, market liberalization remained the primary engine of change (Robinson, 2006: 6).

The Third Way seeks to develop a more humane market. In some points, it can be seen as a closer model to post-Keynesianism. However, it is completely different because it basically accepts the major ideas of neoliberalism, especially regarding income distribution. It represents an updating of the earlier market failure or neoliberal government failure. Rather than strengthening the role of government and producing some products and services through nationalized industries to alter market relations, the Third Way puts forward taxation and regulation as a preferred means of changing the private sector's behavior. In this regard, a Third Way government feels comfortable signing contracts with the private sector to produce public services (Palley, 2005: 28).

The policy of IFIs also changed in line with the Third Way in the 1990s. Their policies started to focus more on institutional changes rather than only the establishment of free markets. For example, the WB's interpretation of good governance means a Third Way-like promotion of appropriate institutional structures in support of a free market. State institutions are accepted to be powerful if they adopt correct policies (Kiely, 2005: 93).

2.2.4. Neoliberal Policies

Neoliberal theory reflected itself in a concrete set of policies: liberalization of trade in goods and capital investment, and privatization of state-run assets and deregulation (Steger and Roy, 2010: 32-33). Although these points will be addressed in more detail in the next subchapter, it is useful here to clarify the policies of neoliberalism in relation to its theoretical framework.

Liberalization of trade has become one of main policies of neoliberalism. It is claimed that trade liberalization will lead to faster productivity growth. Increased levels of competition would promote productivity-enhancing technological change across all sectors (Deraniyagala, 2005: 101). Moreover, it is argued that trade liberalization would lead to a convergence in growth rates between different countries. In the implementation of liberalization policies, besides the IFIs, the WTO (previously the General Agreement on Tariffs and Trade) has become one of the main mechanisms through which the global market is effectively regulated and disputes are resolved through a formalized system. However, the whole set of international rules established

to regulate the increased volume of international trade is negotiated by the developed states that dominate multilateral economic organizations. They are not produced by all states, as neoliberalism would pretend it to be (Munck, 2005: 62).

Privatization is one of the indispensable policies of neoliberalism. For neoliberals, privatization of state-run assets is the most important factor for economic development. As outlined by Steger and Roy, neoliberals listed several factors legitimating the need for privatizations: improvement of efficiency, reduction of public sector borrowing, and widening of share ownership. Moreover, it is argued that revenues generated from privatization could be used for public service and that the transfer of public resources to private investors increases the efficiency of management and productivity (Steger and Roy, 2010: 53). Private enterprise and entrepreneurial initiative are assessed as necessary assets for wealth creation. Reorganizations within the economy through privatization and new institutional arrangements created by the private sector are considered as important contributions for the formation of a neoliberal state. It is thought that besides internal optimizations in the country, they will also improve the neoliberal state's competitive position as an entity among other states in the global market. In other words, neoliberals stress that the more developed the private sector is, the more developed the state is (Harvey, 2005: 65). As Arestis and Sawyer highlighted privatization policy as the notion of the superiority of the market over the state, and of private property over public ownership, is best exemplified and practiced by neoliberals (Arestis and Sawyer, 2005: 206).

Deregulation is another key policy of neoliberalism in the organization of economic activity. Neoliberal deregulation is based on values such as competitiveness, self-interest, and decentralization. It arguably serves individual empowerment by the transfer of central state authorities to smaller localized units (Steger and Roy, 2010: 12). Deregulation reforms are aimed at bringing governmental policies in line with the needs of the world of business and commerce. Thus, the neoliberal model of governance encourages the transformation of bureaucratic and administrative mentalities into entrepreneurial identities, by which government workers see themselves not as public servants but as self-interested actors who are responsible for the market. According to Harvey, as a result of deregulation, the financial system becomes a redistributive activity through promotions, predation, fraud, and thievery.

Privatization and deregulation combined with competition are arguably aimed at eliminating bureaucracy, increasing productivity, improving quality, and reducing costs. The absence of clear private property rights, as in many developing countries, is seen as one of the greatest institutional barriers to economic development and the improvement of human welfare. Sectors formerly regulated by the state must now be turned over to the private sphere and be deregulated (thus freed from any state interference).

2.3. The Implementation of Neoliberalism

In the 1970s, neoliberalism was made the new orthodoxy by IFIs for solving the problems of high inflation and stagflation (Gamble, 2006: 24). In the rise of neoliberalism as the new orthodoxy, various other institutions such as universities, schools, professional associations, multinational corporations, and the media have also been used actively. Intellectuals and think tanks producing knowledge along neoliberal lines have formed an appropriate climate of opinion in support of neoliberalism as a model of development. The neoliberal move in politics was consolidated through the capture of political parties, chambers of commerce, and other supportive foundations (Harvey, 2005: 48-51).

Although the theory of neoliberalism was based on some particular common assumptions, the implementation and the extension of neoliberalism in practice have been diverse across the globe. In general, the implementation of neoliberalism occurred in two stages: the first one was from the mid-1970s to the end of the 1980s, and the second stage started in the 1990s and continues onwards. The first stage of the implementation of neoliberalism began with the military coup in Chile in 1973 under the authoritarian rule of General Pinochet. It was followed later by Thatcher in the UK and Reagan in the USA (in 1979 and in 1981) in a more established form.

In the first stage of its implementation, neoliberalism started transforming the organization of economic and social activities all over the world (Barnett, 2005: 2). According to Munck (2005: 63), this period can be characterized as the transformation of the Keynesian developmental state. According to MacEwan (2005: 175), in practice neoliberalism reconfigured the state rather than minimizing its role. In other words, the neoliberal state was strengthened to consolidate free market mechanisms

against any opposition. In that sense, the fact that the initial support for neoliberalism was ensured by military interventions reveals the practical reality of neoliberalism. MacEwan assessed these kinds of implementations of neoliberalism as an authoritarian ideology of neoliberalism.

By reconfiguring the state, neoliberalism also transformed the role of the state. Under policies of deregulation, new forms of regulation with new market-oriented rules and policies were created to implement neoliberal policies. However, simply extending the role of the market was no longer sufficient to regulate newly developed national economies. Thus, the transformation of national economies into the image of the global market was expected. As analyzed by Philip Cerny's concept of the 'competition state', the state now found itself marketized (Cerny 2000: 130). To Cerny, the competition state model is focused not on national economic development but rather on the promotion of neoliberalism at a global level. States were forced to reorganize and reestablish themselves to fit the new global order or global market. In other words, at the end of this first stage of implementation, states started to act as part of the market, not as independent regulators. The second stage of neoliberalism started at the beginning of the 1990s. If the first stage can mainly be characterized as a neoliberal response to the crisis in the world capitalist system in the 1970s, the second one deepened and accelerated the transnational tendencies and globalization. As Colas (2006: 84) highlighted, both stages of neoliberalism involved uneven development processes subject to all kinds of sociopolitical contestation and risks.

2.3.1. Chile As a Laboratory Case

Before the military coup in Chile in 1973, the Chilean political economy was defined by industrialization strategies and aimed at the reshaping of social structures. However, a neoliberal turn was ensured in the country by the violent overthrow of the democratically elected president Salvador Allende through the military coup led by Augusto Pinochet in September 1973. As defined by Davis-Hamel (1987: 79-80), 'extreme orthodox neoliberalism' was implemented from 1973 to 1982 under Pinochet's regime and he assessed it as 'the poster child for the neoliberal model, because Chile was the first Latin American state to experience neoliberalism.

Reconstruction of the Chilean economy in accordance with neoliberal policies was administered by Chilean economists known as ‘Chicago boys’, who had graduated from the University of Chicago and were attached to the neoliberal theories of Milton Friedman (Harvey, 2005: 7). Scholars of the Chicago School of Economics started to extend their public criticism of the Keynesian economic policies in Latin American countries as early as the 1950s (Steger and Roy, 2010: 99). The US State Department and several large American corporations established neoliberal academic programs at the University of Chicago. One of these was the so-called Chile Project, within the framework of which hundreds of Chilean students received economics education based on free market principles. These economists worked closely with the business elites that organized the opposition to Salvador Allende’s presidency and supported Pinochet in overthrowing him. After Pinochet’s grasp of power in Chile, Keynesian policies were abandoned. Pinochet brought Chicago economists into the Chilean government and these economists started to restructure the economy through the implementation of a series of political and social sector programs in accordance with a document known as ‘The Brick’ (Steger and Roy, 2010: 100). This document described extensive and immediate deregulation and privatization measures, as well as deep cuts in social spending. The new program promoted the rise of an entrepreneurial technocracy that worked on transferring control of social and economic policies from the state to the market. Their role was based on the fact that they dominated the financial system (Jilberto, 1993: 67).

Under the new policies, the relationship between the state and the society was transformed. The intention of these policies and reforms was to strengthen the market forces and reduce the influence of the state on economic processes. The market was freed from state intervention in order to allow self-regulatory processes to provide a more rational and efficient context for social interactions. Public assets were privatized, natural resources were opened up to private and unregulated exploitation, and FDI and free trade were facilitated. For example, out of 553 state enterprises that existed in 1973, all but 20 were privatized in 1981 (Jilberto, 1993: 62). The country started to work closely with the IMF. Neoliberals assumed that the situation would not only create a more prosperous economy, but would also promote human freedom and social harmony. The neoliberal reforms adopted since the mid-1970s in the country were regarded as successful by neoliberal circles and began to be promoted

by the WB and the IMF as a model for other countries facing economic and social problems in the late 1970s (Harvey, 2005: 7).

The implementation of neoliberal reforms led to high economic growth in Chile, though at the cost of a debt crisis that took place in 1982, and the growth was stimulated by massive credit from private international banks, which led to recession in the economy. In 1982-83 in Chile, 810 companies and banks went bankrupt. Unemployment levels exceeded 22% (Davis-Hamel, 1987: 83). Moreover, in 1983, the percentage of the population living in poverty reached 55%. Decline of social expenditures, abolishment of taxes on wealth and capital gains, and systematic repression of the labor movement were the defining characteristics of the Chilean experience that prepared the ground for a neoliberal counterrevolution later (Harvey, 2005: 74). As a number of social services like education, health, and electricity were privatized, about 80% of the population experienced some level of deterioration in their living standards during the 16-year Pinochet government.

Still, the implementation of neoliberal policies in Chile was not unchallenged. In order to prevent the collapse of the financial system, the government had to intervene in the process by taking 14 banks that had been privatized earlier under state control (Davis-Hamel, 1987: 84). Cypher (2004: 2) also highlights that “despite the claims of free marketers, Chile’s economic performance has been mixed, and its successes owe more to state intervention than to the invisible hand of the free market”.

Hence, the neoliberal model experienced in Chile during the Pinochet regime proved to be unsustainable and unstable. As was experienced during the debt crises, the Chilean economy became vulnerable to external changes. The population of the country also suffered from high unemployment and increased poverty. However, rapid social and economic transformations changed the economic culture of the Chileans as they started to act as customers, becoming more individualistic and pragmatic. People now expect less from the state and rely instead on their own efforts (Silva, 2006: 48).

2.3.2. Thatcher and Reagan

The rise of neoliberalism is mostly associated with US President Ronald Reagan (1981-88) and the British Prime Minister Margaret Thatcher (1979-90). These

political leaders were not only supporters of the core ideological claims of neoliberalism; they were also responsible for its implementation through specific public policies and programs. In other words, the Thatcher and Reagan governments were the pioneering ones in the propagation and implementation of neoliberal policies (Howard and King, 2004: 40). According to Lee and McBride (2007: 251), their main aims were to put an end to the perceived failure of the Keynesian political economy. They were so determined to implement neoliberal policies that they continued their programs even if they were politically risky or inconvenient. President Reagan even took the risk of not running for a second term in office by not reversing his deep tax cuts for business. Thatcher, on the other hand, was nicknamed the 'Iron Lady' because of her slogan 'There is no alternative' (Steger and Roy, 2010: 21). This forceful combination of a particular set of neoliberal ideas and claims, and their implementation into concrete policies and programs by Thatcher and Reagan, was referred to as the 'neoliberal turn' in the literature.

Long before Thatcher, the Conservative Party had already introduced some economic reforms in Great Britain. However, it was Thatcher that pushed the symbolic button. Thatcher believed that the economic crisis in Britain was due to the lack of monetary and fiscal control, government intervention and taxation, and a lack of incentives precipitated by social security and welfare benefits (Matthews and Minford, 1987: 61). Accordingly, Thatcher's government turned to new policies based on monetarism, which became extremely influential in shaping Thatcher's economic policies.

As in Chile, think tanks played a major role in the formation of neoliberal policies. One of the active think tanks was the Institute of Economic Affairs, funded by a wealthy businessman and embracing Hayek's ideas. Later, Thatcher formed a new think tank, the Centre for Policy Studies. It is thought that Thatcher achieved her victory in the elections with the help of the powerful intellectual support of these new think tanks (Mills, 2013: 46). Other such supporters were the Adam Smith Institute and the Institute of Directors (Steger and Roy, 2010: 23).

Among Thatcher's new neoliberal policies, money supply became the key point in controlling economic growth and inflation. There were three main strands of these policies: legislation, privatization, and deregulation, along with the reduction

and reform of taxes and social security benefits. New legislative changes were aimed at increasing competition and efficiency to ensure improvements in productivity.

The processes of privatization and deregulation were exercised in two major forms: the sale of publicly owned assets and the transformation of public services to the private sector. The privatization program transferred all major utilities from the public to the private sector with the exception of postal services; it also included the sale of a wide range of companies, such as Britoil, Jaguar Cars, and National Freight. As a result, there was some success in terms of efficiency gains. However, as a result of privatization, the superiority of the market over the state and private property over public ownership was established.

On the question of taxes and benefits, marginal tax rates were above the 1979 levels throughout the 1980s (Matthews and Minford, 1987: 65-78). Thus, Thatcher's interest in monetarism was not practical, but rather political. Implementation of monetarist policies was based on the theory of Friedman and Hayek, but in practice differed from what was outlined in the theoretical literature. Additionally, the meaning of monetarism and the way it was applied changed significantly during Thatcher's governance (Backhouse, 2002: 313).

Restricting the money supply proved to be far more difficult in practice than was assumed by Friedman. Faced with various economic problems, the government had to make changes in these policies. Thus, what monetarism provided was an intellectual and technocratic activity for cutting public spending (Mills, 2013: 47). The unmentioned factor here was the creation of more favorable conditions for global financial capital, which in reality was the power behind Thatcher.

As Ayres highlights, under Thatcher there were economic transformations, which, regardless of whether they were defined as postindustrialism, postmodernity, post-Fordism, or a combination of all these terms, shaped "consciousness, experiences, and the very fabric of everyday life" (Ayres, 2014: 61). Moreover, although they were criticized by the opposition parties, the latter failed to assemble an alternative economic and political vision (Steger and Roy, 2010: 21).

The election of Reagan as the President of the United States, according to Harvey, was only the first step in the long process of consolidating the political shift to support monetarism. He came to the White House promising a major shift to conservative economic policies, as Reagan's policies were focused on "an across the

board drive to reduce the scope and content of federal regulation of industry, the environment, the workplace, health care, and the relationship between buyer and seller” (Harvey, 2005: 52).

As in the UK case, the neoliberal policies in the USA were supported by such think tanks as the American Enterprise Institute, the Cato Institute, and the Heritage Foundation. They worked closely with Reagan and his staff to promote policies aimed at private-sector-led economic growth. Reagan’s administration targeted four main goals: reduced government spending, lower tax rates, lower inflation, and deregulation (Meltzer, 1988: 528). Unlike Thatcher’s policies, Reagan’s policies did not include privatization as one of the main tenets. According to Reagan, the public sector was too big and private initiative was badly weakened. He believed that high taxes were the prime cause of poor economic performance. Concerning social spending, Reagan followed the same policies. In other words, social spending was too large and was to be minimized. The country was to be protected from public spending to balance budget cuts resulting from tax reduction.

Reagan’s economic recovery program aimed at the gradual reduction of money growth to reduce inflation, contrary to Thatcher’s radical monetarism program. Despite the fact that both Reagan and Thatcher saw inflation as preventing growth, they followed different paths towards the same direction. However, in both cases, fiscal expansion did help bring down unemployment, but tax cuts led to trade and budget deficits. One of the symbolically important neoliberal reforms was the deregulation of the savings and loans (S&L) industry and airlines. For example, previously, the S&L industry was regarded as relatively secure and prudent because customer saving accounts were insured by the federal government. However, under Reagan, it was thought that the S&L industry had to compete with other commercial banks and security markets.

Regarding social policy, spending on programs and policies in support of the poor, such as Aid to Families with Dependent Children, school lunch programs, and Medicaid, was sharply decreased (Steger and Roy, 2010: 34). This served as a strong neoliberal signal for the application of market principles to the delivery of social services. On the other hand, the concept of full unemployment was abandoned and replaced with the concept of a natural rate of unemployment. According to Palley (2005: 24), this natural rate of unemployment pursued two purposes. First, a higher

level of unemployment weakened the bargaining position of workers, and second, it assisted in keeping the real interest rate at a higher level.

To summarize, both Thatcherism and Reaganomics advocated a reduced role of government, rolling back regulations, state ownership, and welfare services during the 1980s. However, as can be seen in the cases mentioned above, the rise of neoliberalism would not have been possible without strong government actions. Following these transformation processes, similar shifts associated with Thatcherism and Reaganomics took place in Australia, Canada, and New Zealand. Whether this was due to the success of the neoliberal turn led by Thatcher and Reagan or due to the failure of other types of developmental models is still a question to be answered. However, as Harvey mentions, perhaps the greatest testimony to the success of liberalization was that the neoliberal turn realized by Reagan and Thatcher could not be reversed by governments following more critical stances later. Hence, the Clinton and Blair administrations respectively in the USA and Britain had to continue following neoliberal agendas (Harvey, 2005: 63).

2.3.3. Implementation of Neoliberalism in the World

It is a known fact that in the implementation of neoliberalism the IFIs have played a main role. However, in the time period parallel to neoliberal developments, they also changed their roles. The processes of Reaganomics and Thatcherism led to changes in the roles of IFIs. Under the 1985 Baker Plan, the IMF was transformed into an institution that required countries in receipt of financial assistance to restructure their economies through privatization and the deregulation of the trade and finance (Cahill, 2014: 16). In other words, in this new role, IFIs became supporters and implementers of ideas based on neoliberal theory, and the SAP of the IFIs was redefined accordingly. Initially, the SAP was redesigned and funded by the WB and the IMF, but later this approach was also adopted by other major IFIs (Mogan, 2009). In other words, the implementation of neoliberalism in third world (developing) countries began to be exercised within the framework of the SAP. The SAP was based on a neoliberal set of assumptions and a belief that free markets could deliver an efficient route to development. It was a set of economic and institutional programs that sought to restructure developing and transitioning economies (Mogan, 2009;

Easterly, 2005). It was a comprehensive program that later affected everything from economic policy to social policies. It was designed for developing countries to solve macroeconomic problems by reducing government intervention in the economy and forming a market-based economy. IFI loans were offered in return for the transformation of economic structures through deregulation, privatization, minimization of the state role, and liberalization of trade to overcome the problem of increasing external debt and foster economic development (Leftwich, 1996). It was assumed that by liberalization of the economy markets could function better and recipient countries would attract foreign investment.

However, the foundation of the IMF, the WB, and the General Agreement on Tariffs and Trade (GATT), which were the initiators of the SAP, was based on Keynesianism, which had expected the state to balance out economic cycles. Thus, it will be useful to start with an analysis of the IFIs' historical background in order to clarify the effects of neoliberalism in the transformations of their role. As we will see in detail later, with time, the roles and activities of these institutions began changing so fast that they may have come to contradict each other. Earlier programs or activities were criticized by later followers. Moreover, it will also be helpful to specifically examine the neoliberal transformations of the post-Soviet region.

IFIs were formed as a part of the international Bretton Woods system in 1944 with the aim of maintaining and overseeing economic order on a global scale. The purpose was to construct two international institutions: the International Stabilization Fund and International Investment Authority, respectively becoming the IMF and the WB. These Bretton Woods twins were established with the aim of creating a new international monetary system. These institutions were based on principles as to how international trade and payments should be conducted. Thus, the Bretton Woods system pursued four main tasks: the first was that of reconstruction and rehabilitating world payments after the war; the second task was establishing and maintaining an international payment equilibrium; the third task was to provide conditions for stable economic growth; and the last one was the establishment of a stable structure for world trade (Scamell, 1975: 8-10).

The international political economic order under the Bretton Woods system can be divided into two periods: from 1944 to the end of the 1950s, and from the end of the 1950s to 1971. The first period is known as the 'dollar shortage' period (Cohen,

1995: 223). In this period, Bretton Woods institutions played minor roles in a time of reconstruction and transition (Scamell, 1975: 123). In other words, IFIs did not interfere in the reconstruction of national economies. Meanwhile, it was the mid-1960s when negotiations between developed countries started in order to establish an adjustment program that would ensure economic development. By the end of the 1960s, the Bretton Woods institutions started to lose their importance as regulators of the international economy. Shortcomings in the Bretton Woods system at that time were related to its inability to provide a mechanism for the adjustment of balance of payments of member nations, and that deficiency was the result of the failure to determine the role of exchange rates in such adjustments (Scamell, 1975: 8).

Lack of international liquidity emerged as the main problem of the second period of the Bretton Woods system. Besides liquidity, expanding volume of trade and continuing instability of balances of payments followed in the 1960s. As Gavin argues (2004: 25), “between 1958 and 1968, when the Bretton Woods system was supposedly at its height, a whole series of agreements, regimes, rules, and institutions were needed to ensure the system worked”. For example, the General Arrangements to Borrow were established in 1961. However, along with the emergence of the Euromarkets in the early 1960s, some difficulties started to give rise to restrictions for the Bretton Woods financial structure (Helleiner, 1994; 82).

Thus, the period of 1971-73 was the turning point for the IFIs’ role as the failure of the IMF to address imbalances in the global economy ended with the abandonment of the fixed exchange rate system. The world entered an era of flexible exchange and interest rates. There were two main reasons for the crisis of the Bretton Woods system in the 1970s, which contributed to the establishment of neoliberalism as the main economic order in the following decades. The first was Nixon’s decisions to cut the link between dollar and gold in August 1971, to ensure that IFIs would be removed from state control and central banks and that the focus would be increasingly centered upon private banks. The second was the oil crisis that occurred in the autumn of 1973 and the way in which the financial consequences of that price rise were handled by the main western powers (Gowan, 1999: 19-21).

The rise of oil prices, resulting in the oil crisis of 1973, produced a financial imbalance between two groups of countries. Countries exporting oil were on one side, with significant dollar earnings that could not be absorbed by their own industrial

sectors. On the other side were the countries importing oil, but with serious trade deficits. Therefore, a transfer of money occurred from oil-exporting countries to non-oil-producing countries through the western banking system. At the same time, there was a debate on the question of through which financial institutions this transfer was to be done. Some governments wanted petrodollars to be recycled or transferred through the IMF, but the USA rejected this idea, as it did not want to lose its political dominance over oil-exporting countries, and so new arrangements in international financial markets were launched. Private banks quickly accepted an intermediary role between oil exporters and oil importers (Nunnenkamp, 1986: 95-97).

As a result of these new arrangements, the western system of international private finance found itself at the center of the working of a new international monetary system. According to Gowan, this liberated international private banking system had four key effects on the international political economic order, which would result in the debt crisis in 1982:

First, pushing out the earlier dominance of central banks, private banks became the center for the international finance. Secondly, it opened up an enormous opportunity in the public supervision for international financial operators. Thirdly, it made the financial systems and exchange rates of other states, especially countries of the South, increasingly vulnerable to developments for new founded international financial market. Finally, liberating private banking system enabled the US government to determine what kinds of competitive pressures and international regulation of international markets should exist (Gowan, 1990: 34).

Hefty financial oil earnings in the 1970s were recycled through private commercial banks as debt-creating loans. For example, the total outstanding long-term debt of developing countries reached 64 billion US dollars in 1970 and further increased to 481 billion US dollars in 1980 (Chossudovsky, 1998: 45). As a result, developing countries became net exporters of capital in favor of western countries' private banks in the early 1980s. All of these developments in the 1970s served as fertile ground for the formation of the IFIs' SAP programs, the effects of which are continuing to date.

After the debt crisis in the 1980s, the IMF and WB took on expanded roles in the world economy as intermediate institutions. The movement towards flexible exchange rates and the internationalization of capital, which served to marginalize the

Breton Woods institutions during the 1970s, ultimately helped to redefine their functions under a new economic doctrine: neoliberalism.

According to Adepoju, SAPs were established as a result of three world crises: namely the oil crisis, the debt crisis, and the international recession from the late 1970s to the early 1980s (Adepoju, 1993). These three crises also created disparity in trade. Exports fell in both volume and value while imports rose. Consequently, this brought about balance-of-payments problems and foreign exchange constraints. As a direct result of these events, SAPs were created to deal with the increasing economic instability in developing nations experiencing economic crisis (Stewart, 1995).

During the 1970s, however, developing states appeared to be sound investment sites because many had indeed enjoyed high growth rates up to that point (O'Brien & Williams, 2004: 238). The market appeared to be working well, bringing together the capital-rich and the capital-poor to the benefit of both. As a result of the import of capital during the period of 1973-79, the export proceeds of developing countries boomed, while nominal interest rates for loans were low. For non-oil-producing countries, the debt-to-export ratio was lower in 1980 than in 1973. Therefore, the pace of international lending did not seem to pose a serious danger to commercial private banks or to the world economy (Sachs, 1989: 6). However, when the debt crisis erupted in 1982, the neoliberal policies of Reagan and Thatcher as well as the Chilean experience were taken as reference points to provide a solution. It was argued that the extremely tight monetary policies in developed countries in the late 1970s, designed to fight inflation, provoked a sharp rise in interest rates. Commercial bank lending dried up once the debt-to-service ratios started to soar (Ibid: 8). The situation particularly deteriorated after the US Federal Reserve's decision to fight inflation by raising interest rates in 1979. High interest rates resulted in less money to spend on investment. This situation negatively affected developing countries in two ways. For example, it resulted in higher interest rates for their loans: if interest rates on international loans were 2% in the early 1970s, by the early 1980s they had risen to 18% (O'Brien and Williams, 2004: 238). The consequences of this period were disastrous for many developing countries. They were especially hard for oil-exporting states, faced with massive bills to cover their debts. As a result, in August 1982, Mexico announced that it could no longer service its debt.

Consequently, the Bretton Woods institutions had to reinvent themselves as development agencies whose main work dealt with the developing world, including the former Soviet Bloc, starting from the late 1980s. Their task was to ensure the steady repayment of debt and the suggestion of neoliberal economic openness, which they did by attaching policy conditions to the concessional loans they granted to developing countries. This was a continuation of the neoliberal turns in the USA, UK, and Germany, where the Bretton Woods institutions had formally introduced SAPs in the early 1980s. On the other hand, it might be said that the catalyst behind the IMF's focus on the poorest member countries was the declining economic conditions in the developing countries that were rooted in the debt crisis of the 1980s. It was the international debt crisis itself that led to the creation of the SAPs, becoming a precondition for rescheduling of debts. In other words, loans from the IMF and WB were provided as support to balance payments, with short-term loans to finance imports, and debt servicing was provided on the condition that a certain set of policies, based on neoliberalism, would be implemented. This was the beginning of the conditionality of the SAPs.

The global solution of neoliberalism is reflected in the literature as 'one size fits all' or the conditionalities for loans. However, as Toussaint argues, these programs were of more a political character than economic. Loans were provided by the IFIs on the condition that the receiving government in question adopt the program of economic stabilization and structural economic reforms in line with their demands. Additionally, unlike previous loans, these loans were never linked to investment projects (Toussaint, 2005: 224).

A series of SAPs and the conditions of the IFIs resulted in asymmetrical adjustment (O'Brien and Williams, 2004: 121). Examining the results, this process became more profitable for the IFIs and developed countries than for developing countries. Although debt rescheduling did not seem to be an attractive option for developed countries and international creditors, in the end they got more cash back in interest than the amount that they had originally lent. For example, between 1983 and 1988, the net transfer on debt from 15 heavily indebted countries totaled 190 billion US dollars, while debt disbursement totaled 185 billion US dollars (Loxley, 1997: 143). Thus, it is clear that the system still worked in favor of developed countries despite the fact that at the beginning it was formed with the aim of rescuing developing

countries from debt crisis. This proves that the IMF adjustment program was also asymmetrical between creditors and debtors. In other words, it seems that rescheduling of debt was not the solution to the debt problem; rather, it only gained time for the IMF and the WB (Nunnenkamp, 1986: 148). As mentioned by Chossudovsky (1994), structural adjustment was one of the main techniques used by developed countries against developing countries. It was implemented in more than 100 developing countries simultaneously, where citizens experienced devastating social impacts that negatively affected their living and working conditions.

Reasons for developing countries to accept the SAP conditions might have differed depending on the position of each country. However, being the precondition for obtaining new loans from multilateral institutions was not the only reason for acceptance of the SAP. It also represented an opportunity to obtain access to the London and Paris Clubs, foreign investors, and commercial banking institutions. It is not surprising that when countries did not accept the IMF's conditions, they were faced with difficulties in restructuring their debts and obtaining new development financing and international aid. Therefore, once countries were already in debt, they had little to say about the program. The IMF and the WB obtained the power to lead them and to reorient their macroeconomic policies in ways that better reflected the interests of international creditors (Toussaint, 2005).

Although it was not easy to distinguish the role of IFIs in managing debt crisis in developed countries, the policies followed by IFIs were supported by developed countries themselves. Accordingly, their agreements were supported and accompanied by the conditionality policy of the IMF and WB. Therefore, both the IMF and WB conditionalities were crucial in determining the adjustment relations between debtor countries and creditor banks. In other words, both the IMF and the WB transformed themselves from institutions designed to oversee the capital market to maintain international economic stability to ones that intervened to give that market free rein (Loxley, 1997: 163).

By this time, significant changes had been witnessed, not only in the role of international institutions but also in the understanding of international political economy. Until the early 1980s, both the development process and evaluative judgments of the goals of economic development were conducted within a national frame of reference. Economic and social trends in countries were explained on the

basis of conditions within the countries themselves. Development policies were organized according to the achievements of national objectives. This orientation was often simply taken for granted in development policy analysis. However, these policies weakened in the early 1980s when a new approach to developing countries, which was later labeled as the WC, emerged as the main alternative to national developmentalism (Gore, 2003: 320-321). As Gore argued,

rather than combining normative economic nationalism with a methodological internationalism, the WC combined normative economic internationalism with a methodologically nationalist form of explanation which attributed what was happening within countries mainly to national factors and policies (2003: 322).

When we look at the social consequences of the IMF's SAP and the WB conditionality, one can say that these programs were formed not for solving problems, but rather for deepening them, as after the adoption of these programs and their conditions the social situation in recipient countries sharply deteriorated. The shortage of funds was compensated through tuition fees and special charges collected through parent associations and loans communities. This was caused by the partial privatization of essential social services and the de facto exclusion of broad sectors of the population, especially in rural areas. For example, in Africa, primary school enrollment had increased from 41% of eligible children in 1965 to 79% in 1980. By 1988, however, it had fallen back to 67%. The implementation of SAPs in African countries entirely eliminated the advances made with great effort during the previous 15 years before the SAPs. The most striking example of this is Mali, where the infant mortality rate dropped by 23% between 1960 and 1980, but increased by 26.5% between 1980 and 1985. The IMF and the WB argued that users should pay for health care services (Toussaint, 2005: 242-245). According to the IMF and the WB, the social costs were compensated by the economic benefits of macroeconomic stabilization. Social costs were perceived as short-term while economic benefits were long-term. However, it was the social consequences of IMF and WB policies in target countries that began being questioned at the beginning of the 1990s.

In 1989, the economist John Williamson, having analyzed the political views of the Washington Congress and IFIs, and the economic agencies of the US government, deemed it appropriate to call the core policy of this period the 'WC' (Broad, 2004: 132). This consensus suggested that governments should reform their

policies and, in particular, pursue macroeconomic stability by controlling inflation and reducing fiscal deficits, open their economies to the rest of the world through trade and capital account liberalization, and liberalize domestic product and factor markets through privatization and deregulation, propagated through the stabilization and structural adjustment policies of the IMF and the WB.

According to Fine, the WC emerged in the early 1980s as the neoliberal counterpart for developing economies to the Reaganism and Thatcherism that had been prescribed for developed economies, with an ideology of reliance upon market forces and the reduction of state intervention and expenditure to a minimum. It had the effect of posing economic issues in terms of the state versus the market, leaning heavily, or falling over completely, in favor of the market. Opposition to this consensus was often induced by counterposing the state and the market and favoring state intervention (Fine, 2001: 4). The WC interacted with a broader discourse on economic development and, in particular, how government policies and interventions could help or harm development.

However, not all scholars agreed that the WC was a project of neoliberalism. Although it reflects some characteristics of neoliberalism, it is not a totally neoliberal project. For example, from the point of view of Kanbur, the WC was not the same as a neoliberal or market fundamentalist agenda. According to his observations, the WC became what it did, not what was said in its proposals (Kanbur, 2009: 5).

By the 1990s, conditionality was under attack, not only from critics of the Breton Woods institutions but from within as well. Attaching extensive and detailed conditions to structural and sectoral adjustment loans had neither changed the borrowers' economic policies nor improved macroeconomic performance. The main problem of the WC was, according to Stiglitz, "a failure to understand the subtleties of the market economy, to understand that private property and getting prices right are not sufficient to make a market economy work" (Pincus, 2001: 191).

According to Fine, there is a natural progression from the WC to the PWC from an analytical point of view. Their differences within neoclassical economics can be exaggerated and they both gained influence through the informal application of their approaches. The new consensus generalized the old one, addressed issues that were proscribed or restricted by the old one, and opened the way for a wider portfolio of policy options. However, it would be a mistake to explain the emergence of the

PWC in terms of its analytical superiority over the old consensus. An efficient way of understanding the move towards the new consensus can be seen in the shifting policy stances adopted by the WB and the IMF (Fine, 2001: 10). However, this shifting of policy did not sufficiently recognize old mistakes. Instead of accepting the failure of neoliberal economic policies, the IFIs shifted the blame onto the tardy application of policies in the borrowing countries. By blaming poor institutions for the failure of the WC, the IFIs paved the way for institutional and political reforms through aid conditionalities in borrowing countries (Singh, 2005: 137-138).

In addition, as indicated by Singh, the benefits of the WC were not fully realized despite the fact that it was implemented in over 100 countries since the 1980s. As the negative consequences of this global policy regime at the macroeconomic level have been documented, along with the poor lives of people in those recipient developing countries, it is difficult to say many positive things about the outcome of the WC policy. Adjustment policies failed miserably to achieve the stated objectives of higher economic growth and reduction in poverty (Ibid: 137).

One of the key features of the WC was its almost total neglect of any alternative approach to economics. However, the PWC was based on the need to acknowledge and address market imperfections. Therefore, it was necessary to broaden the analytical and policy scope in comparison with the previous consensus. However, by completely bypassing all criticism of the WC, the PWC precluded such approaches as alternatives (Fine, 2001: 7). From Stiglitz's point of view, the PWC was built upon intellectual and ideological shifts that could already be detected in the WB's works, published in the first half of the 1990s. He gave as examples the WB works of 'the Asian miracle' (1993) and the World Development Report, where the state was to approach the market more positively, in a more friendly manner (Fine, 2001: 3).

Both proponents and critics agree that the policies spawned by the WC did not produce the desired results. As the consequences of neoliberal reforms show, things did not work out the way they were intended. Even Consensus supporters now concede that the growth was below expectations. The critics, meanwhile, felt that the disappointing outcomes justified their concerns about the inappropriateness of the standard reform agenda. While the lessons drawn by proponents and skeptics differ, it is acceptable to say that trust in the reliability of the WC has lost its appeal. It is no

longer a question as to whether the WC is dead or alive, or if there is a PWC or not; the question now is what will replace them (Rodrik, 2006: 974).

Differently from the WC, the PWC allowed an expansion of the state's role to complement rather than compete with markets. While the WC promoted a state that provides a good policy environment for business, or in other words an active pro-capitalist state, the PWC allowed more space for state institutions to engage with market imperfections. A strong version of this consensus would require an analysis of the actors and interests in society and the distribution of power and resources between them, as well as an analysis of who wins and who loses from policy proposals (Engel, 2010: 72-73). A number of critical international political economy scholars have come to a similar view about the PWC, albeit from different perspectives and using different terminologies. The PWC has been reflected as a project to reinvent liberalism and embed liberalism (Ibid: 197).

The PWC claims to have left behind the 'one size fits all' approach to development, negatively associated with the WC. According to new consensus, increased attention to each country's specific social political and economic realities should be given. Consequently, as could be supposed, there would be an increased diversity of projects and approaches. At the level of the WB's country assistance strategies, this would work better for developed socioeconomic analysis of local conditions as well as for consideration of global and regional impacts. However, it seems that the key Bretton Woods institutions continued to play as prominent a role in the implementation of the PWC as they did under the WC. As a result, these institutions could find themselves in the driving seat of the process (Öniş and Şenses, 2003: 20). For example, the social, economic, and political analysis of the country assistance strategy in Vietnam for 2002 was superficial. The economic analysis was brief and mainstream; it focused on the need for faster policy reform in order to build a market economy and achieve economic growth. The external environment was not analyzed. The country assistance strategies claimed to promote Vietnam's own agenda and be based on its own planning document, but it simply did not accept Vietnam's objective of a socially oriented market economy and translated this to a neoliberal vision of high growth through a transition to a market economy (Engel, 2010: 185).

When one looks at the shift from the WC to the PWC, he or she might think that there should somehow be a continuity or a reformation of the former project. As shown above, there were policies that were reformed under the new consensus, but not all of the original policies were supported by the new consensus. Some developments in the framework of PWC policies made U-turns from their origins. As we know, the WC was implemented through loans (and debt rescheduling), which required developing countries to undergo the SAPs and conditionality as requirements imposed by the developed countries and IFIs (Held, 2005: 99), while implementation of the PWC presupposed the cancelation of loans and debts. For example, in 1996, the WB and IMF launched a debt-reduction program for the heavily indebted poor countries (HIPCs), comprising 42 countries. Within the framework of the program, the G7, the IMF, and the WB promised to cancel 80% of the debt of the HIPCs. After three years, in another G7 summit, they announced an even greater reduction of 90% of the debt (Toussaint, 2005: 216).

Whatever the merits were of Stiglitz's PWC as a development theory, it posed serious dilemmas. For example, the PWC aggressively widened the scope of the state for policy intervention from economic issues to the political, social, and cultural spheres while at the same time narrowing the range of acceptable leverage points needed for effective intervention (Pincus and Winters, 2002: 12). This leads to other questions, as addressed in Naim's article:

was financial opening a good idea? Trade liberalization? Should currencies float freely or are countries better off with a currency board or some sort of pegged rate? Is the combination of hiking interest rates and tightening the fiscal belt as the IMF often prescribes in these situations good medicine or a poison that debilitates the patient and makes the illness more acute and harder to cure? Should the IMF be abolished or strengthened? Are the bailouts of countries in financial crisis a source of global stability or instability? (Naim, 1999: 28).

These dilemmas are just a few examples from a long list of disagreements among experts about how to approach and materialize neoliberal economic reforms. In other words, according to Naim, the project resulted not in a WC, but in a 'Washington Confusion' (Ibid: 1999).

When we look at the crises that occurred around the world during the 1990s, it is difficult to say anything about the existence of any meaningful crisis prevention projects coordinated by IMF and WB since then. This is because the WB and the IMF

failed to predict any of the crises that were approaching: for example, the second Mexican crisis in 1994, the East and Southeast Asian crisis in 1997, the Russian crisis in 1998, the Brazilian crisis in late 1998 and early 1999, the Argentinian and Turkish crises in late 2000 and early 2001, and another crisis in Argentina at the end of 2001. The policies recommended by the IMF and WB were directly responsible for these repeated crises (Toussaint, 2005: 215). According to Toussaint, the worst thing at that time was the fact that, when these crises did break out, the WB and IMF dictated new 'solutions' that only deteriorated the existing situations even more. In just five years, between 1994 and 1999, ten middle-income developing countries underwent major financial crises. These crises brought havoc to these countries' financial systems, bankrupted their banks, set back some of the economic gains they had accumulated over years of painstaking reforms, and, in some cases, unleashed severe political turmoil. The WB and IMF also demanded the reform of the rules and institutions that governed the international financial system. As a result, these crises mostly created confusion, rather than reinvention.

For many observers, the fact that all of these countries fell into crisis meant that the problem lay less with the countries themselves and more with the international financial system within which or by which they operated. In fact, the realities in East Asian countries largely contradicted WC policy arrangements. For example, South Korea's successful economic development was achieved thanks to policies of strong state intervention, development of the domestic market, reduction of the income gap, and protectionism, strongly opposing and equally opposed by the WC. However, when South Korea stopped its strict control over capital movements and implemented the reforms of IFIs, a new crisis occurred in 1997-98 (Lo, 2001). Due to the negative results of the neoliberal reforms of IFIs, there were proposals to create a less 'accident-prone' global financial system. For example, the British government proposed to merge the IMF, the WB, and the Bank for International Settlements, while George Shultz, former US Secretary of Treasury and State, demanded the abolishment of the IMF.

In other words, since 1997-98, both the WB and the IMF are suffering the worst crisis of legitimacy in their respective histories. This can also be seen from the countless demonstrations against their policies in the countries subjected to them, and even demonstrations in some developed countries. Both institutions also underwent

an internal crisis. In 1999-2000, Joseph Stiglitz, the chief economist and senior vice-president of the WB, and Ravi Kanbur, the director of the WB's Annual World Development Report, both resigned. The two institutions have also been severely criticized by a majority of the Congress in the USA (Toussaint, 2005: 218).

In conclusion, it must be acknowledged that the SAPs and the conditionalities imposed by the IFIs resulted in huge asymmetries of opportunity and quality of life at the local level, which should not be left to the IFIs or markets to resolve. As time has shown, the world economic structure established by them only made the situation worse and resulted in confusion, rather than generating a true solution. All of these outcomes lead us to one question: do we really need IFIs in such crucial areas as money, debt, and credit? The answer to this question is open to discussion. However, many scholars agree with Toussaint, who states that:

the IMF and the WB should be abolished because their property-based constitutions, their allegiance to a very limited number of countries (of which only one, the United States, has the veto on any decision it may wish to block, even if all 183 other members wanted it to go forward) and the distribution of power within their ranks are incompatible with any truly democratic reform (Toussaint, 2005: 404).

It seems, however, that the world will never be able to resolve international problems without internationally recognized institutions. Only by restructuring IFIs will it become possible to give more responsibility and autonomy to regional structures, and this might become a key solution in the future. For example, the proposal of the establishment of the Asian Monetary Fund was connected with the Asian financial crisis of 1997, but the idea was strictly opposed by the IMF.

From the beginning, SAPs were intended to open up the economies of the debtor countries to the world market. The IMF and the WB used their status to give loans to developing countries with conditions of implementation of economic reforms that would open up markets for them. The Bretton Woods institutions, benefiting from the position of indebted countries, forced those countries into a cycle of increased dependency. Budget deficits or external deficits tend to be compensated by external loans, which increase indebtedness even more. Thus, an endless circle is set into motion. The policies of the IMF and the WTO trap developing countries, and especially the least developed countries, into a cycle of indebtedness and dependency. This all creates serious obstacles for the further development of those countries.

2.3.3.1. The Asian Crisis

In terms of understanding the results of the implementation of neoliberal policies under IFIs, the Asian financial crisis can be assessed as a good example. Before the implementation of neoliberalism began, East Asian countries had become known as industrialized countries, all under different circumstances. In comparison to other developing countries, the implementation of neoliberal policy was slow in this region. As Wade (2001) states, during the 1970s and 1980s rapid economic growth in the ‘Asian Tiger countries’ was mostly achieved through state-led development. Their economic model, in general, was based on values such as the nature of government, priority being given to the community over the individual, and government guidance of all exports privately owned and a managed market economy. All these values are in contrast with most western values based on neoliberal assumptions.

However, East Asian countries consecutively became subjected to the ongoing domination of neoliberal doctrine starting from the beginning of the 1990s, a process that first began in the 1980s. Thus, a noticeable transformation occurred during the first half of the 1990s, which resulted in the Asian financial crisis in the second half of the 1990s.

For a period of time, East Asian economies were seen as new economic miracles and referred to as ‘Asian Tigers’. However, this miracle grew vulnerable with the implementation of neoliberal reforms. Asian governments, encouraged by the IMF and the WB, liberalized their financial systems throughout the 1990s. This liberalization allowed domestic agents to raise the financing of foreign markets and give foreign agents access to domestic markets. With liberalization, governments surrendered their capacity to coordinate foreign private borrowings (Wade, 2001: 66). However, the risks of liberalizing the financial sector with little experience in the international financial market were underestimated. As a result, the Asian financial crisis erupted in the Asia-Pacific region in 1997. Increased vulnerability and macroeconomic instabilities resulting from economic transformations led to suspicions among foreign investors about the feasibility of repayment of their loans. Moreover, most of the provided loans were short-term loans, the vulnerability of which was much higher than that of long-term loans. All these issues resulted in the

withdrawal of a huge amount of money overnight by foreign investors, leading to devaluation of Thailand's currency, the Thai baht, which ignited the Asian crisis.

This vulnerability was created both by the liberalization of bank-based financial regimes and by liberalization in the presence of a monetary policy regime based on pegged exchange rates. These vulnerabilities were interconnected and led to risk of currency and financial collapse (Corbett, 2006: 67). The liberalization of finance had two effects: first, it increased capital accumulation due to capital and technology transfer into a liberalized economy. This means that investment could be financed from abroad. On the other hand, the guarantees of the previous system continued to be extended for foreign-financed investments. Additionally, the IMF also required governments to guarantee the foreign debts of local firms and banks (Wade, 2001: 73). However, if the amounts of these guarantees became too large, then the risk that they could not be honored arose.

One of reasons for the Asian crisis was the failure of institutional design in the financial sector. Those institutions were mainly formed under neoliberal transformations and regulated by IFIs. The WB was responsible for microeconomic development issues, and the IMF for macroeconomic policies. However, the demarcation between these two elements, micro and macro, was not clearly defined in dealing with banking and financial sectors. Therefore, if the goal was to design regulations under SAPs or to produce a transparent, properly regulated financial system that is not prone to speculative investments, it is difficult to say that IFIs were successful (Corbett and Vine, 2006: 97-98).

In return, this financial liberalization demanded austerity budgets, high interest rates, and the sales of local business to foreign investors. The IMF promised to supply 17 billion US dollars to Bangkok, 40 billion to Jakarta, and 57 billion to South Korea. It was claimed that these measures would restore economies. However, as underlined by Johnson, by ignoring social and cultural differences,

the IMF did not know that it was undercutting Korean housewives' investment co-ops with their millions of untaxable funds, or that the Indonesian government's subsidies went to food and fuel, not just cronies of Suharto (Johnson, 2001: 17).

In other words, it could be said that East Asian countries became victims of IFIs' "one size fits all" approach. Additionally, IFIs demanded change in internal

economic and social policy institutions within the framework of neoliberal reforms. Hence, as Wade puts: “the IMF’s intervention in Thailand, Indonesia and Korea has made things worse. The problem was misdiagnosed by the IMF” (Wade, 2001: 75).

Different scholars explain the Asian crisis from different points of view. For example, considering Taylor’s point, the Asian crisis resulted not from financial liberalization, but rather from the government’s withdrawal from the regulating side of the economy. In other words, it was the deregulation of the financial sector that created a destabilized private subsector within the financial sector (Taylor, 2001: 21). It resulted in huge amounts of private bank lending in a short period of time. Kregel also points out that the majority of foreign international lenders supported private banks (Kregel, 2001: 40). It is presumed that one of the causes of the crisis was unsafe lending practices, which were exercised by private banks due to the lack of prudent national supervision. The final result here is the undeniable fact that crises were born as a result of implemented neoliberal policies and reforms.

2.3.3.2. The 2008 Global Capitalist Crisis

Different scholars approach the Global Capitalist Crisis (GCC) from different perspectives. The causes of the crisis have particularly become a major topic of discourse. The crisis has been analyzed by advocates of neoliberal policies or their opponents as providing an extension of or a deepening of the certainty of the failure of neoliberal orthodoxy, respectively. The discussion around this issue has generally been focused on the role of deregulation and market failure. This subchapter not only deals with the causes of the crisis; it also handles some possible ways of organizing social and economic activities.

According to Eric Hobsbawm, who embraced Marxism, the GCC was the forerunner of the end of the neoliberal era. He noted:

we don’t know yet how grave and lasting the consequences of the present world crisis will be, but they certainly mark the end of the sort of free market capitalism that captured the world and its governments in the years since Margaret Thatcher and Ronald Reagan (Hobsbawm, 2009: 56).

Bresser-Pereira notes that the GCC might represent a turning point in the history of economic thought (Bresser-Pereira, 2010), while Verick and Islam refer to it as a great recession (2010: 2).

However, according to Cahill (2014), policy responses to a financial crisis can mean a market return to Keynesian capitalism until the global crisis capitalism is somehow unregulated and not managed by the state. He states that “when conservative French President Nicolas Sarkozy announced in 2008 that ‘laissez-faire is finished’, he meant a synonymous concept applicable to the end of neoliberalism” (Cahill, 2014: 4).

Some writers had warned about a gathering storm, but they did not catch widespread attention. Twelve economists and professional analysts predicted a likely recession between the years 2005 and 2007. A majority of academics, officials, and investors disregarded the signals. On the contrary, many of them made optimistic claims about the new era of globalization (Verick and Islam, 2010: 4).

The financial crisis, which began in 2007, was joined by recession in the nonfinancial sector of global economies (Kotz, 2009: 306). It was not only a global financial crisis, but also a crisis of global neoliberal capitalism. As argued by Kotz, the 2008 crisis should be seen as a systemic crisis of neoliberal capitalism as capitalism undergoes crises periodically. Kotz calls the 2008 crisis ‘systemic’ due to fact that it could be resolved only through a major restructuring of the system. He also mentions that these systemic characteristics of the crisis cannot be resolved with limited interventions. According to Kotz, this kind of crisis also occurred at the end of the 1920s and the 1970s. Those crises also can be assessed as systemic crises as in both cases the crises were followed by a restructuring of capitalism. Evidence from the 2008 crisis also shows that it was more than just a financial crisis and severe recession.

As evaluated by Bresser-Pereira (2010), the GCC can be assessed as a social crisis as well. As the International Labour Organization estimated, unemployment reached about 20 million in 2008, and at the end of 2009 it was about 50 million. According to the Food and Agriculture Organization, the number of undernourished people increased by 11% in 2009, exceeding one billion for the first time in human history (Bresser-Pereira, 2010a: 4). Moreover, there were adjustments of working hours. During the crisis the rise in the number of unemployed people was not as sharp

as it could have been, but working hours decreased in most European countries. For example, in UK a adjustment to working hours at that moment was higher than employment. The crisis hit advanced economies harder, and especially younger men. Workers with lower levels of education were more vulnerable to the impact of the crisis (Verick and Islam, 2010: 27-31).

Explaining the financialization process of neoliberalism, under which financial wealth was created, and which was disconnected from real wealth or from the production of goods and services, Bresser-Pereira argues that “perverse developments, and the deregulation of the financial system combined with the refusal to regulate subsequent financial innovations, were the historical new facts that caused the crisis” (Bresser-Pereira, 2010a: 2). In other words, it was the deregulation policy of neoliberalism that gave impetus to the crisis. On the other hand, both the US Federal Reserve Bank and US monetary authorities kept interest rates too low for too long, leading to a sharp increase in credit supply. Consequently, low interest rates and return on government bonds forced investors to search for higher returning assets. They returned to riskier segments of the market. This resulted in almost unregulated financial innovations (Verick and Islam, 2010: 18).

As put forward by Kotz, when a particular form of capitalism enters a crisis, it gives rise to a new form of transition beyond capitalism. If a restructuring of capitalism occurs, rather than its replacement, we will experience the emergence of a state-regulated version of capitalism. However, there are different possible types of state-led regulation of capitalism. What form emerges depends on the outcome of struggles among different actors (Kotz, 2009: 317). The presence of growing social issues such as a high rate of unemployment, loss of homes and insurances, or increasing threat of global climate change are likely to lead to the possibility of the emergence of a social-democratic form of capitalism.

From Boule's point of view, the GCC showed the contradictory inclinations of the neoliberal project in respect to state systems (Boule, 2013: 42). Analyzing South Africa in detail, Boule states that as a result of the GCC half a million jobs were lost in 2009 while economic growth and FDI work were slowed. Even issues like the state's involvement in the profitable mining sector began to be politically debated (Boule, 2013: 64). For example, after the global crisis, the power of executive branches of government and the roles of departments of finance, treasury, and foreign

affairs increased. However, he concluded that despite the fact that the ideology of the WC (neoliberalism) may have been weakened by the GCC with the formation of reactive protectionist and nationalization policies, measures of neoliberal economic doctrine are still dominant because of the continuity of the distributive and equity characteristics of neoliberalism.

The 2008 crisis is a crisis of neoliberalism. It is the fourth structural crisis in capitalism since the late nineteenth century. Each crisis established a new form of social order. The 2008 crisis showed not only requirements for new financial regulation, but also new corporate governance and policies. It is said that the GCC “is only the initial step in a longer process of rectification” (Dumenil and Levy, 2011: 2). It also generated stronger government intervention and international cooperation due to the necessity for the establishment of renewed configurations.

However, according to Konings (2009: 111-113), neoliberal practices have never fully retreated from public institutions or diminishing political capacities; rather, neoliberalism has formed new institutional mechanisms of control. The neoliberal era has not seen a reduction but rather a growth of institutional control. It provided strategic flexibility for financial elites and their enhanced capacity to control social life. This was a crisis of the institutionalization of relations between market and state. Other scholars argue that the GCC has discredited neoliberal ideas. The only reason neoliberalism has continued to guide economic thought is that a coherent alternative has not yet been presented (Cahill, 2014: 9).

Brenner et al. suggested three possible scenarios after the GCC from an analytical perspective: zombie neoliberalization, disarticulated counter-neoliberalization, and orchestrated counter-neoliberalization. According to the zombie neoliberalization scenario, the GCC of 2008-9 did not significantly weaken the tendencies of the last three decades. Financial speculations resulting from neoliberal policies that had been consolidating during the 1990s and 2000s became the main causes of the GCC and they seemed to be restrained after the crisis. However, the basic orientation of neoliberalism towards imposing a market-driven economy remains dominant. State-imposed market discipline remains essentially inefficient. Social and economic policies continue to remain dependent on policy agendas that set priorities of maintaining investors’ confidence, a good business climate, free trade,

and privatization. Consequently, there would be further development of market-oriented regulatory arrangements (Brenner, Peck, and Theodore, 2010: 339-340).

According to the disarticulated counter-neoliberalization scenario, new strategic opportunities would arise after the crisis, which would result in promotion of market-restraining regulatory arrangements. Considering the number of organized movements against neoliberal policies and the various anti-globalization demonstrations held before any crisis, as a result of any crisis there is a possibility for new social movements and political organizations to appear. However, as highlighted by Brenner et al. (2010: 341), counter-neoliberalization projects in this scenario remain isolated, restricting themselves within local communities, regions, or nationalized parameters.

Orchestrated counter-neoliberalization is the third scenario, according to which a market-restraining form of regulatory arrangements would be shaped. Unlike the previous scenario, regulatory arrangements here do not occur in isolation; there would be interconnectedness across places and territories, sustained efforts of knowledge-sharing, policy transfer, and institutional building among diverse actors. This scenario presupposes a shift towards the organization of economic and social activities (Ibid: 341-344).

Similar to the first scenario of Brenner et al., Aalbers also argues that the ideology of neoliberalism might fail after the crisis, but neoliberal practice may still exist. According to him, and as has been argued by other scholars, most of the policies designed to respond to the crisis might carry some features of Keynesianism, and represent a part of Keynesianism. Moreover, neoliberalism is flexible enough to be presented as the best solution for existing socioeconomic problems. It may lose its dominance, but like a creeping cancer neoliberal practice is able to resurface in new and unexpected ways (Aalbers, 2013: 1055).

2.3.4. The Dissolution of the USSR and Shock Therapy in the Post-Socialist World

The dissolution of the Soviet Union (the USSR) gave rise to a transition process toward a market relations-based economic system. Transition processes are not restricted to economic fields. As scholars of transition processes recognize, a triple

transition occurs: social, economic, and political. This subchapter offers a short analysis of the theory and practice of economic transition in East Europe and the post-socialist world.

During the transition process great efforts were made to eliminate the elements of centralized economy by means of implementation of an alternative economic organization. However, as highlighted by Marangos (2002), due to the dominance of neoclassical economics in the literature and in economic practice, it was hard to pursue any other alternative approach. In other words, the dominance of the neoclassical approach ensured it as the transition strategy from command economy to market economy. This strategy, in general, includes a set of liberalization, stabilization, and privatization policies based on neoliberal ideas. This solution to the transition problem was the only one offered by IFIs. Therefore, any debate on transition had little to do with the method or ideology underpinning the transition process. As we have seen above, these elements had already been determined and imposed upon world economies, and the initial conditions of a given transition country were not a concern. As a result, debates on transition were restricted to the speed of the reforms. The only concern was whether transition economies should immediately liberalize, stabilize, and privatize, implementing the shock therapy approach, or apply neoclassical policies at a slow pace, namely the gradualist approach.

Neoclassical economics inspired the shock therapy model of reform, which was experienced in a number of East Europe countries like Poland, Hungary, Czechoslovakia, Bulgaria, Albania, Estonia, and Latvia along with such post-Soviet countries as Kyrgyzstan, Russia, and Kazakhstan. Neoclassical economists advocated the swift change of existing conditions through the introduction of macrostabilization, liberalization of trade and prices, currency convertibility, and privatization. The expectation was that enterprises would adjust to competition, spontaneous entrepreneurial initiatives would spring up to take advantage of new opportunities, and markets would be formed. However, there were temporary side effects such as unemployment, deterioration of real incomes, and economic recession.

Scholars, economists, and politicians put forward their stances on each side of the debate. Advantages and disadvantages of each model were offered, but no general consensus emerged as to whether the shock therapy model of reform was superior or

inferior to a gradualist model. In addition, as mentioned by Marangos:

debate between shock therapy supporters and the gradualist neoclassical economists was immaterial. Both transition approaches adopted a combination of shock therapy and gradualists models. A careful investigation of the reforms recommended and implemented with regard to price liberalisation and stabilisation, privatisation, monetary and fiscal policies, and international trade policies reveals contradictions and inconsistencies in each approach to the point that the distinction is, in fact, invalid (2002: 61).

It is rather the difference of speed and the sequence of economic reforms that have remained the main focus of the debate. In practice, the shock therapy model of transition derived its name from the economic reform package initiated in Poland on January 1, 1990. Roland (2001) links the shock therapy model to the WC and the gradualist model to an institutionalist perspective. While Murrell (1993) refers to the shock therapy model as neoclassical, Marangos (2002) distinguishes between a neoclassical model of shock therapy and the model of neoclassical gradualism. Easterly (2005) views shock therapy as a straightforward application of the IMF-WB SAPs (Snowdon, 2007: 171-173).

The shock therapy model was proposed by Jeffrey Sachs, a professor of Harvard University. His thoughts are generally connected with founding a new discipline of economic theory of transition and he described “how the West should seek to reshape the life of the entire East European region” (Gowan, 1999: 187-188). According to Sachs, in order to reshape those economies, an international environment must be created, in which transitional governments have to follow rational policies designed by him. The expected results of these rational policies were the generation of prosperous capitalist democracies by creation of free trade regimes and the institutional and economic conditions to attract FDI. He developed his thoughts in parallel with the views of the US and UK governments, rejecting mixed or hybrid forms of socioeconomic reorganization. He even rejected the Third Way approach. According to Sachs, transitional economies should follow a western-style market economy. His policies have been referred to with different names, like ‘shock treatment’, ‘radical economic reform’, ‘big bang’, or ‘shock therapy’ (Sachs, 1989: 18-19). Other scholars describe it as a simultaneous implementation of a package of reforms over a short period of time. Since reforms are complementary, they need to be introduced quickly as a comprehensive package. Shock therapy or big bang policies

are based on the argument that partial reforms are unlikely to work, and indeed are more likely to contribute to disorganization. It was argued that these changes needed to be made as soon as possible, because the fall of the previous regime provided a 'window of opportunity' in which such drastic changes would be politically feasible. It was compared to a 'honeymoon period', or a 'period of exceptional politics' (Murphy, Shleifer, and Vishny, 1992). Quick reforms also have some economic advantages, as they lower the risk of reversibility. In other words, reformers need to implement radical changes while the forces of resistance are relatively weak. Resistance to policies is then expected to be much lower, because in such a period society is ready to welcome the ideas of democracy and the market economy.

According to Feltenstein and Nsouli (2003), if we look at the policy packages as a whole, the big bang approach serves to welfare concerns as adjustment and reform policies reinforce each other. Another argument of shock therapy is that, despite the smaller shocks of a gradualist reform, people will still dislike the drop in social welfare. There will be dissatisfaction and constraints for further reform (Martinelli, 1993). According to supporters of shock therapy, there would be winners or losers regardless of which model is chosen since these models are all based on the same ideas of market-based economic organization. However, the quick implementation of reform allows for certain policies to balance out others. A good example of this would be the loss of the advantages of trade liberalization due to price liberalization in the gradualist model case, according to which price liberalization and trade liberalization are implemented separately due to policy makers wanting to minimize the shock (Feltenstein and Saleh, 2003).

The shock therapy model also stresses interdependence and the mutually supportive character of relationships in reform programs. Individual elements of the reform program are supportive elements of other reform programs. The idea is that there is no choice between carrying out one reform and waiting for another:

restructuring in the shock therapy model could not take place without a convertible currency; a convertible currency was impossible without opening the economy to international competition; international competition could not be effective without restructuring (Marangos, 2002: 44).

According to this model, reforms should be introduced simultaneously in a short period of time. The gradualist approach, meanwhile, first focuses on establishing

economic, institutional, and political structures before any attempt to liberalize is made. From the gradualists' point of view, implementation of any of their reforms requires a minimum standard of living.

In both models there is uncertainty about the future. Literature sources handling post-reform situations in this regard are limited. According to Martinelli (1993), this might be due to uncertainty about the impact of the policy instruments to be employed in economic stabilization or about the duration of the period of transitional costs. Fernandez and Rodrik (1992) underline different arguments about the uncertainty after the post-reform period. They make the argument that it is not enough for a policy action to represent a positive sum game for it to be undertaken. This is due to risk aversion and uncertainty about who will end up benefiting from the reform, that is, uncertainty about the post reform period (Grealy, 2010). The decision as to why countries choose shock therapy or gradualism may differ according to country. However, there was a certain fear that communist political elements would be able to steer countries back to the conditions of Soviet days. IFIs and western advisers sought ways to eliminate the possibility of such a continuance or a return to the command economy. The only concern was whether transition economies were to liberalize, stabilize, and privatize immediately or not. Another important point about shock therapy here is that it had already been well formed and prepared when it began being implemented under the supervision of international institutions. The underlying cultural and social conditions of any given recipient country were not a concern.

As emphasized by Snowden (2007), scholars supporting gradualist approaches were influenced by Hayek's critique of top-down societal engineering. They criticized shock therapists as favoring a top-down, technocratic, utopian engineering approach that underestimated institutions' potential (Murrell, 1993). Thus, from the point of view of Stiglitz, shock therapy underestimates the importance of informational imperfections, social and organizational capital, and necessary legal and institutional infrastructure, which is a key prerequisite for an effective market economy.

As mentioned by Kolodko (2000), the transition to a market economy is a lengthy process that comprises the construction of new institutional arrangements for a market economy requires, besides liberal regulation and private ownership, proper institutions. According to Kolodko,

building institutions is good, but in reality, they must be learned. Building institutions is a process that takes a long term. By the very nature of this long term and complex process, it cannot be carried forward in a radical way. It takes time and is of both financial and economic senses. It is risky and can expose the country to social and political tensions (Kolodko, 2000: 79).

As a result of both models, it is expected that freeing up the planned economy should increase production. Early projections of growth in the region were optimistic. However, all countries in transition traversed a prolonged period of recession and even depression, which was counterintuitive from the point of view of this theory. Later, studies recognized that the economic decline was due to the lack of effective markets, which did not materialize as expected. Furthermore, the high rate of unemployment did not attenuate when growth resumed (Blanchard, 1997: 25-54). These and other puzzling effects led Blanchard (1997: 26) to admit that “we are some way from understanding the effects of macroeconomic policies in the context of transition economies”.

According to Gowan (1999: 188), Sachs’s shock therapy model was formulated for the solution of one big problem: how the entire ex-Communist region, or East Europe and the former USSR, should best be organized in order to achieve “a recovery of human freedom and a democratically based rise in living standards”. However, the model led to disappointments in its attempts to create such welfare. More precisely, the model resulted in a double shock: first, it broke up regional trade and production linkages, and second, old mechanisms destroyed a new mechanism. Expectations of shock therapy were not compatible with results. For example, the expected effects of the shock therapy model in Poland made 400,000 people jobless, but the unofficial number of jobless reached 3 million. Sachs explained this by saying that the decline in Poland in 1991 was not a result of the economic reforms, but rather of the collapse of trade with the former Soviet Union. He also advocated his policies by saying that crisis had already been taking place there long before the implementation of the shock therapy model (Gowan, 1999: 200-203).

The price for transition under the shock therapy model was also very high in terms of human life. According to Gowan, it generated a health crisis in three ways: by increasing stress-related illnesses, by resulting in dietary deficiencies, and by causing sociopsychological illnesses. For example, murders increased by 42% in Russia in 1992, and homicides increased by 43% in Hungary between 1989 and 1992

(Ibid, 1999: 204). The problems of poverty and violence thus became very serious in many countries experiencing a transition period.

The shock therapy model also failed to regulate the trade regime. By liberalization and free trade, the model aimed at trade that would lead to recovery. However, it actually led to price increases due to reduced output of goods. Moreover, the results of negotiations with western countries were asymmetrical in favor of the western partners. Severe protectionist barriers from the EU existed under the Europe Agreement. For example, exports of clothing, textiles, and footwear declined by 48% and iron and steel products declined by 20% in Hungary in 1992. In other words, traditional export sectors lost their positions, but new sectors still have not emerged (Ibid, 1999: 208-209).

The shock therapy fiscal crisis generated two options: either accept aid and loans from IFIs under the SAPs to close deficits, or massively cut back on government spending. Combined options were usually implemented, causing long-term damage to the social and administrative as well as the economic infrastructure of the transition countries. There was one exception: Poland. According to Gowan (1999: 212), it was the cancelation of half of Poland's debt by the IMF that enhanced the financial position of the Polish government. This created the basis for stronger confidence in the future on the part of private capital. Supporters of the shock therapy model tended to point to the growth rates in Poland as a sign of success, claiming that Poland followed the shock therapy model, while the Hungarian case was worse and Hungary did not follow the shock therapy model. As Gowan argues, this was not a fully true argument. In practice, both countries followed almost the same policies of liberalized prices, reduced wages, and free trade. Moreover, Hungary attracted roughly half of the region's FDI. Consequently, the conclusion that can be drawn here is that debt cancellation was of more importance during the transition period, from a macroeconomic point of view, than FDI orientation.

Post-Soviet countries experienced corruption and a rise in crime during the transition economy period. All of this worsened the conditions for implementing economic reform programs and gradually led to inflation, inequalities, and disillusionment. According to Sachs, all of this occurred due to the weakness and disorganization of civil organization. Corruption was not a new phenomenon and members of political parties had used their political power for their own benefit.

However, with the formation of plural party systems, corruption could not be hidden any longer (Marangos, 2010: 127). Additionally, shock therapy supporters claimed that the corruption level increased due to the implementation of a gradual model instead of the shock therapy model. On the other hand, as argued by Swain and Mykhnenko (2010: 127), corruption was used to justify and promote neoliberal policies in the post-Soviet region. According to him, neoliberalism and corruption can be considered as counterparts.

Under the leadership of Yegor Gaidar, head of an economic team responsible for designing reform policies, the federal government of Russia started to implement a shock therapy model in January 1992. Immediately after the start of its implementation, Russia's President Yeltsin promised to raise standards of living. However, the decline of living standards in the following years and the success of the Communist Party in the 1996 elections called into question the success of shock therapy reforms. Analyzing data on employment, earnings, and the mechanism of income stratification for Russia during the first five years, Gerber and Hout (1998: 2) concluded that despite the fact that the private sector had grown, self-employment remained at a very low level from February 1991 to January 1996. Incomes decreased while unemployment increased. Some entrepreneurs and managers achieved dramatic success while the majority of them experienced heavy losses during the hyperinflation period. As a result, income distribution and inequality increased sharply. The gender gap in earnings remained greater in the private sector than in the public sector. According to the authors, these developments deepened stratification in Russian society (Gerber and Hout 1998: 3-4).

In other words, despite all the efforts made by Yegor Gaidar to follow the Polish version of implementation, the results were far different. Taking similar shock therapy model reforms at the start of the transition period but obtaining different results was a disappointment. Analyzing the reasons for and the results of these differences, Muller concluded that the shock therapy model implemented in Russia was based on Polish circumstances. The most influential economic theories could not explain the crucial features of the reform process in Russia. The shock therapy model failed to provide a feasible plan of action for the Russian case. Moreover, differences in the results of implementation did not depend on the speed of reform, as the shock therapy model prioritized, but rather the coherence of reforms (Muller, 2007).

As a result, although the shock therapy model was comparatively successful in some economies, it totally failed in others. When considering the result-based content of implemented policies, it does not matter which of the two models was chosen by a certain country, because both models aimed at market-oriented socioeconomic organization in the particular country. As mentioned by Tong, it is not neoliberal policies but rather the founding regime in the country that determines the optimal reform policies. For example, the economy of China has a socialist character, and that country implemented reforms in its own way. China's success rested largely on its ability to introduce capitalism within a socialist political sector. Here, maintaining the balance was pivotal for the success of the policies (Tong, 2004: 86).

2.4. Critical Analyses of the Practice of Neoliberalism

The experience of the practice of neoliberalism in many countries of the world showed that in most cases it resulted in much destruction, not only within institutional frameworks and powers, but also in social relations, welfare provisions, modes of life, and ways of thinking. Since market values and structures were imposed, they gradually negatively affected not only economic structures but social and political structures as well. As Harvey highlights, it seemed that what was promised as the myth of neoliberalism was only the propagation of the think tanks and media, which were dominated by neoliberal supporters. According to them, certain sectors failed because they were not competitive enough. It was claimed that increased social inequality was necessary to encourage entrepreneurial risk and innovation. Problems arose due to the lack of competitive strength or because of personal, cultural, and political failings. If conditions of life deteriorated, it was because individuals failed for personal or cultural reasons to enhance their own human capital through education (Harvey, 2007: 35). However, as Stiglitz (1991) highlighted in his analysis of the PWC, neoliberals underestimated the importance of informational imperfections and social and organizational features.

Saad-Filho divides the devastation of neoliberalism into five stages. First, neoliberal policies work in favor of large domestic and foreign capital at the expense of smaller capital and workers. Second, due to deregulation, it reduces coordination of economic activities, and, as a result, the economy becomes more vulnerable.

Consequently, market freedom increases uncertainty and the possibility of onset of crisis. Third, it destroys traditional industries and jobs that are defined as inefficient and privatized. Their elimination is rarely compensated by the rapid development of other industries, resulting in greater poverty. Fourth, neoliberal policies overestimate the levels of investment that can be generated after the implementation of neoliberal policies. Finally, neoliberal policies are not self-correcting (Saad-Filho, 2005: 116-117).

In the 1990s and 2000s, neoliberalism faced serious challenges such as the uprising of the Zapatista Army of National Liberation against the WC in 1994 and the Asian crisis in 1998, which were followed by economic crashes in the Russian Federation and Brazil. All these events were hotly disputed and challenged diverse assumptions and critiques about neoliberalism. In particular, the formation of a global market and the uneven distribution of material benefits emerged as one of the main issues for critics. Millions of ordinary people across the globe came out to protest the neoliberal agenda designed by the IFIs and the WTO, taking to the streets in Seattle, Washington, Davos, Melbourne, and other cities. As Steger and Roy (2010: 120) stressed, massive protests took place at the G8 Summit in Genoa, Italy, in August 2001, which showed how millions of people rejected the neoliberal idea to acknowledge a single global market.

Rising cultural and ethnic tensions in an increasingly globalized world gathered strength in the late 1990s. Market superiority was achieved by breaking down communities and traditional ways of life. It also resulted in the displacement of small farmers and increased levels of migration. For example, neoliberalism kept a parallel pace with the level of immigration, the latter heavily increasing during this time.

Neoliberal policies of unregulated financialization created serious dangers for contagious crises. For example, two sets of interrelated financial crises took place in the 1990s: the 'tequila crisis' in Mexico in 1995 and the Asian crises in 1997-98. As problematized by Harvey (2006: 94), it is hard to explain the interrelations of crises because of speculative movements and expectations in financial markets that do not necessarily rely on facts. Deregulation allowed the financial system to become one of the main centers of redistributive activity through speculation, predation, fraud, and thievery (Harvey, 2006: 161). Perhaps it would be much easier if we admit the fact

that a series of neoliberal deregulations resulted in copies of mergers, which gave birth to huge financial services, holdings, and companies. Those companies launched security ventures in areas that were not necessarily part of their underlying business. Moreover, parallel development of the information technology sector made derivatives, financial futures, credit default swaps, and related instruments popular (Steger and Roy 2010: 124).

Considerable discussions about the financial crises that resulted from neoliberal policies took place, wherein the causes, effects, and results of debt crises of the early 1980s and financial crises of the 1990s were studied from different perspectives. In discussing such crises, neoliberals argued that “the system as a whole was efficient and the problem was that some countries had internal problems, which undermined their capacity to properly integrate into the system” (Kiely, 2005: 109). In the Asian crisis case, for example, neoliberals said that the countries impacted by the crisis did not follow the monetary policy that had been agreed upon with the IMF. They pursued monetary policies that confused investors, according to neoliberals. By the time the IMF tried to respond to the Asian crisis, in those countries either the interest rate or the exchange rate was so high that there was no way out (Lissakers, 1999: 3).

However, the same Asian countries, prior to the introduction of neoliberal policies, were assessed as ‘Asian Tigers’ due to enormous developments in a short period of time, while the results of implementation of neoliberal policies were devastating. For example, the GDP fell by 13.1% in Indonesia in 1998, by 6.7% in Korea, and by 10.8% in Thailand. Three years after the crisis the GDP in Indonesia was still 7.5% lower than it was before the crisis, and it was 2.3% lower in Thailand. The most important thing was that the GDP in Indonesia fell and unemployment surged. The IMF stepped in to abolish subsidies on food and gas, but riots and violence followed those steps. Ethnic Chinese residents were primarily blamed for the crises, and the wealthiest Chinese business elite decamped to Singapore. A wave of revenge killings and attacks started against the remaining Chinese minority. Ethno-nationalism arose as a result of the search for reasons for social collapse (Harvey, 2006: 96-97). The standard explanation of the crisis was that there was too much state intervention and too many corrupt relationships between the state and businesses (crony capitalism). Interestingly, however, those countries that did not liberate their capital

markets, such as Singapore, Taiwan, and China, were far less affected than those countries that did liberate them. Malaysia was the only country that both ignored the IMF and imposed capital control, and its economy recovered faster than those of the other countries (Ibid: 97).

Increased levels of poverty and inequality were another main reason for neoliberalism to become an object of criticism. These problems grew to become so noteworthy that it led to new initiatives within neoliberal policies. Taking into consideration all the issues of criticism that had been addressed for earlier SAP, WC, and PWC policies, the IMF and the WB made changes in their lending policies. New lending facilities linked to Poverty Reduction Strategy Papers (PRSPs) were initiated by the IMF and the WB in 1999. However, as per Johnson's criticisms, the PRSPs remained as neoliberal economic policy. The United Nations Conference of Trade and Development (UNCTAD) defined this policy as 'old wine in new bottles' (Johnson, 2005: 138). Additionally, this reformed neoliberal approach narrowed the discourse of poverty and argued that with greater education and training, lighter regulation, and asset redistribution, poor people would participate more effectively in markets. For example, it was assumed that asset redistribution in lending by limited aid for social needs and additional aid for micro-credit would lead to higher incomes for poor people in the market, and that educational access may be necessary, but not sufficient, to reduce poverty (Ibid, 2005: 140).

By early 2009, economic experts around the world agreed that the global economy was in the midst of a recession. Political leaders not only openly questioned the tenets of neoliberalism but also argued for greater regulatory oversight by national and global institutions (Steger and Roy, 2010: 131). Former Federal Reserve Chairman Alan Greenspan admitted that neoliberal ideology was not working any more. Especially after the start of the global financial economic crisis in 2008, the coherence and reliability of neoliberalism began to be questioned.

The sharpest criticism of the neoliberal model was made in March 2009, when the UNCTAD published "The Global Economic Crisis: Systematic Failures and Multilateral Remedies". The report comprised four main points. First, the market fundamentalist laissez-faire thoughts of the last two decades failed the test upon real-world application. Second, deregulated financial markets created an illusion of risk-free profits. Third, the growing role of financial companies resulted in the emergence

of instruments and derivatives open to speculation. Fourth, the international system's inability to manage the exchange rates led to speculation, imbalances and country defaults (Steger and Roy, 2010: 133-134).

In addition to these issues, the role of the state also began to be actively questioned as an object of criticism because the state had become merely a set of institutions since the rise of neoliberalism. Once the state was transformed into a neoliberal set of institutions, it became a prime agent of redistributed policies. The state performed redistribution through privatization and cutbacks in government expenditures. For a short period, privatization appeared beneficial for low and short-term income earners, but in the long term, it was negative. Harvey gave an example of Thatcher's privatization program, according to which privatization of social housing in Britain appeared to be a gift to the lower class. However, once the transfer was accomplished, housing speculation took over, forcing the low-income population out of the city (Harvey, 2007: 38).

Neoliberal policies were designed to make state institutions act as a private sector through the process of deregulation, liberalization, and privatization. As was mentioned before, these policies had been adopted under the name of the SAP. However, according to neoliberals, the failure of neoliberalism was not due to the content of the policies or that they were misguided, but rather due to inappropriate institutions that applied those policies. Therefore, neoliberalism reformed its policies under the banner of the PWC, according to which good governance became a priority issue. Good governance meant the accountability of government for a clear framework, which embraced the rule of law and transparent and open government. These reformed policies had not been developed by the WB, but instead were recommended by the governments of the most developed countries, meaning that, practically speaking, that there was no difference (Kiely, 2005: 93).

As mentioned above, contemporary neoliberalism is mostly associated with the Chicago School. It highlights the efficiency of market competition, the role of individuals in determining economic outcomes, and inefficiencies associated with intervention of the state (Palley, 2005). Among these, the most controversial point was intervention of the state. As Gamble wrote, from the very beginning of neoliberalism there was an ongoing debate about drawing an optimal line between state and market relations. Here, the discussion has two sides: the first is the laissez-

faire side, according to which the best policy is to allow markets to function well by removing obstacles, and the second is the social market side, according to which, in order to reach free markets' full potential, the state has to be active in creating and sustaining institutions for the market. As can be seen here, the state plays an important role in both considered cases. In the first case, the state's role is to remove obstacles for the market to function, while in the second case, the state has the responsibility of forming appropriate institutional settings within which markets could function. In the second case, neoliberalism legitimates a wide range of state interventions. In the first case, on the contrary, the state's intervention would harm the functioning of the market (Gamble, 2006: 21).

Additionally, in neoliberal practice it is hard to define the general characteristics of the state for two reasons (Harvey, 2005: 70). First, as seen in the Chilean case, systematic divergences of the state in practice and in theory have become obvious. In other words, actions of neoliberal states in practice have become different from what has been described in theory. Second, the practice of neoliberal state theory varies from state to state, as well as over time.

Besides these critics, there were scholars who supported the role of the government under neoliberal policy as well. According to Palley, the role of government in a market economy goes far deeper. Its contribution is inadequately understood by neoliberals. Government does not only play a definite role in remedying market failure, but also in stabilizing the business cycle through fiscal and monetary policy, too (Palley, 2005: 27). Additionally, it provides social services related to education and health. In his book, Cahill (2014) examines the durability of neoliberalism in the face of the 2008 crises and the failure of those who predicted its collapse. He argues that those scholars who thought the crisis brought the end of neoliberalism misunderstood the very nature of neoliberalism. In accordance with Cahill's point of view, neoliberalism was understood as being about reducing the size of the state and its regulation of markets (Cahill, 2014: 8). He notes that neoliberalism in practice is distinct from neoliberal theory. As an idea, neoliberalism interprets human society as a reflection of the reality of the dominant ideas used to explain it and views ideas as the main drivers of political and economic change.

Cahill also argues that neoliberal theory is insufficient for understanding the major changes occurring in capitalist states and economies during the last three

decades. He offers his alternative materialist interpretation of neoliberalism, where society is taken not as a reflection of dominant ideas but rather as historically specific institutions and social relations that structure people's everyday lives. In other words, for him, neoliberalism is understood as an evolving, socially embedded policy regime defined by microeconomic policies of privatization, marketization, and deregulation as well as macroeconomic policies of inflation targeting.

The emergence of this regime resulted in radical transformation of the ways in which states regulated economy, society, and, indeed, their own internal operations (Cahill, 2014: 9). He highlights that empirical evidence of international comparative studies showing discrepancies between neoliberal theory and practice with respect to size and scope of the state has increased. Moreover, reform programs of deregulation, privatization, and marketization resulted not in a diminution of the regulatory reach of states, but instead established new concurrent regulations and agencies to govern the market (Cahill, 2014: 14). Existing neoliberalism is not correlation of normative theory and policy practices. Rather, it has become a more complex, messy, uneven, and multicausal tool of political economic change (Ibid, 28). Neoliberal theory is the utopian character of neoliberal ideas. These ideas are unsuitable because they make unrealistic assumptions about crucial elements of capitalist societies, their constitutions, and dynamics. However, some scholars, like Peck and Tickell (2002), argue that neoliberalism is the ongoing process, not the 'end state' (Peck and Tickell, 2002: 383). Peck and Tickell stress that the process of neoliberal transformation is conditioned and limited by political economic institutional environments; therefore, each process might have its own uneven characteristics and needs to be examined separately.

Limitations of the conceptualization of the state together with the market were also addressed by Chang. As Chang argues, neoliberalism which can be seen as the marriage of neoclassical economics and Austrian-Libertarian political philosophy has been implemented through "intellectual contortion and political compromise" (Chang and Evans 2000: 5). He underlines that neoliberalism has some limitations in the conceptualization of the market, the state, and institutions. From his point of view, neoliberalism is also deficient in theorizing the interrelationship among them. In his critiques, Chang highlights the institutional insufficiency of the neoliberal market and the requirement for institutional specification.

At the end, markets are political constructs because the market is defined by formal and informal institutions that are determined in the realm of politics. Besides the fact that markets are politically constructed, claiming that they are ‘uncorrupted’ is itself a political argument. In other words, politics should be seen as an institutionally structured process. Institutions influence not only people’s political actions and their motivations, but also people’s perceptions of their own interests and of the legitimate boundary of politics. It is the political determination of the structure of rights and obligations that underlies market relationships. Chang also argues that the free market in the end is not free, as all markets have some state regulations. It is called ‘free’ because some state regulations can be so totally accepted that some markets appear to have no ‘intervention’ at all and therefore appear to be ‘free’ (Chang and Evans, 2000: 16). Moreover, as we have seen above, in the neoliberal framework the ideal market is equated with the ‘perfectly competitive market’. However, in accordance with Chang and Evans (2000: 16), neoliberalism is only one of the many theories of the market and not a particularly good one.

Neoliberalism was also criticized for serving a particular group. After a brief analysis of the historical background of neoliberalism, Harvey concluded that “we can interpret neoliberalization either as a utopian project to realize a theoretical design for the reorganization of international capitalism or as a political project to re-establish the conditions for capital accumulation and to restore the power of economic elites” (Harvey, 2007: 19). According to him, the latter has dominated in the practice of neoliberalism. For example, as a result of neoliberal reforms in Russia and China, the power of the economic elite rose remarkably. The theoretical side of neoliberalism, meanwhile, has worked as an approach for the justification and legitimation of whatever needed to be done to achieve the goals of such particular groups.

Dumenil and Levy (2011) conclude that neoliberalization was a project to restore relations based on economic power. After the implementation of neoliberal policies in the late 1970s, the share of national income of the top 1% of income earners in the USA soared, to reach 15% by the end of the century. The top 0.1% of income earners in the USA increased their share in the national income from 2% in 1978 to over 6% by 1999. Under the Bush administration, taxation on income from investments and capital was diminished, while taxation on wages and salaries was maintained. The USA was not alone in this; the top 1% of income earners in Britain

have doubled their share of the national income from 6.5% to 13% since 1982. A small and powerful oligarchy arose in Russia after neoliberal shock therapy was administered in the 1990s. The wave of privatization in Mexico after 1992 catapulted a few individuals almost overnight into Fortune's list of the world's wealthiest people. Extraordinary surges in income inequalities and wealth occurred in China after the adoption of neoliberally oriented practices. East European countries and the CIS saw a terrible deterioration in social inequality, and the story was not different in the OECD countries as well (Harvey, 2005: 75-80).

Moreover, the period in which neoliberalism became hegemonic was also marked as a period of socioeconomic instabilities. In other words, as Harvey argues, "neoliberalism does not make a state or particular institutions of state irrelevant, but reconfigures state institutions and practices. It has changed content of state's role towards to market support" (Ibid, 2005: 81).

Competition between individuals, firms, or territorial entities (cities, regions, nations, regional groupings) may show positive aspects of neoliberalism, but competition often results in monopoly or oligopoly, or stronger firms driving out weak ones (Harvey, 2005: 67). Moreover, as stated by Shaikh, the idea that competition is the best way to enhance economic development and that international competition would help raise up weak ones is not based on reality. In practice, international competition works quite differently: it rewards the strongest and punishes the weakest. From this perspective, neoliberal free trade can be seen as a policy that is most beneficial for the advanced firms of rich countries. In this regard, practicing neoliberalism in less developed regions of the world is a "particularly cruel sport" (Shaikh, 2005: 48).

In conclusion, almost all values of neoliberal doctrine have been questioned from different perspectives. However, it seemed that there was still no worthy well-developed alternative to capitalism yet. In the first years of the 21st century, capitalism had an opportunity to recreate itself by focusing on questions and criticized weaknesses, but instead it continued to focus on the weaknesses of others. Unfortunately, as stated by Steger and Roy (2010: 121), jihadism provided an opportunity to extend the hegemony of neoliberalism on new terms. When neoliberalism clashed with jihadism, President George W. Bush and Prime Minister Tony Blair turned the security crisis into an opportunity to merge neoliberalism with

a neoconservative security agenda. Under the new security agenda, countries were told to support and stand with the UK and USA, with their policies based on global neoliberalism.

CHAPTER 3

NEOLIBERAL TRANSFORMATION IN KYRGYZSTAN

3.1. Introduction

Many scholars and policy makers have displayed an interest in the politics of transition or transformation, liberalization, privatization, deregulation, and democratization processes in the post-Soviet geography. Different approaches have been proposed for the implementation of economic reforms in academic discussions. As analyzed by Abazov (1999), among them, two major approaches were possible options for post-Soviet transition and development. The first was state-led development, where state institutions and state intervention would play an important role in the transition. The second was market-based neoliberal reform with minimal state intervention in the economy, where emerging market institutions would adjust the development. The state-led development in third world countries in the post-colonial era was associated with import substitution industrialization, while market-based neoliberal development (the free market approach) was associated with export-oriented industrialization.

However, as addressed in the previous chapter on the dominance of neoliberal policies towards the end of the 1980s, the comparatively successful practice of shock therapy in East European transition countries and the inclination of post-Soviet states to become a part of the world economy were determinant factors in the transition process from command economy to market economy in post-Soviet states. In East Europe, the end of state socialism led to an ideological vacuum, resulting in ideas about the superiority of markets and liberal democracy emanating from the west. Western counterparts, meanwhile, like in the Chilean case, were sending delegations and consultants for opening offices in the region and developing radical pro-market ideas. According to Wedel (2001), those pro-market ideas quickly captured the attention of ruling elites across East Europe and even in Russia itself. The expansion

of neoliberal ideas occurred very quickly and involved a number of people like western economic consultants who travelled to the region, specialists from IFIs, and a handful of young, reform-minded economists from the transition countries.

In Russia, the process was a little different. As the first president of the newly independent Russian Federation, Boris Yeltsin inherited a country with \$80 billion US dollars of international debts and an empty treasury. Moscow had insufficient reserves to cover its debt service. Moreover, the centrally planned economic system was disintegrating and the economy was in a free fall. On the other hand, the IMF, the WB, and the newly created EBRD were ready to offer loans to post-Soviet states with the condition of compliance with the standard neoliberal policy package (Rutland, 2013: 343). Thus, Russia turned immediately to the IMF for help with its serious debt crisis. The IMF lent to Russia a total of some 28 billion US dollar, including \$3 billion in 1993-4 and \$6.5 billion in 1995, with an \$18.5 billion Extended Fund Facility in 1996 (Stone, 2002: 6). The WB was also an enthusiastic participant in aiding market reform after Russia joined the Bank in 1992. The WB lent \$7.8 billion to Russia in the 1990s for 33 projects, focusing on private sector development and infrastructural reform.

As was seen in the previous chapter as well, as a condition of these loans from IFIs, governments were told that they had no choice but to accept the comprehensive package of the WC (Williamson, 2008). The package had already become the standard for lending and included standard programs and policies. As Stiglitz tells us, this was in essence “a set of policies predicated on a strong faith in unfettered markets and aimed at reducing, or even minimizing, the role of government” (Stiglitz, 2008: 41). Parallel to Russia, most leaders of the post-Soviet states willingly announced their desire to join the western-type economies (Zhukov and Rumer, 1996). Although the leaders of those states claimed that their main aims were the consolidation of statehood and the formation of a national economy, they found themselves in the hasty process of market economy transitions, led by IFIs. For example, lacking raw materials or easy access to foreign markets, the Kyrgyz government became convinced that development could only be achieved with foreign aid and investment. The plan of Akaev, a former president of Kyrgyzstan, was to attract investors by radically liberalizing the economic and political spheres (Pelkmans, 2005). As a result, Kyrgyzstan became the *Wunderkind* of the IFIs.

As Murphy et al. (1992) highlight, for neoliberal programs the background and the initial conditions of the transition countries were not a concern. Debates about transition were generally restricted to the speed of the reforms and whether or not transition economies should immediately liberalize, deregulate, and privatize. Reforms were urged to be quickly applied in the 'window of opportunity' following the fall of the previous regime. In general, it was assumed that the transition to a market economy or implementation of neoliberal policies would restructure centralized economies by expanding opportunities to private individuals, privatizing state assets, and liberating markets. The expectation was that as a result of neoliberal policies these countries would inevitably move closer to the model of western economies. This was definitely true for the admirers of shock therapy policies in the post-1990 era. According to Özcan (2010: 40), the gradual reformists were also influenced by the idea of a market-driven social and political transformation in the post-communist states. However, towards the end of the 1990s there were no signs of a market economy in those countries, only confusions that resulted from neoliberal policies. In other words, as argued by Bruszt,

liberation of economic activity from state intervention, in several of the countries in the region did not lead to the emergence of market order and competition, rather it led to the emergence of something that is closer to what one can call the state of nature (Bruszt, 2000: 198).

The fact that market-based economies in the developed capitalist countries had evolved over a long period of time was not taken into consideration in these transition debates. In the post-Soviet countries it was assumed that the implementation of neoliberal policies would ensure that the market would operate properly in the shortest period of time. However, not all post-Soviet countries agreed on implementation of this accelerated version of neoliberal policies through shock therapy and the adaptation of SAPs. Some of the Central Asian countries chose different strategies for transition. Among those five republics, Kyrgyzstan is generally considered to be the most reformist country, while Kazakhstan started with shock therapy but then moved to gradualism in the mid-1990s (Pomfret, 2005: 8).

In Uzbekistan, Islam Karimov followed an approach to economic transition that emphasized not growth but rather political and social stability at any cost (Spechler, 2008). In other words, the implementation of neoliberal policies depended

mainly on the political regime established in those countries. Central Asian regime leaders have followed different paths towards market transition.

Before analyzing the specificities of the Kyrgyz transition, it is useful to conduct a conceptual analysis of the so-called transition and/or transformation. As mentioned by Sanchez-Andres and March-Poquet (2004), economic transitions and elimination of centralized systems have been complex and heterogeneous processes. Therefore, there are different perceptions of them in the literature. Transformation is mainly explained as an open-ended process of change, while transition has an end. Transition in general is perceived in the sense of a transition to the western model of economy (Stark, 2005), while according to Pickel (2002) transformation is a process of transition from one system to another. In this chapter transformation, or implementation of neoliberal policies, and transition will be used in the same sense.

In regards to transition, Pickel (2002) argues that post-Soviet transition was not a scientific but rather a political project. He argues that transitions in those countries are results of a political theory rather than a scientific theory of transformation. Political actors have played a significant role in the transition process. On the other hand, according to Marangos (2010: 124), transition cannot be reduced to the study of economic factors alone. It is a cultural, holistic, historical, dynamic, and comparative process in nature. In other words, implementation of neoliberal policies includes all social fields as well.

This chapter will try to provide an overview of the neoliberal transformation in Kyrgyzstan in order to explain the sociopolitical context within which the gold extraction sector has developed. After a brief historical analysis of the move from Soviet rule to independence, specific aspects of the process of change will be analyzed by focusing on the liberalization, privatizations, and deregulation.

3.2. Political Economy of Kyrgyzstan: From Soviet Rule to Independence

Set in the mountains of Central Asia, Kyrgyzstan was one of the lowest income republics of the former Soviet Union, despite the fact that it had a relatively diversified economy and well-educated labor force. Under a command economy, Kyrgyzstan had become an industrial-agrarian country. As part of the Soviet Union, Kyrgyzstan played a small but highly integrated role in the centrally controlled economy. Its

largest role in the Soviet economy was as a supplier of minerals, especially antimony, mercury, lead, and zinc. Besides this, Kyrgyzstan was more dependent on agriculture than other Soviet Republics. Agriculture employed one-third of its work force while in other Soviet Republics the average of employment in agriculture was 19% (Zhukov and Rumer, 1996: 335). The leading activities in the sector were animal husbandry and vegetable growing. Agrarian specialization allowed Kyrgyzstan to better satisfy its need for foodstuffs with its own production. However, because of deficiencies in the agro-industrial complex and the insufficient development of light industry, it remained highly dependent on deliveries of non-food commodities from other regions. In the industrial sector the country had huge potential, and especially in the energy sector. It contained one-fourth of Central Asia's proven coal reserves and about 40% of its energy resources. However, little of this had been developed. Nonferrous metallurgy, however, had been developed significantly starting from the 1930s and 1940s. Starting from the 1980s this sector's development accelerated, when new deposits of mineral raw materials (tin, gold, semiconductor materials) were developed. Machine-building enterprises produced more than one-fourth of the total industrial output while light industry specialized in the use of local raw materials such as wool, cotton, silk, and hides. The food industry was based on the production of tobacco, meat products, and canned vegetables. Most of these foods were exported to other Soviet Republics, and at the same time, the production of some important foods (groats, vegetable oil, dairy products, confectionery goods) was insufficient for Kyrgyzstan's own need (Plyshevskii, 1995: 29-31).

Economic growth in Kyrgyzstan accelerated in the 1980s. The average annual rate of growth increased from 3.7% in 1981-5 to 5.0% in 1986-9. These years, as we will see in the next chapter, also saw the development of gold deposits in the territory of the country (Plyshevskii, 1995: 29). The first gold-mining field, the Makmal gold mine, started to work and other mining fields were explored. As a result, Kyrgyzstan became the third largest supplier of gold for the Soviet economy in a short period of time. As figures of 1990 show, the Kyrgyz economy contributed agriculturally some 1% and industrially 1% to 2% of the Soviet Union's total output (Curtis, 2003: 144). The collapse of the Soviet economic space, breakdown of traditional supply chains, and termination of substantial transfers from the Soviet Union hit the Kyrgyz economy particularly hard.

Shortly after independence on August 31, 1991, the newly established Kyrgyz government decided to establish the legal and regulatory foundation for a market economy. Compared to neighboring countries, it lacked large-scale industry, vast energy resources, or a large population and thus it attracted relatively little attention from western businesses and governments. Therefore, the only feasible option seemed to be opening the economy and following a path of aggressive market economy and democratization, putting emphasis on price and trade liberalization as well as integration into world trading arrangements.

In July of 1992, the republic's Supreme Soviet approved the government's economic and crisis resolution reforms for the period up to 1995, prepared with the participation of IMF and WB specialists. For the implementation of reforms under the supervision of these organizations, Kyrgyzstan was promised 300 to 400 million US dollars. According to the reform plan, it was expected that economic decline would stop by the end of 1992, with stabilization in 1993. In the following two years, important structural reorganization would be carried out. These aims were to be achieved through accelerated privatization, liberalization of trade, fiscal adjustment, and use of market methods. It was planned to achieve a positive foreign trade balance and to create suitable conditions for FDI (Zhukov and Rumer, 1996).

With the assistance of IFIs, the Kyrgyz government launched a structural neoliberal reform program in 1992, shortly after independence (Gleason, 2003; Luckins, 2003). The strategy chosen by Kyrgyzstan was based on radical and comprehensive economic transformation. The main elements of the structural reform program encompassed the introduction of a new convertible currency, price and trade liberalization, financial sector reform, and land reform and privatization of small-scale enterprises. These changes involved not only reform in economic policy, but also in the system of economic management and regulation, with fundamental reorganization in the overall economic system of the country (Abazov, 1999: 197). In the scope of this program, Kyrgyzstan carried out privatization of small enterprises, liberalization of trade and prices, and reformation of the country's banking and financial systems. These reforms took place so fast that, among the former Soviet states, Kyrgyzstan became a leader in the movement towards an open market economy during the rule of Askar Akaev.

However, implementation of the programs and reforms as framed by their supporters did not give the expected results. Deterioration of the economic situation and emergence of social problems resulted in a review of the reform program, especially for liberalization of prices. It was deemed necessary to regulate prices of the most important goods and to implement other economic regulatory measures to control inflation. IFIs argued that these deteriorations were the result of the Kyrgyz administration not understanding the reforms properly, or in other words not due to the ineffectiveness of shock therapy or inadequacy of the market, incompatibility between the fiscal policy and economic policy (Plyshevskii, 1995: 31).

As we will see in detail later, Kyrgyzstan has continually paid a cost for being quick to move towards radical neoliberal reforms in the 1990s. For example, in following neoliberal shock therapy policy, Kyrgyzstan drew reactions from its neighbor countries. As a response to the launching of the Kyrgyz currency, the som, and the liberalizing of prices and trade in May 1993 (Zhukov and Rumer, 1996), Uzbekistan closed its borders and established custom inspection posts along the gates linking the two countries. In 2004 Uzbekistan totally closed its border, not only for commercial goods but also for citizens. Moreover, Kyrgyzstan received the largest per capita amount of loans and aid from IFIs compared with other CIS members towards the end of the 1990s. Half of the loans and aid provided by the IMF were marked to be used for projects of reorganization of the economy. The other half were used for social needs: to support health care, and to purchase grain, sugar, and other consumer goods (Plyshevskii, 1995: 30-31). Almost all trade regulations, rules, and policies established in the framework of accession to the WTO were reformulated and redesigned in accordance with the rules of the Eurasian Economic Union, established between Russia and Kazakhstan and joined by Armenia and Kyrgyzstan in 2015.

3.2.1. Liberalization of Finance in Kyrgyzstan

On one hand, Kyrgyzstan was seeking financial support to carry out its reforms, while on the other hand, IFIs were ready to propose neoliberal programs and policies for transition countries after the collapse of the USSR. In exchange for major assistance from the IFIs, Kyrgyzstan received considerable support from not only IFIs but also from western countries (Huskey, 2002: 75). By following the reforms

imposed by those institutions, Kyrgyzstan received support from countries including Germany, Great Britain, the USA, Japan, Sweden, Turkey, Malaysia, and Switzerland. Major funding and technical assistance was provided to Kyrgyzstan on a grant basis or with soft loan terms (Luckins, 2003: 39).

With the support of that funding, Kyrgyzstan moved quickly towards liberalizing prices and finance and introduced national currency, the som, in May of 1993. The Kyrgyz som replaced the ruble in May-June 1993. The initial exchange rate of the som to ruble was set at 1:200. Kyrgyzstan became one of first members of the CIS to establish its own currency. Goals of quick reforms were aimed at an escape from the disparities inherent in dependence on the ruble zone. The som, which became fully convertible to foreign currency and has a floating exchange rate, was underwritten by neoliberal policies. However, the results of the monetary reforms carried out in accordance with IMF supervision were quite contradictory. After the introduction of the som, control of rising prices was not possible. As a result, the minimum consumer budget increased up to 56 som monthly, while the minimum salary generated only 32 som in June 1993. In order to lower inflation, in the second half of 1993, the Kyrgyz government started to use new long-term foreign loans (Plyshevskii, 1995: 38). Moreover, in October 1993, the Kyrgyz government introduced new economic reform programs for 1994-5, the priority of which was securing macroeconomic stabilization and lower inflation, deepening reforms in property relations, and correcting privatization policy.

Reforms for the establishment and support of a convertible currency and floating exchange cost the Kyrgyz government some 400 million US dollars (Jeffries, 2003: 253). The new currency in general was supported by loans provided by the IMF, the WB, and Japan. Beginning in 1993 with the support of IFIs for the som, inflation in the Kyrgyz economy was kept much lower than elsewhere in the CIS. From as high as 1400% annually in 1992-3, inflation dropped to some 180% in 1994. That high rate of inflation was actually the result of price liberalization. In order to eliminate the price distortion inherited from the price support policies of the Soviet regime, the Kyrgyz government deregulated most prices in 1992. Significant adjustment prices for bread, rent, and other items were established in 1993. However, price liberalization led to immediate rising inflation and reduced individual purchasing power. As a

response to that, pricing decisions of large enterprises were restricted by the Anti-Monopoly and Pricing Committee (Curtis, 2003: 154).

Financial adjustment also included rationalizing the state budgets and taxation. The loans provided by the WB for financial sector adjustment in the country helped the government to reorganize the banking sector and make improvements in the regulatory framework. New regulations and laws were accepted, including a central bank law, a banking law, a collateral law, and a secured transactions law (Gleason, 2003: 74). Meanwhile, the loans provided by the IMF were aimed at stabilizing the balance of payments, decreasing inflation, bringing stability to the fiscal position, managing indebtedness, and improving the banking system.

Having implemented whatever advised by the IMF in the early years of independence, Kyrgyzstan saw an improvement in the macroeconomic situation starting in the mid-1990s. The WB also reported that “the liberalization program has been completed”. Between 1995 and 1997, as a result of positive tendencies in economic development, the Kyrgyz government restricted the supply of the Kyrgyz som. However, external debt continued to grow rapidly. According to Jeffries, that was due to inefficient use of the provided loans (Jeffries, 2003: 254). The economy continued to be vulnerable. Ecological disasters and the Russian crisis in 1998 created difficult conditions for Kyrgyz currency policy. The Kyrgyz economy suffered again and the money supply rose in 1998 and 1999. During this period, inflation also rose, reaching 40% in 1999. The Kyrgyz som lost 35% of its value. Underlining the structural weaknesses of the economy, the shocks redirected the government’s attention to institutional reforms. However, these institutional changes came too late, as we can see from the fact that after the Russian financial market collapse in 1998, half of the twenty-six commercial banks in Kyrgyzstan closed in 1999 (Ibid: 70-74).

During the 2000s, in parallel with the changes in priority in the politics of IFIs from economic reforms to the Millennium Development Goals (MDGs), fiscal reforms slowed in Kyrgyzstan. The main fiscal reforms had been done during the 1990s. During the transition period of the 1990s, the priority of reforms focused on the reduction of poverty. In the framework of the MDGs, the Kyrgyz government volunteered as a pilot country for the Comprehensive Development Framework (CDF) program, which was developed with financial and technical assistance from the WB, IMF, ADB, and UNDP in order to establish a strategy for the country up to

2010 (Dabrowski, 2000). Serious conceptual and organizational regulations were done in Kyrgyzstan in preparation for the CDF for 2000-2010.

The purpose of the CDF was to consolidate various programs promoted by the state, private sector, and civil society in the best interests of social development, and to efficiently use the assistance provided by donor countries (Luckins, 2003: 40). Its first stage involved the development of the National Strategy of Poverty Reduction for the years 2001-5. It was planned within two terms, encompassing the periods of 2001-3 and 2003-5 (Ibid: 2005). Despite the fact that Kyrgyzstan started applying the CDF in 2000, by 2005 the WB still classified it as a low-income, highly indebted country without many changes. In March of 2002, the creditor countries began rescheduling the Kyrgyz debt in return for the Kyrgyz government working out a new poverty alleviation program in consultation with the WB and its other primary lenders. Funds lending money to Kyrgyzstan offered substantial additional funds to the Kyrgyz government. The reason for this strong support from IFIs might be that the three-year National Strategy of Poverty Reduction was designed to serve as a basis for the extension of the IMF Poverty Reduction and Growth Facility and further the WB loan programs. These funds also gave the IFIs leverage in pressing the government into greater fiscal responsibility. However, the Kyrgyz government did not meet all the agreed targets, despite the fact that the creditors agreed to forgive another 124 million US dollars of debt and rescheduled 431 million dollars (Dabrowski, 2000). After that, the lending of money was done under closer international supervision than for earlier aid packages.

Reforms between 2000 and 2010 were based mainly on the CDP, prepared in the country with the guidance of IFIs. As mentioned by Spechler (2008), Kyrgyzstan's early liberalization was partially reversed under the CDP. In the 2000s Kyrgyzstan was experiencing the socioeconomic order that had been created during the 1990s. The results of economic reforms could be characterized as distributive rather than the formation of the market.

3.2.2. Privatization in Kyrgyzstan

With the assistance of IFIs, in 1991, President Akaev declared the introduction of a comprehensive mass privatization program. Kyrgyzstan was the first Central

Asian state to declare and systematically implement comprehensive deregulation of the economy and mass privatization. The process began in December 1991 with adoption of the law on “Privatization and Denationalization” and the creation of the State Property Fund as the agency to design and implement the program. Later in 1991, the government adopted two new laws, “On Enterprises” and “On General Principles of Privatization and Entrepreneurship in the Kyrgyz Republic” (20 December 1991). In late 1992, a newly elected parliament reoriented the privatization program toward the rapid sale of small enterprises and ownership transition with larger vouchers and other special payments (Curtis, 2003: 150).

As Abazov (1999a: 208) tells us, the privatization program was implemented in the country in four stages:

- 1) 1991-3, first stage of privatization, including mass sale and transfer of small retail and consumer service enterprises to their workers and managers.
- 2) 1993-6, second stage of privatization, including voucher privatization of medium and large enterprises.
- 3) 1996-8, third stage of privatization, including open auctioning of medium and large state-run enterprises or sale of a part of their shares for cash.
- 4) 1998-9, fourth stage of privatization, intended to privatize enterprises in the basic industry sectors (energy, telecommunication, mining, etc.).

Among neoliberal reforms, privatization became the most dynamic one in Kyrgyzstan. The aim of a quick and radical privatization policy was based on the idea that private enterprises under a free market economy with equal competition are more effective than those functioning with administration limitations and instructions (Aknazarova, 2001: 1926). Therefore, high priority in the early 1990s was given to the creation of new productive enterprises with efficient systems. As a result, in 1994 the IMF ranked Kyrgyzstan fourth among former Soviet Republics (behind the three Baltic states) in the sphere of economic reform. The president himself issued the privatization program for 1992-3, with a target of privatizing 35% of state property during the first two post-independence years. The restructuring and the privatization of large-scale public enterprises were also among the key objectives of the reforms. However, according to Gleason (2003), privatization of them remained the weakest element of the reforms.

The purchase of enterprises by employees, purchase by private business, and tender purchase were used as the method of privatization between 1991 and 1994. However, in 1994 the approach to privatization was changed in most cases due to the failure of enterprises purchased by employees and private individuals. Most of them stopped their activity and were sold by being broken into pieces. Public enterprises started to be transferred into joint stock companies. Transferred joint stock companies accounted for 40% of all privatizations, while purchase by employees was only 3.7% and purchase by private businesses was 16.2%. Most of transferred enterprises were big plants and factories. However, this method of transfer into joint stock companies also did not bring about a stable solution. Due to a lack of assets to purchase material and technical resources and marketing problems, the number of nonfunctioning enterprises remained at a high level (Aknazarova, 2001: 1927).

Privatization of the agricultural sector was one of the most dynamic issues in the first half of the 1990s. During Soviet times, only about 4% of agricultural land was owned privately. After independence, the privatization of land was a difficult issue that was contested between President Askar Akaev and more conservative government officials. The conservative side suggested that land should be common property, as it was during the Soviet era, and represented the interests of state farm administrators. However, Akaev decided on the privatization of lands. In 1992 and 1993, the land redistribution program was prepared and launched. In the framework of the program about 165 of the 470 existing state and collective farms were to be privatized into about 17,000 peasant enterprises, cooperatives, or peasant associations in 1993. However, this program suffered from poor cooperation between national and local governments and a lack of transparency in the program outline. In the following 2 years, the government developed a more comprehensive reform program (Curtis, 2003: 150). However, this time it was criticized for inequalities in land distribution and corruption. For example, in the 1990s, southern areas of Kyrgyzstan had more population than northern areas. When land reform was initiated in the 1990s, it was decided to divide the arable land up equally among citizens. However, as a result, the residents of the southern oblasts ended up worse off: “the actual arable land distribution varied between 0.75 and 1.5 hectares per capita in the northern oblast, and 0.1 and 0.3 hectares per capita in the more populous southern oblast (Tchantouridze, 2006: 29-32).

During the 1990s, despite substantial recovery in agricultural production, rural income per capita fell sharply. The Kyrgyz government launched its land reform, as a result of which over 90% of farms were privatized towards the end of the 1990s. As a result of agricultural policy, the number of sheep fell from almost 10 million in 1991 to only 3 million in 1996. Due to declines in agricultural production, by the mid-1990s 20% of the population was effectively without work. The deepening crisis of unemployment in the countryside led to large-scale migration to the cities, which strained urban social services and threatened political stability (Curtis, 2003: 149-151).

As analyzed by Tchantouridze (2006), there was an uneven development structure between urban and rural areas inherited from the Soviet times in Kyrgyzstan, where the latter was less developed. In particular, the southern oblasts of Kyrgyzstan, where Osh, Jalal-Abad, and Batken are found, are mainly agricultural, and northern areas, where the capital city, Bishkek, is located, are more urban. With the agricultural reforms of the 1990s, this unevenness was further entrenched. In the framework of reforms favored by the IMF and the WB, the Kyrgyz government decided on the abolition of agricultural and transportation subsidies even though this was not a must according to the WTO rules (Tchantouridze, 2006: 31-33).

In the industry sector, after privatization, many firms needed drastic restructuring, most notably in management and technology, to function and to comply in the market environment. However, due to the underdeveloped state of the commercial banking system, enterprises found scant financial resources or technical support to survive in the market conditions. In order to compensate financial insufficiency in July 1994, the IMF sponsored an enhanced structural adjustment facility for 105 million dollars for Kyrgyzstan for the period of 1994-6. This was later increased to 131 million dollars and the term was extended until 1998. In the following three years, between 1998 and 2000, 86 million dollars were also issued to support the government's economic program. The Kyrgyz government accepted the IMF's Article VIII obligations in March 1995. Article VIII is an article of agreement regarding full current account convertibility (Jeffries, 2003: 254).

Although towards the mid-1990s Kyrgyzstan adopted more neoliberal ideas suggested by the IMF and the WB, the country remained in the forefront of the struggle to liberalize the economy and to create a favorable environment for foreign

investment and local business (Huskey, 2002: 75). According to Luckins (2003), the main reason for this was the incomplete market reforms in the country. Public sector reform was a lengthy process, the financial markets functioned inadequately, and conditions for the conducting of private business and the promotion of investment activity were slow to improve (Luckins, 2003: 38-39). In addition, with limited natural resources, Kyrgyzstan attracted relatively little private investment and relied heavily on official lending for external finance.

During the first half of the 1990s an ambitious agenda of economic reform showed that economic transition was partially effective; prices and foreign trade were liberalized, privatization advanced significantly, and the financial system was strengthened. However, the quality of reforms was low, and some intended reforms were not implemented fully. During the period of 1996-2000 the average economic growth rate of Kyrgyzstan was 5.5%, one of the best performances among the countries of the CIS. However, as the results of the Russian financial crisis of 1998 show, the general economic situation of Kyrgyzstan remained unsustainable and vulnerable to external shocks. The main reason for the lack of sustainability was the incomplete market reforms in the country. The economy had become vulnerable to external shocks and its perspectives for growth were limited by heavy debt burdens (Ibid: 2003: 36).

The years 1996 and 1997 passed with extensive privatizations in the country. Mass privatizations were completed at the end of 1996 and the rest was sold in cash auctions. This was followed by sale of shares in some of the major strategic companies in the fields of tourism, energy, media, mining as well as infrastructure. In September 1997, an investor-friendly foreign investment law was adopted, and in December 1998 Kyrgyzstan became the first country from the CIS that joined the WTO (Gleason, 2003).

However, in reality, starting from 1997, the pace of reform became slower, and in some areas the situation even deteriorated. The reason for this was most likely the complacency of the ruling elite, calmed by the relative success achieved in the first 5 years of transition. The country became a victim of serious macroeconomic and banking crises in late 1998 and early 1999. The public debt burden, especially to official external creditors, grew quickly. The discipline of tax collection decreased. Tax laws were subjected to frequent changes as a result of the pressure from various

interest groups. The privatization process, after the end of its voucher phase, was practically frozen. Attempts to deregulate and liberalize the economy did not give the expected results (Dabrowski, 2000).

As a result, 28 of the largest enterprises were subjected to restructuring, of which 14 were privatized and six were marketed to strategic investors. The program to privatize large public monopolies was suspended in May 1997 after allegations of price-rigging and corruption. The head of the privatization agency was replaced in November 1997. A new privatization law was passed in early 1998. There has generally been little restructuring even in privatized enterprises, which were mostly controlled by insiders and lacked financial discipline (Jeffries, 2003: 255-257).

Small privatization was largely complete, with nearly 97% of all small and medium-sized enterprises placed in private hands, by the beginning of 1999. Large enterprise privatization proceeded more slowly. Some large enterprises, such as the Kyrgyz national airline and energy and telecommunications, were included in the privatization program of the 2000s. For example, the ambitious privatization program in 2000-3 included four large strategic companies: Kyrgyzenergo, the national airline, KyrgyzTelecom, and Kyrgyzgaz. The most important privatization processes were those of KyrgyzTelecom, Kyrgyzenergo, Kyrgyzgaz, and Kyrgyz Airlines. These state-managed entities were the main ones for privatization throughout the 2000s, but the Kyrgyz government moved reluctantly due to expected consequences in consumer access to energy, communication, and transportation. As mentioned by Gleason (2003), privatization of big state entities occurring as quickly as possible was the advice of international donors, aiming to reduce the role of the state and increase private involvement. However, as a result of such quick privatization, government members and the heads of provinces and districts became major owners of business (Jeffries, 2003: 254).

Among the strategic companies for the national economy, and the only sector to develop without privatization, was the gold-mining company. As we will see later in detail, FDI of a Canadian company to the Kumtor mining field played a critical role in reviving the economy. Production metals and the mining industry made up 20% of the GDP in 2002. Production of gold at the Kumtor mine provided 40% of total exports. New mines had not yet opened, so net FDI was negative. Domestic sources of capital investment were not sufficient to keep the non-gold capital shock intact.

Hydropower is another sector of strategic importance as it is the second most important source of export revenue. Increasing exports of electricity were possible with the requisite investment, but that would have made the country dependent on neighboring countries. In particular, as a result of energy exports, Kyrgyzstan needed to import oil and gas to complete its energy sources (Spechler, 2008: 107). Accounting for a greater part of the GDP, at the beginning of the 2000s a burgeoning private sector emerged in the Kyrgyz economy. Its key component was small and medium-sized businesses that provided an important source of employment. However, as mentioned above, businesses have been suffering from an inequitable and complicated taxation system, excessive state regulation, and arbitrariness of officials, as well as problems with access to finance.

Kyrgyz policymakers had rather limited options for the growth agenda. There was no alternative to facilitating the diversification of the non-gold economy in the medium term if the economy was to remain on a modest growth path over the long run. In the medium term, a stable macroenvironment, expected relatively strong gold production, and fast-growing neighboring markets offered a window of opportunity for policy makers to maneuver away from the prevailing dependence on primary agriculture, minerals, and hydropower towards a more diversified structure.

As a response to the Kyrgyz government's policies, Kyrgyz nationalists were angered and linked indebtedness and poor living conditions with foreign economic assistance. Communists deplored the reduction of state power in the economy, and ordinary citizens associated westernizing economic reform with higher unemployment, wage arrears, and a decline of living standards. Kyrgyz businessmen were less interested in displacing the current political class because they could pursue rent-seeking behavior within the founding economic policy at that time (Huskey, 2002: 76).

The first 5 years of the 2000s saw significant improvement in the country's overall macroeconomic performance, with real GDP growth averaging about 4% per annum. Privatization of small and medium-sized enterprises (SMEs) was completed in Kyrgyzstan by January 2004, and totally some 71% was privatized. About 60% of the population was engaged with private SMEs, which produced 85% of the GDP, while 93% of agricultural production came from the private sector. However, withdrawal of state control from the economy was not sufficient to recover to the same

level economic production, which declined as a result of economic shock associated with the collapse of the Soviet Union. Kyrgyz economic recovery remains fragile, hinging critically on agriculture, gold mining, and, to a lesser extent, the services sector. Despite a remarkable 15% reduction in the poverty headcount since 1999, 50% of the population was living in poverty in 2003 (Olcott, 2005: 106).

Non-financial institutions needed support and were not yet well developed at the beginning of the 2000s. In those years, various forms of microfinance that can play an important role in poverty reduction emerged with the support of international agencies. At the time, about 65% of people lived below the poverty line because of the results of shock therapy policies. Microfinance support included institutional and training support, but there were still many problems, such as corruption and the existence of a cumbersome, costly, and inefficient system of licenses, inspections, and permits.

3.2.3. Trade Liberalization in Kyrgyzstan

As seen above, almost all of the reforms carried out in Kyrgyzstan were related to the implementation of shock therapy model neoliberal policies. In trade liberalization as well, reforms were implemented drastically. By aiming at an open economic strategy, the Kyrgyz government was willing to liberalize trade as much as possible with the support of international organizations, namely the WTO. However, although at first glance it seems that it was easy for Kyrgyzstan to open its economy to the outside world in the 1990s and 2000s, it actually brought about both opportunities and dilemmas during the last decade.

One of the reasons for the radical reforms in trade liberalization was the geographical location of Kyrgyzstan as the location of the country was an important factor in the formation of foreign trade policy. The absence of direct access to seaports played an important role in the removal of barriers to international trade. Located in Central Asia and being over 3600 km from the nearest seaport, Kyrgyzstan is the second (after Kazakhstan) most remote of all landlocked countries. This remoteness from major centers, being landlocked and mountainous, left limited choice for the country's rulers. Moreover, the quality of infrastructure and transportation costs play a crucial role in landlocked countries. Free trade agreements with other countries

looked like a good opportunity to overcome natural barriers and diversify trade. Various regional arrangements were initiated: the Economic Cooperation (ECO) in 1992, the Central Asian Cooperation (CACO) in 1997, the Eurasian Economic Community (EEC) in 1997, and the Shanghai Cooperation Organization in 2001. All these agreements, however, were formal political regional groupings rather than effective regional trading arrangements (Pomfret, 2006).

During the 1990s Kyrgyzstan became a leader in trade liberalization as well among the post-Soviet states. Reforms reflected institutional regulations and laws, which resulted in accession to the WTO in July of 1998. In other words, the trade liberalization process of Kyrgyzstan was closely linked to reforms guided by the WTO and its expectations. Parallel to other reforms, Kyrgyzstan underwent radical trade liberalization reforms and became the first country to join the WTO among the successor states of the Soviet Union. Forty-three countries applied to accede to the WTO under Article XII after January 1, 1995, approximately half of which were countries in the process of transitioning from a planned to a market economy. Among the transition countries, Slovenia joined the WTO in 1995; Bulgaria in 1996; Mongolia in 1997; Latvia and Estonia in 1999; Georgia, Albania, and Croatia in 2000; Lithuania and Moldova in 2001; and Armenia in 2003 (Pomfret, 2007). For transition countries, WTO membership represented approval of their policies and admission into the international community. Especially after being isolated from other parts of the world for so long under a command economy, for transition countries WTO membership seemed to be critical.

3.2.3.1. Kyrgyzstan's Accession to the WTO

Kyrgyzstan has been a member of the WTO since 1998. The accession of Kyrgyzstan to the WTO was one of the fastest in the history of the organization and took only two and a half years, while the average negotiation process lasts from four to six years. The Kyrgyz leadership tried with success to achieve the country's accession to the WTO in as short a time period as possible. Additionally, the institutions and regulations needed to meet the requirements of the WTO were already established. Within a short period of time, from 1992 to 1998, Kyrgyzstan accepted about 150 legal acts in the sphere of foreign trade regulation, including the law "On

Customs Tariff” and the customs code. Kyrgyzstan also made considerable concessions during the discussion of obligations to trade in goods and services with WTO members. According to Chistyakova (2011: 3), concessions made by the Kyrgyz government were so sharp that a tariff for all goods that were not formally prerequisites was established. Non-citizens were granted unrestricted access to virtually the entire market of services, including banking, air transportation within the country, electricity, law, and patent services, with the exception of public education.

On the other hand, since 1995, the WTO has actively promoted accession to the organization. From the perspective of the WTO, the more members it has, the more total benefits can be achieved. Accession by a state requires formal processes to be completed. Depending on the state, sometimes this process can be very simple, such as following a ratification process and submitting documents. In other cases, accession can be complicated due to a long period of negotiations. The key legal formulation that allows new members to join the WTO is Article XII of the WTO Agreement. It is clear that WTO wishes to expand to include as many members as possible.

During the negotiation process for accession to the WTO, Kyrgyzstan did not make much effort to protect its domestic market because the manufacturing sector, which was especially vulnerable to foreign competition, was undergoing a decline. Importers, by using the free economic zones that were established in those years to import goods duty-free, made strong gains in economic positioning and possessed considerable influence (Mogilevskii, 2004: 70). Kyrgyzstan did not have to make such significant concessions to accede to the WTO. In other words, because Kyrgyzstan was so willing to sign off on existing WTO rules, the accession negotiations were particularly smooth. Additionally, the existing WTO members had no complaints about the speed and extent of the Kyrgyz transition to a market-based economy. Because Kyrgyzstan at this time already had a very liberal foreign trade regime, its foreign partners did not have to make harsh or inconvenient demands. For example, the final bilateral negotiation to be completed was with Mexico, and Mexico objected to the extent of the suggested tariff on spirits, which they felt hurt tequila exports. The Kyrgyz negotiators successfully defended the tariff binding, and Mexico accepted the Kyrgyz tariff rather than break the accession deal.

Moreover, the small size of Kyrgyzstan's economy and its export orientation towards raw materials did not arouse great anxiety on the part of WTO member states, and no serious problems arose in negotiations with the majority of countries. Of the more or less significant changes that Kyrgyzstan introduced to its legislation, we may note equalization of excise tax rates imposed on imported and domestically produced goods. Therefore, it can be said that internally Kyrgyzstan did not lose much by joining the WTO. Many of the institutions and rules that could have been established by opening up the economy had already existed. One additional factor was that it expanded financial aid from international development organizations. Another factor was that it was assumed that entering the WTO before its neighboring countries would strengthen Kyrgyzstan's hand in trade and economic relations with developed countries. However, as we now witness, this worked out in a contrary way. In order to become a member of the Eurasian Economic Union, first established among Russia, Belarus, and Kazakhstan, Kyrgyzstan had to review and change almost all trade-related regulations, laws, tariffs, and quotas under the name of "Map of the Way"³.

Kyrgyzstan did not strongly dispute anything during these negotiations. For the country, the urgency to enter the WTO was serious. First of all, at that time the country had experienced an economic downturn and there was nothing to protect the domestic market: exports were mainly raw materials and the processing industry was not developed. Secondly, with low efficiency of border and customs officials it did not make sense to argue in the negotiations for high customs tariffs, which would only have led to an increase in smuggling. Third, the Kyrgyz foreign trade regime had been quite liberal. Prior to joining the WTO, in Kyrgyzstan there was a uniform import tariff rate of 10% regardless of the type of goods (exceptions were made for developing countries - 5%, and the CIS countries and the least developed countries - 0%). Fourth, in Kyrgyzstan, there were no export subsidies and practically no budget supports for agriculture (less than 1% of the total value of agricultural production) (Filippova, 2009: 3). Thus, entering the WTO, Kyrgyzstan did not have to go to extreme measures to newly open its market or accept any troublesome conditions. Moreover, it was given extended financial assistance from international organizations.

³ This was the strategy for Kyrgyzstan to enter the Eurasian Economic Union. In order to be able to join the union, the Kyrgyz government had to complete all required reforms, which were mostly contrary to the trade rules and regulations established in accordance with the WTO rules.

Thus, the situation seemed to be simple and clear, and the entry of Kyrgyzstan into the WTO gave it many advantages on paper.

In reality, however, there were two opinions dividing politicians, scholars, and activists. According to the first group, in joining the WTO, Kyrgyzstan received more benefits. According to them the country's accession to the WTO was a necessary step and was done on time for the benefit of the country. Through membership in the WTO, Kyrgyzstan received an entirely new model of economic development and a legal framework consistent with international standards. Among the main benefits, she lists the following:

- Kyrgyz exports of goods and services under the most-favored nation (MFN) system with all other member countries of the WTO;
- Internal trade and tax legislation harmonized with the rules and regulations of the WTO;
- Newly adopted regulations developed in accordance with international standards;
- Creation of a predictable regime for domestic producers and investors, both in trade and in the service sector;
- The United States, in 2000, abolished the Jackson-Vanik amendment in relation to Kyrgyzstan;
- The geographical distribution of trade expanded from 98 countries in 1998 to 120 countries in 2008;
- Gained access to online international trade information;
- Earlier accession to the WTO than its regional partners (China, Russia, Kazakhstan, Uzbekistan) gave Kyrgyzstan the opportunity to influence the terms and conditions of joining the organization for new countries, including demands of concessions for goods of Kyrgyzstan and the solving of problems arising in trade with these countries;
- Kyrgyzstan gained access to the mechanism of trade dispute settlements of the WTO;
- There is now the opportunity to participate in the development of new rules of international trade.

According to Japarov, the Minister of Economic Development and Trade of Kyrgyzstan, it can be said that WTO membership is itself an advantage. The WTO

system is a kind of multilateral contract, a package of agreements, rules, and regulations that regulates about 97% of all world trade. Japarov's opinion also shows us that WTO membership is based on international acceptance of rules and regulations, which were not all effective in Kyrgyzstan. Accordingly, the second opinion about WTO membership held that it was not necessary, and that the economy and the country as a whole were not yet ready for such a step (Filippova, 2009: 4-8).

3.2.3.2. Changes in Trade with WTO Member Countries

During the first years after the accession, trade volume with WTO members considerably increased. For example, between 1996 and 1998, the share of trade with WTO members was 36% of the total trade volume, while between 1999 and 2002 this increased to 54%. Similarly, the share of WTO countries receiving Kyrgyzstan's exports increased from 34% before accession to 55% after accession. At a glance, this can be seen as a shift in trading directions and reorientation to new markets after accession to the WTO. However, not all related trade developments could be accepted as signs of success of the accession to the WTO; there were other factors at hand.

First, the number of member countries of the WTO was increasing at the time that Kyrgyzstan itself became a member. All new members were seeking new markets and had a high inclination to support trade. Secondly, in a parallel manner with the WTO accession, in Kyrgyzstan the volume of gold and electrical exports increased. Thirdly, the share of the countries of the WTO in the general trade turnover of Kyrgyzstan depended on not only trade with the members of the WTO, but also with the trade of non-members. The share of exports to the WTO countries slightly rose from 16% to 19% between 1999 and 2002, because of the fall in exports to non-WTO members (Mogilevskii, 2004). If we exclude gold, electrical power, and goods exported to the new members of the WTO, exports to WTO members actually decreased from 56 million US dollars (1996-1998) to 44 million US dollars (1999-2002). In the same time period, export volume to non-member countries was reduced from 298 to 172 million US dollars. In addition, a considerable part of the export goods of Kyrgyzstan consisted of gold and agricultural production.

Table 3.1. Kyrgyzstan's Trade Volume with WTO Member Countries (Million USD).

	1996	1997	1998	1999	2000	2001	2002
<i>Exports</i>							
Total	59.4	238.7	249.9	229.1	240.5	278.2	307.3
Agricultural produce	23.8	29.6	25.4	16.9	26.7	19.5	51.4
Mineral energy resources	0.0	0.3	0.7	0.5	0.3	2.5	29.9
Gold	0.0	185.1	195.8	183.1	186.4	224.6	162.8
Non-precious metals	13.6	7.5	3.7	2.5	3.7	2.4	15.2
Consumer goods	1.7	1.6	1.3	2.6	4.4	4.5	4.2
Machinery and equipment	2.1	6.7	11.3	7.9	6.1	11.3	16.0
Intermediate goods	18.3	7.8	11.7	15.6	12.9	13.4	27.6
<i>Imports</i>							
Total	327.3	229.8	343.1	293.4	208.0	154.3	260.4
Agricultural produce	19.0	25.4	12.4	23.7	29.1	6.5	7.7
Mineral energy resources	2.8	2.7	3.5	2.1	2.0	1.6	3.7
Non-precious metals	12.3	8.9	12.1	11.9	4.7	5.1	6.6
Consumer goods	110.8	70.5	123.6	62.6	49.1	49.0	79.3
Machinery and equipment	165.5	96.8	151.9	162.5	93.3	60.3	106.0
Intermediate goods	16.9	25.5	39	-	-	-	-

Source: Mogilevskii, R., 2004, "Is Accession to the World Trade Organization Worthwhile? The Experience of Kyrgyzstan", *Problems of Economic Transition*, Vol. 47, no, 12, June, pp. 68-73.

Exports to WTO members included mostly gold, agricultural products (mainly cotton), and small amounts of machinery and chemical products. This structure of exports had remained almost the same. In other words, Kyrgyzstan's WTO accession did not engender any significant changes in exports in a short period of time while imports from WTO countries started slightly increasing.

Consequently, it can be said that the accession of Kyrgyzstan to the WTO did not lead the country to export alternative goods. On the contrary, it increased its list of imported goods. Most of the imported goods were humanitarian assistance arriving

from the USA, Germany, and other developed countries. As stated by Mogilevskii (2004), one of the largest disappointments after accession to the WTO was the volume of FDI. There was a hope that integration into the WTO would increase the volume of FDI, and these hopes were amplified with the accession of China to the WTO, since among the CIS countries Kyrgyzstan had a chance to be a unique window for the Chinese market. However, statistics show us that during 2000-1 FDI decreased by one-third in size in comparison with the level of 1998.

Table 3.2. FDI by Sector and Country of Origin (Million USD).

	1996	1997	1998	1999	2000	2001	2002
Total	153.1	86.3	136.3	108.6	89.6	90.1	115.7
<i>By sector</i>							
Industry	120.9	43.2	29.8	61.4	48.6	59.5	60.2
Trade and catering	28.1	14.7	31.8	8.4	5.9	12.4	13.1
Procurement	0.0	9.7	27.4	4.3	9.2	6.3	4.2
Construction	0.5	4.1	21.2	12.8	4.7	0.4	2.5
Finance	0.0	6.0	5.4	1.7	1.6	0.5	6.0
Other	3.6	8.6	20.7	20.0	19.7	11.1	29.7
<i>By country</i>							
Canada	126.5	31.4	8.5	4.9	6.8	13.0	12.7
USA	4.3	10.0	32.5	19.2	23.6	17.5	20.1
Turkey	10.9	17.6	15.4	23.3	12.11	16.3	13.4
United Kingdom	0.6	13.4	20.9	26.1	6.1	1.6	2.5
Germany	0.7	1.3	1.9	15.6	9.5	22.4	9.0
Russian Federation	0.8	0.7	1.3	1.5	5.4	3.0	17.1
Korea	0.0	0.3	13.9	0.8	0.1	3.9	7.7
Kazakhstan	0.3	1.2	4.4	1.3	0.2	1.5	6.3
Other	8.9	10.5	37.3	16.0	25.9	10.8	26.7

Source: Mogilevskii, R., 2004, "Is Accession to the World Trade Organization Worthwhile? The Experience of Kyrgyzstan", *Problems of Economic Transition*, Vol. 47, no, 12, June, pp. 68-73.

Trade with regional countries in 1996-2001 decreased. The amount of trade with each of them decreased by almost more than 50%. This situation can be explained by a number of factors, since there was the continuing disruption of old ties, reorientation efforts of the country with new regional and world markets, frequent and unfavorable exchange rate movements (especially in the context of the 1998 Russian crisis), and accession to the WTO. Among them, joining the WTO could actually be considered one of the most harmful, because after the membership of Kyrgyzstan was confirmed, Kazakhstan and Uzbekistan set up additional trade barriers.

These trade barriers included quantitative and tariff restrictions on the import of different commodities from Kyrgyzstan, exchange rate controls, and impediments for inter-country payments, cross-border trade, and movement of people with regards to trade with Uzbekistan. The transit of export commodities to Russia became costly due to newly introduced transit procedures. Export commodities, and especially in agricultural production, are very sensitive to transportation costs. To solve all these problems, regional trade agreements did not help because regional agreements were ineffective and were the product of politics rather than a real concentration of trade development (Manasov, 2008). Taking into consideration the fact that Kyrgyzstan's largest non-gold and non-electricity market was the regional market, accession to the WTO can be said to have negatively affected Kyrgyzstan's exports in a way.

During 2000-10, exports of Kyrgyzstan grew by only 29% at the constant exchange rate and price. In the same period of time, imports to the country rose 2.5 times. Due to the imbalanced export/import rates, the trade balance rose from almost zero in 2000 to 10% of GDP in 2010. The gap in the trade balance started to increase in 2005. This gap in trade was linked to increased labor migration and informal re-exports by Mogelivskii (2012: 18).

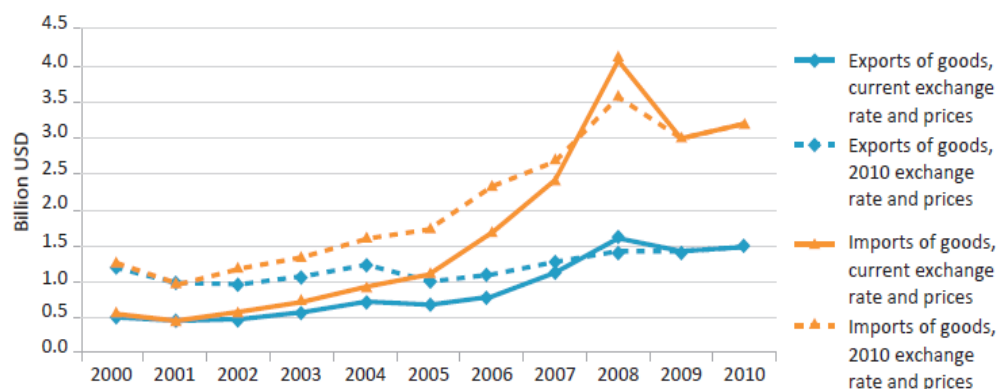


Figure 3.1. General Trends in Trade in Kyrgyzstan (Exports and Imports).

Source: Mogilevskii, R., 2012, “Trends and Patterns in Foreign Trade of Central Asian Countries”, University of Central Asia, Institute of Public Policy and Administration, Working Paper No. 1.

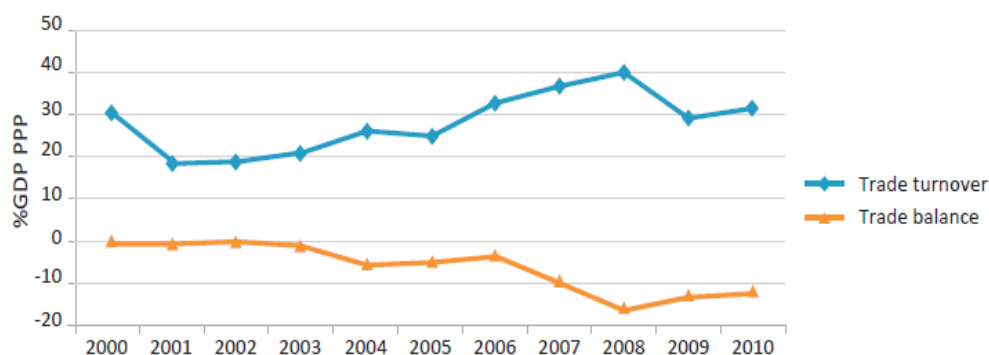


Figure 3.2. Trade Turnover and Balance in Kyrgyzstan.

Source: Mogilevskii, R., 2012, “Trends and Patterns in Foreign Trade of Central Asian Countries”, University of Central Asia, Institute of Public Policy and Administration, Working Paper No. 1.

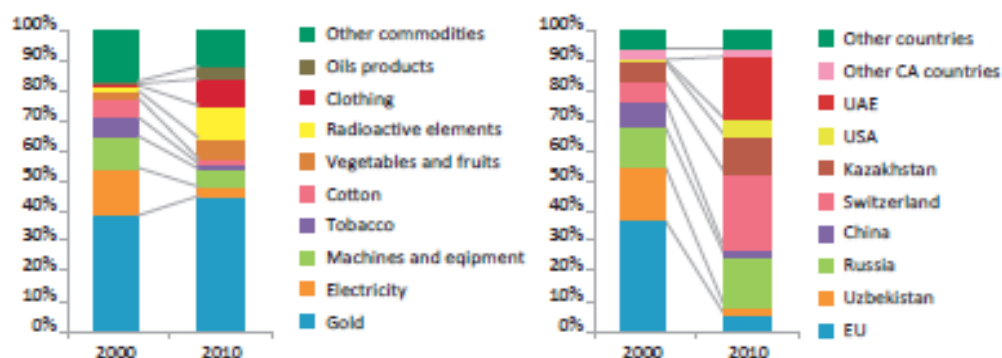


Figure 3.3. Exports of Kyrgyzstan.

Source: Mogilevskii, R., 2012, “Trends and Patterns in Foreign Trade of Central Asian Countries”, University of Central Asia, Institute of Public Policy and Administration, Working Paper No. 1.

As we see in Figure 3.3, the main export commodity of Kyrgyzstan has become gold. Exports of gold account for almost half of total exports and it was directed to different countries, like Switzerland, Germany, the United Arab Emirates, and China, in different years as within these years the destinations of exports changed, as well. As we can see between 2000 and 2010, there were significant changes in the geographical structure of exports.

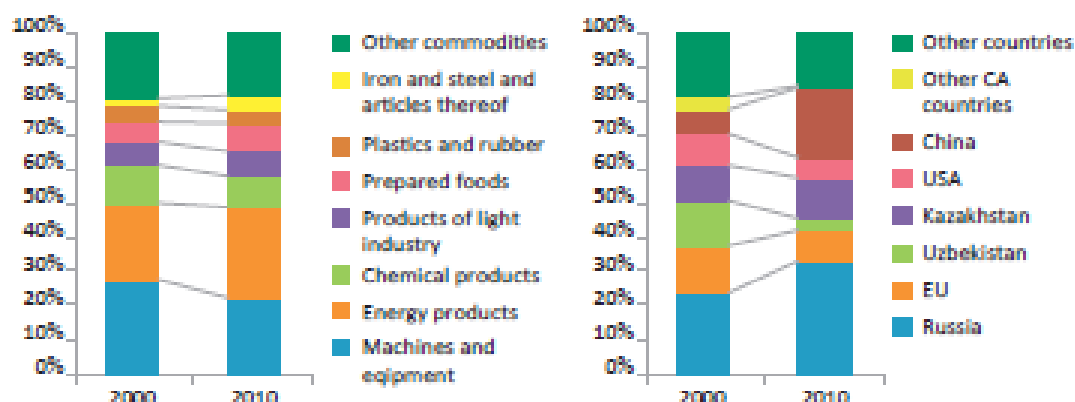


Figure 3.4. Imports of Kyrgyzstan.

Source: Mogilevskii, R., 2012, “Trends and Patterns in Foreign Trade of Central Asian Countries”, University of Central Asia, Institute of Public Policy and Administration, Working Paper No. 1.

As we have seen above, Kyrgyzstan made an exceptionally profound effort to liberalize its trade policy and FDI regimes. In Kyrgyzstan’s case, during trade liberalization, priority was given to the WTO disciplines without any hesitation and even though the speed and timing of trade liberalization is one of the most important issues for many developing countries.

Besides timing, it is also important to stress that the government implemented the proposed reforms with little selectivity. Many repetitive reforms were proposed, depending on the appointment of new ministers or prime ministers. In other words, the most progress was accomplished in producing various types of legislation and strategies to establish different bodies to oversee their implementation, with said legislation not actually being implemented in the end. About the implementation of the accepted strategies and reforms, former Minister of Economic Development and Trade Akylbek Japarov said that “in Kyrgyzstan’s 17 years of independence between 1991 and 2007, in total 270 various strategies and concept papers had been adopted, and about 120 of them had been annulled”. He suggested a moratorium to stop the

adoption of various strategies. Not surprisingly, the implementation of those strategies, documents, and reforms was minimal (Baimyrzaeva, 2011: 559).

3.3. Implications of Neoliberal Transformation in Kyrgyzstan

By applying radical neoliberal policies, Kyrgyzstan differentiated itself from the other post-Soviet states, becoming the “island of democracy” and “*Wunderkind* country” of the IFIs and an example for other post-Soviet States with an open and liberal economy in Eurasia. Immediately after independence, Kyrgyzstan accepted and started to put into practice the SAPs of the IFIs. Kyrgyzstan became the first post-Soviet member of the WTO while most other post-Soviet countries were still in negotiations with the organization.

Under President Akaev’s regime (1990-2005) in the early 1990s new markets emerged and trade liberalization, privatization and FDI showed some promising signs of development. As mentioned above, progress made in economic transition in Kyrgyzstan was surpassed only by the Baltic States in this period. However, in the late 1990s and at the beginning of 2000s, this picture substantially changed. Engvall (2014; 69) argues that in the first decade after the fall of the Soviet Union, it was mainly the state that played the main role in generating market order and economic growth. During this period the state was evaluated as the “grabbing hand” – an obstacle to economic prosperity that must be removed from the economy. However, at the start of the second decade of the post-Soviet era, attention increasingly shifted to the market – to the question of how economic forces interacted with the state. In other words, private interests started to be effectual on the state, administrative decision-making, legislative procedures, court verdicts, and state policy serving primarily to particular interests rather than the population as a whole (Engvall, 2014; 70).

During the first 5 years of its independence, the economy was deregulated, prices were liberalized, and a massive privatization program was started, along with the introduction of the “legislative framework for stable functioning of the newly liberalised economy” (Abazov 1999: 243). In other words, Kyrgyzstan was “doing everything right, according to Western standards” (Connery 2000: 4). However, the radical implementation of neoliberal economic reforms caused economic conditions

to deteriorate sharply in the early 1990s. Market reforms were implied but were not accompanied by a factual restructuring of the economy. New laws and regulations were not only poorly designed, but were often unknown to those who were supposed to be implementing them. In short, deregulation without sufficient institution building and state involvement, combined with a poor legal system, created a suitable state for those in power to take over or launch their own businesses by monopolizing parts of the economy and regulating it at the same time. At the local level, this translated into a reorganization of unofficial relations based on interest maximization, dependency, and survival.

All these developments were not always welcomed. The alteration of local everyday practices left society and politicians alike disoriented and guided by the basic need to survive in the face of economic and political instability. Although not directly related, it is worth noting that the so-called revolutions in Kyrgyzstan in 2005 were partly related to the failure of neoliberal reforms in the reorganization of the national economy. Pelkmans (2005) argues that it was not the spirit of democracy poised against founding regimes in the country but rather the fact that democratization was accompanied by neoliberal reform agendas that resulted in the staggering poverty and inequality that shaped the discontent and dissatisfaction. According to him, in Kyrgyzstan it was not the opposition politicians or the residents of the capital, Bishkek, who started the so-called revolutions; it was people from the provinces (local communities) who launched the events resulting in the revolution.

Hence, towards the end of the transition period, Kyrgyzstan experienced so-called revolutions, changing the agenda of politics. However, as Pelkmans (2005: 150) and Tchantouridze (2006) argue, it was the transition that produced these so-called revolutions. They highlighted the destabilizing effects of market-based reforms. Pelkmans (2005) rightfully wrote that though the trigger was election fraud and that the goal was restoration of democracy, the actual reason was the failed transition of open markets and the asymmetrical effects of market-driven development. The reforms did not deliver what was expected, and electors found Akaev responsible for the failure of economic development. It could be said that although electors chose an inappropriate way to express their demands, their demands were rooted in an appropriate basis. Since independence market reform implied the dismantling of the socialist economy, but it was not accompanied by a factual

restructuring of the economy. There was no stable socio economic order and no sustainable economic growth.

As a result, on March 24, 2005, a group of up to 10,000 protestors gathered in the central square of Kyrgyzstan's capital, demanding the resignation of Akaev. Not long after that, the demonstrations started to move in the direction of the White House, the presidential office building, and without further difficulties the demonstrators occupied it. One of the main opposition leaders, Kurmanbek Bakiev, who would later become president, reportedly exclaimed: "We did not expect this at all. It was not part of the plan" (Pelkmans, 2005: 151). The sudden breakdown of state structures set the stage for two chaotic days in the capital. In those two days, the property of former power holders was plundered and aggression was extended to other sources of wealth, as well. Such plundering revealed that the aim of the protests was more than just a reaction against fraudulent elections. There was also a drive for a redistribution of property that had been gathered under a particular group of powerful people.

It is also important to note that, after the so-called revolution, one of the newly appointed government officials said: "On March 24 we showed the world that there was no state: we overthrew it in 40 minutes" (Ibid, 2005: 149). In what context he or she originally made the statement is unknown, but as would later be analyzed, he or she was right in terms of the implementation of law and regulations. After the so-called revolution there were few changes in policy, geopolitical orientation, or style of government, except for the criticism of the previous regime. For example, Bakiev, as the president of Kyrgyzstan after the elections in 2005, criticized parliamentarians for illegal business dealings, while Prime Minister Feliks Kulov criticized the work of police and security officials due to high levels of corruption. It seems that high-ranking politicians started a contest to blame one another for the order that had emerged as a result of neoliberal reforms, and to gain political points.

During the five year history between so called revolutions in 2005 and 2010 in Kyrgyzstan, Kyrgyzstan's regime holders undermined state institutions giving priority to participations to international market and international business opportunities. According to Marat, access to global financial institutions and availability of offshore markets strengthened corruption in the country and gave regime members a feeling of invincibility both domestically and globally. When they began losing political support at home, the Akayev and Bakiyev regimes and their

affiliates left country to protect their wealth. Their offshore wealth made their decision to flee the country easier, but complicated the investigations of corruption by the governments that replaced them. For example, the day president Bakiyev's regime was ousted, his family transferred 170 million USD Dollars, around 10% of the country's reserves, to offshore accounts (Marat, 2015; 46).

Bakiyev's regime is associated with the emergence of informal regulations. Marat (2015; 48) highlighted that through market criminalization the ruling regime established itself as the dominant organized crime syndicate in the country. During Bakiev's regime corruption, nepotism and even organized crime were strictly organized from the top to bottom (Engvall, 2011; 57).

In April 2010, after a second so-called bloody revolution, the president of the country was removed. Founding leading figures like Almaz Atambaev, Roza Otunbaeva and Omurbek Tekebaev formed the interim government by disbanding the legislative and executive branches of the country and rejecting Bakiev as the country's leader. However, formation of a dangerous power vacuum was inevitable. Bakiev and his supporters attempted counterrevolutions and the further assertion of organized crime (Megoran, 2017; 189). This also caused a political default and resulted in much trouble in the south of the country. In June 2010 Kyrgyzstan witnessed ethnic violence in Osh region between Kyrgyz and Uzbek ethnic groups. According to Megoran (2017), this violence can not be explained solely by resource to the political economy of patronage networks or the role of organized crime. It cannot be also explained by the power vacuum after the so-called revolution in April 2010. According to Megoran, (2017; 90) the violence was more likely shaped over many years by political leaders and founding social economic order (Megoran, 2017; 191). Gullette describes the situation as "institutional instability" (2010; 90), where political, economic and social insecurities were systematic, and the government was unable or did not respond effectively to fundamentals problems.

Consequently, the country has been governed by a leading 5 regimes, including Akaev, Bakiev, Otubaeva's interim government, Atambev and Jeenbekov's regimes. In its most narrow sense, the first two represent a family and a specific local community. Both Akaev and Bakiev can best be characterized as heads of ruling families. If the country had an informal order before the 2005 revolution, in which

Akaev acted as the last arbiter, under Bakiev the influence system built around the ruling family was reinstated, and expanded upon.

Kyrgyzstan's third president, Roza Otunbaeva, came to power as an interim leader, assuming office for a temporary period, and left office with the election of a full-term president, Almazbek Atambaev in 2011. While interim government was ruled by Otunbaeva, Tekebaev led the constitutional reform, and Atambaev became primer minister. All these political figures worked under one government. Under the Otunbaeva's interim government under Attambev's presidency, political reforms and political stability became the priority issue. However, after becoming the president in 2011, Atambeav started to criticize members of the interim government by blaming them for leading the country into instability. In his speech on Kyrgyzstan's Independence Day on August 31, 2016, President Atambayev claimed that the Constitution of 2010 had not introduced a parliamentary system and the mixed presidential-parliamentary system still contained conditions that could allow the formation of an authoritarian regime. On December 11, 2016, a referendum in Kyrgyzstan approved extensive changes to the country's Constitution, which had been adopted in 2010 following the revolution that overthrew President Kurmanbek Bakiyev. However, the referendum in 2010 had also approved that the fundamental structure of the new Constitution should not have been altered for 10 years. Although the president of Kyrgyzstan lacked the *de jure* power to initiate constitutional amendments, Atambayev forcefully campaigned for the changes, overriding objections from other members of the 2010 interim government, and then mustering 84 Deputies of Jogorku Kenesh in support of the changes (Esengeldiev, 2017).

From 2011 to 2016, the country had six prime ministers, five of which were not from Atambaev's party but from different parties/coalitions. During his term Atambaev jailed opponents such as Tekebaev and Japarov by the claim of fight against corruption. Even though the president needs to be objective for all candidates for presidency, he openly supported the ex-primer minister Sooronbek Jeenbekov's candidacy in violation of the law. They are both members of the Social Democrat Party of Kyrgyzstan, and close friends. As a result Jeenbekov was elected as the president of the country. First initiative of new president was to honor Atambaev with the medal of honor, the "Hero of the Nation", the highest level of honor.

However, after the imprisonment of governmental figures, which were known as Atambaev's people, the Atambayev-Jeenbekov alliance started to deteriorate. At the closed-door congress of Social Democratic Party of Kyrgyzstan (SDPK), ex-president of Kyrgyzstan Almazbek Atambayev harshly criticized his successor Sooronbay Jeenbekov. He blamed the president for autocracy, corruption and deviation from political program presented to voters. According to Ravshan Dzheebekov, the expectations of the ex-president were clear – he thought that the new president inspired with the feeling of gratitude towards him would do everything he would impose. That is, Atambayev planned to govern the country sitting in his residency. Perhaps, such scenario is possible in other countries, but never in Kyrgyzstan with its tribalism and regionalism problems. Sooronbay Jeenbekov's team started setting its conditions to Atambayev in human resources, financial and even ethical issues, a development that ultimately sparked discrepancies (Dzheebekov, 2018). As a result, it can be said that the outcome of neoliberal reforms after all those years has been a fierce political struggle among elites for the redistribution or resharing of wealth, corruption and authoritarianism in Kyrgyzstan.

CHAPTER 4

POLITICAL ECONOMY OF GOLD EXTRACTION IN KYRGYZSTAN

The purpose of this study was to examine the results of market-based neoliberal reforms implemented in Kyrgyzstan. Although it seemed that it was the Kyrgyz government regulating and implementing these neoliberal reforms during the transition period, it was actually the IFIs that defined and guided the contents of neoliberal programs and reforms. It is argued that, as a result of the neoliberal program, there were no well-defined state rules, regulations, or implementations, nor well-designed or formed market institutions. Unofficial power relations emerged among the state, private sector, and citizens (in the framework of this study, “citizens” specifically refers to the local communities living near the mining field). These relations may be characterized as unofficial because they were not clearly or formally defined. It is also argued that these unofficial relations among these parties were regulated by the private sector, and it was the private sector that shaped the founding socioeconomic order in the country.

Attracting the largest proportion of FDI to the country, gold extraction became a main sector of the Kyrgyz economy. The national economy was shaped by developments in the gold extraction sector, while the gold extraction sector itself was shaped in accordance with the decisions of private companies. In this chapter, the political economy of gold extraction in Kyrgyzstan is addressed. The role of gold extraction in the political economy of Kyrgyzstan and the formation of the legislative and regulative basis of the gold extraction sector are analyzed in detail. The importance of the gold extraction sector not only as an economic but also as a political and social force is examined.

4.1. Introduction

Facing sharp economic decline and deterioration of social welfare after independence, the Kyrgyz government started seeking markets or sectors that would attract FDI in order to generate the resources necessary to maintain the state budget. Lacking raw materials or easy access to foreign markets, the government became convinced that development could only be achieved with foreign aid and investment. It was accepted that it would not be possible to replace the old command economy system with a market-based economy in a short period of time without foreign aid and FDI. The government therefore implemented concrete policies that closely followed the advice and demands of IFIs such as the IMF and the WB (Pelkmans, 2005; 153). As highlighted by Pelkmans, the main aim of the government under Akaev's regime was to design a state structure that would attract FDI by radically liberalizing the economic and political sphere.

The potential for mining industry did attract the attention of foreign investors quickly. The pre-existing mining industry was not large enough to support the state budget itself during the decline due to transitions from the centralized system of the Soviet Union to a market economy. However, in Kyrgyzstan, there were no strong investment alternatives to the mining industry, and investors who were interested in the gold-mining sector were available (Hughes, 2012). Thus, this sector became one of the first sectors to open itself to the international market and FDI, and it would be regulated by the market rules that were being newly established.

Among the mining subsectors, the mining of gold was the most attractive. Being situated in the middle of the Great Tien Shan Gold Belt⁴, which is the second richest gold belt in the world (Mining Journal, 2003), Kyrgyzstan has particularly rich gold and copper deposits. An assessment of Kyrgyzstan's rich mineral resources was an obvious choice for the government. For the government, gold mining promised great potential for promoting economic and social development in the country, while for the private sector and foreign investors, it represented huge potential profit.

⁴ The Tien Shan Belt extends for over 2500 km, from western Uzbekistan through Tajikistan, Kyrgyzstan, and southern Kazakhstan to Western China.

Development and promotion of the gold-mining industry thus became a priority for the country's economy. The gold-mining industry would become indispensable for the country in terms of not only contribution to the GDP, exports, budget of the country, and other social funds, but also for establishing a basis for economic and social relations among the state, private companies, and local communities. Alongside the state and private companies, local communities emerged as a third important actor in the gold extraction market. As will be seen later in detail, within time, the interests of local communities in the gold market became so important that the other relevant parties, namely the state and private companies, accepted them as a factor to be considered in decision-making processes.

4.2. The Importance of Gold Extraction in the Political Economy of Kyrgyzstan

4.2.1. Economic and Social Dependence on Gold Mining

Kyrgyzstan is an energy-rich country with a wide range of natural resources. However, as the main focus of FDI after independence, only gold extraction was thoroughly developed. Within the years following independence, it became the cornerstone of the Kyrgyz economy, serving a driving role in the development of not only the economy but also social infrastructure. Accordingly, poor performance in the mining sector would hurt the economy. For example, during the workers' strike at Kumtor and their reaction against the payment structure in February 2012, glacier removal from the pit at the Kumtor gold mine was delayed. This delay resulted in a significant reduction in the country's GDP. The WB (2012: 1) found that these events caused a 5.6% year-on-year contraction of real GDP in the first half of the 2012, as a result of a 60% fall in gold production.

In accordance with 2014 statistics, mining contributes about 10% of the country's GDP, almost 25% of total industrial production, some 26% of total tax revenues, and over 50% of the country's exports (National Statistical Committee of the Kyrgyz Republic, 2015). From the beginning of independence, the economy of Kyrgyzstan was dependent on the gold-mining industry, so much so that if extraction of the gold stopped in the Kumtor field, the GDP of Kyrgyzstan would automatically

decline by 11% and exports by 50%. It would also be reflected in the economy of Kyrgyzstan as a decrease of income for taxation of \$140 million. Social funds would fall by \$24.2 million, electricity sales by \$13.9 million, and payments for the Issyk-Kul Development Fund by \$22.2 million. Additionally, more than 950 SMEs, companies that provide work for the Kumtor Operating Company (KOC), would stop their activities (Myagchilova, 2013). Taking into consideration the other 23 operating medium and small-sized gold-mining fields, the role of gold mining in the national economy is indisputable. In the two decades following independence, it became the economic backbone of the country.

The growth of the national economy is forecast in accordance with the growth of the mining sector. In other words, the speed of economic growth or decline in the country is directly dependent on the development of mining, and specifically the gold-mining sector. For example, the nominal GDP for the first 9 months of 2013 grew by 3%. In comparison with the previous year, in which growth was about 9%, growth in the economy slowed down in 2013. Nasirdin Shamshiev, the head of macroeconomic policy for the Ministry of Economy, explained this slow-down in the economy as a result of the underdevelopment of gold deposits at *Bozumchak* and Taldy-Bulak in 2013 (Joldoshev, 2014). In general, the contribution of the mining industry to the total volume of industrial production is about 50%. For example, 18.7 and 17.5 tons of gold were produced in 2013 and 2014, respectively. As a result of the reduction in the production of the Kumtor gold mine, the real GDP growth of the country decreased to 3.6% in 2014 from 10.9% in 2013. However, in January-July 2015, the GDP increased by 7.1% compared to the same period of 2014. This increase was mostly due to the increased gold production at the Kumtor gold mine; without it, real growth accounts only for 4.5% (Parkhomchik, Simsek, and Akhmetkaliyeva, 2015). The importance of gold mining can also be observed from the structure of export goods. The main item in the commodity structure of exports of Kyrgyzstan is precious metals. Among them, the share of gold in total exports is about 45.5%. Since the beginning of independence gold has remained the main export commodity of the country. In accordance with information provided by the website of the Ministry of Economy, Switzerland is the main buyer of the gold. This European country accounts for 42% of total gold exports of Kyrgyzstan (Podolskaya, 2017).

The budget of Kyrgyzstan is also mainly supplied by the mining industry, and especially by the gold extraction companies. For example, as head of the Governmental Taxes Service (GTS), Ishak Masaliev said that the income from taxes in the budget depends directly on the KOC and that the Kyrgyz economy depends on productive work at Kumtor. When that company's output decreased, the GTS could not obtain its planned sum of taxes. As a result, the head of the GTS was reprimanded (Aibat, 2013: 2). Gold extraction companies, and especially the KOC, are also aware of the undeniable role of gold-mining fields in the national economy. The tax income of the Kyrgyz government's budget is so sensitive to the price of gold that small changes in the price can lead to huge surpluses or deficits in the budget. For example, as a deputy head of the GTS said, "when the budget plan of the Kyrgyz government was accepted, the price of an ounce of gold in the world market was \$1750 and the total sum of the budget was based on this price. However, now (October, 2013) the price of gold for an ounce is decreased to \$1200 and due to the decrease of gold prices, income tax just from the Kumtor field can decrease by in total 1 billion 610 million soms (some \$30 million)" (Turdugulova, 2013: 3). In other words, the gold extraction sector has become so influential in the political economy of the country that it has the power to affect not only economic development but also the social and political order. This is seen to be the practical result of the reforms and programs implemented in the 1990s and 2000s. As discussed by Gullette and Kalybekova (2014), not enough attention was given to the diversity of the economy and development of alternative sectors. Becoming aware of the situation, Kyrgyz authorities recognized the need to diversify the drivers of growth and started to look for alternative ways. For example, in the framework of diversification of the economy and to increase exports, the Kyrgyz government started negotiations with the Eurasian Customs Union in 2015 and joined it in the same year. However, as was seen in the previous chapter, during this negotiation process the Kyrgyz government had to reform and reconfigure almost all trade rules and regulations established during the WTO accession process.

4.2.2. Establishment of Interests of Market Participants

In the effort to understand the formation of the market, interests of market participants, and the establishment of relations among them, the gold extraction

market has become the country's prime example. However, the formation of the market in this sector was not associated with well-defined rules and roles among its participants. Across the territory of Kyrgyzstan, there are dozens of unsettled disagreements and conflicts between gold-mining companies and local communities, causing considerable concern for the political economy of Kyrgyzstan. These conflicts are generally accompanied by open protests of local residents blocking strategic roads (Kabar Ordo, 2013: 6).

The continuity of interest conflicts among participants of the market from the beginning shows the importance of the mining sector in the formation of the market. As Bogdetsky and Novikov report (2012: 17), conflicts in the mining sector have been ongoing since 1999, after the Barskoon accident (see Section 4.5.3). In the 2000s, public protests and violence became more common phenomena. Anti-Kumtor sentiments have encouraged similar protests and violence in other parts of the country.

The reasons for these conflicts have been examined from various perspectives, including those of experts from international organizations, scholars, journalists, and central, regional, and local authorities. Even private companies took part in the analysis of the situation. However, it is widely argued that in giving priority to FDI interests and market-based reforms, the interests of local communities were ignored by the central government. Through deregulation and decentralization programs, the central government left local government and local communities faced with much more well-organized and experienced private companies. Moreover, as highlighted by Bogdetksii, head of the Kyrgyz Mining Association, the government originally thought that

this was not their problem, but rather the companies' problem; the companies need to deal with the local population themselves. He argued that this was the government's position for a long time, but now they realize they must assist companies in working with communities" (Gullette and Kalybekova, 2014: 19).

In another work, Gullette (2013) shared the concerns of Akhmetova, an employee in the President's administration, about the protests of local communities. She believed that the government needs to work with the population and explain how investment influences their lives. Communities should also be taught the importance of FDI. She also stated that the role of local self-government bodies should be increased and that they must work together with the central government. This has been

a complaint in some communities, where residents say that their local self-government bodies are ineffective in mediating between companies and the community, and that national-level government bodies do not provide support (Ibid, 2013).

Lacking formalized instruments to forward their interests and demands, local communities started to block the roads to mining fields. Roadblocks are considered the most efficient way to attract the attention of the opposing party as they not only stop traffic but also stop the work of authorities and companies, attracting the attention of not only the company's management but also central and regional government bodies (Kabar Ordo, 2013: 6).

Understanding the interests of these relevant parties would be helpful in understanding the political economy of the country. Almost all mining deposits, and not only those for gold, have witnessed at least one serious conflict or protests against their activities. In most cases, those protests were against mutual agreements between the government and companies that had been established without taking the interests of local communities into account. As stated by the former Minister of Economy of Kyrgyzstan, Temir Sariyev, "conflict between local communities and mining companies has become more and more frequent" (Isaeva, 2012: 17). Arguably, as explained by Gullette and Kalybekova (2014: 4), such conflicts can be either positive, driving the parties of the conflict towards a common solution, or negative, leading to a breakdown in relations and strengthening the tensions between sides. There is also a third possible outcome of conflict: a violent conflict followed by destructive actions, with actors seeking to diminish the capacity of the other side in order to achieve their goal. Gullette and Kalybekova (2014: 6) finds that Kyrgyzstan has mostly experienced a mixture of negative and violent conflicts. In some cases, protesters directly entered the mining fields. For example, in August 2012, in the Chon Alay region, a number of young people entered to mining field where Chinese workers worked and drove them away from the mine. A few days later, protesters tried to destroy equipment with fire (Kabar Ordo, 2013: 6).

With time, companies have become aware that working closely with local communities and solving problems at the regional level is much easier than ignoring them. Without taking into consideration the interests of local people, working the gold mines can be dangerous and challenging. For example, one of the chairmen of Premier Gold and the founder and president of the Anglo-Kyrgyz Society, Dr. Reza Tabrizi,

says, “In order to ensure a harmonious relationship with the local communities, Premier Gold carried out early consultations of its operations with the locals proactively working with them and the local administration to assist them with their needs”. The managing director of Manas Resources, Stephan Ross, shared his opinions, saying that “the government must engage effectively with its people to enable foreign mining companies to work with Kyrgyz nationals to accelerate the region’s economic transformation” (Mining Journal, 2013). He continued that “the key task for the government is to inform its electorate what they can and cannot expect from miners and help to change behavioral attitude of local communities”. According to him, the most important problem is that mining is not perceived as something beneficial that provides income to the community; rather, it is seen as something that simply takes as much as possible. Based on these points, the need for a more detailed study of the mining industry and its conflicts is clear. Detailed analysis of gold mining might also be helpful in a wider analysis of the development of the broader mining industry in the country.

It would also help to understand the support for or the resistance against market-based values within the local community, and formation of their interests, as the development of the gold-mining industry has become partially dependent on local communities and their interests or reactions. Without taking into consideration the interest of local communities, gold extraction companies cannot work properly in mining fields even if they have the appropriate permission and licensing given by the government. For example, as highlighted by Chunuev, director of the Geology and Mineral Resources Agency, there were at least 43 conflict zones in Kyrgyzstan where different problems could arise between mining investors and local people. Chunuev agreed that the reasons for these conflicts lay at both national and local levels (Chunuev, 2013). Across the country, disagreements and conflicts between gold-mining companies and local communities are causing considerable concern, and these conflicts have become more frequent recently. Superficially, these conflicts result from local people’s worries about possible environmental damage such as pollution, river contamination, and road destruction. However, behind the conflicts more issues might lurk than just environmental problems. It seems that these interactions between local communities and companies have played a leading role in shaping the market, more so than the regulative rules and laws of the government. Moreover, there were

no market institutions, as neoliberals argued for, forming a direct link between local communities and companies. They found their own ways to coordinate their interests and relations. These relations are mostly set unofficially, with no written or framed official relations.

In addition, with time the founding order at the local level became powerful enough to directly ignore the interests or programs of upper state institutions. In an interview in 2016, the head of the State Agency for Geology and Mineral Resources, Duishenbek Zilaliyev, complained that regional bodies of the Kyrgyz government refused to cooperate with the agency's activities. According to him, the agency works to improve the quality of license use in the mining sector. However, due to a number of problems at the local level that should be solved by local government representatives, the agency could not work in the field. There are a number of problems at the local level but local government bodies do not report these problems to the proper state institutions (Kudryaevtseva, 2016). Moreover, the head of the government's executive office, Nurkhanbek Momunaliev, also reported the refusal of local authorities to the State Agency for Geology and Mineral Resources for helping to work with local populations in the development of deposits. Sariyev, a former prime minister, also stated that "local governors and akims are responsible for what is happening on their territory. They have enough authorities for doing their duties" (Sariyev, 2016). In accordance with Sariyev, local governments should work together with other state institutions, not ignore them.

4.2.3. Establishment of Rules and Regulations in the Market

Unbalanced and unequal developments in the legislation of the gold extraction sector are another issue making the gold-mining sector important in the political economy of the country. As seen above, gold extraction has become the cornerstone of the national economy. However, despite this, the mining sector and the gold extraction sector in particular have remained unregulated by both the state and established market institutions. The regulative and legislative side of mining has remained weak. The biggest gold extraction company, the KOC, is regulated by exceptional rules written only for the KOC in the contract. As the recipient of the largest amount of FDI, the KOC thus positioned itself in an exceptional position from

the beginning, while other smaller gold extraction companies tried to find their own solutions to central-bureaucratic and local-management problems.

Although the implementation of these exceptional conditions for the KOC was mostly related to the inexperience of the country at the beginning of independence, it can be assumed that the Kyrgyz government holding shares in the KOC also played a role here. In accordance with the first contract, the Kyrgyz government owned 66% of shares of the KOC. In other words, the Kyrgyz government itself has a clear interest in the mining field. Therefore, regulating the company under exceptional conditions was most probably assumed to serve the government itself. However, as correctly observed by Fumagalli (2015), with time changes in the ownership shares of the KOC have become a battleground upon which the government, the opposition, local communities, and Centerra Gold, the owner of the KOC, struggle to defend their interests. In the 2000s shares of Kyrgyzstan in the KOC decreased by up to 17%, as some opposition leaders started to initiate discussions of nationalization of the Kumtor mining field. As a result of these issues, there were number of claims made in national and international arbitration courts (Gullette and Kalybekova, 2014). The Kyrgyz government now owns 33% of the shares in Centerra⁵ (not the KOC) via the state-owned mining company Kyrgyzaltyn JSC.

Another important point about the regulations is that technical regulations and rules expected to complete the mining legislation at the lower levels and define technical requirements were only proposed and accepted in 2012, two decades after independence. Until that time, the mining sector had continued working under the technical arrangements of the Soviet Union. In 2012, Kyrgyzstan reactivated the process of reforms in the mining sector. According to a former prime minister of the country, Temir Sariyev, “the reforms that were introduced were designed to eliminate current problems and create a favorable legislation and regulatory environment” (Sariyev, 2013).

During the 1990s and early 2000s, while the Kyrgyz government was dealing with reforms, legislations, and reestablishment of state institutions from above, the

⁵ The Canadian company Centerra Gold Inc. is the owner of the mine; the Kumtor Operating Company, fully owned by Centerra, operates the mine. Centerra also owns other mining sites in Mongolia, Russia, Turkey, and China; the Kyrgyz government receives dividends from Centerra’s profits.

private sector was starting to work in the field by trying to optimize conditions for itself from below. In other words, while the government was attempting to form general regulative legislations from above, the private sector was forming the market from below in accordance with its own needs. Local communities, meanwhile, were trying to survive and find a way to obtain their own benefits from the gold deposits. In other words, despite the number of reforms in the 1990s and regime changes in the country, unresolved problems of the mining sector and companies remain. Many of these unresolved problems in the mining sector themselves led to changes in the government apparatus and the political state of the country.

Private companies were also aware of the regulative situation in the country and prepared their own versions of legislation. For example, Dekel Golan, chief executive officer of Chaarat Gold Holdings Limited, said that for the last 10 years (2002-12) there had been a team of lawyers working on improving the mining legislation of the country. According to him, Kyrgyzstan now has a whole package of legislation, including technical regulations, that would make the country extremely attractive to miners and investors (Mining Journal, 2013). This shows us that while the government was working from above to frame rules and laws, private companies were finding practical solutions to create suitable conditions from below.

Debate over the nationalization of the KOC during President Atambaev's regime attracted the attention of politicians, researchers, and journalists, not only at the local level but also at the international one. International courts held hearings for the involved parties and a decision was made in the interest of the KOC. Here the existence of the debate over nationalization or the increasing shares of the Kyrgyz government was even more important than the final decision itself. Tekebaev, a leader of the Ata-Meken political party stated the following "I think that we should nationalize Kumtor company. Now, Kumtor is a Canadian company located in Canada. Our [Kyrgyz] share is under arrest in Canada. We should call 100% of shares of Kumtor to Kyrgyzstan and use them for our [Kyrgyz] benefit" (Tekebaev, 2014). However, all types of properties, be it private, municipal, or state property, are protected by the Constitution of Kyrgyzstan. The constitution established that property is inviolable.

The Kyrgyz Republic's Law 'On Investment' also does not allow nationalization, other than in exceptional circumstances, according to which

expropriation is absolutely necessary for reasons of public interest. Nationalization is only possible on a non-discriminatory basis, following a strict legal procedure and with timely payment of compensation including loss of profit and market value. It is not uncommon to hear some members of the Kyrgyz parliament or other officials proposing the nationalization of certain mining companies and Kumtor (Sariyev, 2013: 6). Sariyev further noted the absence of grounds for believing that private investment in Kyrgyzstan could be nationalized by the Kyrgyz government. However, at the end of these discussions, Tekebaev, a deputy of the Supreme Council and initiator of the nationalization efforts for Kumtor, was jailed in February 2017. There were unconfirmed rumors in mass and social media that his imprisonment was indirectly related to his nationalization initiatives. Whether this is true or not is unknown, however, known fact is that due to the failure to solve the Kumtor problem, within the last 6 years five prime minister cabinets resigned.

4.2.4. Capacity of the Mining Sector for Employment Creation

The mining sector has huge potential for employment creation in the country. Towards the end of the Soviet Union, approximately 50,000 workers were employed in the mining industry and about 11,000 workers in detection and exploration activities (Bogdetsky, 2005; 14). At its peak, over 60,000 people were involved in the mining industry in Kyrgyzstan (Tianen, 2012: 14). The status of mining workers was considerably good. Salaries from the sector were high, increasing the general income levels in local communities.

The gold-mining sector took a leading position in terms of the number of created jobs after independence. In accordance data of the KOC, it created 1,489 jobs in 2004, a much higher number than those reported from other sectors. In 2013, the number of employees of the KOC reached 3,000 (Karachalov, 2014: 15). The mining sector also supported employment in the country indirectly via other sectors that worked themselves to provide services for the mining industry. Although mining companies generally purchase materials from the CIS countries and abroad (Bogdetsky, 2005), they also require the services of local companies, such as for railway works, the services of state bodies, project design, or road construction. It has been globally found that mining companies create an average of 4-6 indirect jobs per

one direct job in a mining company. According to the research by Bogdetsky et al., about some 1.4 indirect jobs per one job in a mining company seems realistic in the case of Kyrgyzstan (Bogdetsky, 2005: 39). This might be because more of the necessary goods for mining companies are not produced in the country but are imported from abroad. However, this shows us the potential of the industry for indirect job creation in the country. If we calculate the indicator in accordance with the KOC's data, it gives us 2.3 indirect jobs per one job with the KOC. With time, this particular indicator has been increasing, with positive benefits for employment creation. As the largest sector in the national economy and the largest attractor of FDI projects, it is an expected result that the mining industry employs a competitively high number of workers with high average salaries.

As mentioned by Myagchilova, unsurprisingly, differences in salaries have attracted the attention of critics. Issue is taken not with average wage differences between sectors, but with wage differences between foreign and local workers in gold-mining companies. For example, in its first years, the KOC paid foreign workers 14 times more than local workers. However, with time these differences in average wages decreased. Workers at the KOC earn about 3,000 USD and managers some 8,000 each month (Myagchilova, 2013).

It is also important to note that according to the government's plan prisoners would also be involved in the extraction of gold. Prime Minister Otorbaev reported the benefits of bringing prisoners to work in the gold-mining fields. According to his speech, about 500 prisoners would work in the Kaydi mining company (Ibraev, 2014).

According to the new mining strategy accepted in 2014, the direct employment potential of gold mining can reach up to 18,000 in the production stage. The mining industry will lead in employment for at least the next two or three decades in the country. Therefore, in the framework of the development strategy, the need for additional training of industrial personnel by categories of employees and their quantity has been identified. However, it also requires organizing the coordination of education plans and the needs of mining companies, and other forms of integration between production and training. To date, such integration between production and training has been left to the initiative of the companies. For example, the KOC started to pay contracts for students from 1995, while *Bozumchak* began from 2010. However, the selection of students for scholarships was done in accordance with the

company's interests. From 2010 to date at least 10 students were educated by the support of the Kazakhmys Company, operating in the *Bozumchak* field. During my field research in 2015, I found that two students had been chosen that particular year for Kazakhmys Company scholarships. The company started this support of education for local students on its own initiative, in order to support closer relations with local communities. There were no such requirements by the local or central government. However, why or how these particular students were chosen is unknown. This will be examined in more detail in the next chapter. In other words, the criteria for selecting potential students and future specialists have been established by the companies themselves, in their own interest, with the passive consent of the local government.

4.2.5. Capacity of Gold Deposits and Extraction

To understand the future influence of the gold-mining sector in the political economy of Kyrgyzstan, the potential amount of the gold deposit is also meaningful information. Most of the potential deposits have not been explored yet. To date, in Kyrgyzstan, about 500 hard-rock gold prospects have been found; the majority of them are very small and do not represent commercial interests. Among those that can be commercially assessed, there are unique ones of more than 200 tons (Kumtor), large ones of more than 70 tons (Dzheruy, Taldy-Bulak Levoberezhniy), middle ones of 70-30 tons (Makmal, *Bozumchak*, Unkurtash, Ishtamberdy, Altyn-Dzhylga, Tokhtazan), small ones of 5-30 tons (Solton-Sary, Dzhamgyr, Terek, Perevalnoe, Terekkan), and a large number with estimated resources of less than 5 tons of metal (www.geo.gov.kg). According to data given by the Minister of Economy of Kyrgyzstan, Temir Sariyev, stocks of gold deposits that can be commercially assessed in the country are estimated at about 2,149 tons (Sariyev, 2013). Among the CIS countries, Kyrgyzstan is in third place in terms of gold deposits, after the Russian Federation and Uzbekistan. In the world, it is in 22nd place.

The Kumtor gold mine has become the major one in Kyrgyzstan. The country received over \$2.707 billion US dollars in the period of 1994-2014 from the development of the mine (Parkhomchik, Simsek, and Akhmetkaliyeva, 2015). Between May 1997 and March 2015, the mine produced about 10.3 million ounces of gold (311 tons) (Fumagalli, 2015: 4). The second largest gold mine, Makmal, is

operated by the OJS company Kyrgyzaltyn. The company is solely owned by the government of Kyrgyzstan. The production at the Makmal gold mine totaled 21.47 tons of gold in the period of 1986-96. After 1996, the remaining gold reserves were estimated to be a total of 20 tons. Today the mine is in the last stage of operation. Other gold mines under development are Ishtamberdy, Solton-Sary, Terek, and Terekkan. The development of the Taldy-Bulak Levoberezhnyi and *Bozumchak* gold deposits started in 2015 (Parkhomchik, Simsek, and Akhmetkaliyeva, 2015).

However, it seems that as a result of economic policies in the mining sector the technical and environmental standards of exploration and extraction of potential gold deposits have generally fallen to a lower level of priority or have been ignored by other state institutions, as seen above. The distribution of income earned from the gold-mining sector has become the priority of the country's leaders. The main attention of the authorities is concentrated on the amount of extracted gold, the earned money, and the sharing of it, not the establishment of an efficient structure for the mining sector. For example, according to a deputy of the Kyrgyz parliament, Ahmatbek Keldibekov, to date 270 tons of gold have been extracted from the Kumtor field. The cost of the extracted gold is about \$5,220 million, but the government gets only \$548 million, or about 10% of volume. Keldibekov also said:

we have all opportunities to extract the remaining part of the gold, 648 tons, in the Kumtor field. In sum it means \$15 billion. In the Kumtor mining fields there are other types of minerals also extracted for the sum of \$500 million; however, from the extraction of those minerals the Kyrgyz government has not gotten any money (Myagchilova, 2013).

In other words, as will be analyzed in detail later, distribution of earned income from gold extraction has been the main agenda among the authorities of the country. On the other hand, as was pointed out by the head of the Department of Resource Management of the State Agency for Geology and Mineral Resources, Ulan Ryskulov, almost all gold reserves of Kyrgyzstan might already be exhausted in 2028. He said “the projected extraction of main gold deposits is calculated for 10-15 years” (Ryskulov, 2013). As he highlighted, after independence the carrying out of new geological investigations and explorations of deposits was not properly supported by the government due to insufficiency of financial funds. However, the concerns expressed by Ryskulov about the sustainability of gold extraction have not attracted the interest of either the state or the public.

4.3. Historical Background of Gold Extraction in Kyrgyzstan

In order to understand the development of the gold extraction sector as a part of the market after independence, we must examine not only economic experiences but also the cultural and historical background of gold extraction in the country. Although extraction of gold in Kyrgyzstan gained importance in the country immediately after independence, its historical roots go back more than 150 years. Gold fields in the region and in Kyrgyzstan attracted the attention of the Russian Empire and later the Soviet Union. Under both the Russian Empire and the Soviet Union, Kyrgyzstan became a supplier of agricultural produce and mineral resources. Soviet geologists discovered thousands of different minerals within its territory. After independence, local and international geologists continued to explore the area, using their own financial resources.

Kyrgyzstan had significant potential in terms of many minerals and other natural resources. The leading ones are gold, mercury, antimony, rare earth metals, tin, tungsten, coal, non-metallic materials, and underground water. Among these, the mining of gold was the one of greatest significance economically. Prior to the collapse of the Soviet Union, mining was an important part of the economy of the Kyrgyz Soviet Republic (Safirova, 2012). After independence, gold accounted for more than 90% of the minerals mined in the country and became a significant part of the exports of the country. Kyrgyzstan now ranks third in this field in the CIS after the Russian Federation and Uzbekistan (Sharshekeev, 2013: 10).

4.3.1. Gold Extraction under the Russian Empire and the Soviet Union

In the Soviet Union, the extraction, production, and domestic consumption information of the gold industry were fully kept secret. According to Godek (1994), even the disclosure of information on mining sites was prohibited. Katasonov also verified that from 1928 to 1991 information about gold extraction was concealed (Katasonov, 2009: 22). However, the development of gold extraction and production during the Soviet Union can be assessed by using some general mining potential and historical background of gold extraction under the Russian Empire.

Extraction of gold in the Russian Empire goes back only 2 to 3 centuries. This is relatively limited gold extraction experience compared to other empires. In the Russian Empire, gold extraction started in the middle of the 18th century on a regular basis (Pihkoya, 2003). Regular reports on extraction of gold in Russia started in 1745 after the opening of the Berezhnyakovskiy field near Ekaterinburg. From the first half of the 18th century to the first half of the 19th century, the main gold-mining fields were located near the Ural Mountains. In 1823, 12,000 workers worked in the mining sector and extracted 1.6 tons of gold (Katasonov, 2009: 18). From that time, exploration of gold mining continued towards the eastern regions. As a result, at the beginning of the 20th century, 70% of gold was being extracted in the eastern Siberian regions of Russia.

Starting from the period of Peter the Great, gold was being extracted by treasury companies of the Russian Empire. All gold produced in Russia was the property of the state. However, towards the end of the rule of Catherine the Great (1796), all gold extraction fields were given to private companies. After the privatization of gold extraction, however, the gold-mining industry did not develop as sharply as expected. Significant developments in gold mining in Russia only began after the adoption of the Mining Statute in 1870. Towards the end of the 19th century, many gold-mining companies were reorganized as open joint stock companies. At the beginning of the First World War, foreign capital in the mining industry in Russia formed a significant part of the whole. For example in 1909, Lena Gold Fields, a British company, bought 67,319 shares of Lenzoloto, one of the main gold-mining companies in Russia. This meant that a single foreign company owned one of every six volumes of extracted gold in Russia. In 1902 the North-East Region Siberian Company was established. The major share of it was owned by an American company (Katasonov, 2009: 19-20).

After the formation of the Soviet Union, all gold extraction companies were taken under the control of the state. A state monopoly on extraction, production, and selling was implemented in 1927 with the formation of the state association Glavzoloto, under the Ministry of Non-ferrous Metallurgy. Glavzoloto⁶ (Soyuzoloto)

⁶Glavazoloto was responsible for “all mining enterprises, ore and metal processing plants, secondary processing plants, finished goods and jewelry making plants, scientific research and auxiliary organizations supporting these activities, and the 164 gold-mining artels” (Levine, 1990: 25).

was founded by Stalin for setting production plans for the Soviet gold-mining industry. It was also responsible for the general direction of gold, diamond, and platinum mining. At the regional levels fourteen Zoloto organizations were organized, as territorial subdivisions of Glavzoloto, and directly supervised the discovery, exploitation, and recovery of precious metals. This organization of the gold industry in the Soviet Union remained in force until the Gorbachev era. Gorbachev transferred control of the production of gold and diamonds to the Glavalmazoloto association (Main Directorate for Precious Metals and Diamonds) in 1988 (Levine, 1990).

The first director of Glavzoloto was Alexander Pavlovich Serebrovskii (13.12.1884-10.2.1938). Under his initiative, the Research Institute of Geological Prospecting for the gold industry was established. Gold mining in the USSR had grown within 10 years by more than 4 times. For this high performance of the gold industry Serebrovskii was awarded the Order of Lenin and the Red Banner of Labor, and the Order of the Red Star. As mentioned by Godek (1994), the formation of Glavzoloto made it at least partly possible to obtain some statistics about the secretive Soviet gold industry. The external sales of gold were not listed in the foreign trade statistics of the USSR, but these figures are somewhat easier to calculate, since the sales typically occurred in western markets.

During the Stalin era, the extraction of gold was performed under very bad conditions by prisoners. It was highly labor-intensive with few mechanized mining techniques, with the use of prison labor keeping state labor expenses to a minimum. According to Ilya Rozenblum, the chief geologist of the Sevvostokgeologiya association, “productivity in our mining industry is 15 to 20 times lower than in the West due to outdated equipment and technology, and poor organization” (Ibid; 1994: 41). The situation of gold extraction further deteriorated under Khrushchev when he closed the forced-labor camps. Gold production in Siberian mining declined. In the Khrushchev era new mining cooperatives appeared in gold extraction in the Soviet Union. As of 1957, artels, extra-governmental mining cooperatives, started extracting gold independently of governmental bodies. These kinds of artels generally operated in remote areas with small accessible deposits in Siberia, Ukraine, and the Northern Caucasus. According to an IMF report (1989), artel gold production accounted for more than 20% of the total gold production in the USSR (Ibid, 1994: 43).

The Soviet Union was not particularly active in using gold as an economic commodity. It bought necessary technical and military equipment from the USA for the sum of \$9.2 billion during the Second World War and paid in gold through the channel of the Lend-Lease policy (Katasonov, 2009: 215). In total about 16.2 thousand tons of gold were mined in the Russian Empire, Soviet Union, and Russian Federation, or approximately 11.3% of the total amount of gold produced historically (about 143.2 thousand tons). The Soviet Union primarily sold gold for supporting the economy. The largest volume of gold, 1,244 tons, was sold in 1963-4 in order to buy agricultural goods because of a bad harvest. From the middle of the 1960s to the end of the decade 5,000 tons of gold were sold for supporting the economy. From the 1970s, the Soviet Union decreased its gold sales in the world market due to the increased price for petrol. Between 1953 and 1991, the Soviet Union sold 8.2 tons of gold produced in its territories. Until the end of the 1960s, the sale of gold was conducted through the Moskovskiy Narodniy Bank, situated in London. From the beginning of the 1970s the Soviet Union's gold was sold through Voshod Bank in Zurich (Katasonov, 2009: 230).

According to a study of the Soviet economy conducted by the IMF, WB, OECD, and EBRD, it produced 20 metric tons of gold in 1989. Gold was also recovered from scrap electronic products, particularly from the radio-electric industry (International Monetary Fund, World Bank, Organization for Economic Cooperation and Development, European Bank for Reconstruction and Development, 1991: 25). Geology was well financed in the Soviet Union, and mining-related activities like road building, power supply, and transportation proceeded with the support of the state. There were no negotiations with local people. Now private companies are responsible for mine development and operation. What was expected from the state for the development of mining previously is now expected from those private companies. After the collapse of the Soviet Union, some of the Soviet gold extraction fields were now located in newly independent countries. The gold fields located in newly independent countries accounted for 25% to 30% of the Soviet Union's total gold-mining production (Ibid, 1991:31).

4.3.2. History of Gold Exploration in Kyrgyzstan

In Kyrgyzstan, the first mining companies emerged in the second half of the 19th century in the south of the country. Almost all of these companies were coal-mining companies. In 1913, 27 coal-mining enterprises were working with a total production of about 100,000 tons of coal per year. Developments in the mining industry continued in Kyrgyzstan with oil, lead, mercury, and copper exploitation at the beginning of the 20th century. During World War II, more than 20 such enterprises were working, extracting lead, antimony, mercury, tungsten, arsenic, coal, and gold. Later these enterprises played important roles in the raw material economy of the Soviet Union. Their share in total Soviet production of minerals constituted 15-18% of lead, 40-100% of mercury, 100% of antimony, 30% of rare earth metals, and 15% of uranium (Bogdetsky, 2005; 13). Coal-mining enterprises developed fast in the 1940-60s and reached their peak by achieving 4.9 million tons per year in 1979. However, the production of coal fell to 0.495 million tons in 2004 because of depletion of resources and low profitability of production.

Although the first exploration of resources started in the second half of the 19th century, more active exploration activities only started in the 1930s (Isaeva, 2012: 12). For about 100 years, starting in pre-revolutionary Russia, the deposits of radioactive ores and minerals in Kyrgyzstan were the only sources of uranium and radium for Russia. From 1907 to 1970 it produced the first Soviet radium. Starting in the mid-1950s, Kyrgyzstan was the largest uranium producer in the Soviet Union (Sharshakeev, 2013: 11). Coal, mercury, lead, copper, and oil industries developed rapidly in the 1930s. During World War II, more than 20 companies were operating and extracting resources, mostly required for production of military-related goods (Bogdetsky, 2005).

When Kyrgyzstan became a part of the Soviet Union, there were two known gold deposits: Altyn-Gilgeam and Chalkuyruk in Turkestan Alai (Gullette and Kalybekova, 2014). Kyrgyzstan was considered to be a part of the gold extraction zone in the Turkestan region of the Russian Empire. At that time, besides gold extraction, the extraction of ores, lead, silver, copper, iron, and coal was targeted for development. For the development of the mining industry, additional railways were planned to be built. For example, the Semirechinskiy railway was part of the

development plan for mining. During Soviet times, the geology of Kyrgyzstan was researched thoroughly and mineral reserves were well explored. Between 1930 and 1932, a Tajik-Pamir expedition from Moscow worked in Central Asia. Small quantities of gold were obtained from the Aktash and Kumbel deposits, which were discovered in 1932 and 1936, respectively (Murzagaziev, 2007). By 1937 a Kyrgyz Mining Department under Tajikgold (from 1938 on, it was known as Middle Asia Gold) was created. In 1938 the Kyrgyz Geological Office was created to organize and conduct geological studies in the country, including gold studies, and it employed 43 specialists. The office has been restructured and renamed since then, but its main focus has remained on geological research and the management of mineral resources (Gullette, 2014a). By 1940 a small-scale geological survey had been completed and some deposits, such as Terekkan, Karatyube, Kumbel, Tuyuk, Aktash, Kazyk, Jarkonush, Turuk, Gavian, and Sultansary, were discovered (Ibid, 2007).

In the period from 1946 to 1970, other gold deposits were discovered, including Chonur, Dolpran, Nasonovsky, Kuru Terek, Karabulak, Karator, Chapchama, and *Bozumchak*. Exploration of *Bozumchak* was carried out in the late 1950s together with Terekkan and Terek. However, all of these deposits were classified as non-commercial at the time (Ibid, 2007). In 1970 the Geological Agency of the Kyrgyz Soviet Republic prepared a registration map on complex silver, copper, mercury, and gold ores. The map covered the entire territory of the republic and included 210 various gold manifestations. In 1967 there were 3 gold extraction fields in Kyrgyzstan: Terekkan, Dolpran, and Kurandzhayska. There were also gold deposits known at Terekansky, Boord, Chapchama, Taldy-Bulak Levoberezhniy, and Chalkurchak-Akzhylga. Across Kyrgyzstan, the deposits of gold were estimated at about 170 tons (Ibid: 2007).

In 1969 the *Bozumchak* gold deposit was discovered. In 1972 the Makmal gold deposit was discovered and new gold stocks like those at Tereksay, Kuru-Tegerek, and Kurandzhayloo were documented. The Makmal and Mironovskiy gold stocks in 1974 and the Dzheruy gold stock in 1977 were also documented. Until 1979, the gold stocks of Kyrgyzstan were documented as a part of the total Central Asian gold stocks. As of 1979, gold stocks started being documented separately from those of the other Central Asian Soviet Republics. In 1983 there were 11 registered gold deposits in Kyrgyzstan: Terekkan, Dzheruy, Kuru Tegerek, Kurandzhayloo, Makmal,

Mironovskiy, Boordu, Chalkurchak-Akzhylga, Chapchama, Dolpran, and Terek-Terekkan (Osmonbetov, 2009: 5). Although they were not registered yet, geological expeditions and explorations of Ishtamberdi, Kumtor, Levoberezhniy, and Taldy-Bulak continued their work. Ishtamberdi and three others, Kuru Tegerek, Sula Tegerek, and Bashky Terek, were registered in 1985 as gold deposits of the Kyrgyz Soviet Republic. In 1991 in the territory of Kyrgyzstan there were 28 registered ore gold deposits.

In whole, in the territory of Kyrgyzstan, more than 100 kinds of minerals were being explored. Among them the leading mineral was gold. There are some 2500 orebodies and 170 placer gold deposits found in Kyrgyzstan. Most of them are small deposits and practically are not feasible for extraction. About 100 orebodies and 20 placer gold deposits warrant study for determining the scope and potential profit for mining (geo.gov.kg). However, priority in the extraction of explored deposits was given to a few strategic mines such as uranium, mercury, and antimony based on the demand of the central economy of the Soviet Union.

Despite the fact that gold started to be extracted before the Soviet revolution, for a long time it was not possible to find large gold fields in the Kyrgyz Soviet Republic. One of the reasons for this was the absence of systematic geological searches in the fields. Investigation of gold fields began developing at the end of the 1960s. Investigation of the Solton-Sary field ended unsuccessfully in the 1960s. However, the fields of Kurutegerek and Ishtamberdi were studied thoroughly. The gold field of Taldy-Bulak Levoberezhnyi was also found during searches of polymetallic ores in a Boordu mining field. Gold extraction at Makmal started in 1986 and consequently Kyrgyzstan became an important contributor to the Soviet Union by production of resources. Gold was mined following 1986 from the Makmal deposit with an annual output of 1 ton (Nikonorov, 2007: 27). By 1990 the total volume of extracted gold from the Makmal field had reached 4 tons.

Some of the formerly state-owned companies continued their operations into the post-Soviet years. For example, the Kara-Balta Mining Enterprise refines up to 25 tons of gold and silver per year. The Makmal Gold Mining Enterprise's operations were performed by the Kyrgyzaltyn Company, which was wholly owned by the Kyrgyz Government and managed to produce about 1.1 tons of gold per year. In 1996

the operation of the largest gold deposit, Kumtor, was launched with open pit reserves of 250 tons and probable resources of more than 450 tons of gold.

4.3.3. Locations and Physical Challenges of Mineral Extraction in Kyrgyzstan

The geological structure of the territory of Kyrgyzstan was well studied and hundreds of deposits were discovered during the Soviet era. Some of them were subject to detailed exploration with approved reserve calculations and put onto the state balance, while others waited for more detailed explorations. Although not all them are suitable for development due to the mountainous geography of Kyrgyzstan, there are potential mining fields still waiting for extraction. Most probably the conditions for their extraction in the following years will be determined by the continuity or derivatives of the current state. Therefore, it would be helpful to look at potential mining fields for an understanding of the current situation. The interests of the nearest local communities has become a particularly important aspect of the locations of mining fields.

Located in the western part of the Tien Shan Mountains, where the geological structure of the territory was assessed as complicated⁷, Kyrgyzstan is faced with challenges due to its geographical structure. In the Kyrgyz part of the Tien Shan Mountains a pronounced tectonic zonation reflects the age differences of its constituent fold systems. The Kyrgyz part of the Tien Shan Mountains includes three parts: the Northern Tien Shan Mountains, the Southern Tien Shan Mountains, and, separating them, the folded region of the Middle Tien Shan Mountains. These mountains have great compositional diversity, including almost all the elemental composition of the periodic table of Mendeleev.

Within the Northern Tien Shan Mountains, 927 gold manifestations have been discovered (Nikonorov, 2007). These include numerous gold deposits (Dzheruy, Taldy-Bulak Levoberezhniy, Dolpran, Komator, etc.), silver deposits (Kumyshtag), arsenic (Uch-Emchek), beryllium (Kalesay, Chetendy, Tyuktu-Archa), rare earth

⁷The basement is composed of metamorphic complexes of Archean and Proterozoic times. Folded structures are formed by Paleozoic sedimentary and volcanic formations. Intermountain areas are made of rock masses of Mesozoic and Cenozoic times. An important role in the geological structure of the republic is played by igneous rocks, most widely developed as Baikal, Caledonian, and Hercynian granitoid intrusions, and to a lesser extent basic and alkaline rocks.

metals (Kutessay-P), aluminum (Sandyk), iron and vanadium (Bala Chychkan), copper (Taldy-Bulak, Andash, Aktas), lead and zinc (Boordu, Kurgan, Tashkoro, Ikichat), and bismuth (Mironovskoe). There are many coal deposits (Kara-Keche, Minkush, Zhergalan), construction and finishing materials, and large reserves of underground thermal and mineral waters, which can be used for balneotherapy.

The Middle Tien Shan Mountains extend as a sub-latitudinal ribbon with a width of 20-100 km southward of the Northern Tien Shan Mountains. By the Talas-Fergana transverse fault, it is divided into two separate parts: the Naryn (eastern) and the Chatkal (Western). Its northern boundary is the line of Nikolayev, while the southern boundary is formed by the Atbashi-Inylchek (in the Naryn sector) and Kara-Suu (in the Chatkal sector) faults (Dzhenchuraeva, 2013). In structural terms, the eastern and western sectors of the Middle Tien Shan Mountains are different from each other.

Fold structures in the Naryn sector are predominantly latitudinal strike. In the Chatkal region they are characterized by a northeastern strike, changing to southeastern near the Talas-Fergana fault. Deposits of the Middle Tien Shan Mountains are diverse. Here deposits of gold (Kumtor, Makmal), molybdenum (Chaartash), tungsten (Kensu, Kumbel), iron (Gava, Dzhety), uranium, molybdenum and vanadium (Sary-Dzhaz), copper (Kuru-Tegerek, *Bozumchak*), base metals (Sumsar), and antimony (Terek Kassan) were discovered. Known deposits of graphite, wollastonite, and 795 primary gold manifestations were discovered in the Middle Tien Shan Mountains, of which 353 are located in the Chatkal sector, including *Bozumchak* (Nikonorov et al., 2007: 146-150).

The Southern Tien Shan Mountains replaced (to the south) the folded structures of the Middle Tien Shan Mountains. To the south it borders the northern Pamir folded system (west of the Talas-Fergana fault) and the Tarim platform (downstream of the Sary-Dzhaz River). Mineral resources of the Southern Tien Shan are antimony ores (Kadamzhay, Abshyr), mercury (Khaidarkan, Chonkoi), gold (Takhtazan, Altyn-Dzhylga, Nichkesu, Togolok), tungsten (Trudovoe, Meliksu), tin (Trudovoe, Uchkoshkon), aluminum (Zardalek, Katranbashinskoe, Karanglinskoe), lead and zinc (Turabulak), cobalt (Chalkuyryuk), strontium (Dzhidabulak), tantalum and niobium (Delbek, Tutek), and iron (Nadir). With the exception of sedimentary deposits of lead and zinc (Middle Devonian), bauxite (Middle Carboniferous), and strontium (Middle

Cretaceous), the rest of the materials are closely related to collision granitoid of Permian age. Eight hundred forty-four primary gold manifestations were discovered in the Southern Tien Shan Mountains (Ibid: 151-155).

The locations of these minerals, the tools needed to reach them like transportation or electricity, and the distances from civilization are main points to be kept in mind as all of them play crucial roles in the formation of the interests of the parties involved in mining areas. A particularly strategic issue has become the locations of mining fields and the roads to them. After independence Kyrgyzstan tried to develop new transportation networks, but the previous transportation networks developed under the Russian Empire and the Soviet Union still play an important role. For example, the gold mixture extracted from the *Bozumchak* mining field is transported to Kazakhstan via a railroad built by the Russian Empire for the transportation of cotton planted in southern Central Asia. Becker was correct in stating that the railroads bound the Central Asian economy firmly to Russia and made significant changes in the region (Becker, 1994).

Moreover, transportation and development of industry in the region occurred according to the location of coal or mineral resources, not the locations of people living in the region at that time (Matley, 1994: 329). The newly independent countries faced challenges as a result of these issues, which were an inseparable part of the political economy of the countries. Transition from a centrally planned economy to a market economy resulted in different types of economic policies, as a result of which borders and transit through territories were sometimes closed (Gleason, 2001: 1083). In other words, alongside other obstacles, the physical conditions of extracting gold in the country have become one of the challenging issues for the authorities of the country, not only at the national level but at the regional level as well.

Moreover, despite its important share in the production of minerals, only a few processing plants were constructed in Kyrgyzstan because almost all minerals extracted in Kyrgyzstan were processed in specialized plants located in other Soviet Republics (Isaeva, 2012). Collapse of the Soviet economic space, breakdown of traditional supply chains, and the termination of substantial transfers from the Soviet Union hit the Kyrgyz economy particularly hard.

After independence, markets for minerals remained strong and there were demands for mineral resources from outside the country. The demand for raw

materials that had been imported from other Soviet republics also continued. However, after independence, such trade had to cross the borders of the country and states and companies were faced with additional new regulations as the former supply channels and industrial ties disappeared or ended. This forced the newly independent countries to reform or establish new arrangements in accordance with their newly chosen economic strategies. Moreover, controls and supports of the centralized system of the Soviet Union were withdrawn, leaving weak and undeveloped state institutions with an inadequate administrative system (Tiainen, 2012: 15).

4.4. The Formation of the Gold Industry Market

As discussed above, implementation of reforms and programs occurred with the introduction of changes in the rules, policies, producers, and enforcement mechanisms that support market building. There were no sector-based specific programs during the transition period. Some of them were developed in the time after private companies had already started to work in the market. Therefore, in the framework of the formation of the gold market, the related policies, reforms and programs, and regulations of the country and FDI policies, license issuance, and formation of interrelated sectors and their mutual interactions are analyzed next in this work.

4.4.1. Formation of Regulative Legislation of the Mining Industry

There are over 100 laws and by-laws regulating the mining sector (Ministry of Economy, 2013: 27). Thirteen of them are directly related to mining activities, subsoil use, land use, and the environment. The legislation on mining in the country has been continually renewed since the gaining of independence in 1991. Before the independence of the country, the mining industry had been regulated by the Law of the Soviet Union on Subsoil as of 1977, representing a Soviet type of centralized administrative system for natural resources and principles of command economy. After independence, the Kyrgyz law ‘On Subsoil’ was accepted in 1992 and it has become the primary law governing mining activities in the country. Main amendments to the law were introduced in 1997 and 2012. As Honkonen (2012: 13) states, these

amendments were designed to lighten the ‘command and control’ approach to the mining sector that had been inherited from Soviet laws.

The law ‘On Subsoil’, the principal regulatory instrument for mining activities in Kyrgyzstan, concentrated on the liberalization of legislation, formation of market relations in the industry, attraction of private investments, and establishment of the basis for state mining industry management in the country. In the framework of the law, procedures for subsoil use licensing were introduced for the first time. Licenses are expected to be issued to both public and private companies through tenders and auctions (Ministry of Economy, 2013).

The development of the law ‘On Subsoil’ might be assessed more precisely within three periods: from 1992 to 1997, from 1997 to 2012, and from 2012 to date. The first period can be evaluated as a continuity of old Soviet-based strict state control. During this period the number of issued licenses and private companies in the mining industry increased. However, the economic performance of the mining industry decreased. The Kumtor gold mine was the only major investment project in the mining industry and this project began in a special legal regime based on an exceptional contract with the government (Gullette and Kalybekova, 2014).

Parallel to the growth of world demand for gold and other precious metals that started in the mid-1990s, interest also increased in the mineral resources of Kyrgyzstan. Accordingly, the need to change licensing rules, introduce the types and timing of subsoil use and requirements for natural resource users, and other innovations led to the adoption of the new version of the law ‘On Subsoil’ in 1997. The new law was followed by a series of similar new laws (on coal, on oil and gas, on precious metals and stones, on production sharing agreements) and regulations. With the new law, the procedure for rendering subsoil use rights was changed, a direct negotiation procedure was introduced as the grounds for granting subsoil rights, and special regulations for some minerals (coal, oil) were introduced. New types of payments like bonuses and royalties for subsoil use were also introduced. One of aim of the new law was to increase the attractiveness of mining projects for bank financing by allowing to pledge subsoil licenses. However, according to Gullette and Kalybekova (2014), the changes were designed only to lighten the ‘command and control’ method existing in the mining sector from Soviet times.

In the second period, from 1997 to 2012, the law ‘On Subsoil’ was amended seven times⁸. These amendments included changes in the ownership of subsoil, a procedure for termination of subsoil use rights, and a system of taxation for subsoil users. Most importantly, as a result of these changes, most decision-making rights were linked to specific persons or authorities. For example, in 2002, the auction procedure was canceled as a way to provide rights to subsoil use. Providing rights to subsoil use would instead be organized through negotiations and these negotiations would be directed by the State Agency for Geological and Mineral Resources. Another crucial fact was that the government left local communities out of the negotiations. Usage conditions for mining fields and the issuance of licenses would be decided without the participation of local communities. As a result, negative perceptions of mining companies grew locally, with conflicts between companies and local communities becoming a serious obstacle for mining industry development.

Parallel to these amendments to the law ‘On Subsoil’, mining legislation reforms were initiated by different groups during the 2000s. However, these initiations remained on paper, without generating concrete final outcomes. For example, a new law ‘On Subsoil’ was passed by parliament in the late 2000s, but it was not approved by the President due to controversies related to other laws. As a result, the draft appeared to have been left to await further developments. In April 2010, another new law ‘On Subsoil’ was introduced to parliament, prepared by the Ministry of Natural Resources. However, the draft law did not pass through the parliamentary procedure due a change of the government. As observed by Honkonen (2012), between 2007 and 2012, the reforms to subsoil legislation were directed by six ministers. In other words, within 5 years, six different ministers held office.

Technical regulations for activities and operations of mining companies in the territory of the country were designed in 2010. Up to 2010, de jure Soviet technical regulations were applied and technical regulations of mining companies were guided by them. This means that de jure government institutions had examined documents and implemented control in accordance with de facto Soviet regulations. Moreover, up to 2010 there were no technical regulations in the field of subsoil protection in the

⁸ July 21, 1999; February 4, 2002; December 29, 2006; October 17, 2008; July 15, 2011; October 28, 2011; and April 13, 2012.

country (Gullette and Kalybekova, 2014). Technical regulations for environmental safety, industrial safety, and subsoil protection were finally renewed or introduced two decades after independence.

Following the political events of April 2010, for the proper development of the mining industry, the adoption of a new law ‘On Subsoil’ was initiated by the interim government in 2011. On June 29, 2012, the Parliament of Kyrgyzstan adopted that new law ‘On Subsoil’. According to the interim government, the new law replaced the previous two (as of 1992 and 1997). It contained a simplified procedure for granting land rights, and the interest of local communities was defined. The law also clarified the procedure for state cadaster and the balance of deposits, occurrences of mineral maintenance, state approbation and registration of reserves and mineral resources, and the procedure to use geological information.

Gullette and Kalybekova (2014) wrote that in terms of regulating the relations among the state, developers of the subsoil, and other parties, this new law of 2012 was the most important regulative legislation. Additionally, in the new subsoil law, a new term, ‘State Reserve of Mineral Resources’, was introduced with the purpose of simplifying the procedure of land allocation for foreign subsoil users. In other words, land upon which mineral deposits were located would be registered in the State Reserve of Mineral Resources and be automatically allocated to the subsoil users by the State Agency for Geology and Mineral Resources together with the use of a subsoil license (Chunuev, 2013a). Additionally, the Ministry of Economy of Kyrgyzstan developed a set of laws regulating the issues of using resources. All of these laws and regulations were aimed at simplifying the legislative regime for subsoil users. The main principles are to ensure transparency, competitiveness, and honesty while selecting the most suitable subsoil users.

4.4.2. Issuance of Licenses

Formal license and permitting activities in the gold extraction sector started after the issuance of almost all licenses. The issuing of licenses reached its peak in 2008, when the price of an ounce of gold reached 2,000 US dollars. However, licensing and permitting activities in Kyrgyzstan only began to be regulated by a new law, ‘On Licensing System in Kyrgyzstan’, as of October of 2013. Until that time they

were regulated by ‘On the Licensing of Certain Types of Business Activities’, approved by a government resolution in March 2009, No. 260. In accordance with these regulations, the list of licenses and permits was reduced from 236 to 101 types. After the reduction in the list of licenses, the issuing of licenses was limited to those areas of business that had the potential need for state regulation (Sharshakeev, 2013: 33).

License requirements have become quite common in Kyrgyzstan. For example, in general, some 25% of SMEs are required to have permits to conduct business operations and almost half of SMEs hold a license. In the mining sector, interested companies can obtain licenses in three ways: through a tender, an auction, or direct negotiations with the government. In accordance with the law ‘On Subsoil Use’, all stages of mining works, from surveying or prospecting to exploration and the development of deposits (mining), need licenses. An exploration license can be issued initially for 2 years with a 10-year extension. A development license can be issued for a period of 20 years and can also be extended (Gullette and Kalybekova, 2014: 23).

As stated in item 1.7 of the regulation of Kyrgyzstan ‘On Licensing the Certain Types of Business Activities’, all foreign entities and nationals can obtain license permits under the same conditions and in the same order as legal entities and nationals of Kyrgyzstan (Gullette, 2013: 35). In other words, investors can obtain licenses without discrimination, in order to invest in any activities in the country that are not prohibited by the legislation, if the activity is required to be licensed in accordance with the corresponding laws.

State Inspection on Mining and Technical Control⁹ was entitled to withdraw licenses if the rules and norms of safe operation are not observed. It was also given the authority to impose economic sanctions on companies that do not implement safety measures, or impose fines for violation of rules and norms. Violations were observed by the Ministry of Environmental Protection. In 1999 the Ministry recorded 58 violations of licensed mining works. Of these, 33 were recorded for non-metal deposits, 16 for ground water, and 9 for coal extraction (Bogdetksy et al., 2001: 61).

⁹State Inspection on Mining and Technical Control is a body under the Ministry of Ecology and Emergencies.

It was under Bakiev's regime that the issuance of licenses was reformed and the number of issued licenses increased. Before the revolution in 2005, people did not know how licenses were issued to different companies. In 2005 the newly established government started to pay more attention to the issuance of mining licenses. The government started to check issued licenses for exploration in regards to whether the obligations of the agreements had been fulfilled. For example, the license of Talas Gold Mining Company for the third largest gold deposit in Kyrgyzstan, Jeruy, was annulled by new government in November of 2005. It was sold to Global Gold Holding GmbH, an Australian company, with 60% shares (Zozulinsky, 2007: 4). According to Zozulinsky, more intervention by the government may lead to more corruption, but on the other hand the system became more transparent.

By 2008, the number of issued licenses reached its annual peak, consisting of 2,000. In 2011, after the revolt, the government of the new regime canceled many of those 2,000 licenses, leaving only 850 licenses active. Cancellation of licenses was done because many license holders had not been able to gain access to their deposits and fulfill their work plans (Gullette and Kalybekova 2014: 23). However, the annulling of licenses did not lead to increased fulfillment of obligations. New owner-operators seem to have felt no obligation to fulfill the commitments made by their predecessors. The second largest gold deposit, at Taldy-Bulak, for example, had already seen two licenses annulled by May 2007. The respective license holders could not launch the mining process in the specified period of time, and the licenses were canceled and given to other mining companies. Parliament accused the government of corrupt licensing practices (Bogdetsky et al., 2012: 11). In other words, licenses for geological exploration or development of some mineral deposits in Kyrgyzstan changed hands several times.

The head of the State Agency for Geology and Mineral Resources of Kyrgyzstan explained the situation by saying that in the last few years, the process of mining license issuing became dependent on the pursuit of personal interest by individuals from certain spheres of society. Contrary to the existing subsoil legislation, the process of licensing turned into sophisticated schemes of speculation and lobbying the interest of a group of dishonest subsoil users (Chunuev, 2013: 4).

The State Geology Agency reported that in 2015, in total, 12 new licenses for subsoil exploitation were issued. That brought to the state budget 7.7 billion som in

license fees, or some 110 million US dollars according to average exchange rates. However, also throughout 2015, 11 existing licenses were withdrawn due to insufficient performance by their holders (Van der Leeuw, 2016). This means that tender bidders should not be judged by the fees they are ready to pay, but rather on how realistically bidders can actually fulfill their tasks financially and technically. This demands much closer scrutiny than has been given in the process so far.

Additionally, those companies that already had licenses for gold extraction applied for geological exploration licenses. When local business elites began to realize the economic value of the gold deposits, they also started to apply for licenses, not only for the geological exploration or extraction of gold, but also for all other types of natural resources. There was huge potential for further exploration and development of such deposits. Many of these explorations have been done by foreign companies (Zozulinsky, 2007).

On the other hand, for the purpose of facilitating business activity in the country and avoiding unnecessary and impeding difficulties, reform of the license/permit system started in 2009. The procedure for obtaining a license and the number and scope of business inspections were all decreased (Askarova, 2010). After the events of 2010, license issuing was further streamlined in the name of facilitating a climate for investment in the country. Moreover, the Kyrgyz government offered licenses to deposits of significant reserves of gold and other minerals at a low cost. Some foreign companies that had come to the country earlier now started additional new explorations and preparation of proper documentation to access financing for mining projects. The interest of foreign companies attracted the attention of local business elites and they, as stated above, also started to apply for licenses for all types of minerals (Hughes, 2012). From 2012, the number of operating licenses reached 38, 14 of which were in the planning stage, while the other 24 were for conducting preparatory work and producing gold. The number of licenses for geological study reached 118.

In the issuance of licenses, confusion about the interests of governmental bodies can also be seen. For example, licenses for mining and all legally required documents are formally handled in Bishkek by state authorities. Officially, local communities have very limited possibilities to influence mining activities. However, the same local communities are the ones most influenced themselves by mining

activities. Representatives of local communities and local authorities did not participate in the issuance of licenses for mining activities (Tianen, 2012: 74).

As stressed by a former prime minister, Temir Sariyev, major preventive factors in the formation of a well-formed market in the mining sector continued to be problems associated with licensing and constant conflicts with local communities. A non-transparent licensing procedure leads to various corruption schemes, while conflicts with local communities have continued to be a serious threat to the progress of the mining sector. According to Sariyev, conflicts between local communities and companies have become more and more frequent. The main reason for this is the lack of harmony among the interests of the three competing parties: the state, the company, and the local community (Isaeva, 2012: 23).

4.4.3. Taxation in the Gold Extraction Sector

The tax code of Kyrgyzstan is the main legislation that regulates gold market taxation in the country. The main objective of the tax code of Kyrgyzstan was the introduction of a modern approach to taxation. Through modernization, the economic benefits from the mining sector and state income are to increase, while a reduction in the cost of tax administration is also expected. “The previous profit based tax system was replaced, because it was used as a loophole by some companies who abused the expenses system” (Sariyev, 2013: 7).

According to the tax code of Kyrgyzstan, the mining industry in the country is subject to various taxes such as income tax, suboil tax, and sales tax. There is also a road tax of 0.8% of gross revenue and an additional payment for an emergency fund of 1.5% of gross revenue. In terms of the relations among the state, private companies, and local communities, the 2% in additional taxes to be paid to the local government’s budget has become the most important portion of taxes. It was initiated by a deputy of the Kyrgyz Supreme Council, Ishak Pirmatov, and introduced in 2011. In accordance with this tax, companies must pay an additional 2% in taxes into the local budget. It was argued that the initiation of this tax would allow for the development of infrastructure of mining regions of the country. However, it was really motivated by a desire to calm down local communities in their reactions to the central government and private companies by earmarking more of the budget to the villages

that have mining fields located within their territories. The local government and consequently the local community would receive a larger budget for development of social infrastructure.

However, this tax created some confusion at both the local and regional levels. For example, in accordance with Gullette's field research (2014: 24), the "local administration does not understand how to collect the money" and "there were frequently disputes about how to use the money". Moreover, as a result of the implementation of additional taxes, an imbalance was created among local government budgets, resulting in unequal state services among citizens. According to my own field research, some interviewees were discontent with the tax sharing applied among local administrations. According to tax regulations and practice, 20% of the additional 2% tax was earmarked for the Kok Tash *ayil okmotu*, with a population of about 3,000 people, while the other 80% of the new tax was distributed among other *ayil okmotu* units located in the Ala-Buka regional administration, representing a total population of roughly 45,000. One respondent complained: "The *Bozumchak* mining field damages our ecology [i.e. that of the Kok Serek *ayil okmotu*] more than theirs [i.e. the Kok Tash *ayil okmotu*]. The mining fields are located closer to the Kok Serek village, not to Kok Tash, and the company uses our roads, not theirs". In other words, as we will see in the next chapter in detail, the introduction of this additional tax certainly benefited the development of infrastructure; however, due to problems in the division of local budgets and/or regional administration regulations, it also created considerable confusion. As a result, in its efforts to solve problems among the local community, private company, and state by initiating the new tax, the central government actually launched new dissatisfaction among local communities and between the regional and local government. In other words, problems are forwarded to the local level, removing them from the shoulders of the state and private companies.

There is a possibility that in the future local budgets could benefit from other expenditures, like cost of tenders, auctions, licenses, and social benefit packages¹⁰. If

¹⁰The content of possible social benefit packages was not fully explained in the law 'On Subsoil'. These gaps in the legislation are assessed by Gullette as a source of conflict and frequently lead to further animosity between parties because of the misunderstandings that accordingly ensue (Gullette, 2014a: 25).

this is to be the case, taking into consideration all the imbalances, inequalities, and confusion, the central government needs to address the issue more systematically before introducing new changes, as it reflects the interests of not only foreign or local direct investment or local communities, but truly the interests of all citizens.

4.4.4. Formation of a Suitable Environment for FDI

From the beginning of transition, formation of a suitable environment for FDI became a primary issue in the country because FDI policies, as in other capital-short economies in transition, were perceived in Kyrgyzstan to be crucial for economic growth, modernization, and restructuring. A variety of published works address issues related to the importance of FDI for a national economy. It is commonly accepted that FDI brings more than just capital investments; it also has positive contributions to other sectors of the economy. Generally, it is thought that FDI should trigger economic growth and increase the welfare of the state. It encourages not only the formation of capital in the country, but also the quality of capital. Generally, it is believed that FDI provides a stronger motivation for economic growth than other types of capital inflow by complementing local investment. It also creates new jobs, promotes the normalization of the balance of payments, strengthens a country's manufacturing and service, expands exports by improving productivity and competitiveness, brings technological upgrading and innovation, and provides long-term economic growth and rapid modernization. Therefore, for most governments FDI has become a priority, especially for low income countries and transition economies (Azam, 2010).

The mining industry is also characterized by high capital intensity. Kyrgyzstan has rich mineral resources but few of them are suitable for development due to their physical locations, as seen above. The mountainous terrain of the country made it difficult to access deposits; the railroad infrastructure was also underdeveloped. It was almost impossible to finance the industry from inside the country. Thus, the amount of investment required for developing and extracting, and the risk of failure due to the lack of mining experience, made the attraction of FDI the only feasible solution for effective promotion of the industry. Moreover, it was expected that FDI would bring not only capital to the mining sector but also operating and management expertise,

new technologies, and a well-established international marketing network. Thus, the attraction of FDI to the gold-mining sector was seen to be an indisputable necessity for the development of the country's gold market.

As Isaeva (2012) analyzed in detail, in order to attract FDI the Kyrgyz government complied with the specific programs used by foreign investors to evaluate potential investment projects in emerging economies, jointly determined by the IMF and the WB in 1991. In addition, after independence, Kyrgyzstan became a member of several multinational conventions dealing with the rights of foreign investors. Kyrgyzstan also signed numerous international and bilateral agreements on the protection and insurance of the rights and freedom of investors. Perhaps most importantly, Kyrgyzstan became a member of the WTO in 1998. By joining the WTO, Kyrgyzstan became a part of the WTO initiatives¹¹, including those concerning investment regulations (Askarova, 2010: 23). As a result, today foreign and internal investments in Kyrgyzstan are regulated by a number of international treaties and agreements as well as domestic acts.

At the regional level, Kyrgyzstan ratified the convention 'On Protection of Investor Rights'¹², signed by CIS countries on March 28, 1997 (Kamenkova, 2012). According to Article 5 of this convention, member states must ensure that the treatment of foreign investors is not worse than that guaranteed for domestic legal entities and legal persons. The agreement 'On Cooperation on Investment Activities'¹³, also concluded among the CIS states, is another document that

¹¹Article II (Most-Favored Nation Treatment) of the WTO contains the basic most-favored nation obligation, stating that each member "shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favourable than that it accords to like services and service suppliers of any other country". This article deals not only with discrimination among investors from different countries, but also with unequal treatment of domestic and foreign providers, which occurs more often (Askarova, 2010: 23).

¹²This document regulates the legal bases of different types of investments within the territory of the member states, as well as guaranteeing investor rights in regard to realization of investments and gain (Kamenkova, 2012, *Mezhdunarodnopravovyye Mekhanizmi Zashchity Inostrannykh Investitsiy na Regional'nom Urovne (v Ramkakh SNG)*, KHI Mezhdunarodnyy yuridicheskiy forum, g. Sevastopol', 2012).

¹³*Soglasheniye stran SNG ot 24.12.1993 'O sotrudnichestve v oblasti investitsionnoy deyatel'nosti'* (24 Dekabrya 1993 g.), http://www.consultant.ru/document/cons_doc_LAW_6321/.

coordinates investments at the regional level. For investors in the mining industry, this document plays a significant role. In addition to the protection of the basic rights and freedom of foreign investors, it also focuses on issues such as the use of land, natural resources, and labor law regulations.

In order to support an attractive investment climate, in addition to the international and regional treaties described here, Kyrgyzstan also signed bilateral agreements with different countries. According to Askarova (2010), most of the bilateral agreements included the same sets of guarantees, typically centered on fair and equitable treatment and protection from expropriation and nationalization. Bilateral agreements have become important not only in Kyrgyzstan but also in the world as a whole. According to the World Investment Report (2010), bilateral agreements are evolving as a new trend in the world. In 2009 alone, 82 bilateral investment treaties were signed in the world (World Investment Report, 2010: 28).

At the domestic level, Kyrgyzstan adopted a number of laws and regulations on the protection and promotion of investment in the country. The main one was ‘On Investment’, a law adopted in March of 2003. Until the adoption of that law, the investment climate was regulated by the ‘Law on Foreign Investments in Kyrgyzstan’, adopted by the resolution of the Supreme Council of the Kyrgyz Republic in June 1991 and introduced immediately after the collapse of the Soviet Union. This early law seemed to have inherited the characteristics of the final years of investment politics of the Soviet Union. The law of 2003 determined the main principles of state investment policy by means of the provision of a fair and equal legal regime for investors. The law proclaims the following guarantees for investors in Kyrgyzstan (Askarova, 2010: 29):

no matter of the legal form of type of business engaged in: the most favorable regime, non-discrimination policy, national treatment of business activities, investment preferences, freedom of investments, profit repatriation, monetary transactions, use of income, protection against expropriation, right for objective compensation.

Besides the legal framework of the investment policies of Kyrgyzstan, promotive reforms and activities were also carried out that were aimed at increasing investments in the country. One of them was the formation of Free Economic Zones (FEZs). FEZs are isolated areas with specific legal regimes, stipulating preferences in the sphere of foreign-economic and economic activity. These zones were formed in

certain oblasts, regions, and cities. According to the law ‘On Free Economic Zones in Kyrgyzstan’, FEZs offer simplified and fast registration, tax preferences, special custom and currency regimes, and limited number and scope of inspections. However, these zones have restricted geographical locations in different regions and do not make direct contributions to the gold-mining industry.

As a result of all these efforts, it is clear that Kyrgyzstan had convinced itself that FDI would be an important component of the country’s growth strategy. To encourage FDI, the government worked on improving the overall business climate in the country and making it more attractive for investors. However, according to data of the United Nations, the investment climate of Kyrgyzstan was characterized as less favorable among the countries of the CIS and Southeast Europe in 2009 (World Investment Report, 2010: 50). Investment policies and efforts were criticized by the president of the country. For example, the ousted president of the country, Bakiev, in a meeting with the Supreme Council, noted that:

the attraction of investment demands special attention from the side of the Parliament. I do mention about it every time, in my Message to the Nation I asked the Parliament to determine tasks on investment attraction for each region, for each segment of economy and I asked them to work on a daily basis. Nothing was done until today. We just talk on favorable investment climate and make projections, on who will come to us, and what they will build here. There is no substantial cooperation even with those, who do really want to invest money into our country; we cannot even adopt such laws that will enable private capital to come here. We can just sign memorandums” (Askarova, 2010: 18).

In other words, including the presidential apparatus, there were a number of institutions that worked for favorable conditions for FDI. Among them, the Ministry of Economy¹⁴ is the central executive authority for the development and implementation of unified state policy in economic development. The ministry is responsible for economic development, foreign economic relationships and trade, technical regulations, business development, support and development of FEZs, and attracting investment.

The importance of FDI for the country can be also seen in the organization of institutions regulating investment activities in the country. For the realization of

¹⁴Until 2010, it was named the Ministry of Economic Regulation of the Kyrgyz Republic.

investment programs and attraction of investment, a separate center under the Ministry of Economic Development, the Direct Investment Attraction Center, was established. One of the main tasks of the center is ensuring conditions for easy and smart entrance of investors to the domestic market of Kyrgyzstan with the help of a 'one stop shop' structure (Askarova, 2010: 18). Additionally, there are two other established institutions regulating investments, the State Commission of Kyrgyzstan on Foreign Investment and Economical Aid under the President of Kyrgyzstan¹⁵, and the Special Representative of the President of Kyrgyzstan on Investment Attraction¹⁶.

Taking into consideration the fact that within the relatively short period following independence the country experienced two¹⁷ 'revolutions' (Bohr, 2010: 2), the deterioration of the general investment climate is understandable. The April 2010 events in particular led to damage of the infrastructure and destruction of private and public property, weakening confidence within the private sector and creating economic and fiscal pressures (Asian Development Bank et al., 2010). However, as assessed by Askarova (2010), in addition to this political and economic instability, Kyrgyzstan has been suffering from high levels of corruption, unpredictable and uncertain economic policy, high financing costs, and legal uncertainties. For example, Transparency International (2013), a corruption rating organization, rated Kyrgyzstan 150th out of 177 countries for its level of perceived corruption in its 2013 report (Gullette and Kalybekova, 2014: 16).

¹⁵The State Commission of Kyrgyzstan on Foreign Investment and Economical Aid under the President of Kyrgyzstan is responsible for the formation and implementation of a united state policy for foreign investment attraction and effective realization of foreign economic and technical assistance, ensuring large-scale and operative participation of foreign investors in the reformation of the economy of Kyrgyzstan under Article 6 of the Regulations 'On State Commission of Kyrgyzstan on Foreign Investments and Economic Aid'.

¹⁶The Special Representative of the President of Kyrgyzstan on Investment Attraction coordinates and assists in ensuring the control of the activities of the state bodies of the executive authority and organs of local authority of creation of favorable conditions for investment attraction to Kyrgyzstan (Article 1 of the Regulations 'On Special Representatives of the President of Kyrgyzstan on Investment Attraction').

¹⁷The first one, known as the Tulip Revolution, took place in March 2005 and ended with the escape of President Askar Akaev, his family, and supporters from the country. The second one took place in April 2010. Spontaneous clashes erupted across Kyrgyzstan as protestors demanded the resignation of President Kurmenbek Bakiev, leaving 81 dead (Bohr, 2010, "Revolution in Kyrgyzstan – Again" (REP Program Paper 03/10, Chatham House).

In 2012 Kyrgyzstan was in 111th place in the ranking of level of integration to world trade. According to the Index of Economic Competitiveness of 2011/2012, Kyrgyzstan ranked 126th out of 186 countries in the world. These and other similar assessments show us Kyrgyzstan's weak position in the global rankings, also comparatively influenced by the success of other transition countries in attracting their own FDI. In order to improve the ranking of the country at regional and global levels and to further increase FDI, the Kyrgyz government renewed its focus on investment policy in Kyrgyzstan (Ministry of Economy, 2012: 49).

As a result of radical neoliberal reforms, Kyrgyzstan had become known as having the most open economic policies among the CIS countries. However, according to the National Statistics Committee of Kyrgyzstan, the total sum of FDI between 1995 and 2010 amounted to \$4.37 billion. Compared to neighboring CIS countries, this is a relatively low number. This fact demonstrates that providing an open economy, as wanted by neoliberals, is not always enough for the attraction of FDI. Regional and local characteristics also need to be taken into consideration for effective governmental policies to attract foreign investors (Usmanov and Tashbekov, 2011).

With the election of a new president, after the interim government of 2010-12, the economic and political situation became comparatively stable and new development strategies and policies began to be launched. The new investment policy of Kyrgyzstan was formed as a part of the Development Strategy of Kyrgyzstan¹⁸ for 2013-17. According to the Development Strategy, the establishment of the rule of law in all spheres of social, political, and economic life of the country is accepted as a major factor of successful development of Kyrgyzstan (Ministry of Economy, 2012: 11). The creation of the most suitable conditions for domestic and foreign investors would be the most important goal of government authorities. Particular attention would be focused on the development of mining, energy, tourism, agriculture, transport and other infrastructure, and eco-oriented technologies, as well (Ministry of Economy, 2012: 29). However, in the strategy there was no information on the interrelations of foreign investors with internal and local parties.

¹⁸Developed by the Ministry of Economy of Kyrgyzstan, it was called "Road Map for Development 2013-2017".

The main goal of investment policy in the framework of the Development Strategy is to shift the economy of the country from consumer mode¹⁹ to investment mode by creating basic conditions for sustainable socioeconomic development in the intermediate period. In order to reach that goal, a general framework of measures was accepted (Ministry of Economy, 2012: 51):

- 1) Establishment of intensive economic development centers in order to improve the country's economic potential. Specialized investment funds will be formed. Through these funds resources would be directed to those sectors that are not attractive for investment but have important social supportive roles.
- 2) Establishment of an institute that would be responsible for attraction of investment. The institute would develop investment opportunities in different sectors of the economy and select prioritized projects. It would also provide informational support and other services for entrepreneurs.
- 3) Reduction and reorientation of the Public Investment Program to maintain and improve only strategically important infrastructure of the country.

The basic principle of the policy is the creation of suitable conditions for the development of private initiatives. In other words, the mining industry would be operated by the private sector. Considering the high capital intensity of the industry, the government would give priority to attracting FDI for it and providing a favorable investment climate (Ministry of Economy, 2012: 85).

Unlike previous plans, this Development Strategy covers technical details and specifies priorities, goals, and tasks for industry development well. However, it mostly focuses on legal and regulatory changes to ensure an attractive environment for investors and mining companies. It has given limited attention to the social and environmental aspects of the industry. There are only a few suggestions for reforms with respect to local communities. Points regarding the development of the social and security aspects of workers have stayed very limited (Ministry of Economy, 2012: 36-39). Environmental issues are also disregarded in the Development Strategy. The necessity of working with local communities and updating mining regulations and controls of the government was also not addressed. In other words, the strategy concentrates on the success of the proposed policy measures and development of the

¹⁹According to data of 2011, the country consumes 3% more than production.

private sector. However, as the experiences of transition history show, development of the private sector takes time, and relying on the underdeveloped private sector to address social issues seems to create an unstable road for economic development. This is because corporate social responsibility works best in countries where civil society, governance capacity, and institutions are already strong and well developed (Bigg and Ward, 2007: 4).

4.5. Unplanned/Unexpected Developments and Challenges in the Formation of the Gold Market in Kyrgyzstan

Two decades after independence, Kyrgyzstan is considered to be an unstable country in the region, creating a negative image for a market-based economy. However, as detailed above, in the 1990s Kyrgyzstan had been assessed in a completely opposite way. What went wrong in those decades to shift the country's path and create negative images for almost all involved parties, including the state, enterprises, and local communities? Starting with general issues, the country experienced some significant political and social instability, which can affect the social and economic welfare of a country. There were four major events that affected the investment climate of the country: in August of 1999, armed intervention against terrorists in the southern part of the country; in March of 2005, the so-called Tulip Revolution; in April of 2010, a second revolution; and in June of 2010, ethnic conflict in the city of Osh. After each event, the volume of FDI decreased sharply (Dzhenchuraeva, 2013). Some of these events also directly affected the formation of the mining industry in the country.

4.5.1. Conflicts with Local Communities

Historically, during the Soviet times, small towns or villages near mining fields had developed rapidly. Towns were built, infrastructure was developed, and the supply of goods and services was improved. The networks of schools, nurseries and kindergartens, specialized secondary schools, health care, cultural institutions, transport, and communications were all included in the construction and development plans of mining companies. Thus, the mining industry stimulated the development of

other sectors of the economy. Many mining workers had the opportunity to improve their social status and they were generally well respected. Outstanding workers were given special government prizes and awards and were nominated to lead companies or take administrative positions in the state body. For example, a former mine worker from Kyzyl Kia, Kulatov, was the chairman of the Supreme Council of the Kyrgyz Soviet Socialist Republic from 1945 to 1978. New mining projects in rural areas led to the formation of new cultural and social developments. Populations of neighboring villages also benefited from mining. In such conditions, there was almost no cause for conflict between local communities and mining companies (Bogdetsky, 2001: 77-79).

After independence, the role of mining remained important, especially in remote mountainous regions where it seemed to be the only way to improve social welfare (Tianen, 2012: 19). Currently, nearly all Kyrgyz mines are located in remote areas of the country. Mining fields located in these remote areas can help to build or repair the local infrastructure and provide social services. However, after the collapse of the Soviet Union, the mining industry went into a crisis, resulting in the economic and social decline of the villages around the mines. Mining companies were struggling to survive and were unable provide the social benefits of the past. Additionally, their social responsibilities had become unprofitable; mining companies began to consider social expenditures as a burden, and all expenses for social services and infrastructure were transferred to the municipalities (Tianen, 2012: 38). Mining companies now saw their contribution to local infrastructure in terms of paying taxes to national and local governments, who would be responsible for the development of infrastructure and provision of social services. These differences caused significant disputes between mining companies and the local and national government (Bogdetsky, 2001: 84).

Across the territory of Kyrgyzstan, and especially at the end of the 2000s and beginning of the 2010s, there were dozens of unresolved disagreements and conflicts between gold-mining companies and local communities, causing considerable concern for the future work of the companies. These conflicts were generally accompanied by open protests of local residents by blocking strategic roads. Sometimes, the conflicts turned violent. For example, in August 2012, in the Chon Alay region, a number of young people entered to mining field and fired the mining buildings. A few days later, protesters tried set the mining equipment on fire. In that case, the tensions had started due to an unclear licensing system (Kabar Ordo, 2013:

5). According to Kabar Ordo's analytical report, there were other reasons for the conflict, as well, including environmental security, contributions to the local budget, and issues with transformation and land reclamation. In other words, in general the protesters blamed the gold companies and relevant government authorities for abusing the licensing and permitting procedures, as well as threatening regional environmental security.

State bodies and authorities try to remain involved in the resolution processes of conflicts, but their actions are characterized as inefficient and lacking in determination. In the remote areas (villages), state activities are coordinated by local self-government. In accordance with the Law of the Kyrgyz Republic 'On Local Self Government', from July 15, 2011, local self-government is defined as the "independent activities of a local community directed towards the solution of questions of local value". Local self-governance is performed by local communities through a representative, a local *kenesh*, and executive bodies, *ayil okmotu*²⁰. Generally the head of an *ayil okmotu* is the chairman of the village council, while a local *kenesh* unites local village deputie (Law of the Kyrgyz Republic 'On Local Self Government', Chapter 2, Article 10). As a result of land reforms and decentralization, the functions of the *ayil okmotu* were significantly extended (Bogdetsky, 2001: 79). However, all of these administrative changes relating to the mining industry are characterized by Tianen (2012: 18) as "anything but perfect".



Figure 4.1. Mining Conflicts in Kyrgyzstan.

²⁰The *ayil okmotu* are responsible for socioeconomic, cultural, and educational needs of the village. They also bear responsibility for redistribution of land and decide issues related to land renting and the rational use of lands and natural resources.

As seen in Figure 4.1, aggressive protests by local communities against the operations of mining companies have been witnessed in almost all regions of Kyrgyzstan. Protestors come to picket (demonstrations), destroy or set fire to company property, invade working areas, cut off the electricity supply, and perform other disruptive activities. As a result, according to Dzhenchuraeva (2013), many mining companies have suspended or partially stopped their activities. On the other hand, local communities, including some public authorities, have complained that the companies have not started their work or have not conducted the activities that were promised. They also criticized decisive actions by the state that were not carried out as promised, with the responsible persons going unpunished.

In this context, more radical communities demanded the complete closure of the enterprises. More moderate communities demanded “the resolution of issues related to the environment, the revision of previously signed contracts, and the active intervention of government agencies and the public, to ensure transparency of company actions” (Kabar Ordo, 2013: 6). According to Former Minister Sariyev, the key problem was imbalance between the interests of governments, investors, and local people (Sariyev, 2013.) The new mining legislation attempted to balance the interests of all three parties. According to Prime Minister Zhantoro Satybaldiev, the majority of investors working in Kyrgyzstan were licensed without publicity or public awareness. That resulted in resentment and suspicion of the local populations (Satybaldiev, 2013). In this context, the Vice Prime Minister for Economy and Investment, Dzoomart Otorbaev, said: “As soon as you arrange with the local community, the government immediately gives permission for the project. For our part, we want to stay to work, but we will not ignore the considerations of the local people. Their views are our priority” (Otorbaev, 2012).

The problems that led to community protests in general can be grouped into six categories. First one is lack of transparency in licensing. This problem is more associated with the dissatisfaction of local communities towards government agencies’ unclear activities. The right to public participation in decision-making processes is in fact widely guaranteed by Kyrgyz law. Item 51 (1) of the Kyrgyz Constitution establishes that every citizen of Kyrgyzstan has the right to participate in the discussion and adoption of laws and decisions of national and local significance. Additionally, most Kyrgyz laws also contain provisions on the necessity of public

participation in decision making (Isaeva, 2012). A majority of issuances of licenses are accompanied by serious violations. Attempts are made by different spheres to influence the issuance of licenses: businesses, criminal groups, some representatives of government agencies, or local informal leaders.

Second one is misunderstandings of interests. Both sides of conflicts, the local communities and the companies, feel that they have strong arguments to defend their positions, weakening the possibility of a solution through dialogue and compromise. This problem exists on all sides: for the state, due to a lack of clear legislation that regulates tasks and responsibilities, and lack of enforcement of law and regulations; for the company, due to ignoring interests of local communities and requirements of law and regulations of the country; and for local communities, due to a lack of well-defined and well-represented interests and disorganization.

Third one is social problems. Pollution of the regional environment, delayed repair of infrastructure, unrealized promises of the companies regarding social infrastructure.

Fourth one is distrust of companies. The companies are considered to be corrupt. Companies may have paid related parties illegally to get permissions or support. Companies have also paid local communities as well for support. This builds confidence among the protestors that they may dictate their position through force with success. Here, the reason for the problems stems from the companies themselves.

Fifth one is distrust of state bodies. The authorities promise to resolve issues in favor of the local population. However, they do not actually help in resolving the situation despite the fact that parties periodically discuss the existing problems. Additionally, in previous years situations formed that led to more confused and contradictory performances. For example, in accordance with the mining strategy, priority is given to FDI attraction. The government entrusts the private sector completely with the mission of mining industry development (Country Development Strategy, 2009: 53). However, some state authorities explained that FDI and licensing would only be allowed after the agreement of the local community. On the other hand, it is not clear who in the 'local community' can provide such agreement to the company, since a local community is an unofficial institution. At present, a local community is a mixture of *ayil* clans and administrative-formal relationships. According to Bogdetsky (2012), this was inherited from the regulations and informal

structures of Soviet times. The informal relationship known as ‘kyrgyzchylyk’ is a special type of relationship that maintains the hierarchy of values and relations.

Six one is lack of information sharing. Insufficient exchange of information about the mining field and the company and the lack of full transparency generates suspicion and various gossip among the local community.

Despite participatory issues becoming more important and being taken into consideration by all sides, shortcomings in the communication with the local community and a lack of information sharing remain major issues in local mining politics. For example, the local communities of Chatkal are dissatisfied with the amount of information provided and criticize non-transparent actions. Similar problems were identified by local authorities, who have been calling for closer cooperation between companies and local authorities (Tianen, 2012: 26). The local authorities and local communities seem to be making certain attempts to take more power in the decision-making processes in the mining field.

According to Tianen (2012: 74), local communities feel that they lack opportunities for participation in the decision-making processes of mining activities. Officially, they have possibilities for influencing mining activities and the developments in their living environment. However, license issuances for mining, as well as other legal instruments, are handled in Bishkek by state authorities. Environmental impacts and limited possibilities for meaningful participation in decision making are challenges that locals face.

Another issue concerning local communities is the distribution of costs and benefits. Local communities feel that they are not receiving enough profit from the companies to compensate for the negative impacts of mining. In accordance with the taxation system of the country, companies are obligated to make payments to local budgets. In reality, however, many companies are registered in the capital, Bishkek, and thus their tax payments are allocated to Bishkek. Moreover, there have been some cases of misuse of tax payments by local leaders (Bogdetsky, 2001: 82).

In the protests, the most commonly mentioned problems are related to the improvement of infrastructure and employment and to environmental pollution. According to protesters, environmental monitoring is inadequate. In cases of environmental violation or pollution, the most efficient way for the local population to influence the situation is through direct action, in the form of resistance, like road

blocks, that pushes the companies toward better practices. This is because the official methods for influencing the situation are limited. For a comprehensive picture of the situation, the impacts of these mining developments should be studied more widely, including the social dimensions.

4.5.2. Corruption

Corruption has become one of the main challenges that result in continual problems and sometimes in conflicts in the mining sector. As stated above, Kyrgyzstan was ranked 150th out of 177 countries in 2013 by Transparency International, a leading corruption-rating organization. Activities aimed at fighting corruption did exist from the very beginning of independence. For example, a first stage of activities was carried out in the first years of independence, in 1992. A second stage in 1993, third stage in 1996, fourth stage in 1998, and fifth stage in 2003-4 were also undertaken. In each stage new institutions were formed or new regulations were accepted. In the last stage, for example, laws were issued: ‘On Fighting against Corruption’, ‘On State Services’, ‘On State Procurement’, and ‘Declaration on Disclosure of Assets of Politicians and Their Relatives’. However, these laws and declarations were all developed according to the assistance and requirements of international institutions, like OECD-USAID, not according to the requirements of the real domestic situation (Beknazarov, 2012: 77-78). To gain the support of those international institutions, the Kyrgyz government had little choice but to accept their proposals.

Corruption was one of the reasons for the so-called Tulip Revolution. After the March events, the fight against corruption became one of the main issues for Bakiev. In various 2005 speeches after the March events, he said:

Corruption brought the biggest loss for the people. What have always been done until now were only on paper. All these laws and regulations were accepted by the government only to demonstrate and to get aid and support from international institutions (Beknazarov, 2012: 79).

The government thus seemed focused on legislations for their possible benefits, not their efficiency and applicability. President Atambaev, following the election in 2012, frequently stated that an important aspect of his presidency was to

restrict corruption. Relating to the mining sector, on November 30, 2012, the former Director of Geology and Mineral Resources Agency, Uchkun Tashbaev, was arrested by the Anticorruption Service of the State Committee for National Safety due to allegations of abuse of power and illegal licensing of mineral-resource exports (RFE/RL's Kyrgyz Service, 2012). It might be useful to add that Tashbaev was a manager of Kyrgyzstan's Central Agency for Development, Investment, and Innovations under the presidency of Bakiev. The next director of that agency, Ishimbai Chunuev, was fired by the prime minister for his relationship with the Kumbel mining company in 2013. The former head of the agency preceding Tashbaev, Zamirbek Esenamanov, was also under home arrest. As a result, following Chunuev, Duyshonbek Zilaliev was appointed head of the State Agency for Geology and Mineral Resources by Prime Minister Zhantoro Satybaldiev. By profession, Zilaliev is a policeman with a diploma in economics. He had never worked in the field of geology. The aim here was to prevent corruption in the mining sector by appointing a leader from outside the field (Aibat, 2013).

4.5.3. Environmental Pollution

Environmental pollution is another of the unresolved problems resulting in conflicts. During the Soviet times, such conflicts and confusion not only in the mining sector but in the system as a whole were avoided by the fact that all activities of actors in the economy, including the local community and enterprises, were planned and controlled by the state. Correspondingly, mining activities were regarded by the local communities as faultless. In reality, Soviet mineral resource extractions left Kyrgyzstan with irresponsibly maintained mining dumps that posed risks for the environment and human health. For example, in accordance with information provided by the State Registry of Tailings and Mining Dumps, there are locations with toxic and radioactive mining waste in the territory of the country (UNDP, 2010). These mining wastes²¹ are located close to communities and pose a danger in

²¹During the Soviet times, Mailuu Suu was one of the main fields of uranium production. At present there is a considerable amount of radioactive tailing dumps and waste. There are 23 tailing dumps in Mailuu Suu, 14 of which are located within residential areas (Bogdetsky, 2001: 70). In 2005 after an earthquake some 300,000 cubic meters of radioactive waste fell into the Mailuu Suu River (Isaeva, 2012: 55)

particular during exposure to natural processes. Moreover, they have not been protected against unauthorized access by people²² (Bogdetsky, 2012). However, none of these problems were viewed by the local communities as a threat, because they considered the situation to be under the control of the state. After independence, however, confusion began to grow between the local community and the state. Theoretically, this could be the result of expectations from the market-oriented reforms, as a result of which the most efficient economic and social organization of society was expected. Furthermore, during the implementation of those market reforms, balancing the interests of opposing actors seems to have been ignored.

Especially after the 1998 accident in the Barskoon valley, ecological problems began to be associated with foreign mining companies. In that accident, a Kumtor truck fell into the Barskoon River and leaked 1,762 kilograms of sodium cyanide, a chemical inorganic compound used in the production of gold, into the river, which flows into Lake Issyk-Kul. After the accident some local residents claimed that they suffered health problems as a result of the spill (Gullette and Kalybekova, 2014). In response to that, the KOC paid financial compensation to each of the family members living near the river.

It also seemed that in some cases claims of environmental pollution were an instrument for profit or for making a name in politics. In the Barskoon case, international experts concluded that there was little evidence that the alleged illnesses were a direct result of exposure to cyanide chloride (Hynes, Harrison, and Bonitenko, 1998). Another environmental pollution claim was raised against Kumtor in 2013. This time, international experts called in by Kumtor found no significant environmental hazards and concluded that the mining activities were operating within European standards. However, examining the same case, government experts found some irregularities. As a result, the State Agency for Environmental Protection and Forestry of Kyrgyzstan forwarded a claim of 15 billion som (304 million US dollars) against Centerra for alleged ecological damage. The agency claimed that this was for emissions of pollutants and waste dumps, particularly related to operations between 1996 and 2011. However, these claims were similar to previous claims logged by the

²²Local communities extract buried material for sale as secondary metallic raw material, ignoring warnings and risks. There have been cases in which local people use tailings to build houses and utility rooms (Bogdetsky, 2001: 70).

State Inspectorate for Environmental and Technical Safety. The Bishkek City Court dismissed three of the previous appeals initiated by the State Inspectorate for Environmental and Technical Safety for issues at the Kumtor site, amounting to \$152 million (Ibid, 2014: 11).

Another interesting point about the environmental problems is that there have not been environmental claims against the activities of Kyrgyzaltyn, a state-owned company. According to Gullette and Kalybekova (2014), public companies were perceived by the people as being more accountable while private companies faced people's concerns about how much the company could be trusted or how it would compensate for damages. He concluded that it is a lack of experience in mining that has made people concerned about private companies (Ibid, 2014: 7). Despite the fact that the country developed its legislation in accordance with the Aarhus Convention²³, the inclusion of mandatory requirements for public participation in decision making has not always been practiced. In addition, the instructions on environmental impact assessment procedures include a social impact assessment, but there is very limited information on whether the representatives of local communities have detailed information to contend with this legislation or not. However, members of communities have complained that they were not included as was intended by the legislation. If local communities or their representatives know their rights for participation in decision making, they should also know that they could defend their rights in the courts. However, due to another problem, the high level of corruption, it seems that courts have also lost the confidence of the people. Therefore, blocking roads seems to be the only remaining alternative for communities to ensure that the opposing side, namely the state authorities or company representatives, listens to them.

Lack of a unified state policy and coordination of the state authorities are considered as other reasons why the mining sector has experienced difficulties in general and why ecological problems continue (Dzhenchuraeva, 2013). Over the years, improper appointments and reorganization as a ministry have disrupted the works of the State Agency for Geology and Mineral Resources. Since 2005, the State

²³The United Nations Economic Commission for Europe Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters, adopted June 25, 1998, in Aarhus, Denmark.

Agency of Environmental Protection and Forestry was the body responsible for environmental regulation. However, the low institutional status of the agency created difficulties in defending ecological interests and raising environmental priorities. Therefore, in 2009, the major responsibility of the State Agency of Environmental Protection and Forestry for environmental expertise and control in environmental protection relating to mining operations was transferred to the newly established Ministry of Natural Resources, which was formerly the State Agency for Geological and Mineral Resources. The transfer of responsibility to the Ministry was justified by the idea of organizing the interactions between the state and mining companies ‘in one window’ in order to reduce the risk of corruption. The Ministry was given an impressive number of functions, and tasks that were previously the responsibility of other sectoral agencies were also transferred to the new Ministry.

However, the Ministry of Natural Resources had worked for 3 years before mining regulations in the Kyrgyz Republic were introduced with the next organizational reform. A new interim government, formed after the so-called second revolution of April 2010, decided to abolish three ministries, among them the Ministry of Natural Resources in late 2011. The Ministry was then reorganized back into a State Agency for Geology and Mineral Resources (Gosgeolagentstvo). In principle, thus, the Kyrgyz mining governance returned to the same organizational level as it was before 2009 (i.e. divided between two state agencies), except for some competencies related to the state environmental expertise of projects within geological licensed sites that were retained (Honkonen, 2012). Moreover, the professionalism of younger people in the mining sector stayed at a low level. Young staff members of the Agency for Geology and Mineral Resources, especially those who started to work in 2011-2, were far from understanding the contemporary issues and mechanisms of action in the industry (Dzhenchuraeva, 2013).

Uncertainty and instability are a challenge for the development of the economy. Frequent changes in the country’s regime and governance structures have caused uncertainty and a lack of predictability for mining policy. For example, the cancelation of licenses, the closing of access to geological information, the closing of mining fields (Gullette and Kalybekova, 2014) opened under a previous regime, and frequent reorganization of government bodies related to the mining industry in a short period of time all increased the uncertainty.

4.6. Contemporary Political/Economic Debates over Nationalization

Within the two decades since independence, Kyrgyzstan has experienced two different outcomes. First recognized as an ‘island of democracy’, it moved on to experience two bloody so-called revolutions, and from being the region’s most open market-based economy, as IFIs once claimed, it moved on to discuss the nationalization of private companies. In this chapter, the emergence of these nationalization initiatives is analyzed. How the most market-based economy of the post-Soviet region moved so quickly to the nationalization of the biggest private investment initiatives is addressed.

4.6.1. Background of Nationalization Developments

The rise of nationalization and nationalism tendencies in general have been associated with different developments. However, it was not until 2010 that nationalization initiatives began to emerge in the country. Initiatives started to be forwarded under the regime of the interim government appointed after the so-called revolution of April 2010. In general, the reasons for nationalization initiatives can be grouped into two main categories. The first is a nationalist leader attempting to strengthen the country’s sovereignty, particularly after the violence in Osh in southern Kyrgyzstan in June 2010. According to nationalist leaders, during the power vacuum that followed Bakiev’s departure, people felt some threats to the sovereignty of the country. Representatives of ethnic Uzbeks attempted to gain greater political control by challenging the unity of the country and as a result many Kyrgyz citizens perceived the sovereignty of the country to be under threat. The second reason is more subjective. Some nationalist leaders claimed that the state was under attack by foreign companies. The natural resources of the country are a part of its sovereignty, so natural resources also need to be nationalized. They argued that companies like Centerra Gold were taking away the wealth of the Kyrgyz nation and actively used mass media to spread this viewpoint. This created the perception among the population that the nation was losing control over its national resources. All these developments increased the already existing tensions among the population that had resulted from

high unemployment, migration, diminished basic services, and significant gaps in social and economic development throughout the country.

As a result, the aims of nationalization can be listed as follows (Lushnikova, 2007):

- To save strategic sectors of the economy that have vital importance to the socioeconomic welfare of the country and its security;
- To preserve sectors that might face threats to the sovereignty of the country;
- To save the environment;
- To protect rights of customers and to prevent monopoly;
- To prevent unlawful removal of profits out of the country;
- For security during extreme situations (crises);
- To ensure implementation of the main socioeconomic goals.

However, according to Lushnikova (2007), the nationalization issue actually became an instrument for different parties and leaders to reconstitute the political and socioeconomic life of the country according to their own approaches, which differed based on the political and economic values of those parties.

Starting with the background of nationalization developments will be useful for better understanding the basis for nationalization demands. Demands for nationalization were mostly concentrated around the conflicts of interest of parties involved in the mining sector, and especially around the KOC. Therefore, we will start by focusing on developments related to Kumtor mining.

Kyrgyzaltyn, the state-owned company, on behalf of the Kyrgyz government and Cameco Corporation, a giant Canadian uranium corporation, established CJSC KOC. In accordance with the agreement, two-thirds of the shares of the company belonged to Kyrgyzaltyn and the rest went to the Cameco Corporation. Former president Askar Akeev and the prime minister of the country at that time, Tursunbek Chyngyshev, played a key role in the negotiation process with the Cameco Corporation. During the negotiation process, some parliamentarians criticized the absence of a tender and the lifting of taxes for 10 years.

Ten years later, during a reassessment of the agreement, another scandal was triggered. Benefits given to the Canadian company were criticized by opposition-oriented parliamentarians. They wanted to ensure more favorable conditions for the

country. Despite the fact that the company produced more than 150 tons of gold by 2003, the government did not receive much inflow to the budget. Towards the end of the ten-year tax-free period, the general agreement was revised. As a result, in early 2004, Cameco and Kyrgyzaltyn joined Centerra Gold Inc. The Cameco Company transferred its shares and loans to Centerra Gold. The share of Kyrgyzaltyn in the Kumtor mining field decreased from 66% to 30%, while Cameco, in exchange, agreed to pay taxes. Kyrgyzaltyn became a shareholder of Centerra Gold Inc., an investor in the Kumtor mining field. Centerra Gold had mining fields in other countries, as well, but its biggest one was the Kumtor mining field. According to the law on investment, investors were given special privileges. However, here the crucial point is that the revision of the agreement and the decisions made were not approved by the parliament. This would lead to endless discussions in the future. Later, the government sold some 15% of its shares for 90 million US dollars. That sum was used to invest in social projects. The government then held about 16% of shares in Centerra. After deposition of Akaev, in March 2005, the new government decided to again revise the general agreement with the aim of better serving national interest (Ababakirov, 2008). In December 2009, under the presidency of Bakiev, Centerra Gold and the Kyrgyz government negotiated a new agreement, as a result of which Centerra Gold transferred some part of its shares to Kyrgyzaltyn. Through this process the government increased its overall shares to 33%, while the rest was left to Centerra Gold.

In other words, the Kumtor gold mine has always been a source of disputes. However, after the bloody events of April 2010, a new phase of disputes began. Attempts to change the operating agreements were made by representatives of the interim government. According to them, the agreement with Centerra Gold and the reduction in shares was unfair and should be renegotiated, while some nationalists called for the mine to be nationalized.

From the government's side, the conflict around the Kumtor gold mine is an issue of the distribution of resources, while advocates of nationalization of the mine have presented the conflict as a battle for the sovereignty of the country (Gullette and Kalybekova, 2014: 2). The government has been negotiating to increase its shares in the mine to gain control and bigger revenues. In February 2014, Kyrgyzstan's parliament approved a new agreement framework with Centerra Gold regarding

control of the Kumtor gold mine. It included a series of political and economic compromises, focusing on the causes of tensions. The new agreement framework aimed at an equal share in the Kumtor gold mine.

Most demonstrations demanded greater domestic control of the Kumtor gold mine or more government interventions. One of the most crucial demonstrations that demanded nationalization was organized by the Ata-Jurt political party. The leaders of the Ata-Jurt party, Sadyr Japarov, Kamchybek Tashiev, and Talant Mamytov, organized a demonstration calling for the nationalization of the mine on October 3, 2012. About a thousand people gathered in Bishkek's Ala-Too square. After the speech of party leaders calling for resignation of the Prime Minister, protestors tried to break into the White House. All three organizers were arrested and their jail terms became another source of continued public demonstration against the government.

In 2013 there was another protest against Kumtor. This time, protestors blocked the road to the Kumtor gold mine and shut off the power supply, demanding more money directed into education and the health sector in the region and the government's cancelation of the operating agreement with the company. The demonstration turned violent, resulting in many people being injured and 80 others arrested. Meanwhile, in the southern city of Jalal-Abad, hundreds of people gathered to support the Kumtor protestors. Kyrgyzstan's Prime Minister, Zhantoro Satybaldiev, visited the demonstration after the announcement of a state of emergency in the region. In his meeting with local residents, Satybaldiev said that the government would study the protesters' demands. He also met with representatives of the mining company. Here the most important thing was the content of a speech by the Prime Minister²⁴, in which he said it was the demonstration that inspired him to defend the interests of Kyrgyzstan.

Another protest for nationalization was held in the city of Karakol, capital of the Issyk-Kul oblast in which the Kumtor mining field is located, in October 2013. During the demonstration protestors stormed the administration office and took the governor hostage. They demanded that the governor increase the country's share in

²⁴ "I can't promise you to change the existing agreement between Kyrgyz authorities and Centerra Gold in a matter of a day. I cannot, in a matter of one day, sort out all of these issues that have existed for the last 20 years. You have inspired me and I promise to defend the interests of Kyrgyzstan regarding Kumtor", <http://www.rferl.org/content/kyrgyzstan-kumtor-protest-gold-mine-government/25003864.html>, at 20.07.2015.

the Kumtor gold mine or nationalize it, despite the fact that the governor did not have any such authority. The protestors even threatened to set the governor on fire if he did not comply (Ibid, 2014: 5).

Environmental concerns have been another issue used by nationalists to support their arguments. The aforementioned Barskoon accident (Section 4.5.3) has served as a main argument for many pro-environmental protestors for a long time. After the accident in May 1998, local people started finding dead fish and some other animals near the river, launching a panic (Musaev, 2013: 6). Local people complained that they were made sick by the sodium cyanide and the KOC gave financial compensation to each family member living near the river in return. The incident served as a basis for repeated claims for more financial support from time to time. However, as described above, there were contradicting reports about the KOC's operations. While a government commission reported environmental pollution at the mine site, other reports concluded that Kumtor operates within European standards. Nonetheless, in 2012 and 2013, various government bodies including the State Agency for Environmental Protection filed a claim against Centerra Gold for a total of \$467 million for alleged environmental damages. Some of this sum was dismissed by the Bishkek courts, while the rest is still under consideration. All of these developments involving the KOC have been used by nationalists to support their position. Nationalists even distributed DVDs outlining Kumtor's violations in southern regions of the country far from the mining field (Gullette and Kalybekova, 2014: 5).

In light of these points, it seems that it was not the so-called bloody revolutions or the ethnic violence in Osh in 2010 that resulted in the rise of calls for nationalization of private investment. Rather, it was the radical uncontrolled neoliberal reforms resulting in an unregulated market economy in the country that left organization of the market to the initiatives of private companies. Even the state itself, through public companies, became a part of the realization of private companies' initiatives. The so-called revolutions or the Osh events might have helped to increase nationalism in the country, but they were not triggers of the demands for nationalization of private investment. As a result of the unclearly defined responsibilities of the state, company, and local communities, private companies holding economic and political power

could shape the market in accordance with their own interests. This shaped conflict areas to be used as support for pro-nationalization arguments.

This situation requires special attention as the mining sector has a significant place in the economy of the country. The issue of nationalization in this regard has not been sufficiently studied yet and it is difficult to draw a conclusion as to whether a policy towards nationalization would have a positive or negative impact on the socioeconomic conditions of the country. However, by analyzing the arguments presented by different sides for and against nationalization, the possible results of nationalization can be imagined.

4.6.2. Arguments For and Against the Nationalization of Kumtor

Arguments surrounding the nationalization of Kumtor differ in accordance with the political views and interests of related parties. The government annulled the license of Stans Energy for the development of the Kutisay mining field, as a result of which Stans Energy carried the issue to the Canadian court (Beyshenbek kyzy, 2014). The Canadian court froze the 60% share of Kyrgyzstan in the KOC. Following that, the president of the country, Almazbek Atambaev, promised to take more decisive steps to protect the public interest. This was assessed by some experts as a possible step towards the nationalization of gold-mining companies. From the point of view of Sadikov, a head of the public foundation Danko, the nationalization issue is the result of attempts to control the distribution of the incomes earned from gold mines (Subanbekova, 2014).

According to the former Minister of Justice of Kyrgyzstan, Marat Kaiypov, the agreements between involved sides were formed wrongly. They were formed in such a way that Kyrgyzstan would lose if Kumtor were to be nationalized. In order to nationalize, all agreements signed with the company would need to be canceled. After the cancelation of the agreements, the company would automatically be nationalized. However, in accordance with the basic laws of the country, in the case of nationalization, the state must compensate all losses. From the point of view of the former minister, the KOC had violated its agreements and the Kyrgyz side should address a claim to the court (Beyshenbek kyzy, 2014). On the other hand, as highlighted by Koichuev, one of the leading economists of the country who actively

participated in the reform process of the economy in the 1990s, the state had invited an investor and signed an agreement, and it would be wrong if the same state after 20 years denied the signed agreements. All these disputes should be resolved by taking the interests of both sides into account. The state could not blame the investor for the way in which the agreement was formed and signed. All responsibility lay with the officials of that time. Responsible authorities have to fight for the interests of the country, but within the framework of the law (Asanova, 2014).

Different sides have commented on the possible nationalization of Kumtor. In this subchapter, the opinions of representatives of these interest groups are analyzed. This includes not only arguments for and against it, but also the interests of third parties like labor unions and public organizations. The official debate about nationalization in the country started when the Ata-Meken political party sent a draft of the law 'On Nationalization of Kumtor' to the committee of the Supreme Council. According to Omurbek Tekebaev, the leader of the Ata-Meken party, the draft of the law focused on nationalization of the KOC. In the framework of the draft, the Supreme Council ordered the government on February 6, 2014, to establish a joint venture with a 50% share for Kyrgyzstan within 3 months. If the cabinet of ministers could not achieve such a joint venture within 3 months, the deputies of the Supreme Council demanded a proposal for the nationalization of the company, taking into account international practices of nationalization. Nine months after the order had been given to the government, the government had not taken any measures. During this time, the cabinet of ministers not only ignored the conditions set by the Supreme Council, but even worked under the terms dictated by Centerra Gold, the owner of the Kumtor mining field. In order to form a joint venture, it was necessary to sign more than ten additional agreements. However, until autumn, such documents for the formation of a joint venture had not been prepared. Therefore, the Supreme Council extended the deadline for formation of a joint venture to December 15, 2014. The formation of such a joint venture between the Kyrgyz government and Centerra Gold was described by Ian Atkinson, the head of Centerra Gold, as a difficult process. He stated that if shareholders did not support such an agreement, the process of creation of the enterprise could be interrupted at any time (Beyshenbek kyzy, 2014).

Arzymatova, a national political scientist, assessed the nationalization issue as a card game among politicians who do not care about the interests of the involved

sides. For her, politicians do not think about the future of the country, not even in the intermediate term. They concentrate only on what is beneficial for them, not the people. From her point of view, the issue of Kumtor had long ago turned into such a card game (Imanalieva, 2014). In other words, the issues surrounding Kumtor have been excessively politicized, while the economic side of the issue has been forgotten (Asanova, 2014). According to Tadzhibaev, a chairman of the Central Committee of the Mining and Metallurgical Union, it has become a part of geopolitical games. During the entry of Kyrgyzstan to the Eurasian Economic Union and in parliamentary elections, the nationalization issue remained active (Kalybekova, 2014).

Kazakpaev, a political analyst, argued that nationalization of Kumtor would be equal to a crime against the people. Giving examples of nationalization experiences in Venezuela, Argentina, and Bolivia, he stated that nationalization would lead to the destruction of the state. In addition, Kyrgyzstan has a weak legal state and there are many shortcomings in the legislation. Even if nationalization were carried out, the country would lose everything in the courts. Moreover, the state would need to hire international lawyers and pay them millions in fees, due to the absence of qualified domestic lawyers. The court process might also last longer than expected. As stressed by a deputy of the Supreme Council, Tursunbekov from the SDPK Party, international proceedings might continue for at least 5 years (Asanova, 2014).

According to some political experts, calls for nationalization were nothing more than an attempt to gain political prestige before the parliamentary elections in 2015, since the idea of nationalization is welcomed by a majority of the population (Ibid: 2014). In the last years, it has become fashionable among Kyrgyz politics to make emotional populist statements. The loudest statements gain the most political points. However, the content of such comments is often lost on ordinary people. Statements like “wealth should belong to the people; everything has to be in accordance with the public interest” seem unclearly defined for people taking part in demonstrations. For example, the call for the nationalization of Kumtor, which first arose from Japarov and the Ata-Jurt political party, has now been adopted by the leader of the Ata-Meken political party, Tekebaev (Esengulov, 2014). According to Sarybashev, Tekebaev continued to support the nationalization issue after Japarov first due to the fact that some of the deputies of the Ata-Meken political party had taken part in the events of the April 2010 revolts and the political authority of the Ata-

Meken party was decreased significantly among the population as a result. Secondly, some important members like Karganbek Samakov left the party. Supporting nationalization could be seen as a way to regain that lost ground (Sarybashev, 2014).

According to another deputy of the Supreme Council, Joldosheva, from the Ata-Jurt Party, laws were changed in accordance with the desires of Tekebaev. Adopted laws are destroying the state and are against the Constitution, leading the country into socioeconomic crisis and chaos (Esengulov, 2014). In one of Tekebaev's speeches we hear: "If necessary, we will take away the Kumtor, by conceiving some kind of debts and making them the obligator" (Ibid). In the case of nationalization of the company, it could still be transferred to other foreign companies. More than once there was news about the possible connections of Tekebaev with Azerbaijani, Turkish, and Chinese businessmen who were willing to invest in and operate Kumtor for a small share. This is assessed by experts as one of the possible reasons why Tekebaev initiated support for nationalization of the company (Imanaliev, 2014).

According to an independent deputy of the Supreme Council, Abdrakhmanov, nationalization will not give good results. The government of the country would not be able to fully develop Kumtor after nationalization. Giving examples of more than 30 other gold deposits that could not be operated by the government and about 20 public companies on the verge of bankruptcy, he concluded that after nationalization of Kumtor the situation would be the same as in other state-owned enterprises (Asanova, 2014). In addition, there are not sufficient qualified specialists to ensure the effective operation of the company after nationalization.

In general, these arguments were all supported by facts. Arguments against nationalization specifically indicate that the amount of compensation to be paid by Kyrgyzstan would be forced after nationalization. They also focus on increased unemployment, decreased budget revenue, and bankruptcy of SMEs that work with the company. However, estimates of the potential losses differ. According to the former chairman of the GTS, Zamirbek Osmonov, in the case of nationalization the budget of the country would decrease by 4.5-5.5 billion som annually, leading to a serious deficit of the budget. In addition, the local companies cooperating with Kumtor pay 250-300 million som in taxes to the budget of the country each year. Thus, the total amount to be lost reaches some 6 billion som annually (http://www.gezitter.org/kumtor/34948_natsionalizatsiya_lishit_kyrgyzstan_ejagod

nyih_postupleniy_45-55_milliardov_somov, 23/05/2015). According to Esengulov's article, meanwhile, by nationalizing Kumtor the country will lose some 7 billion som (Esengulov, 2014). Those in support of nationalization, however, are focused on the loss of potential income from gold extraction. For example, according to calculations of the Ata-Meken party, Kumtor mining extraction will bring up to \$2.7 billion by 2026 but only 33% of this income will belong to Kyrgyzstan (Beyshenbek kyzy, 2014).

Kyrgyzaltyn also had its international experts calculate the losses in the case of nationalization of Kumtor. According to the deputy head of Kyrgyzaltyn, Kylychbek Shakirov, the losses might reach \$3.5 billion. The cost of the mining field now amounts to about \$1.5 billion. Another of the leading experts on mining in the country, Duisheev, assessed the situation by saying that the nationalization of Kumtor will result in huge economic costs. We will have to pay about \$3 billion compensation for owners of the company. Moreover, if extraction of gold stops, it will cost us \$4.5-5 billion. The country does not have such an amount of money and within two years the country would be defaulted. In addition, Kyrgyzstan has accepted and has been living in accordance with global economic rules and laws. The country must obey these laws. Generally, demands for nationalization of Kumtor were raised by authorities who did not sufficiently understand economics or the mining industry (Duisheev, 2012).

Kazakpaev, a political analyst, looked at the nationalization issue from a different perspective. If the country loses in international courts after nationalization, the international image of the country would suffer. The country already had its image damaged for investors as a result of the revolts of 2005 and 2010. Nationalization on top of that prior damage could lead to the destruction of the state. Compensation after nationalization is comparable to the payment of reparations. Kydyrbaev, the executive director of the Chamber of Tax Consultants, assessed the situation by saying that stopping production at Kumtor would profoundly damage the national economy of Kyrgyzstan. Shifts in the price of gold alone have been enough to shake the economy of the country. For example, when the budget of the country was adopted for 2013, the price of gold was \$1,750 US per ounce. Towards the end of 2013, the price of gold in the market fell to \$1,200. As a result, planned budget norms were not accomplished.

It is very clear that the national economy of Kyrgyzstan is sensitive not only to the amount of extracted gold but also to the price of it (Turdugulova, 2013).

As stated by the chairman of the GTS, Ishak Masaliev, the growth of the Kyrgyz economy depends on the productive work of the Kumtor mining field. The Finance Minister of the country, Olga Lavrova, also noted that by nationalizing Kumtor, the budget of Kyrgyzstan would lose some 8 billion som. She added that the budget of the country for 2014 was dependent on Kumtor, having been formed without taking into account its possible nationalization (Kalybekova, 2014a). If the expected taxes and fees do not arrive to the treasury, the government will fail to pay for social needs. Basic expenditures like pensions, military, and hospital needs could not be paid. Additionally, every employee working at Kumtor has a family with at least with three members. Thus, thousands of people would be forced into difficult social situations, possibly causing a third revolt in the country.

Participants of a forum organized in the Issyk-Kul region in 2014 expressed the importance of the financial support of the KOC for improving the social infrastructure of the region. For these participants, nationalization of the company would only work for the interests of certain politicians. In accordance with the local community's thoughts, decisions regarding the company need to be made not by considering the opinions of upper-class experts but rather by taking into account interests of local communities and workers (Kalybekova, 2014b). According to a deputy of the Jeti Oguz regional administration, Bupebaeva, nationalization of Kumtor would have hurt not only the Issyk-Kul regional economy but also the whole national economy. This is because the country has neither the technical nor the financial capacity to maintain production at Kumtor itself. Due to the 2014 protests against the company, the Jeti Oguz regional income from the company decreased by 8 million som. That money was said to be spent for development of the socioeconomic situation of the region (Beshkempirov, 2014).

The company contributes not only to the local budget and development of regional infrastructure; it also employs more than 3,000 Kyrgyz citizens who have some of the best working conditions and highest salaries in the country. Kumtor provides virtually everything for its employees, including fortified food, free medical examinations, and wages higher than those paid even in the Supreme Council. This

seems to create strong loyalty of the workers to the company. For example, Kutmanov, worker at Kumtor for over 5 years, said that

after graduating from the Mining and Metallurgical Institute, I had looked for a job for two years. From the beginning I wanted to work here [at Kumtor], since I had been in other mining companies for the practice, and their conditions could not be compared to Kumtor (Asanova, 2014).

Urmat was also concerned by the current developments surrounding the company. According to him, the unstable situation at Kumtor appeared due to politicians. A main problem was greed, as part of the population (workers, he meant) worked for other parts (i.e. politicians) who would take too much from them. The situation facing the gold mine is the result of efforts of politicians, nothing more (Asanova, 2014). For Kurmanov, it is not understandable why debates about Kumtor would exist. According to him, the parliamentarians (deputies) do not seem to think about the people. The Kumtor issues are just a springboard for politicians to achieve political gains and strengthen their positions (Ibid, 2014).

Moreover, in the case of nationalization, there is no guarantee that new hirings to the nationalized company would not heavily include acquaintances. If Kumtor is nationalized, new Kyrgyz managers will employ their relatives and ordinary workers would become unemployed again, as has already been seen in the management of national companies. In this case, skilled excavators, bulldozers, and specialists without those personal connections would leave to work in Kazakhstan or Russia. The country would lose its best specialists (Subanbekova, 2014).

The company also generates work for more than 600 small businesses that supply 11,000 types of products. In these enterprises, an average 7,000 people work. For the purchase of a variety of these locally produced goods, the company spends \$4.5 million monthly. It is hard to find similar opportunities in Kyrgyzstan. Nationalizing the company would lead to bankruptcy, like in other cases, and would damage the smaller companies in the field. As a result they would also be privatized and again start to work in the interests of particular individuals (Beshkempirov, 2014).

On the other side, a deputy of the Supreme Council and the author of the book *Gold Mafia-Kumtor*, Isabekov, has a different opinion about the nationalization of Kumtor. According to him, Kumtor should be transferred to the ownership of state without a nationalization process. He supports this with claims that the KOC has been

evading taxes. For example, in 2013 the company did not pay its full amount of taxes. In 2011, the company earned \$435 million, but paid only \$30 million. He further stresses that there is high level of corruption around the company and that can also be used as a charge in international arbitration courts. He also states that the country can extract gold by itself. It will require specialists, and it will take some time, but all that is needed is political will (Ulukbek Uulu, 2012).

Another supporter of nationalization, Kozhonaliev, accuses Kumtor of open robbery. According to him, to date Kumtor has produced 280 tons of gold. Kyrgyzstan received only 1.4 tons of that. This is less than 1%, evaluated by him as being equal to robbery. However, the validity of his given statistics has not been proved. Additionally, the gold extracted in the Kumtor field is sold by Kyrgyzaltyn, owned by the state. Only Kyrgyzaltyn has the right to sell gold extracted at Kumtor (http://www.gezitter.org/kumtor/15467_tsifryi_govoryat/).

According to Sarybashev, pro-nationalists have only been aggravating the situation in the country. Tekebaev's efforts were just an attempt to force company authorities to consider their responsibilities before the law. However, Tekebaev did not hide the fact that the nationalization issue was specifically directed towards Kumtor, not any other mining fields (Sarybashev, 2014). Moreover, as Deputy Abdrakhmanov stated, the government would not be able to operate the Kumtor mining extraction. Nationalization of Kumtor would lead Kyrgyzstan to catastrophe. He questions: "If the government were able to develop the deposits by itself, why then they did not develop the other 30 fields besides Kumtor?" (Chyntemirov, 2013).

Following a statement by the company about the forced stop of production at Kumtor due to an unapproved mining plan for 2014 in June of that year, Tekebaev stated that the KOC was blackmailing the whole country. According to him, the company had continued its activities despite the fact that the annual plan for operation was not approved. In other words, the company does not respect the laws of Kyrgyzstan. According to him, unemployed workers could work for the Russian gold mines. However, whether Russia would allow them to work or not is another question of those opposed to nationalizations (Karachalov, 2014). Tekebaev also initiated amendments to the Criminal Code of Kyrgyzstan. If managers or employers of enterprises that carry strategic importance for the country by their decisions or actions contribute to stopping the activity of the enterprise, they should answer before the law

(Jumashev, 2014). However, the proposed amendment was criticized by labor unions. According to Tadzhibaev, a chairman of the Mining and Metallurgical Union, the proposed legislation prohibits the use of employees' legitimate labor rights. This is a violation of international and constitutional norms, including the guaranteed right of citizens to protest. Additionally, in the last years, the Kumtor mining field had stopped its activities due to protests and road blocks. In this case blaming employees and managers is not right, said Samat Aliyev, an economic analyst (Ibid).

As a result of 2013 negotiations, Kyrgyzstan's government proposed to parliament to divide the assets in half. This would allow multiple increases in revenue and protect the property of the republic abroad. According to a former prime minister of the country, Satybaldiev, after the last meeting with representatives of the company, the government worked with international consulting companies like PricewaterhouseCoopers and DLA Piper UK almost every day. The improvement of the agreements by the restructuring project seemed the most suitable option. In addition, both sides noted that the settlement of the issue in court would not be beneficial for either Kyrgyzstan or Centerra Gold. Therefore, the only appropriate option would be solving the problem by taking into account the commercial interests of both sides (Kalybekova, 2014f). However, the government headed by Jantoro Satybaldiev failed to convince parliament to form a joint venture with 50% shares for each side at the beginning of 2014. As a result, the prime minister and the cabinet of ministers resigned in April of 2014. A new government under the leadership of Otorbaev likewise abstained from making radical decisions about Kumtor. A prospective negative reaction by parliament might result in the resignation of the new cabinet of ministers. As nationalization issues showed, confusion in the formation of state interests actually resulted from the confusion and contention between the government and parliament. Additionally, towards the end of 2014, the Supreme Council was still unable to work out a common position. Some of its deputies believe that the government needs to complete negotiations by forming the joint venture with 66% of shares for Kyrgyzstan or to nationalize (Ibid, 2014).

In summary, the debate surrounding nationalization includes the interests of different sides, including the Kyrgyz government itself. The Kyrgyz government does not have a clearly formalized position about nationalization. However, Tekebaev and Japarov, former parliament deputies who proposed the strongest arguments for

nationalization of Kumtor, were imprisoned in 2017. Whether their imprisonment was related to nationalization issues or not is open to discussion. Parallel to those events, nationalization issues have begun to lose their importance in the political economy agenda of the country. That might be coincidence, as well. However, it seems likely that the issue could be relaunched when Tekebaev or Japarov are released from prison or when the next unexpected political or economic trigger resurrects the debates.

CHAPTER 5

THE POLITICS OF GOLD EXTRACTION IN *BOZUMCHAK*

5.1. Introduction

This chapter provides a political economy analysis of the power relations surrounding the *Bozumchak* mining field. These relations are constituted by three primary groups: local (the Kok Serek *ayil okmotu*) and regional (the Ala-Buka regional administration) governmental bodies; the company founded as LLC “Kazakhmys Gold Kyrgyzstan Company” in 2007 and renamed in 2015 as “KAZ Minerals Bozumchak” (Kazakhmys); and the local community, residents of the village of Kok Serek.

The *Bozumchak* mining field is located near the Kok Serek village of the Ala-Buka regional administration and is operated by Kazakhmys, which is a part of the KAZ Minerals PLC Group located in Kazakhstan. It is one of biggest mining companies in copper production. The company has more than 20 mining fields, ten combines of complementary industrial plants, and two copper factories in Kazakhstan. In total, more than 60,000 workers are employed by the company. In other words, the company has thorough experience in dealing with obstacles in the mining field and in forwarding the company’s interests. Kazakhmys has been operating in Kyrgyzstan since 2007 and holds licenses for the exploration and development of the *Bozumchak* copper and gold deposits. *Bozumchak* is an open copper and gold pit mine located at an altitude of 2,400 meters above sea level. In accordance with the former Prime Minister’s Decree (No. 538) of 29 October 2013, 103.75 hectares of the pasturelands of the Kok Tash and Kok Serek villages were temporarily rented for the use of the Kazakhmys Company. The first copper and gold production at *Bozumchak* started in the second half of 2015. Immediately thereafter, the government allocated an additional 30 hectares of land for waste of production from near the Kok Tash village (Kalmatov, 2015).

The *Bozumchak* mining field has become a unique case in Kyrgyzstan in many respects. First, Kazakhmys is a mining company that has achieved continuity in its operations under different regimes, from Bakiev to the interim government and during Atambaev's rule. This is a significant achievement because, as described in the previous chapters, many gold mining companies that operated successfully under one regime faced difficulties or experienced the annulling of licenses under another regime. For example, under Bakiev's regime, the number of licenses for exploration and development of gold deposits reached up to 2000, but later most of them were annulled. During the interim government period there was minimal activity in terms of gold exploration, but under Atambaev's regime it reached its peak in terms of court cases. Moreover, attempts to nationalize the Kumtor field and the failure of reforms in the economy, including reforms in the mining sector, resulted in a change of the cabinet of ministers six times within seven years. Four of them resigned directly as a result of the failure of regulation of gold exploration in the country.

In spite of these resignations of cabinet ministers due to economic failures and the widespread annulling of mining licenses, the Kazakhmys Company has continued its work, receiving ongoing support from all past governments and their replacements. Additionally, the company was assessed as the best among national mining companies in 2013 and awarded the title of "Company of the Year 2013". Extraordinary efforts are required to earn such a title if we take into consideration the working conditions of the mining sector in the country. Despite the changing reforms and policies of each central government, the overall policy of the central government has continued towards this company. Thus, understanding the political economy of gold mining at the *Bozumchak* deposit would help us grasp the complex political relations surrounding the larger economic field of mining within continuity in the country.

Secondly, there is no specific heritage from the communist past existing at the *Bozumchak* mining field. *Bozumchak* was founded and began operations under the new rules and laws established as a result of market reforms. Neither the local government administration nor the local community had any mining-related experiences during the Soviet period or even in the initial years of independence. Before the *Bozumchak* mining field was established, the local community had only dealt with cattle breeding and the cultivation of tobacco and other agricultural products such as wheat and corn. In other words, the mining at *Bozumchak* is purely

the result of the order formed in the country under the name of neoliberal policies. Thus, analyzing the mining field will help us to understand the establishment of the neoliberal market in the local area from its very beginning.

Thirdly, there have been dozens of protests against mining field operations around the country and some of these protests have ended in violence and blood. The main aim of these protestors was to enhance the local conditions maintained by investor companies. However, while these protests were occurring across the country, the situation at *Bozumchak* has remained comparatively stable. Understanding the relations between the company and the local community will help us to analyze market relations among opposing sides and will enable us to problematize the theory and the practice of markets in the neoliberal order.

Finally, the company was able to establish comparatively stable relations with the other sides active in the area of the mining field. It is thought that with this success at keeping close relations both with the local community and with high levels of the political hierarchy, including the President, Prime Minister, ministers, and parliamentarians, the company has become a ‘middleman’ among them all. The close relations of the Kok Serek *ayil okmotu* with Kazakhmys ensure and strengthen the company’s power before the local community and central government, while good relations of the company with local communities have served as an instrument for the further support of the central government, as if a result of the company’s good works.

5.2. Historical Background of Kok Serek

During the Soviet period, Kok Serek was one of the 576 collective farms in Kyrgyzstan. Its main economic activities were cattle breeding and the cultivation of tobacco and other agricultural products such as wheat and corn. At the end of the Soviet period, it had a total area of 1,131 hectares, including 532 hectares of irrigated and 599 hectares of non-irrigated lands, used for cultivation. After independence, almost all of the non-irrigated land and 396 hectares of irrigated land were privatized or given to people for long-term use. Moreover, some 32,000 small-sized cattle and 1,000 cows were also privatized after independence (Interviewee 1).

After the collapse of the Soviet Union, villagers experienced such hardships in basic survival that in the 1990s they often had to sell their privatized possessions.

As a result, at the beginning of the 2000s, the number of small-sized cattle in the village had decreased to some 5,000. In interviews, most of the villagers noted that there was such high unemployment in the 1990s and at the beginning of the 2000s they had no other way to survive but selling whatever could be sold. Almost everyone was working on their own farms for subsistence and most of the residents of the village got accustomed to the prevailing difficult conditions in the village in those times. One of the local authorities said that, in those years, “in the Kok Serek and Kok Tash villages, each family tried to survive in one way or another according to their material capabilities. During winter time, they bred animals [stockbreeding], while in summer they dealt with cultivation” (Interviewee 1). Throughout the interview, this individual kept stopping to look statistics, and this was the part of the interview that I found most interesting. According to the local government’s data of 2014, eighty-six of the village’s families were living below the poverty line in those years, while almost 40% of the families took out short- and medium-term loans. Interviewee 1 said that

the transition period was not as easy as was planned. In the 1990s villagers lost scope in terms of what to do next. Some of the villagers took out loans to engage in commerce in the local market. In the local market, clothes and primary commodities from bigger towns were exchanged with animals from the village. Unemployment figures were around 50% before the launching of the mining business at *Bozumchak*. It even reached up to 80% in the 1990s. Due to unemployment most of the village’s men, especially the young ones, had to migrate to big cities or abroad. Currently, there are 1,118 families, with 6,300 people, living in the village.

Interviewee 26, meanwhile, described the situation of the Kok Serek and Kok Tash villages as a “chaotic race with different end points”. Each family of the villages was looking for its own escape route.

A particularly interesting narrative on the village was provided by Interviewee 2. According to him, the history of his generation is the history of Kok Serek. His generation has lived through all of the formations and transformations during the Soviet and the independence periods. Interviewee 2 began the interview by explaining how the Kyrgyzstan Collective Farm, the official name of the collective farm established in Kok Serek was formed in the time of the Soviet Union as one of the 576 collective farms in Kyrgyzstan. I asked him more about changes in the economic and social order after independence. His answer surprised me: according to him, there was no change or transformation. There was nothing. What was owned by the

collective farm was divided among villagers. Beyond that, there was no order, and the villagers simply tried to survive. Relations among people were arranged mostly in accordance with cultural and ethical rules. In the opinion of Interviewee 2, it is only in the last 10 to 15 years that people have started to look forward, moving beyond mere daily subsistence. His opinion was supported by another conversation, the one held among a group (Group Conversation 1). Participants in this group conversation said that most of the positive changes were related to the *Bozumchak* mining field, which had been operating in the villages for almost ten years. According to these people, the *Bozumchak* mining field has changed the history of the village of Kok Serek. When I asked them whether these were positive or negative changes, there was no common answer. Some of them stressed the positive economic and social changes, while others complained of negative changes including possible ecological disasters in the future and divisions in the local community.

5.3. Transformation of the Local Society (What Has Changed?)

Since the beginning of the mining activities at *Bozumchak*, Kok Serek has experienced some significant transformations in everyday life. These changes can be examined within three main categories. First, the mining at *Bozumchak* brought a new type of economic activity to the village. The local way of earning money has changed. Traditionally, the Kok Serek villagers worked for themselves, mostly dealing with agriculture and livestock or commerce, with some residents working for the government. Until the mining activity started, most of the interviewees were surviving through commerce and agriculture. For most of them, working for a private company was a new experience and a significant opportunity to earn comparatively higher wages of about 13,000 to 18,000 som monthly (180 to 280 US dollars). Before the operations at *Bozumchak*, monthly average earnings in the village had been about 3500 to 4000 som (55 to 75 US dollars). It was obvious to them that the mining field had contributed to enhancing the welfare of the village. As Interviewee 3 said:

Before *Bozumchak*, I worked at the Dordoi [the biggest bazaar in the country, in Bishkek]. My earnings were barely enough to support my family. However, after I started working for the *Bozumchak* mining, I was able to repair my house and do some small construction projects.

Meanwhile, Interviewee 21 highlighted the positive aspects of rotating shifts for working days. Working 15 days on with 15 days off in a month is new experience for him and many other villagers. He said: “On the off days I deal with needs of everyday life, and on the other days I earn money for my family. But each month being far from family for 15 days is very strange for me”. It is noted in both of these cases that the benefits of working with a higher average salary and rotating work shifts are accepted as improvements provided solely by the Kazakhmys but not as the requirements of the new laws adopted.

Secondly, the local economy and production conditions were partially modernized. In preparation of the ground field and the construction of mining factories, new types of machineries emerged in the village of Kok Serek. As Interviewee 2 highlighted, since the collapse of the Soviet Union, for the first time there are more than 10 or 15 machines in the village’s machine garage. These machines have been useful for the villagers who have paid for services. As the mining field grew, the amount of money circulating in the village also began to increase and money is being used for more tractors and automobiles. Before the mining industry arrived in *Bozumchak*, most of the arable lands were still cultivated by old traditional methods, but now people have begun to use tractors to cultivate the land. Moreover, the local government also owns a new tractor for the first time since independence. One of the heads of a small district of Kok Serek (Interviewee 4) said: “Today there are more and more cars, more agricultural machinery, more celebratory events. The use of machinery has improved the service sector in the local economy”. The increasing number of cars slowed with the improved transportation service. However, as observed by Interviewee 1, the extent of the cultivated arable lands has not been increased. Much of the village’s arable land remains unused due to the absence of a labor force for farming.

Thirdly, the presence of mining activities has changed social roles and social relations among the local population. For example, one of the interviewed residents, Interviewee 5 (a relative of mine) said: “Until *Bozumchak*, I was a typical farmer and nobody noticed me in society. After being employed in the mining territory as a security guard, my respectability among the local residents has increased”. On the other hand, it seems that the contribution of the mining field to personal lives or families in most cases depends on the individual’s personal contacts or relations with

local authorities, since not all job applicants are able to obtain mining-related work. Interviewee 5, for example, waited for years to get his job as a security guard, trying his best to use personal ties and relationships. In his opinion, as stated in the interview, he not only used personal time and the influence of close relations, but also exerted additional material efforts. At the same time, new positions and powerful unofficial statuses emerged in the village. One of the local administration deputies was appointed as a representor of the company's recruitment of residents of Kok Serek village. As stated in an interview given to the *Bozumchak* newspaper by this representor, his main responsibilities were observing the developments among the local population and organizing arrangements for them as needed. He stated that he had been trying to help with the hiring of at least one member from each of the needy families in the *Bozumchak* area. The reality of the situation, however, was quite different than portrayed in the interview as there were financially comfortable families with 3 or more members working for the company. Interviewee 6, a former classmate of this representor of company recruitment, stated the following:

he was hired for that position because he is the son-in-law of the richest family in the village. In school he did not attend any classes and he did not receive an appropriate education. He was just trained well in athletics. Now he is one of the most respected men in the village simply because he was hired by the mining company.

I asked this interviewee why she does not ask for a job herself, since she knows the representor well. She said that she had asked in the past and received the suggestive answer that "everything has its cost". From the point of view of Interviewee 6, while mining might offer contributions to the community, privileged people receive more benefits than ordinary families.

Finally, the perception of the local community about the founding order in the village has started to change. For the local community the company seemed economically stronger and more capable than the local government. For the first time since independence the local community has witnessed social development. Formerly, they did not expect any help or charity from anyone, except perhaps the humanitarian aid of international organizations, which was distributed very rarely. They survived on their own limited opportunities. However, after the beginning of the *Bozumchak* mining, the villagers started to perceive the company as a sort of life jacket for the village. Thus, in their eyes, it was not the state that made their lives better; rather, it

was the company. In other words, the company could be seen to be playing the role of an unofficial state for the villagers. It is observed that not all but most of the members of the two villages feel strong ties to the company emotionally. For example, the common sentiment of the people interviewed from Kok Tash village was that “Thanks to the Kazakhmys Company, Kok Tash village has survived”. This attitude was also confirmed by other residents’ thoughts as reflected in the local newspaper, *Bozumchak*, published monthly by the company.

To understand the sources of this loyalty, we need to see how the company started regulating its relations with the local community and the local government. The public relations policies of the company but not state rules or regulations have started to steer these relationships and thus decide on the interests of the involved sides. It is through this strong public relations policy that the company has led the local community to become emotionally linked to the company. Not all but most of the residents have positive thoughts about the company. One of the interviewee emotionally proclaimed the following: “I could not imagine life in Kok Tash without the Company. The Kok Tash village had become an enclave isolated within the territory of its own country. There was no road by land to connect it with other regions and regional administrative centers through Kyrgyzstan’s territory. In the past we used the land road that passed through Uzbekistan’s territory but then Uzbekistan closed its borders. The residents of the districts of Kok Tash village, situated here on the border of Uzbekistan, started to use the Uzbek language and think in Uzbek ways since all the television and radio channels were in the Uzbek language. Kyrgyz television and radio channels were not available. Residents of the village had started to use old types of transportation, such as horses or donkeys, to connect with other regions to meet their daily requirements because of this absence of a road by land. Residents were using such kinds of transportation until the Company built a land road” (Interviewee 7). This resident of the village seemed to be linked emotionally to the company, but it was not only ordinary residents of the village sharing such views. A local government administrator from Kok Tash shared his positive thoughts about the company by mentioning that

electricity was the biggest problem for the local community until the coming of the company. We were completely dependent on Uzbekistan. Thanks to company, we are now rescued from that electricity dependency. I can say that the company brought civilization, infrastructure, a new way of life, and many

other changes. It is our bread, and we should not kick our bread (*Bozumchak*, January, 2015).

Moreover, 2012 was a dry season for the agricultural sector and the wheat harvest was at a low level in the region. Thus, towards the end of autumn, the price of flour increased unexpectedly. As needy families were experiencing difficult times, a representative of the government for the Jalal-Abad region asked for the support of the company to help those needy families. Within a week's time, the company provided 85 tons of flour for needy families at the previous price. The list of needy families was prepared by a commission formed by the local government administration.

All of these changes touched the emotions of the local community. It is observed that members of the local community are generally satisfied with what the company provides for them, including electricity, roads, and job opportunities, while the company is happy for not being hindered in its activities by the local communities. The company has managed these changes in such a way that members of the local community assume that the company is working in their interests. By using different political approaches, the company has managed to influence the ways in which it is perceived by the local community. However, as we have seen in previous chapters, all of these relations are regulated by law, in accordance with which the company has to apportion a part of its budget in support of the local region's development. In order to accomplish its mission, the company has followed such a political strategy that ultimately it has become able to control all relations among the relevant actors in the area, namely the three sides outlined at the beginning of this chapter.

Additionally, as was mentioned in the previous chapter, in accordance with the budget regulations of Kyrgyzstan, 20% of the taxes paid by the company are earmarked for the budget of the *ayil okmotu* in whose area the mining field is situated. Over the past years, the total budget of Kok Tash has become the largest budget among local administrations in the country. There is a surplus in the budget of the Kok Tash village, while there are deficits in other neighboring local administrations. The Kok Tash budget was used generously as an investment to the village. These developments and investments were again perceived by the local community as if the company were working for the community's interests. In the *Bozumchak* newspaper published by the company, all of these developments were portrayed as communal

achievements of the company, creating a positive image of the company in the region and in the country as a whole.

5.4. Political Strategies of the Company

In the years following independence, mining companies, and especially gold mining companies, have followed various strategies and political approaches to support good relations with local communities. This has become a main concern for not only mining companies but also for central and regional governments, as the success or failure of mining companies has largely depended on the quality of relations with the local communities. During the period following independence, Kyrgyzstan witnessed dozens of interruptions or ends of mining operations, violations, and political turmoil due to conflicts with local communities.

To prevent such an outcome, the Kazakhmys Company has followed a main strategy of remaining close to both the local community and the state as much as possible. In this strategy, the company has followed two main policies. First, the company has tried to be close to the local community as much as possible and to create a positive image of itself in the region. By adopting this policy, the company has also gained the support of the majority, which in itself prevents the creation of marginal groups or minority groups acting against the company's work. Secondly, it has kept close relations with local and regional administration offices of the government by supporting their social packages and economic needs. The company has also continued to be close to the central government, maintaining close personal relations with political authorities.

In order to accomplish the first policy, the company has used well-organized public relations activities. These activities can be grouped within two main categories. The first group of activities has focused on making the company known by providing only positive information about itself and collaborating with influential people in the village and region. For this purpose, the company has been using different alternative mass media instruments. For example, the company started publishing a monthly local newspaper, *Bozumchak*. This publication of a company newspaper was not only the first example of its kind in gold mining; it was the first of its kind for the entire mining sector of Kyrgyzstan. According to the company's representatives, owning a

newspaper has helped to provide information about the company to the regional community. There is always the possibility of fallacious and incorrect information being spread about the company and so the publication of this newspaper was declared as to prevent such misunderstandings and to share the “right” information about the company. Thus, the main aim of the newspaper was defined as to create dialogue between the company and the regional community (*Bozumchak*, February, 2014). As has been observed in the answers of several of the interviewees, these media instruments succeeded in transforming the Kazakhmys Company from an investor to a rescuer in the eyes of the local public.

Field research showed that the local community, including the residents of the village, welcomed the newspaper. This was firstly because the newspaper published only positive comments about the company, and secondly it is distributed free of charge to almost all families of the village. One of interviewed local administrators said:

I know the newspaper very well. If they continue the publication of the newspaper, the authority and the attractiveness of the newspaper will rise among the community. Generally, I bring printed copies of the newspapers from the printing office. In time, the number of readers has increased enormously because the newspaper publishes not only information about the company but also information about the community, such as the achievements of talented people, craftsmen, artists, and other interesting topics. The most important thing is that unchecked information and gossip are never published. That is the most important reason for its success (Interviewee 8).

A closer look at the newspaper confirms all of these comments. Thus, the content of the newspaper includes many advertisements for the company, prepared to increase its prestige. This was further confirmed by one of the teachers of the local school: “The newspaper is read by the elderly, youth, and students. No bad news or negative information about the company is ever published” (Interviewee 9). It appears that the *Bozumchak* newspaper is perceived by the local community as a source of enlightenment. As local administrators mentioned (Interviewees 1 and 10), publication of the newspaper was necessary for the transfer of information to the local community. In keeping with their opinions, the more objective and understandable information is available, the more the local community would be informed about the company. However, it is not difficult to understand that the enlightenment of the local community has been undertaken in accordance with the company’s directives, thus

serving the benefits of the company. It is also noticeable that the newspaper is read generally by the older generation of the village. While visiting the village, I witnessed more than once that groups of older people, who have more free time, were talking and commenting positively about what was written in the newspaper.

In order to share information and spread the experiences of the *Bozumchak* mining field countrywide, press conferences and seminars were organized in Bishkek, the capital city of the country, and in regional centers. One of these was organized in Bishkek with the participation of mass media representatives in 2014. There was also a seminar organized for journalists in the Ala-Buka administrative region in 2014. According to Narynkyl Nazaralieva, a journalist for the Kyrgyz Tuusu newspaper, the company's contribution to the development of the local community has been enormous. She highlighted the generosity of the company's social package, saying that

the company has constructed a new local police office, and repaired the maternity hospital. There are other social services as well. Before the company came to the village, it could be seen that the local community was living in more difficult conditions. After the mining operations began, the local community started to prosper.

Similarly, another journalist from the K-NEWS information agency claimed that

we are convinced that Kazakhmys is a social company. The first impact of the company is impressive. Here all environmental and technical requirements of rules and laws are followed. These guarantee us environmental safety. Additionally, another impressive thing is that during an expedition in the mining field we saw the ongoing construction for treating hazardous wastes. This place was introduced as the safest place for hazardous wastes (K-News, 2015).

These public conversations and press conferences organized by the company are offered as proofs of transparency. However, these press conferences have included more presentations about the company rather than question and answer sessions. In other words, information and publications distributed about the company have been kept under the company's control. Moreover, when open public conversations were organized, they were organized at the local level, including the local communities, consisting of people who have limited knowledge about mining, engineering, or finances. For example, one of the public conversations in Kok Tash on 18 February

2014 focused on the recultivation²⁵ project of the mining fields and its construction works. During the conversation, a recultivation specialist gave information on the importance of the recultivation process for the environment and the company's transparent and appropriate policy of taking into consideration the opinions of local communities. He also reported that the company had opened a bank account and a monetary fund in order to provide support for the recultivation. These kinds of conversations comprise a set of contradictions in terms of the veracity and transparency of the information. First, all information shared in the conversation is provided by representatives of the company, not by independent specialists. Second, all activities of the company are presented as if they are initiated by the company simply for the benefit of the local community. For example, some of the interviewees believed that the company actively cared about the environment, therefore spending 2% of its revenues for the environment each year. However, they were ignorant of the fact that the accumulation of 2% of the taxes of such a company in a bank account is a requirement of the regulations and laws of the Kyrgyz Republic, not a kind act voluntarily done by the company. In other words, the public relations of the company have been designed in such a way that the meeting of the requirements of regulations and contracts can be perceived by the local community as a gift of the company.

Through its public relations policy the company has managed to present its own interests as the interests of the local community. To support this, the Kazakhmys Company has provided financial support for local projects and social activities. Most such projects and activities have been unofficial initiatives of the company itself, in some cases initiated directly by the head of the company rather than by the local government or local community. As observed during field research, the aim of these

²⁵ Rehabilitation is the technical amelioration process of returning the environment, used lands, or fields during mining processes to some degree of their former state. The aim of rehabilitation is to support the environmental balance and to rehabilitate used territory for agriculture or forestry. Rehabilitation is done by companies that use lands for production processes. In Kyrgyzstan the rehabilitation of land used for mining purposes is the responsibility of the mining companies. The rehabilitation process starts after the end of the mining process in the field. For rehabilitation a fund is used that has been deposited by the responsible company into a bank account since the beginning of the mining process. Rehabilitation is conducted in two stages. The first one is technical rehabilitation. In this first stage, new grounds are supplemented for the used land. The second stage is biological. In this second stage of rehabilitation the company is expected to plant forests or provide useful new ground for agriculture. In accordance with the Kyrgyz Republic's laws, operating mining companies have to rehabilitate used mining fields. Today the government of Kyrgyzstan tries to enforce all these rules. However, there are some old mining fields that still have not been rehabilitated. The Mailuu Suu mining field is one such example. Today the government also seeks grants for rehabilitation (Duisheev, 2013).

activities is to gain the confidence of the local community. Primary social activities of the company include activities such as social care for elderly residents; support for education, health care, and social activities; and the establishing of close relations with respected leaders of the village. For example, the head of the company took the responsibility to provide care for the oldest woman of the village. According to most of the interviewees, this is the proof of not only the company's good faith but also its administration's positive approach to the local community (Interviewees 11, 12, and 13). In another example, one of the older women of the village excitedly expressed her gratitude to the company for celebrating her on 8 March, International Women's Day. She said:

By celebrating our Women's Day, the Kazakhmys Company won our hearts. My son, there is nothing more valuable than to win hearts. My children and grandsons are working in the mining field. I wish the best for the development of the company (Interviewee 11).

Another *aksakal*, a respected old man, said:

I had worked in the agriculture sector planting tobacco for 30 years. Simultaneously I raised 6 sons and 4 daughters. In our times, there was not this kind of a good life and I am proud of our life today. It is our fortune that the Kazakhmys Company has started to work here (Interviewee 14).

In addition to activities during official celebrations and holidays, the company gives presents to elderly and disabled people. Sometimes the head of the company spends time talking with the local people, listening to their problems and their expectations. All such practices make the local community feel emotionally closer to the company in comparison to local governmental institutions. The implications of this bond are witnessed particularly in conflict situations. For example, in the road blocking protest in the middle of July 2015, the protesters wanted to meet with no one but the head of the company. According to them, the problem could only be solved by the head of the company himself. They hence expressed their distrust in all other representatives of the local and regional government.

There are various other social activities that the company arranges in the village. For example, the company has close control over public information centers, arguably in order to ensure the dissemination of "proper" information about the company. However, the head of the information center has worked unofficially as a middleman between Kazakhmys Gold Kyrgyzstan and the local community before.

Thus, according to him, the local community approves of the contributions of the company to the development of the village. The company also repairs sports halls and buys sports training equipment for schools. With the support of Kazakhmys Gold Kyrgyzstan, a computer center was opened in the village of Kok Serek with ten computers and all necessary equipment was provided by the company. Deputies of the Kyrgyz parliament participated in the opening ceremony. A Russian language course was also launched with the support of the company and the local community has always welcomed such language courses. The company also provided scholarships for 12 students from the Ala-Buka region between 2010 and 2014. They are being educated in different areas of mining and after graduation they will work for the company. According to the *Bozumchak* newspaper, these students given opportunities to study in universities across Kyrgyzstan were from needy families (*Bozumchak*, June 2013). However, I wanted to know exactly how the students were chosen from among others by the company to receive these educational scholarships, and, as said in Chapter 4, I could not get an answer. The company's representor said the students were chosen by the local government, while the local government said they were chosen by the company.

As another main policy of the company, it has continued to maintain close relations with the central government. Their successful maintenance of close relations with local community members in contrast to the continuing dissatisfactions occurring at other mining fields, attracted the attention of state authorities and was used by them as an example of a model case. For example, within the last four years, almost all representatives of the local/regional political hierarchy have visited the mining site. More importantly, each newly appointed prime minister has visited the mining field. Zhantoro Satybaldiev, prime minister between 2013 and April 2014, and Dzoomart Otorbaev, prime minister between April 2014 and April 2015, both visited the mining field to learn about its production processes in detail. Additionally, deputies of the Supreme Council, the vice prime minister, and representatives from other governmental agencies also paid formal calls to the *Bozumchak* mining field. All these visitors left *Bozumchak* with positive assessments and gave positive speeches to the mass media.

During his visit, Zhantoro Satybaldiev underlined the importance of the rule of law-based approach of the Kazakhmys Gold Kyrgyzstan Company in its work. He

was satisfied with the working conditions in the company. During this visit, the then prime minister also met with local communities. He said:

Recently I have visited some mining companies in the region. The works of some mining companies, like at Ishtamberdi and Tereksay, dissatisfied me. I will give additional tasks to the responsible ministers to bring these companies under control. However, the activities of the Kazakhmys Gold Kyrgyzstan Company are not comparable to what I have seen in the other mining fields operated by other companies. The local community has to welcome such a kind of a company (*Bozumchak*, February 2013).

The vice prime minister of the country, Tayirbek Sarpashev, also said that: “I have visited many mining fields and comparatively I am satisfied with the work of the Kazakhmys Gold Kyrgyzstan Company. The company sticks to the ecological and organizational rules. Here in all activities we can see the responsible personality of the Chief Executive Office of the company. In comparison to other mining fields, we can assess the *Bozumchak* mining field as a model example” (*Bozumchak*, June 2013).

These visits of high-ranking authorities to the mining field were necessary aspects of governmental activity, but whether this was only governmental politics or not is still open to discussion as there were ongoing intensive debates in parliament on the long-lasting unresolved problems of the Kumtor mining field. From another perspective, it is argued that the comparatively successful story of *Bozumchak* has become a propitious way to compensate for the other negative issues in the mining sector in the country. Additionally, if we consider that the main reason for the resignation of both of the previous prime ministers was the unresolved Kumtor problem, it is not difficult to understand their need for an example of an appropriately working mining company.

The company also keeps close ties with the Supreme Council (*Jogorku Kenesh*). Representatives of the Supreme Council, Azamat Arapbeav and Ishak Primatov, have also visited the mining field. They interestingly announced that the aim of their visit was to assist with and resolve the company’s problems rather than to make objective assessments on working conditions there as representatives of the people. For example, during their visit Azamat Arapbeav tried to convince local people of the following: “The existence of the company will be very helpful for the economy of the region. It should not be closed. The more we support the company, the more we will earn income. Without mining it is difficult to imagine the life of the

local people” (Shamatov, 2013: 1) Ishak Primatov, on the other hand, focused more on the problems of the company, commenting that:

today we have listened to the unresolved problems of the company. In my opinion the company can resolve those problems by initiating their own versions of laws. How will it work? By listing your needs, you can suggest your own versions of laws or regulations to our committee in the parliament. We would help to support the legitimization of your interests by accelerating the process (Ibid: 1).

In other words, as Primatov underlined, the company can initiate and present its own version of legislation to the related committee of the parliament. It seems that the company can initiate legislations or comments according to its own interests, but in that process the interests of local people are not taken into account.

According to authorities of the country, *Bozumchak* has more or less been the only mining field that follows the rule of law. Having been honored as the first mining company to be chosen “company of the year”, the *Bozumchak* mining field has attracted attention from different sides. This has led to *Bozumchak* being promoted as a model by the political authorities and the mass media of the country. Seminars were organized to share and expand on the experiences of *Bozumchak*. For example, on 26-28 June 2013, there was a seminar organized with the support of USAID, Kyrgyzstan-Soros, and the Life Tree Foundation. Representatives of mining companies located in the Ala-Buka, Chatkal, and Kadamjay regions, along with regional deputies and journalists, participated in the event. There, the *Bozumchak* mining field was assessed by the participants as the most secure mining site among all constructed mining sites in Kyrgyzstan. One of the participants said that “it is the first mining company that constructed a dumping ground that is able to hold humidity up to 14%”. According to Tursunai Topchubaeva, a local deputy and one of the participants in the seminar, the company complies with all ecological rules, maintains close relations with the local community, and thus creates trust (*Bozumchak*, June 2013). Meanwhile, Abdijalil Nasirov, head of the deputies from the Kadamjay region, said that

my profession is forestry. It is surprising for me to see that ecological rules and laws are followed here. I mean, I have witnessed that it is possible to work by following all ecological rules. I am satisfied with the work of this company. Such kind of companies need nothing but support.

Secondly, by supporting state institutions, the company has won the approval of regional and central state institutions. For example, the Kazakhmys Company

provided ten new refrigerators to the new military camp of the Kyrgyz Republic's Defense Ministry established in 2013 in the Ala-Buka administrative region. The refrigerators were presented during the opening ceremony of the new military camp, where the then president of the Kyrgyz Republic, Atambaev, was also present. In other words, the president of the country himself showed that he was thankful to Kazakhmys for its support (Shamatov, 2013). The administrator of the Ala-Buka administrative region also appreciated the social and economic support of the company.

As a result of these policies, the company promotes itself as a rescuer of the local community. This is expressed in the *Bozumchak* newspaper through such claims that the company came to Kyrgyzstan with long-term goals and that it was nice to know that the local community perceived the company as a rescuer, with the company becoming a model for other mining companies (*Bozumchak*, February 2014).

5.5. Questioning the Validity of Neoliberal Arguments

As discussed in the previous chapters, neoliberalism has generally been equated with the free market. A market economy arguably encourages development through the promotion of rational decision-making, competition, and efficiency. It is expected that the welfare of a population would be advanced through neoliberal reforms and the building of institutional frameworks characterized by strong private property rights, free markets, and free trade, by minimizing the state's role. The market, it is believed, would create potential and an entrepreneurial spirit. In the market each individual is seeking to increase his own gain, resulting in the maximization of welfare. In other words, freedom of the market means freedom of individuals to achieve economic welfare and to pursue whatever is most beneficial for their growth and survival. However, the realities of the practice of neoliberal values in the village of Kok Serek were far removed from what would be expected from a free market.

It can be observed in the *Bozumchak* case that rather than minimizing the role of the state, neoliberalism actually took over the role of the state in the reorganizing of the founding order in accordance with the interest of the company. The Kazakhmys Company, by seizing initiative and holding unofficial decision-making power, has

reshaped the social and economic relations in the village. The role of the local government has been reconfigured. Social and economic dependence of the local government on the Kazakhmys Company has turned the local government into a protector of the company's interests rather than the interests of the local community. As most of the interviewees noted, Interviewee 24 also asked: "What can the *ayil okmotu* [local government] do? ... They got the money [funds for social projects] from Kazakhmys. Of course the *ayil okmotu* will do what the Nariman [director of the Kazakhmys Company] says". It is considered that all relations, whether directly or indirectly, are regulated by the Kazakhmys Company and are thus not free market relations. Taking into consideration the social initiatives of the company, it is not difficult say that not only some responsibilities but also some powers of the local government are unofficially transferred to the company in its decision-making initiatives. Although initiatives and decision-making seem to be under the control of the local government, during an interview with the local government's representor, it was found that each year the local government prepares a list of demands, needs, and budgetary requests and presents it to the company. Only after receiving a positive answer or approval from the company is the implementation of the budget and its plans accepted (Interviewee 10). It is thus clear that the financial budget and prioritization of initiatives are mostly dependent on resource allocation by the company.

It is considered that the gold mining market in the country has developed in such a way that those mining companies may directly or indirectly restrict or affect decisions of the government. For example, a former prime minister of Kyrgyzstan, Isakov, resigned in April 2018, presenting a report before the Supreme Council stating that

in accordance with the agreement signed between the government and Centerra Company in 2009, the Kyrgyz government cannot proceed against Centerra Company, because the Kyrgyz government is a shareholder of the company. If we proceed against the company, the stock price will fall and we will lose as well (Chudubaeva, 2018).

Full Gold Mining, a Chinese company operating the Ishtamberdi mines located 70 km away from *Bozumchak*, could be given as another example. In January 2018, Full Gold Mining fired 370 local workers who refused to accept amendments to their employment contracts that would have lowered their salaries. In accordance

with the company's statement, the salary cuts were necessary given the company's financial situation, as the company had suffered losses. "Workers are very expensive", the company stated, "so we decided to change the terms of the contract" (Putz, 2018). The miners in turn threatened a protest if they were not given their jobs back, while the Chairman of the Mining and Metallurgical Trade Union of Kyrgyzstan said that this situation was in contradiction to the Kyrgyz Labor Code. The Kyrgyz government has not taken any action to date.

As expected, the construction and launching of the mining field at *Bozumchak* was organized under the control of Kazakhmys. It was the company forming and managing this new market in the villages of Kok Serek and Kok Tash, not the free market's invisible hand. From the labor market to the services of subcontracting firms, all economic transactions are under the control of the Kazakhmys Company. For example, contracts for all medium-sized additional services and works related to the mining field, such as the construction of buildings, infrastructure, the provision of security, and other services, are given to subcontracting foreign companies, mostly Chinese companies, despite the fact that there are regional and local firms that could serve as subcontractors. In other words, subcontractor companies are chosen in accordance with the relationships of the Kazakhmys Company, not according to competition among the companies in the market. This situation might ostensibly have resulted from the fact that foreign companies might be more reliable and trusted to fulfill the agreed upon duties and responsibilities. However, these Chinese companies generally hire Chinese citizens²⁶, most of whom work illegally, leading to another potential conflict due to the level of unemployment in the village.

During the scope of this research, it was recognized that the unemployed part of the local community was particularly dissatisfied with the current situation. As was also observed during the field research, however, their dissatisfaction was controlled by the satisfaction of another part of the local community, that which is emotionally linked with the company. As an example, one of the interviewees, a close relative of mine, was angry about his son's participation in the group of local community

²⁶ According to the Chinese Embassy in Bishkek, there were about 20,000 Chinese migrants working various jobs in joint Chinese-Kyrgyz companies in Kyrgyzstan in 2013. However, according to Ryskulova, a former Labor, Migration, and Youth Minister, the real number of Chinese workers is much higher, at around 50,000 (Najibullah, 2013).

members that had blocked the road. According to him, his son's participation in that group was a source of shame to him, since he (Interviewee 22) is among the people respected by company authorities and the local government. As we see in this example, the younger generation's behaviors are monitored and criticized by the older one, the members of whom are emotionally linked with Kazakhmys. In fact, it is a part of local tradition that the older generation always has its say over the younger generation's behavior and is able to control the attitudes of the younger members of the community. It is obvious that this local tradition was also being used or manipulated to serve the interests of the company. Meanwhile, the son of Interviewee 22 said: "the company said that they would repair the road 5 years ago, but did nothing. Additionally, my friends are waiting for jobs for 3 years. There is no shortage of specialists, as they [company representatives] explained. On the contrary, friends of mine are willing to take jobs and prefer to have jobs at home, instead of wandering around Russia searching for work and feeling humiliated" (Interviewee 23).

Neoliberalism assumes that the market provides the most appropriate environment for negotiations between sides. In this research case, this claim has lost its validity for at least two interrelated reasons. First, due to its minimized role, the state failed to provide and uphold the necessary regulations and legislations in full and lost its reliability in the eyes of the people. Secondly, the company has started to function like a state. For example, the company has close relations with a rich and powerful family of the village, which controls the local government. In the village it has become known that the "*ayil okmotu* is their man", meaning that the *ayil okmotu* was supported and organized by them (Group Conversations 1 and 2). In most cases, without the unofficial approval of that family the *ayil okmotu* could not make decisions.

Market-oriented reforms in regulations and legislation led not only to unequally represented legislations but also to conflicts of interests among the different sides involved. For example, in accordance with the Kyrgyz law 'On Subsoil', mining companies have to agree with local governments located near the mining field on social packages and sign a memorandum with them. In the *Bozumchak* case, the Kazakhmys Company did sign a memorandum with the local government. In accordance with the signed memorandum, each side received responsibilities and duties, and each side has been carrying out its duties. However, the formality of this

signed memorandum is open to discussion. During the course of this research it could not be conclusively established that the memorandum with the local government or its representatives was approved by the higher legal authorities. Moreover, the content of the memorandum and the amount of money allocated to implement its stated goals were not fixed by the rules or legislation of the local government or central government. Those points mostly depend on formal negotiations between the company and the local government. However, practically speaking, they depend on the company's initiative and interests, highlighting again the dependence of the local government on the company's decisions. In this regard, Interviewee 1 (a representative of the local government) said that "each year we present a list of social necessities of the village to the company [Kazakhmys]. The company chooses among them and we agree to sign a memorandum". This shows that not only the content of the memorandum but also the priority of social necessities is ultimately decided by the company.

This was also verified by Gullette and Kalybekova (2014: 26), who conducted research in the mining fields in the Talas and Batken regions of the country. According to him, these social packages have not been identified by law clearly. The Kyrgyz law 'On Subsoil' does not include detailed information on social packages (Gullette, 2014a: 26). Therefore, it is most probable that what has been established in the name of social packages might go beyond the scope of the law. Additionally, as mentioned by Gullette and Kalybekova (2014: 26), social packages were designed in the absence of necessary government facilities. In other words, formal regulations made in the name of rule of law are not implemented as identified. The actual outcome is determined by the initiative of the market. As a result, social packages have substituted social services and are administered in accordance with the company's choices and decisions.

This can also be seen in a speech by the president of the Kazakhmys Company, Ilyas Tulekeev. He said: "The company is socially oriented. Social projects are very crucial for us to work with the local community. Kazakhmys has been supporting different social projects presented by the local governments" (*Bozumchak*, June 2013). According to him, the company maintains close relations with local government representatives. Additionally, the company has been supporting other projects initiated and followed by other governmental and international institutions.

For instance, with the company's support of projects of the Institution of Development Politics, new tractors were purchased for Kok Tash and Sumsar, other villages located near the mining field. The last tractors for these villages had been bought twenty years ago (Ibid, 2013).

Field research also showed that as a result of the reforms and politics surrounding the mining industry, the role of the state has changed. Practically speaking, the role of the state in the social sphere has been partially transferred to the private sector and its initiatives. In other words, the meeting of some social needs has begun to be facilitated within the private sector. Some social utilities such as the provision of electricity, water, transportation, education, and health care have been linked with the private sector's initiatives and intentions on a charity basis.

In this regard, for example, the Kazakhmys Company has supported three social projects for three districts of the village of Kok Tash. For the first time in their lives, the people of the Orta-Suu district of Kok Tash have electricity. The company provided a 1-km high voltage electrical cable to the Orta-Suu district. Additionally, the road to the district was repaired. Similarly, for the Bedelgi district, a 3.5-km medium voltage electrical cable was provided. Until that time, the 120 residents of Bedelgi lived without electricity. In the Bulak Basi district of Kok Tash, 1 km of water lines were built by the company. For these projects the Kazakhmys Company spent 3,800,000 som (around 65,000 US dollars) (*Bozumchak*, June 2013).

One of the heads of the local governments surrounding the mining field was content with these projects, saying that

classes and cafeterias of the high school were repaired completely. Additionally, the 500 square meter roof of the kindergarten was changed. New areas for kids were built in the kindergarten. Concerning the neighboring village, they also have good relations with the company. In these years the company has supported some social projects. For example, for supporting water the company constructed a 400-meter watering channel. Additionally, each quarter the company earmarks 30,000 som (some 500 US dollars) for social support (*Bozumchak*, June 2013).

It was the initiative and decisions of the company that played a dominant and leading role in the formation of additional services and works for potential entrepreneurial areas. It is obvious that the opening of the mining company contributed to the awakening of small-sized business activities in the village. However, the more important thing is that most business activities have been

significantly enhanced used to exist in *Bozumchak* before the start of the gold extraction. People who worked in trade previously have continued and enhanced their activity. In this regard, one resident, the owner of a small shop, said that

together with *Bozumchak* the amount of purchases of the people comparatively has increased. Let's imagine in one shift [the 15-day period of working time at *Bozumchak*] around 200 workers are working and each worker earns about 10,000 som on average. Let's say half of these workers are foreigners [i.e. non-residents of the village]. Can you imagine monthly some 2,000,000 som entering the village? (Interviewee 15).

In other words, thanks to increased earnings, existing business activities have grown. New areas of business that might be assessed as potential entrepreneurial activities for the local communities have remained limited or have been given to foreign companies.

The local hairdresser is another example of this situation. He is the owner of the local hair salon and has been working for 25 years. By his explanations, the number of his clients has increased together with operations in the mining field. He said:

the more money I earn, the more taxes I pay to the local government. It is good for all of us. My son and neighbors are working at *Bozumchak*. They are also earning money. We have to thank Kazakhmys for creating these conditions. Now I am teaching my youngest son how to do hair. He will continue this business (Interviewee 16).

Some new business areas did appear, and the richest and the most powerful family of the village controls those business areas. Some members of the richest family are working for the court and in other high-ranking positions at the regional governmental level. They have personal ties with key people working in key governmental positions. They have also made their own people hired into key positions in the company. In other words, they have key opportunities and access to all possible new profitable business areas. The company has also kept close ties with this family, since this family has the unofficial power to solve problems in the village (Interviewees 29 and 30).

During the field research, one of the interviewees underlined the condition of women in the region. That might be the result of her personal background, because during Soviet times she was awarded a "Red Flag" medal due to performance above planned expectations and was elected as a regional deputy and later to province

deputy. From her point of view, now some issues are getting worse. One such issue is the unemployment of women and unequal treatment during hiring (Interviewee 28). Moreover, there are many sick women in the village. Women's issues are among the main problems of the local communities. Another point that she highlighted was that investors need to give attention to solving such kinds of issues. In other words, gender-based social issues linked to the company need to be addressed.

5.6. Conflicts with the Local Community and Neoliberalism

As seen in the previous chapter, there are dozens of unresolved disagreements and conflicts between gold mining companies and local communities across Kyrgyzstan. This has become a main concern of all government bodies, starting from the lowest level of the *ayil okmotu* and extending to the president of the country. However, in most cases the concerns of state representatives are not about solving the underlying problems; the concerns stem from the interruptions of operations of the mining companies. On the other hand, these protests and the blocking of roads have become common and efficient ways for local communities to voice their interests to the relative sides within the established socioeconomic order of the country. The research conducted in Kok Serek showed that road-blocking is the only realistic way to attract the attention of the company and related state bodies or to remind them to implement their postponed promises.

The reasons for road blockages can be grouped into three main categories: those related to the environment, to employment, and to road repairs. Considering the environment, the first and most crucial local protest was held in 2010, as a result of which the construction of infrastructure for mining operation was halted for two months. The local community there was anxious about the constructed dumping place for hazardous waste materials. For the Barskoon accident, involving the dissolving of a hazardous cyanide chemical into the river, had stuck in the local community's memory. It seems that residents of Kok Serek were anxious about the possibility of the pollution of the river, as it is the only drinking water source for Kok Serek village, populated by about 6,000 people. Thus, the local community of Kok Serek together with the residents of Kok Tash wanted revision and reassessment of the construction of the dumping place for hazardous wastes. Within two months the company met with

representatives of the local community and reached a consensus. The Kazakhmys Company altered the construction project for the dumping place in accordance with the local community's interests. This situation shows us two main facts about the sort of order being established in the country. The first is the absence of state control over companies' activities. There are a plethora of technical and engineering regulations that regulate the construction of dumping places. However, it seems that to attract investments, most regulations are not fully affected. On the other hand, it was the local communities that were anxious about the pollution of the drinking water, not the state. They are thus standing up for their own lives and health. They are far from feeling themselves under the protection of the state and they act accordingly of their own initiative. Secondly, although the project plans changed the details of the construction of the dumping place, a professional and objective commission for checking the sustainability of the new project was not established. The details of the new project were only presented to the representatives of the local community, not to environmental specialists or construction engineers.

The withering of pine trees near the mining field is another environmental concern of the residents of the village. Those residents dealing with stockbreeding were especially worried about the possible effects of the mining field for the regional mountainous pasture land. One of residents, a sheepherder (Interviewee 17), said: "If it [the withering of pasture land] continues in this way, I think we could lose our pastures within the next 15-20 years". Somehow this concern does not generate as much trouble or anxiety among the broader local community as much as in the subpopulation of stockbreeders. In other words, there is a feeling among the local community that if a problem concerns a majority of the population, then in one way or another it will be presented to the pertinent sides of the issue to be addressed. It seems that the withering of the pastures has not become a problem in the eyes of the majority yet. Thus, there is no reason to assume that the withering of pasture land will become a point of conflict among the three sides outlined in Section 5.1 above, or at least not until some time in the more distant future.

The allocation of 30 hectares of land near the Kok Tash village for industrial waste created tensions between the company and local community. One interviewee said that "while choosing a place for waste the interest of the company was considered, because that is the optimal place as a location for the company's factory"

(Interviewee 27). In addition, to meet the need for additional space, the company has also cut down trees. In 2016 another scandal was launched over environmental damage. The State Agency for Environmental Protection reported that the company had cut down 16 hectares of trees with estimated damage calculated as 21 million som. Later this estimated amount was decreased and reported to amount to only 4.5 million som (Beyshenbek Kyzy, 2014).

On the other hand, the company stated that it will forest some of the territory close to the mining field. Using a subcontracting company's service, the company has in fact started foresting efforts around the mining field. However, an interview with one of the workers of that subcontracting foresting company raised doubts about the quality of these arboricultural activities. According to him, the priority for the workers was to plant the planned numbers of young trees rather than to find proper ground for arboriculture. He said that "most probably the biggest part of the planted young trees will wither in the summer season" (Interviewee 27).

Disagreements on the company's hiring policies and the need for road repairs have become the main reasons for blocking the roads. There are always a number of small disagreements and conflicts between the local community and the company. However, the blocking of the road in 2013 and in 2015 were crucial ones in terms of organizations, demands, and resolutions. On 31 March 2013 the local community, with the participation of some 100 residents of the village, blocked the solitary road connecting the mining field to outside. That was the first protest since the 2010 environmental protest. It attracted the attention of the different sides, but these different sides assessed the protest differently.

For the local community, blocking the road was instrumental to demanding the hiring of the members of the local community and the repairing of roads. Protesters planned to block the road until 12-15 April unless their demands were met. The head of the youth organization of the Ala-Buka regional administration assessed the protest as a result of unresolved problems that had accumulated over the years. Additionally, the Kazakhmys Gold Kyrgyzstan Company worsened the local situation by choosing a Chinese company as a subcontracting firm. This meant that supplementary work would be done by Chinese firms, which generally hired Chinese workers. Most of these are illegal workers and not experts. The protestors demanded the hiring of local people instead of illegal workers. They also demanded compensation payment upon

retirement and medical care during the process of retirement. Events in other mining fields, like Ishtamberdi, have served as lessons for them. When the Ishtamberdi mining field began operating, the local communities and workers did not put forward such demands. Therefore, they still have unresolved problems. Protests can thus be seen as attempts to solve these problems from the beginning (Tuitunova, 2013).

However, the same protest was assessed by the governor of the Ala-Buka regional administration from a different perspective. According to the governor, the hiring of local people or Chinese workers is the company's decision and the local community could not blame Kazakhmys for choosing a foreign company as a partner. According to him, it was necessary to support the investor within the framework of rules and laws.

Meanwhile, according to the press secretary of Kazakhmys Gold Kyrgyzstan, the protests were the work of certain groups that incited local people to sedition. The company had not started extraction and had not earned a profit yet. In accordance with the plan, it was expected to start extracting six months ago, and now the local community demanded the asphaltting of 27 kilometers of the village road, which was already repaired in 2007-2008. Before 2007 this road had been in very bad conditions. A certain group of people wanted to exacerbate this situation and therefore it would be wrong to say that all of the residents of Kok-Serek were against the company's operations. Whether this statement of the company's press secretary was right or not is open to discussion. However, it is useful to recall that the paternally oriented local politics of the company and the unofficial involvement of some leading local citizens in local controversies have been still playing a restrictive role in preventing such protests.

The press secretary of the Internal Affairs Directorate of the Jalal-Abad administrative region assessed the protest on 31 March 2013 from the perspective of violence. For the press secretary, the protest organized was not as big as it was portrayed in the media. He said that the main reason for this protest was the Chinese trucks weighing 35 tons that passed by, using the road that runs through the center of the village. According to him, the dust, constant noise, and rumbling in some cases damaged the houses near the road and this forced residents of the village to take such measures.

As a result, after meeting with the governor of the Ala-Buka regional administration and representatives of the company, the protesters opened the road without the issuing of any written agreement. After that, there was no more conflict. However, all these developments and different opinions of different sides can reveal some clues about the established socioeconomic organization under the neoliberal reforms.

It is clear that relations among different sides are not organized or governed through legally defined rights and duties. They are much more based on holding power or on the ability of one side to influence another side's thoughts or decisions. For example, the local community had the opportunity to block the road to make the company and government listen to them, while the company had the potential opportunity to use the majority of the population, which is emotionally invested due to the local politics and financial support of the company, against the minority, i.e. the protesters. Moreover, the company also has the support of the state. For example, during his visit on 16 June 2013, Tayirbek Sarpashev, Vice Prime Minister at that time, said that "the most important thing is recruitment of the local community". However, the exact way to ensure this was not of concern to him. The speeches of almost all representatives of the government have included supportive statements for the company rather than objective assessments.

The solution of problems has been mostly dependent on personal or group attitudes among the opposing sides while the company tries arguably to impose a "merit-based" employment policy. For example, as a result of the continued reactions of the local community, the head of the Kazakhmys Company initiated and signed 'On the Recruitment of Employees from the Ala-Buka Region' at the beginning of 2014. In accordance with these instructions, during the recruitment process, priority should be given to candidates from local communities. In the framework of the recruitment of members of local communities, in August 2014 job interviews were held with candidates from the Kok Serek and Kok Tash villages. The interviews were held by two representatives of the company. One of the representatives, Sergey Kondratiev, said that

these interviews were not to choose candidates, but to learn the knowledge level of candidates. Theoretically maybe they do not have much knowledge but many of them have significant work experiences. I think they may work and they will succeed.

According to Jayilbek Dadiev, director of the Department of Communication with the Community, this does not mean that all interviewed candidates would be provided with jobs “If there is a suitable position for interviewed candidates, we would invite them. If there is no suitable candidate among the interviewed ones, supposedly we would then again seek new applicants from the local community” (Dadiev, 2015). The local governor of the Kok Serek village said that “the local community should understand that [the policy described above] suits the interests of the local community. The most important thing is that the company follows transparent policies”.

The second protest in the village can be given as an example of this. It was held on 25 July 2015. The aim of this protest was again the same: the repair of bridges and roads, and the hiring of local people. However, this time the organization of the protest was more thorough. Representatives of the protestors submitted written applications to company authorities, listing their demands. They also warned that they would block the road to the mining field if their demands were ignored. One of the protestors said that “two years ago the company said they would build a road from outside of the village, but it still has not been built yet”. In the previous meetings, the company had also agreed to compensate for damaged houses near the roads. However, they did not pay this compensation as well. In addition, only 20% of the company’s employees were hired from the local community (Interviewee 38) .

However, according to the head of the Department of Public Relations of the company, it is impossible to meet the demands of the local community. He stated that

all these protests are organized by particular groups. In accordance with our agreement we agreed to hire local people at up to 30% of the workers of the company. As requested by local people, hiring up to 70% of employees from the local community was not written or stated in any agreements. At the beginning of mining construction operations, the company had proposed to build a new road from outside of the village. However, the residents of the village opposed this and preferred the company to use the road that passed through the center of the village (Dadiev, 2015).

In contrast, the head of the Kok Serek *ayil okmotu* stated:

They just started to extract minerals. Therefore, they said they do not have the capabilities to asphalt the roads. Each year we sign memorandums with the company and consistent with the memorandums they spend 5-6 million som. For the repair of the road, they took responsibility. The main problem here is the hiring of members of the local community.

As seen in the case of the second protest, this time the protesters followed more organized methods to make their demands, while the representative of the company blamed them for the absence of a written agreement. Moreover, this time the company started to exert another power, the possibility of building a new road. However, in the end it was decided that this new road would join the main road, passing through another village. In other words, contrary to the competition concept of neoliberalism, aimed at the minimization of costs by using opportunities, in our case the established socioeconomic order leads to extra costs for the relevant side. In this case, the protestors did not reopen the road after their meeting with the regional governor, demanding instead to meet with the head of the company. The protesters expressed their distrust in the regional administrative body of the state. This time, however, unlike in the earlier protest, the prime minister of the country himself was involved in the solving of the problems. Because the head of the company was abroad, the protesters were officially assembled as part of a commission including representatives of the local community, the regional administrative unit of the state, and the company to solve problems (Tuitunova, 2014). The commission would follow the implementation of the promises of all sides. After the launching of exploration works in August 2015 there were no serious protests. In November 2017, the license for the development of *Bozumchak* was renewed. According to the head of the Department of Resource Management of the State Agency for Geology and Mineral Resources, Ryskulov, “previously revealed violations were eliminated by KAZ Minerals at *Bozumchak*, and the commission renewed the license” (Mamytova, 2017). However, no information was given about the ways the company eliminated said violations or solved the problems and contradictions. It seems that the central government was content to assume that the company had created the market, and so it would solve or eliminate any problems that arose.

CHAPTER 6

CONCLUSION

Facing sharp economic decline and deterioration of economic and social welfare after gaining independence in 1991, Kyrgyzstan became convinced that development could only be achieved through radical market economy reforms. Kyrgyz government started to reform markets or sectors that would generate the resources necessary to maintain the state budget. Therefore, the government implemented neoliberal reforms and policies by closely following the advices and demands of the IFIs such as the IMF and the WB.

Such a path was followed even though one of the main policies of neoliberalism, ‘one size fits all’, was comprehensively criticized by many critical scholars and politicians since the 1980s. Hence, contrary to the promises of neoliberalism to the reforming countries such as efficiency, productivity, stability, growth as well as democracy, the critiques were arguing that the ‘one size fits all’ solution of neoliberalism was a political program supported by the financially and economically powerful ones, and the IMF adjustment programs were creating asymmetries between creditors and debtors, rich and poor, and developed and less developed capitalist countries.

This thesis has investigated the political and social implications of the implementation of neoliberalism in Kyrgyzstan through a field research in the Kok Serek village, located in one of the leading gold extraction regions of the country. Kok Serek was taken as a case for there was no gold-mining activity in the village during the Soviet times, the market for gold-extraction was developed anew by the introduction of neoliberal policies, and the Kazakhmys company making gold-extraction business there is considered to be one of the most successful ones in the country.

However, the thesis has shown that this “success” was an outcome of complex political, social and economic strategies, the compatibility of which with efficiency,

productivity, or democracy is highly questionable. Results of the field research in the Kok Serek village showed that Kazakhmys Company has managed to establish its dominance in the village by pursuing a powerful propoganda strategy. By organizing frequent mass media speeches and establishing local newspaper to affect and rule the perception of residents, by gaining emotional cohesion of residents through financing social projects, and supporting small but powerful group of residents to control other residents, the company has managed to form relatively conflict-free relations with the local community. In other words, there developed informal relations between the company and local residents, based on emotions, unfair financial and economic power.

The absence of extended programs and policies of central and local governments for balanced development in the region and their leaving the initiative and organization of development to the private has led to unbalanced development in terms of sectors. In a short period of time, rapid development of mining field in *Bozumchak* has decreased traditional sectors in the village like agriculture and pastoralism. The emergence of the mining sector in the village has affected traditional agriculture sector negatively. As seen in the interviews, young generations chose to work in the mining sector or in the big cities. However, the mining field will work some 25 years more, till the end of the 2030s, after which the extraction sites will be closed. At that time, it will be difficult to find specialists or residents that would be able to work in the agriculture sector. Moreover, there is an ecological problem that affects not only agricultural sector negatively, but also the health of the residents. Due to ecological concerns, residents that do not work in *Bozumchak* started to move to other regions or big cities, while mining specialists have temporarily moved to Kok Serek village.

As the thesis highlighted, even though Kyrgyzstan was considered to be a success story in neoliberal reforms, there has been ongoing protests against the founding order in the country since the late 1990s. Most of them were related to mining field. For the formation of the market in this sector was associated with not well-defined official rules, unequally distributed benefits and unbalanced roles among its participants. Therefore, across the territory of Kyrgyzstan, there have been dozens of unsettled disagreements and conflicts between gold-mining companies and local communities. Public protests and violence became common phenomena in the gold-

extraction sector in the 2000s. Interestingly, all these protests were managed by the gold-extracting companies rather than state authorities as by the market based deregulation and decentralization programs, the central government had almost left the organization of the market to more well-organized and experienced private companies.

Neoliberals argued that the state has an imperfect nature and it results in failures: regulatory capture, rent-seeking, corruption, and so on. However, this field research has shown that markets have also a high tendency towards corruption due to the existence of an economically and financially well-organized company on the one hand, poorly organized and financially dependent residents on the other. Owning all resources and gaining confidence of small but powerful corrupted group of people, the company in Kok Serek has always had power over residents. By giving gifts and celebrating in holidays, the company has gained confidence and support of older generation in the village, and through their support has taken the majority of the younger generation under control.

Competition between individuals, firms, or territorial entities (cities, regions, nations, regional groupings) may show positive aspects of neoliberalism, but competition often results in monopoly or oligopoly, or stronger firms driving out weak ones. In Kok Serek as well the imposition of competition has served not to the creation of more efficient and creative economic order as was argued by the neoliberals, but to the fulfillment of the company's interest. This was because the central government competes with other countries to attract investment, local governments compete with each other to get support from the companies. As a result, it seems that private companies make all the necessary initiatives to develop the new rules and economic conditions. In return, the government representatives, the *ayil okmotu*, see themselves not as public servants, but as actors to satisfy the expectations of the foreign investors with the mission to ensure less protests in their regions.

Moreover, under the neoliberal policies the state itself has become source of inequalities among citizens. As seen above, in accordance with Tax Law of Kyrgyz Republic, 20 % of taxes are paid to the local government. It resulted in enormous differences in local government budgets. Budgets of those *ayil okmotu*, in whose territory mining field is located, increased for almost ten times higher than neighbor *ayil okmotu*'s budgets. For example, in our case the Kok Tash *ayil okmotu* has

recorded high profits since the opening of *Bozumchak* mining field, while the budgets of neighbor *ayil okmotus* have stayed in the deficit. Kok Tash *ayil okmotu* almost renewed and reconstructed all social infrastructures including kindergardens, schools, hospitals and providing water canalizations, roads. However, neighbor *ayil okmots*' infrastructure has stayed from soviet time. In other words as a result neoliberal policies there emerged inequalities not only among *ayil okmotus*, but also among citizens living side by side.

Weakening of the central government has ultimately served to company interests. The smaller the government, the less the authorities are to deal with. As seen in the field research, the director company of Kazakhmys holds power to initiate or affect decision of Kok Serek *ayil okmotus*. It is the company that made decisions on what would be done and how would be done in the local infrastructure investments.

Gold mining sector in Kyrgyzstan has always been associated with protests that mostly ended up with violations and conflict of interests at the local level, while the centre is linked with corruption, court claims and nationalization of gold company. Although, the Kyrgyz government did not clarify a formalized position on nationalization, there was intensive debate on this issue among the political leaders of the country. Tekebaev and Japarov, former parliament deputies who proposed the strongest arguments for nationalization of Kumtor, were imprisoned in 2017. Whether their imprisonment was related to nationalization issues or not is open to discussion, but it is true that after their imprisonment, nationalization issues have begun to lose their importance in the political economy agenda of the country. It is however questionable whether such oppressive practices can ensure stability in the gold-extraction sector in Kyrgyzstan. Having underlined the negative social and political implications of the “free” market established in the Kyrgyz gold-extraction sector on the local people, the thesis has proposed that a long-lasting stability can only be achieved by the active involvement of the local people in local politics and decision-making processes on an equal basis, and by the state's returning back to local politics as a neutral actor to ensure this.

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APPENDICES

A. LIST OF INTERVIEWEES

Interviewee 1: 56 years old. Employed. *Kok Serek* village. Interview date 03.05.2015.

Interviewee 2: 72 years old. Unemployed (pensioner) *Birleshken*, a small district of *Kok Serek* village. Interview date 09.05.2015.

Interviewee 3: 45 years old, works for the company for more than 3 year. *Kok Serek* village. Male. Employed Interview date 04.05.2015.

Interviewee 4: 53 years old, *Kosh Bolot*, a small district of *Kok Serek* village. Unemployed. Interview date 10.05.2015.

Interviewee 5: 35 years old. Employed. *Kok Serek* village. Interview date 03.06.2015.

Interviewee 6: 32 years old. Unemployed. *Kok Serek* village. Interview date 15.05.2015.

Interviewee 7: 51 years old., Unemployed, daughter is working for the company.

Unemployed. *Tash Aryk*, a small district of *Kok Serek* village. Interview date 16.05.2016.

Interviewee 8: 56 years old, former deputy of local administration and teacher in the middle school. Employed. *Kok Serek* village. Interview date 08.05.2014.

Interviewee 9: 44 years old, teacher in the middle school, son works for the company. Employed. *Kok Serek* Village. Interview date 02.06.2015.

Interviewee 10: 39 years old, works for local government. Employed. *Kok Serek* Village. Interview date 06.06.2015.

Interviewee 11: 74 years old *Ene*. A pensioner. *Kok Serek* village. Interview date 02.08.2015.

Interviewee 12: 61 years old *Ene*, a pensioner. *Kok Serek* village. Interview date 08.09.2015.

Interviewee 13: 30 years old. Unemployed. *Kok Serek* village. Interview date 19.05.2015.

Interviewee 14: 84 years old, a pensioner. *Kok Serek* village. Interview date 01.08.2015.

Interviewee 15: 45 years old. Self-employed. *Kok Serek* village. Interview date 22.05.2015.

Interviewee 16: 54 years old. Self-employed. *Kok Serek* village. Interview date 03.08.2015.

Interviewee 17: 52 years old. Unemployed. *Kok Serek* village. Interview date 07.06.2015.

Interviewee 18: 19 years old. Self-employed. *Kok Serek* village. Interview date 02.05.2016.

Interviewer 19: 43 years old. Employed. *Kok Serek* village. Interview date 10.06.2015.

Interviewer 20: 19 years old. Unemployed (Student). *Birleshken*, a small district of *Kok Serek* village. Interview date 11.06.2015.

Interviewee 21: 48 years old. Employed. *Kok Serek* village. Interview date 12.06.2015.

Interviewer 22: 67 years old. Unemployed (pensioner). *Kok Serek* Village. Interview date 28.05.2015.

Interviewee 23: 49 years old. Employed. *Aktailak*, a small district of *Kok Serek* village.

Interviewee 24: 42 years old. Unemployed. *Kok Serek* village. Interview date 24.05.2015.

Interviewee 25: 32 years old. Employed. *Kok Serek* village. Interview date 26.05.2016.

Interviewee 26: 50 years old, Unemployed. *Kok Serek* village. Interview date 19.06.2015.

Interviewee 27: 36 years old. Employed. *Kok Serek* village, Interview date 07.06.2015.

Interviewee 28: 58 years old. Unemployed (pensioner). *At Tailak*,, a small district of *Kok Serek* village. Interview date 25.06.2015.

Interviewee 29-30: 35 years old. Self Employed. *Kok Serek* village. Interview date 26.05.2015.

Interviewee 31: 36 years old. Unemployed. *Kok Serek* village. Interview date 29.05.2015.

Interviewee 32: 22 years old. Unemployed (student). *Kok Serek* village. Interview date 01.06.2016.

Interviewee 33: 46 years old. Unemployed. *Kok Serek* village. Interview date 01.06.2016.

Interviewee 34: 61 years old. Unemployed (pensioner). *Kok Serek* village. Interview date 01.06.2016.

Interviewee 35: 34 years old. Employed. *Kok Serek* village. Interview date 02.06.2016.

Interviewee 36: 68 years old. Unemployed. *Kok Serek* village. Interview date 05.06.2016.

Interviewee 37: 71 years old. Unemployed. *Kok Serek* village. Interview date 07.06.2016.

Interviewee 38: 25 years old. Employed. Birleshken, a small district of *Kok Serek* village. Interview date 07.06.2016.

Interviewee 39: 56 years old. Employed. *Kok Serek* village. Interview date 10.06.2016.

Interviewee 40: 38 years old. Employed. *Kok Serek* village. Interview date 11.06.2016.

Interviewee 41: 29 years old. Unemployed. *Tash Aryk*, a small district of *Kok Serek* village. Interview date 13.06.2016.

Interviewee 42: 42 years old. Self- employed. *Kok Serek* village. Interview date 14.06.2016.

Interviewee 43: 20 years old. Self- employed. *Kok Serek* village. Interview date 14.06.2016.

Interviewee 44: 52 years old. Unemployed. *Kok Serek* village. Interview date 15.06.2016.

Interviewee 45: 58 years old. Unemployed. *Kosh Bolot*, a small district of *Kok Serek* village. Interview date 16.06.2016.

Group Conversation 1: 8-9 participants. *Kok Serek* village. Interview date 06.05.2015.

B. CURRICULUM VITAE

PERSONAL INFORMATION

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EDUCATION

Degree Graduation	Institution	Year	of
MA	METU, Eurasian Studies	2008	
Undergraduate	Kyrgyz-Turkish Manas Univeristy	2004	
High School	Lenin Gymnasium	1999	

WORK EXPERIENCE

Year	Place	Enrollment
2016-...	Ronesans Holding, Moscow	Senior Internal Auditor
2014-2016	Ishbank Russia, Moscow	Senior Internal Auditor
2013-2014	TT Consulting, Moscow	Auditor
2008-2012	METU, Eurasian Studies Department	Research Assistant

FOREIGN LANGUAGES

Advanced English, Turkish and Russian, Begginer French and Chinese

PUBLICATIONS

Journal Publication

Manasov, Zamirbek. "Multilateralism versus Regionalism in Eurasia: Theoretical Reasons of Choosing Side for Kyrgyzstan", *Manas Journal of Social Studies*. Volume 1 (4). pp. 37-59.

Manasov, Zamirbek. "Globalization and Small Open Economy: in the case of Kyrgyzstan", No 2, June 2003, *The Journal of Kyrgyz National Bank*, June 2003, Bishkek.

Conference Proceedings

Manasov, Zamirbek. “Kırgızistan’da Yatırımın Dünü, Bugünü ve Yarını: Potansyel Yatırım Alanları”, 24-December, 2011, *International Meeting, “20th Anniversary of Kyrgystan”*, Giresun, Turkey.

Manasov, Zamirbek. “The Reasons of Inefficiency of Economic Integration in Central Asia”, 9-11 October, 2008, *2nd International Conference in Economics*, Bishkek, Kyrgyzstan.

Manasov, Zamirbek. “The Development and Problems of Entrprenuerhsip in Kyrgyzstan”. 24-26 May, 2006. *International Entrepreneurship Conferance*, Bishkek, Kyrgyzstan.

C. TURKISH SUMMARY / TRKE ZET

KIRGIZISTAN'DA NEOLİBERAL DNMN KURAMI VE PRATİİ: *BOZUMCHAK* ALTIN MADEN RNEİ

Giri

Kırgızistan, Sovyetler Birlięi'nin daęılmasıyla birlikte 1991 yılında baęımsızlıęını kazanmı ve ilerleyen yıllarda lkede ekonomik gerileme ile sosyoekonomik refah d yaanmıtır. Bu kapsamda baęımsızlık sonrası ulusal ekonominin canlandırılması, gelitirilmesi ve yetersiz hâle gelen lke btesinin desteklenmesi iin Kırgız hkmeti eski Sovyet lkelerinde de yaygın olarak yaanan pazar ekonomisine gei dnemini hızlıca balatmı ve radikal neoliberal reformları uygulama kararı almıtır. Sz konusu gei dneminin hızlı ve yoęun ekilde yrtlmesine lkenin iinde bulunduęu durum kadar, lke dıından Uluslararası Para Fonu (IMF) ve Dnya Bankası (DB) gibi uluslararası finans kurulularının ynlendirmesi de etkili olmutur. Bu tezde neoliberal reformların vaat ettięi "pazar ekonomisi" dzeninin getirmesi beklenen srdrlebilir ve iyimser sosyoekonomik dzenin analizi, Kazakmys irketi tarafından iletilmekte olan *Bozumchak* Maden Ocaęı ve Kok Serek ky etrafında oluan dzen rneklem olarak ele alınarak sorgulanmıtır. Tezin bu son Trke zet blmnde, neoliberalizmin kuramsal ve kavramsal genel deęerlendirmesinin yanı sıra Kırgızistan'da piyasa ekonomisine gei dneminde uygulanan neoliberal reformların sonuları ve gnlk hayata etkileri bu alan aratırması baęlamında kısaca gzden geirilecektir.

Neoliberalizm Tartıması

Tezde neoliberalizmin kavramsal olarak tanımlanmasında tek bir kavram etrafında tartımanın mmkn olmadıęı, ele alınan konuya baęlı olarak kavramların deęikenlik gsterdięi ne srlmtr. Neoliberalizmi kuramsal erevede

tanımlanmanın mümkün olmadığı Saad-Filho ve Johnson (2005) tarafından da vurgulanmış olup Clarke (2005) tarafından neredeyse tamamen yeni bir ekonomik teori ve politika oluşturma paradigması olarak ele alınmıştır. Genel olarak neoliberalizm piyasa odaklı ekonomik ve sosyal düzen oluşturmaya çalışan reform ve politikaların bir bütünü hâline gelmiştir. Çoğu bilim insanı rekabetçi piyasa değerlerinin ekonomik alanla sınırlı kalmadığı; günlük yaşam, sosyal ve siyaset gibi tüm alanları kapsadığı konusunda fikir birliğine varmışlardır. Sonuç olarak bu tezde neoliberalizm tek bir kavram veya kuramsal çerçeveden çok, piyasa düzeni getirmeye odaklanmış siyasi, ekonomik ve sosyal reformlar ile politikaların bütünü olarak ele alınmıştır.

Neoliberalizm yaklaşımının ortaya çıkmasında, 1970’lerde sermaye birikimi sürecinde yaşanan kriz önemli bir etken olmuştur. Zaman içerisinde sosyal, siyasal ve ekonomik alanları da içine alan geniş kapsamlı bir politika hâline gelmiştir. 1970’lerin ikinci yarısında yaşanan krizde dönemin mevcut ekonomi politikalarının yetersiz kaldığını savunan yeni bir uygulama olarak karşımıza çıkan neoliberalizmin geçmişi 19. yüzyıl klasik liberalizmine dayanır. Bu nedenle neoliberalizm kavramını doğru değerlendirebilmek adına kısaca liberalizm kavramına değinmek yararlı olacaktır.

Bir ideoloji olarak neoliberalizmin temeli, 19. yüzyılda Adam Smith öncülüğünde ortaya atılan liberalizme dayanmaktadır. Adam Smith, *Ulusların Zenginliği* kitabındaki “liberal ihracat ve ithalat sistemi” ifadesiyle “liberal” kavramını ilk kullanan yazar olmuştur. Zamanla kullanımı yaygınlaşan kavram, yüzyılın ortalarına ve sonlarına doğru literatüre iyice yerleşen “laissez faire laissez passer” [bırakınız yapsınlar bırakınız geçsinler] ifadesiyle serbest ticareti savunanların adlandırılmasında kullanılan kavram hâline gelmiştir. Ancak zaman içerisinde liberalizm kavramı farklı boyutlar kazanmış ve kendi içerisinde ‘klasik’ ve ‘modern’ olmak üzere iki türde karşımıza çıkmıştır. Genel olarak değerlendirildiğinde klasik liberalizm yaklaşımı piyasa düzeni kurulmasında devletin rolünün en az olması gerektiğini savunmuş; modern liberalizm yaklaşımına göre devletin ekonomide aktif bir katılımcı olmasına ılımlı bakmıştır. 19. yüzyılın sonlarına doğru yaşanan krizler ile 20. yüzyılın başlarında yaşanan gelişmeler klasik liberal yaklaşımın sorgulanmasına neden olmuş, sosyal liberalizm ve sonraki dönemlerde “Keynesyen refah devleti modeli” olarak adlandırılan yeni ekonomik yaklaşım ortaya çıkmıştır.

Keynesyenizme göre işsizliğin boy gösterdiği durumlarda, ekonomik sisteme devletin müdahale etmesinin gerekliliği savunulmuştur. Kendiliğinden tam istihdam dengesinin kurulamayacağını, devletin bu dengeyi sağlayabilmek için maliye politikaları ile müdahale etmesinin gerektiği ileri sürülmüştür.

Aslında Keynes modelinin yarattığı sosyal devlet anlayışının, 1929 Ekonomik Krizi'nin bir sonucu olarak ortaya çıktığı bilinmektedir. Ancak neoliberallerin öne sürdüğü iddialara göre eşitlikçi ve paylaşımcı olan Keynesyen politikalar, zamanla devlete ağır bir sosyal maliyet doğurmuştur. Başta sosyal güvenlik ve sosyal hizmetler olmak üzere eğitim, sağlık ve altyapıya ayrılan kaynaklar, belli bir süre sonra giderleri karşılanamayan ve sürekli açık veren bir bütçe gerçeğini ortaya çıkartmıştır. Kamusal hizmetlerin, özellikle sosyal güvenliğin devlet tarafından karşılanması hem sosyal maliyetlerin artmasına hem de kendilerini güvende hisseden bireylerin daha az çalışmasına, yatırımlar için gerekli tasarrufun ve finansmanın oluşamamasına, dolayısıyla üretimin ve istihdamın yaratılamamasına yol açmıştır. Sonuç olarak giderleri karşılanamayan bir düzen ortaya çıkmış; fiyatlar yükselmiş, işsizlik oranları ve enflasyon (stagflasyon) artmış, bunların doğal sonucu olarak da ödeme dengelerinin bozulmasına yol açmıştır (Duman, 2011: 690). Bu gelişmeler sonucunda hükûmetler kısıtlayıcı para politikası uygulamasına gitmiş ve devlet, harcamalarını sınırlandırmak zorunda kalmışlardır. Sonuç olarak 1970'li yıllardaki ekonomik kriz Keynesyenizm esaslı düzenin, ekonomik gelişme için yetersiz kaldığı ileri sürülmüş ve başarısızlığın işareti olarak kabul edilmiştir. Keynesyenizmin yetersiz kaldığı ekonomik politikalar ve uygulamalar neoliberal yaklaşımı benimseyenler tarafından ele alınmış ve yeni yaklaşım olarak öne sürülmüştür. Diğer bir deyişle Keynesyenizmin başarısız olduğu konular, neoliberal yaklaşımın başarısı olarak algılanmıştır.

Hayek önderliğindeki “Neo-Avusturya Okulu”, Milton Friedman önderliğindeki “Chicago İktisat Okulu” vb. gibi önem kazanmıştır. Keynesyen ekonominin başarısızlığı üzerine krizden çıkış için yeni politikalar üreten söz konusu iktisatçılar ve onların okulları tüm dünyada neoliberalizmin etkili olmasını sağlamışlardır. İkinci Dünya Savaşı sonrası süreçten bu döneme kadar devam eden ve “Altın Çağ” olarak değerlendirilen Keynesyen politikalar terk edilmeye başlanmıştır. Diğer yandan 1974 ve 1976 yıllarından sırasıyla Hayek ve Friedman'ın serbest piyasa ekonomisinin ekonomik gelişme için en uygun düzen olduğu konusunda “Nobel

Ekonomi Ödülü” alması neoliberal yaklaşımın kendini sağlamlaştırmasında önemli etken olmuştur. Hayek serbest piyasa ekonomisinde düzenin oluşturulmasında, “rekabetçi ortam”ın oluşturulması önemini vurgulamış iken Friedman makroekonomik istikrarı sağlamak için devletin rolünün en aza indirilmesi gerektiğini savunmuştur. İlerleyen yıllar içerisinde söz konusu varsayımlar neoliberalizmin ana politikaları hâline gelmiştir. Ancak bu varsayımların pratikte uygulanması ile ekonomik ve sosyal düzenin oluşturulması sonucunda kuramsal olarak ileri sürülenden ve beklenilenden farklı sonuçlar alınmıştır.

Clarke (2005:48) tarafından iddia edildiği gibi 1970’li yıllardaki küresel sermaye birikimindeki yavaşlama, artan bütçe açığı ve enflasyon hızı neoliberalizmin ortaya çıkmasında önemli faktörler hâline gelmiştir. 1970’lerin krizini bir verimlilik krizi olarak tanımlayan neoliberalizm kuramcıları bu krize enflasyon, işçi sendikaları, refah harcamalarının artışı, devlet tekelleri, piyasa oyuncularının hareket serbestliğinin kısıtlı olması gibi sebeplerin yol açtığını ileri sürmüşlerdir. Buna göre, krizin temeli refah devleti uygulamalarıdır ve çözümü ise denk bütçe oluşturmak için kamu harcamalarının kısılmasıdır. Bu sebepten ötürü özellikle Hayek ve Friedman krizden çıkış için devletin ekonomi ve toplum üzerindeki etkisinin azaltılmasını savunmuşlardır. Bununla birlikte ulusal piyasaların uluslararası piyasalara eklemlenmesini sağlamak amacıyla *deregülasyon* (kuralsızlaştırma; yasal ve kurumsal liberalizasyon) politikalarının hayata geçirilmesini önermişlerdir. Friedman ve Hayek’e göre, devletin yönetsel, siyasi, ticari, finansal aygıtlar üzerindeki müdahaleleri sosyal refahı azaltmaktadır; bu bakımdan da devletin faaliyetleri ve kontrol olanakları sadece ulusal düzlemde değil, uluslararası düzlemde sınırlandırılmalıdır. Serbest piyasa sisteminin yegâne hakimiyetini savunan neoliberal kuramcılara göre devlet; vatandaşlarının iç ve dış güvenliğiyle birlikte adalet ve düzenin sürekliliğini sağlamalı, özel anlaşmalara uyulmasını, rekabetçi piyasaların güçlendirilmesini ve para sisteminin kontrolünü amaçlamalıdır. Bu çerçevenin dışındaki bütün siyasal, yönetsel, finansal ve ticari faaliyetler, aynı zamanda liberalizasyon politikaları ile devletin kontrol ve müdahale alanından çıkarılmalıdır.

Bu dönemde içe dönük sanayileşme stratejileri uygulayan ülkelerin artan finansman gereksinimlerini karşılamak amacıyla petrol ihracatçısı ülkelerin ellerindeki dolar rezervleri ve fonlar sanayileşmiş ülkelerin finans kuruluşları yoluyla az gelişmiş ülkelere yönlendirilmeye başlanmıştır. Bu gelişmeler yoluyla önemli bir

artış gösteren uluslararası özel finansal akımlar, bir yandan az gelişmiş ülkelerde uygulanmakta olan içe dönük sanayileşme modelinin bir süre daha sürmesine imkân verirken diğer yandan özel finansal piyasaların önemini artırarak küresel dalganın önemli bir unsuru hâline gelmiştir. Bu gelişmeler neticesinde ortaya çıkan uluslararası borç krizi ile birlikte uluslararası kuruluşlar güdümünde neoliberal politikaların, az gelişmiş ülkelerin önemli bir kısmını kapsayacak biçimde yaygınlaşması söz konusu olmuştur. Kuramsal olarak “Chicago Okulu” ile özdeşleşmiş olan neoliberalizmde; genel olarak piyasa düzeninin etkinliği, rekabet, insanların birey olarak ekonomik rolü vurgulanmış, devletin piyasa düzenini etkisizleştirdiği öne sürülmüştür. Özet olarak piyasa düzeninin kurulmasında devletin rolü sürekli olarak tartışılabilen konu hâline gelmiştir.

Neoliberalizm, kapitalizmin bir nevi yeniden örgütlenmesi olarak karşımıza çıkmaktadır. Bu örgütlenmede uluslararası finansal kuruluşlar, enstitüler [İng. *think tanks*], üniversiteler başta olmak üzere; siyasetçiler, en üst kademedeki kamu görevlileri ve iş adamları, hatta Çilli örneğinde olduğu gibi ordu mensupları yer almıştır. Bir yerde neoliberalizm kapitalist ekonomilerin krizine bir çözüm stratejisi olarak anlaşılmaktadır. Kriz ise kapitalist ekonomiye dış etkenlerin sonucu gelişen bir fenomen olarak değil kapitalist sisteme ilişkin bir özellik olarak anlaşılmaktadır. Diğer bir ifade ile ekonomik krizler kapitalizmin yenilenmesi ve gelişmesi için olması gereken doğal süreç gibidir. Ekonomi politikalarındaki değişimler de bu bağlamda belirli bir kriz yönetme biçiminin, kapitalist birikimin yaşadığı krize karşı yetersiz kalması durumunda gelişmektedir.

Lee ve McBride (2007:251) tarafından öne sürüldüğü gibi Keynesyen ekonomi düzeninin sona erdirilmesi ve savunmakta oldukları serbest piyasa düzeninin oluşturulmasında neoliberaler, üniversiteler, bağımsız araştırma enstitüleri, çok uluslu şirketler, uluslararası finansal kuruluşlar ve medya kuruluşları işin içine dâhil edilmiştir. Hatta dönemin ABD Başkanı Ronald Reagan (1978-88) ile dönemin İngiltere Başbakanı Margaret Thatcher (1979-90) neoliberal politikaların yaygınlaştırılmasında ve uygulanmasında öncülük etmişlerdir. Thatcher “başka alternatif yok” sloganıyla, ekonomik gelişme için sadece neoliberalizmin benimsemesinin söz konusu olduğu durumun örneği olarak karşımıza çıkmaktadır. Serbest piyasa düzeninin oluşturulmasında ve uygulamada, neoliberalizmin kuramsal çerçevesinde bahsedilen rekabetçi ortam ve asgari devlet

yardımlarının aksine, yukarıda bahsi geçen kurum ve kuruluşlar dâhil edilmiştir. Söz konusu kurum ve kuruluşların ekonomik düzenin yeniden organizasyonuna dâhil edilmesi neoliberal politikalara yön vermekle kalmamış, neoliberal politikaların uygulanmasının temel, vazgeçilmez unsuru hâline gelmiştir. Sonuç olarak serbest piyasa ekonomisi düzeni oluşturulması için reformlar oluşturulmuş ve ticaretin serbestleşmesi; kamu şirketlerinin özelleştirilmesi, *deregülasyon* (kuralsızlaştırma; yasal ve kurumsal liberalizasyon) ve serbest piyasa düzeninin oluşturulmasına yönelik düzenlemeler ana reformlar olarak karşımıza çıkmıştır.

Neoliberalizmin ortaya çıkışının ekonomik temellerden çok politik ve siyasi temellere dayandığı öne sürülmektedir. Politik ve siyasi fikirleri benimseyen ve “Chicago Okulu” olarak bilinen ekolün neoliberalizmin tarihinde bir dönüm noktası hâline gelmesi buna örnek olarak gösterilebilir. İlgili bilim insanlarının vurguladığı gibi, “Chicago Okulu” geleneksel kuramsal yaklaşımdan uzakta olup kendi bünyesinde kurumsal yaklaşımı benimseyen bilim insanları barındırmaktan çok serbest araştırma enstitü temsilcilerini, politikacıları ve kuruluşları temsilcilerini barındırmaktadır. Onlar da serbest piyasa düzeninin, insanlığın gelişmesi için en uygun ve ahlaki düzen olduğu, tüm toplumsal kurum ve kuruluşların (aile, toplum ve devlet), piyasa ekonomisi düzeni ve değerleri etrafında yeniden yapılandırılması gerektiğini savunmuşlardır (Springer, Birch ve MacLeavy. 1980’lı

yılların sonu ve 1990’lı yılların başında gelindiğinde neoliberal programlar artık dünyada tek model olarak benimsenmiş, dünyanın değişik bölgelerinde ulusal ekonomilerde serbest piyasa ekonomisine geçiş reformları ve programları başlatılmıştır. Neoliberalizmde yapısal ayarlamalar 1980 yılından itibaren Dünya Bankası ve IMF’nin yapısal ayarlama programlarının uygulanmaya başlandığı gözlenmektedir. Dünya Bankası 1980 yılında yapısal ayarlama borç verme mekanizması geliştirmiş, bu mekanizma ile yapısal reformları destekleyerek orta vadede ödemeler dengesinin finansmanını sağlamaya yönelmiştir. Borç alan ülkelerin gerekli yapısal ayarlama programını uygulayarak hedeflere ulaşmak için mekanizmasının çalıştığı 12 ile 18 ay boyunca özel önlemler alması gerekmektedir. Dünya Bankası ve IMF yapısal ayarlama ödücü vermek için birtakım koşullar getirmiştir. Özelleştirme, kamu harcamalarının azaltılması, faizlerin serbest bırakılması, bütçe reformu ve mali reform, ihracatı özendirici tedbirler, dış borç yönetimi politikası gibi koşullar getirilmiştir. Dünya Bankası ve IMF politikalarının

sonucunda kalkınan ülkeler büyük finansal ve ekonomik zorluklar içine sürüklenmişlerdir.

Bu reformlar ve programlar, yukarıda bahsi geçen kurum ve kuruluşlar tarafından tasarlanmış ve “Washington Consensus,” “Shock Therapy” veya “herkese uyumlu tek beden” [İng. *one size fits all*] programı adı altında dünyanın değişik ülkelerinde uluslararası finansal kuruluşlar aracılığıyla tam kapsamlı desteklenmiş ve uygulanır hâle gelmiştir. Ancak zaman içerisinde, pratikte uygulamada söz konusu programın sonuçları beklenilenden uzak kaldığı, tek beden yani tek tip neoliberal program uygulamasının herkes için pratikte uyumlu olmadığı ortaya çıkmıştır. MacGregor’un (2005:145) belirttiği gibi farklı toplumların farklı sosyal ve ekonomik koşullar ile farklı değerlere sahip olması, devletlerin politik yapısının ve ekonomik iç sistemlerinin birbirinden farklı olması doğal bir durumdur. Ayrıca neoliberal program ve reformlar asimetrik düzen ve uygulamalarla sonuçlanmıştır. (O’Brien ve Williams, 2004:121). Diğer bir deyişle Toussaint’in (2005: 224) savunduğu gibi neoliberalizmin “herkese uyumlu tek beden” programı ulusal ekonomilerin gelişmesi ve sosyoekonomik düzen kuram program olmaktan daha çok Keynesyen yaklaşımdan, Sovyet tarzı merkezi ekonomik yönetimden uzaklaştırıcı ve hükümetin ekonomik düzenlemelerini asgari düzeye indirmeye çalışan sadece siyasi bir program olduğunu göstermiştir. Ancak neoliberal politikaların ve programların durum düzeltmesi için yeniden tasarlanmış ve “Post-Washington Consensus” gibi programlar adı altında uygulamaya konulmaya devam edilmiştir.

Genel olarak değerlendirildiğinde, yaklaşık olarak son yarım asır içerisinde hem teoride hem de uygulamada neoliberal yaklaşımın baskın geldiği dikkate alındığında; 1994 Meksika, 1997 Doğu Asya ülkeleri krizi, 1998 Rusya krizi, 1998 ve 1999 Brezilya krizi, 2000’li yılların başındaki Türkiye ve Arjantin krizleri son olarak 2008’deki dünya ekonomik krizi neoliberal reform ve programların sonucu olarak düşünülebilir. Diğer bir ifade ile neoliberalizmin öne sürdüğü serbest piyasa ekonomisi düzeninin krizlerle sonuçlandığı, her krizde yapılan reformlarla devam edildiği ve her yapılan reformun veya programın yeni bir krizle sonuçlandığı dikkate alındığında neoliberalizmin getirmiş olduğu düzen iddia edildiği gibi en etkili ve uygun düzen olmanın çok uzağında kalmıştır. Ayrıca neoliberal dönüşümler sonucunda devletin kendisi küresel piyasanın bir parçası hâline gelmiştir. Philip Cerny (Cerny 2000:130) tarafından ele alındığı gibi *rekabetçi devlet* [İng. *competition*

state] kavramı türetilmiş, devletler küresel piyasada kendi aralarında rekabet eder hâle gelmiştir. Devletin rolünün asgariye indirilmesi, serbest piyasa düzeninin getirilmesi ve genişletilmesi neoliberal düzen için yeterli olmamış, devletler kendi aralarında rekabet eder hâle gelmiştir. Ülke içi sosyoekonomik politikaları yabancı yatırımcıların ülkeye çekimine, teşvikine ve desteğine göre belirlenir hâle gelmiştir. Bölge ülkeleri arasında yabancı yatırımlara daha iyi koşulların sunulması konusunda ülkeler kendi aralarında yarışır bir hâl almıştır. Örnek vermek gerekirse yabancı yatırımcıları ülkeye çekebilmek Kırgızistan, post-Sovyet ülkeleri arasında neoliberal reform uygulaması konusunda *wunderkind* ülke hâline gelmiştir.

Kırgızistan’da Neoliberal Dönüşüm ve Madencilik Sektörünün Oluşumu

Uluslararası finansal kuruluşların desteği ve yönlendirmesi ile birlikte 1990’lı yılların başlarında başlayan neoliberal programlar Kırgızistan’da genel olarak 2000’li yılların ortalarına kadar yoğun olarak uygulanmaya devam etmiştir. Bu reformlar genel olarak özelleştirme, liberalleştirme ve deregülasyon (kuralsızlaştırma; yasal ve kurumsal liberalizasyon) olmak üzere 3 alanda yürütülmüştür. Birincisi kamu şirketlerinin özelleştirilmesidir. Sovyet merkezî sistemden kalan tüm kamu şirketleri özelleştirilmiş, kolektif oluşumlar yok edilmiş, onların sahip olduğu mülkler özelleştirilmiş, bir kısmı devlette kalmış, büyük bölümü yerel halka 49 veya 99 yıllık sürelerle devredilmiştir. Liberalleşme adı altında, post-Sovyet ülkeleri ilk olarak uluslararası ticari kurumlara üye olmuş, ulusal para birimi basmış, serbest ticaret için gerekli yasal ve yürürlükler koymuştur. 1998 yılına geldiğinde post-Sovyet ülkeleri ilk olarak Dünya Ticaret Örgütü’ne (DTÖ) üye olmuştur. Ticaretin serbestleşmesi yolundaki reformlar, DTÖ’ye üyelik kapsamında gerçekleştirilmiştir. Ancak ticaretin yoğun olarak yürütüldüğü komşu ülkeler olan Kazakistan’ın 2015’de, Rusya’nın 2012’de bu örgüte üye olması Kırgızistan’ın DTÖ’den istediği gibi yararlanamamasına neden olmuştur. Ayrıca Kırgızistan, DTÖ üyeliği sonrası Özbekistan ile ekonomik ilişkilerde sorun yaşamıştır. Kırgızistan ülkesi 2015 yılında Avrasya Ekonomik Birliği’ne üye olmuş, DTÖ üyeliği çerçevesinde düzenlenen kuralların çoğu tekrar gözden geçirilerek düzenlemelere gidilmiştir.

Neoliberal reformların sonucunda ülke içerisinde oluşan sosyoekonomik düzen, uluslararası yabancı şirketler için cazip hâle gelmiş ve yatırım amaçlı

değerlendirilmeye başlanmıştır. Bağımsızlık sonrası ilk gelen büyük ölçekli yabancı yatırım firması “Kumtor” adında Kanadalı altın maden kazma şirketi, maden ocağını 1994 yılı itibarıyla çalıştırmaya başlamıştır. İlk başta %66 olan devlet payı, zaman içerisinde %17’ye kadar azalmış, uluslararası mahkemelerin kararıyla bu pay %33’e kadar çıkartılmıştır. Bir yanda kurumsal ekonomik faaliyetleri organize etmede, finanse etmede, yürütmede ve işletmede uluslararası tecrübeye sahip olan firmalar; diğer yanda aynı anda ekonomik, politik ve sosyal geçiş sürecinde olan ve kendi içinde ülke bağımsızlığını sürdürmeye ve devlet düzeni oluşturmaya çalışan kurumsal yapısı zayıf bir devlet olunca genel olarak çıkar gözetimi özel firmaların leyhine sonuçlanmıştır. Hatta Kırgız hükûmetinin “Kumtor” altın maddenini işleten “Centerra Gold” firmasının hissedarı hâline gelmesi ve ülke ekonomisinin bir nevi söz konusu altın madenine bağımlı hâle gelmesi, gerek ülke içindeki sosyoekonomik düzenin genel olarak firmanın isteğine göre ayarlanmasına gerek ise uluslararası mahkemelerde firmanın bir adım önde olmasına imkân vermiştir.

Bozumchak Maden Ocağı Alan Araştırması

Bozumchak Altın Madeni Ocağı Kırgızistan’ın güney bölgesinde yer alan Jalalabad ili, Ala-Buka ilçesi sınırları içerisinde yer almaktadır. Alan araştırması Bozumchak Altın Madeni Ocağı’nın 12 kilometre uzağında yer alan Kök Serek köyünde gerçekleştirilmiştir. Alan araştırması analizi ve sonuçları öncesinde Bozumchak madeninin örneklem olarak seçilmesi konusunda bilgi paylaşımında bulunmanın okur tarafından yararlı olacağı düşünülmüştür. *Bozumchak* Maden Ocağı işletmesi Kırgızistan’da işletimi devam etmekte olan onlarca maden ocağı arasından birçok konuda öne çıkarak örneklem ocak hâline gelmiştir. İlk olarak 2005-2010 yıllar arasındaki Bakiyev yönetimi döneminde faaliyetlerine başlamış olan işletme; 2010-2012 yıllar arasındaki Otunbayeva yönetimindeki geçici hükûmeti, 2012-2017 yılları arasındaki Atambayev yönetimi, 2017 yılından bu yana Jeenbekov yönetimi altında faaliyetlerini kesintisiz ve aksamaz devam ettiren tek maden ocağı hâline gelmiştir. Bilindiği gibi Bakiyev döneminde yüzlerce, Bakiyev’in 2010 Nisan ayındaki kanlı olaylarla devrilmesinden sonra geçici hükûmet döneminde de onlarca maden işletmesinin lisansları Kırgız hükûmeti tarafından iptal edilmiştir. Ayrıca Atambayev döneminde onlarca maden ocağı el değiştirmiş, en büyük altın maden

ocağı olan “Kumtor”un kamulaştırılması Atambayev dönemi boyunca ana gündem olarak devam etmiş ve maden ocaklarının etrafında gelişen sorunlardan dolayı 2012-2016 yılları arasında 4 Kırgız hükûmeti istifa etmiştir. Ülkede maden ocakları etrafında onlarca olumsuz gelişme devam ederken Bozumchak Maden Ocağı’nı işleten Kazakhmys firması faaliyetlerine kesintisiz olarak ve ciddi sayılabilecek zorluklarla karşılaşmadan devam etmiştir. Ayrıca Kazakhmys firması 2013-2015 yılları arasında ülkede örnek firma olarak seçilmiştir.

İkinci olarak Bozumchak Maden Ocağı bağımsızlık sonrası işletilmeye başlanan maden ocağıdır ve bölge civarındaki yerleşik halk madencilik konusunda tecrübesizdir. Gerek Kazakhmys firmasının Kırgızistan’da ilk defa faaliyette bulunuyor olması gerek ise Kök Serek köyündeki yerleşik halkın madencilik konusunda tecrübesiz olması, piyasa ilişkilerinin sıfırdan kurulması açısından iyi bir örnek teşkil ediyordu. Diğer bir deyişle Bozumchak Maden Ocağı etrafında oluşan piyasa düzeni, bağımsızlık sonrası neoliberal reformlarla oluşturulmaya çalışılan düzenin bire bir yansıması olarak karşımıza çıkıyordu.

Üçüncü olarak ülke genelinde maden ocağının bulunduğu bölgedeki yerel halk, ocağı işleten firmaların faaliyetlerini protesto etmeye devam ederken Bozumchak Maden Ocağı önemli sayılabilecek bir protestoyla karşılaşmamıştır. Tersine, bazıları kanlı eylemlerle sonuçlanan ülke çapındaki protestoların en çok arttığı 2013 yılında Kazakhmys, hükûmet tarafından yılın en iyi firması seçilmiştir. Söz konusu durum, firma ile yerel halk arasındaki piyasa ilişkilerini ve Kök Serek köyünde kurulmuş düzeni anlamak açısından büyük önem arz ediyordu. Ayrıca bir araştırmacı olarak benim de Kök Serek köyünde doğup, büyümüş ve araştırmaya konu olan köyün bir parçası olmam, araştırma için daha detaylı ve gerçekçi bilgilere ulaşmam konusunda yardımcı olmuştur.

Alan araştırmasına konu olan Kök Serek köyünün nüfusu yaklaşık 6,000 olup toplam 1,118 aile yaşamaktadır. Sovyet döneminde, Kırgızistan’daki 576 kolektif birleşimlerden biri olan köyde, genel olarak tarımcılıkla uğraşılıyordu. Buğday ve mısır gibi tarımsal ürünlerin yanı sıra küçük ve büyükbaş hayvancılık da Kök Serek köyünün temel ekonomik faaliyetleri arasında yer alıyordu. Sovyetler Birliği’nin dağılması sonrasında, tüm ülkelerin genelinde olduğu gibi bütün kamu mülkiyeti özelleştirilmiş ve yerel halk özelleştirmeden düşen paylarıyla günlük hayatlarını devam ettirmişlerdir. Ancak 1990’lı yılların sonuna gelindiğinde yerel halk hayatta

kalma mücadelesi vermeye başlamış, imkânı olanlar ticarete atılmış, bazıları iş bulmak için şehirlere göç etmiştir. Görüşmeci 1'in belirttiği üzere geçiş dönemi, ülke çapında olduğu gibi, Kök Serek köyünde de planlandığı gibi kolay olmamış, yukarıda sözü geçen 1.118 ailenin yaklaşık % 40'ı kredi almış ve onunla geçimini sağlamaya çalışmıştır. Araştırmanın yapılmaya başlandığı 2015 yılında Kök Serek köyünde yaşayan ailelerin % 68'inin fakirlik sınırının altında yaşadığı bilgisine ulaşılmıştır.

Bozumchak Maden Ocağı işletmesi için Kazakhmys firması tarafından 2007 yılında yatırımlar yapılmaya başlanmış, 2015 yılında tam kapsamlı madencilik faaliyetleri başlatılmıştır. Yapılan alan araştırması sonucunda, maden ocağı yatırımı ve işletimi Kök Serek köyü ve yerel halk için olumlu şeyleri teşkil ettiği gibi birtakım olumsuzlukları da beraberinde getirdiği ortaya konulmuştur. Araştırma analizi sonucunda olumlu şeyler 4 grup altında toplanmıştır. Birincisi, maden ocağı işletmesi halka, eskiden beri süregelen tarımcılık ve ticaretin yanında yeni bir ekonomik boyut kazandırmıştır. Bu ekonomik boyut beraberinde yerel halk için birtakım yenilikleri de getirmiştir. Örnek vermek gerekirse yerel halkın çoğu ilk defa bir özel firmada çalışma tecrübesi kazanmıştır. Maden ocağı vardiyalı çalışma sistemiyle işlediği için çalışanların ilk defa vardiya sistemiyle ailesinden uzakta kalması onlar için yeni bir şey olmuştur. İkinci olarak tarım sektöründe ve günlük hayatta kullanılan makine ekipmanlarının yenilenmesinde, yaşam tarzının modernleşmesinde katkı sağlamıştır. Gerek maden ocağı altyapı hazırlıklarının tamamlanması ve bunun devamında işletme için gerekli olan makine ekipmanların getirilmeye başlanması gerek ise maden ocağında çalışanların aldığı ücretlerin köy ekonomisine getirdiği canlılık sonucunda, talebe göre makine ekiplerinin alınmaya başlaması örnek olarak gösterilebilir. Üçüncü olarak yerel halk arasında yeni sosyal statü ve rol oluşumuna, halkın kültürel olarak gelişimine katkıda bulunmuştur. Bu katkının olumlu veya olumsuz olarak değerlendirilmesi tartışılabilir bir konu olmakla birlikte; bir yandan yeni meslek türlerinin yaratılması, ülkenin diğer bölgelerinden ve yurt dışından gelen çalışanların getirilmesi hâlihazırdaki kültürü dolaylı yoldan olumlu olarak etkilemiştir. Diğer yandan yeni meslek türlerinin maden ocağı işletimi tamamladıktan sonra yok olmaya yüz tutmasıyla bu mesleğe sahip işçilerin diğer bölgelere göç etmesi ve yabancı işçilerin getirdiği olumlu, olumsuz davranış biçimleri tartışmaya açık konu olmakla birlikte bu alan araştırmasında konunun odağını değiştirmemesi adına ele alınmamıştır. Son olarak da bağımsızlık sonrası ilk defa sosyal ve ekonomik altyapı

yatırımları yapılmaya başlanmıştır. Ayrıca bu altyapı yatırımlarının genel olarak maden ocağı işletimi için ihtiyaç duyulan yol düzeltilmesi, elektrik hat çekimi, mobil telefon antenlerinin yerleştirilmesi gibi altyapı kalkınmaları sağladığını da unutmamakta yarar vardır. Çünkü ilerleyen bölümlerde detaylıca değinileceği gibi, söz konusu yatırımların yerel halk tarafından hatta maden ocağına ziyarette bulunan üst düzey devlet adamları tarafından da yerel halkın refahı için yapılan yatırımlar olarak değerlendirilmiş ve yerel halkın Kazakhmys firmasının faaliyetlerini sorgulamasını engelleyici unsur olarak onların karşısına koyulmuştur.

Araştırma sonucunun özetlerine geçmeden önce, araştırma sonucunun daha da anlaşılır hâle gelmesi için Kazakhmys firmasının, yerel hükûmet ile yerel halk arasındaki ilişkilerine kısaca bakmakta yarar vardır. Genel olarak bakıldığında söz konusu üçlü ilişkilerin gayriresmî olarak Kazakhmys firması tarafından yönetildiği ve belirlendiği ortaya koyulmuştur. Bu tür sonuca ulaşmada Kazakhmys firmasının özenle çalışarak uyguladığı stratejiler ve izlediği politikalar önemli rol oynamıştır.

Bağımsızlık sonrası yürütülen neoliberal reformların sonucunda ortaya çıkan sosyoekonomik düzenin yerel halk tarafından sorgulanır hâle geldiğinden daha önce bahsedilmişti. Bu tür sorgulamalar, özellikle maden ocakları etrafında maden ocağını işleten şirket ile yerel halk arasında oluşan anlaşmazlıkların, yerel halkın isteklerinin ve çıkarlarının göz ardı edilmesinden dolayı artmıştır. 1999 yılında Kumtor Altın Madeni Ocağı'ndan çıkan, kimyasal atıklarla yüklü, doğaya zararlı siyanür sıvısı taşıyan kamyonun Barskoon Vadisi'nde bulunan ve ülkenin turizm cenneti olarak bilinen Ysyk Gölü'ne devrilmesi sonucunda başlayan maden şirketlerine karşı protestolar, ilerleyen zaman içerisinde artmış ve 2013 yılına gelindiğinde zirveye ulaşmıştır. 2013 yılı içerisinde küçük ve büyük boyutlu olmak üzere ülke genelinde yüzlerce protesto gerçekleşmiştir. Büyük çaplı olanlar aşağıdaki haritadan takip edilebilir.

Bu tür protestolarla baş etmek isteyen şirketler [İng. *public relations*] kendilerince stratejiler ve politikalar geliştirmeye çalışmışlardır. Sadece şirketler değil, Kırgız hükûmeti, maden şirketi protestolarını azaltmak adına reformlar ve politikalar üretmeye çalışmıştır. Devlet tarafından maden ocağını çalıştıran şirketin devlete ödediği vergilerin % 20'sini, maden ocağının bulunduğu bölgede yer alan *ayıl okmotu*'na ödenmesine yönelik reform düzenlenmesini, söz konusu *ayıl okmotu*'nun her yıl içerisinde istediği ve karşılıklı olarak anlaşmaya vardığı sosyal yardım ve

yatırımları desteklemesi gibi gerekçelerin konulması yönündeki politikalar izlemiştir. Bu tür reformlar maden ocağının bulunduğu bölgeye sosyal yardım verilerek ve/veya sosyoekonomik koşulları iyileştirici yatırımlar yapılarak yerel halkın şirkete karşı başlattığı protestoların bir nevi önünü kesmeye yönelik politikalar olduğu aşıkardır. Ayrıca, devletin üst seviye basamaklarında maden ocaklarındaki sorunları gideremeyen hükûmetlerin istifaya davet edilmesi ve 2012-2016 yılları arasında Kumtor Maden Ocağı etrafında gelişen sorunlarından dolayı 4 hükûmet kabinesinin istifa etmesi bunlara örnek olarak gösterilebilir.

Kırgız hükûmetinin yanı sıra maden şirketlerinin de devlete koşut bir şekilde yerel halkla iletişim kurmaya, ortak yol bulmaya çalıştığı bilinmektedir. Bu konuda Kazakhmys şirketinin izlediği strateji ve politikalar detaylıca araştırılmış ve aşağıdaki sonuçlara varılmıştır. Kazakhmys şirketi, çalışmaya başladığı 2007 yılından bu yana hem devlete hem de yerel halka mümkün olduğunca yakın olma stratejisi izlemiş ve bu stratejiyi uygulamak için iki ana politika izlemiştir: Birincisi, şirketin yerel halk arasında olumlu bir imajını yaratmak için yerel halka mümkün olduğu kadar yakın olmak, yerel halk için yaptıklarını anlatmak ve aktarmak; ikincisi ise yerel *ayıl okmotu* ve bölgesel *rayon* hükûmeti temsilcileri ile resmî ve gayriresmî olarak yakın ilişkide olmak. Birinci politikasını uygulamaya koymak için Kazakhmys şirketi profesyonelce organize edilen halka ilişkiler faaliyetlerini yürütmeye başlamıştır. Bu faaliyetler iki grupta toplanabilir. Birincisi yaptığı işleri tanıtmak için şirket, yerel basın ve yayın işleri organize etmiş ve *Bozumchak* adında ayda bir çıkan yerel gazete basmaya başlamıştır. Gazetenin içeriğinde söz konusu ay içerisinde Kazakhmys şirketinin yaptıklarını yansıtmaya ve raporlamanın yanında, şirket faaliyetlerinin olumlu yanlarını vurgulayan haberler yer almıştır. Alan araştırmasında yapılan görüşmelerde, şirket konusunda olumsuz haberlerin gazetede yer almaması gerektiğiyle ilgili uyarılar olduğu bilgisi paylaşılmıştır. Ayrıca gazete ilgi görmüş ve okunur hâle gelmiştir. Bunda da gazetenin içeriğinden çok, Sovyet döneminden kalan okuma alışkanlığı ön plana çıkmaktadır. Kıyasla orta yaş üstü olarak bilinen 45-50 yaş üstü ve *aksakal* olarak tanımlanan yaşlı kesiminin, Sovyet döneminden kalan okuma alışkanlığından dolayı *Bozumchak* gazetesi popüler hâle gelmiş, hatta basılan sayılar yetersiz olmaya başlamıştır. Araştırma sırasında tam bilgi edinilememiş olmakla beraber, şirketin gazete basmasında ve bu gazetenin okunmasında göz önünde bulundurulmuş hedef kitlenin zaten orta yaş ve üzerindeki kitle olduğu ve gazetenin de

bu kitleye hitap ettiği düşüncesine varılmıştır. Bu konuda Kazakhmys şirketinin eski Sovyet ülkelerinden olan Kazakistan'a bağlı bir şirketi olması ve yerel halkın Sovyet dönemden kalan alışkanlıklarını iyi bilmesi, onları başka yabancı maden şirketlerine kıyasla, yerel halkla ilişki kurmada bir adım öne çıkarmıştır.

Dönemsel olarak düzenlenen basın toplantıları, seminerler, maden ocağı ziyaretleri halkla ilişkilerin diğer faaliyet grubunu oluşturmaktadır. Bu kapsamda şirket gerek başkent Bişkek şehrinde gerek ise Alabuka ilçesinde gazeteci ve diğer basın mensuplarını toplayıp soruları yanıtlamış ve devamında ise maden ocağı ziyaretleri düzenler hâle gelmiştir. Bu basın toplantıları veya seminerler aracılığıyla ülke çapındaki medya araçlarına ulaşmanın, kendine yer etmenin ve kendini tanıtmının amaçlandığı düşünülmektedir. İlginç olan ise bu tür basın toplantılarına katılanların her defasında aşağı yukarı aynı kişilerin olmasıdır. Belirli bir grup gazeteci ve basın mensubu kişilerin Kazakhmys şirketinin tanıtımında özel görev almış olduğu görünmektedir. Örnek verecek olursak K-NEWS haber ajansının temsilcisine göre Kazakhmys şirketi yerel halkın çıkarı için sosyal bir şirket olarak karşımıza çıkmaktadır. Aynı temsilcinin aktardığı bilgilere göre Kazakhmys şirketi, maden ocağı inşaatı ve işletiminde tüm doğa koruma yasalarını ve yönetmeliklerini yerine getirmektedir. Hatta kimyasal zehirli atığın atılacağı depo uluslararası standartlara göre inşa edilmiştir. Aslında alan araştırması sırasında bu tür inşaat işleri için gereken standartların sağlanıp sağlanmadığını kontrol etmesi gereken devlet komisyonu tarafından, gerekli kontrollerin henüz yapılmadığı öğrenilmiştir. Diğer bir deyişle; yapılan basın toplantılarında, seminer ve maden ocağı gezilerinde Kazakhmys şirketi tarafından sağlanan bilgilerin sorgulanmadan doğrudan medya araçlarında yer almasının normal hâle geldiğini göstermektedir.

Başka bir örnek verecek olursak Kazakhmys'ın firma temsilcilerinin, maden ocağının bulunduğu Kök Serek köyünde yaşayan hane halkı ile buluşması sırasında, söz konusu köyün sosyoekonomik gelişimi ve yatırımların yapılması için banka hesabı açıldığı, her yıl ödenen vergilerden %2 oranında miktarın bu hesaba yatırıldığı ve bu miktarın köyün gelişmesi için harcanacağı bilgisi aktarılmıştır. Tüm bu çalışmalar sanki şirketin kendi isteği ile halkın çıkarı için yapılmış gibi sunulduğunu düşündürmektedir. Çünkü aslında banka hesabının açılması, vergilerin %2'sinin bu hesaba aktarılması ülkenin maden ocağı işletim yasalarının ve yürürlüklerinin zorunlu kıldığı gerekçelerdir. Yerel halkın söz konusu durumdan haberdar olmaması

veya bunu sorgulamaması, sorgulayanların işsiz kalacağı veya işe giremeyeceği korkusu, Kazakhmys şirketinin yürütmekte olduğu politikaları bir adım öne çıkarmaktadır. Diğer bir deyişle, Kazakhmys şirketinin yerel halka yaptıkları konusunda bilgi sağlama ve raporlama adı altında sağlanan bilgilerin içeriği profesyonelce yönetilerek ve yönlendirilerek halkla ilişkiler konusunda şirket açısından ele alındığında başarıyla yürütülmüştür.

Yerel halkın değer verdiği geleneksel tören ve kutlamaların şirket tarafından desteklenmesi yerel halkın takdirini toplamada ayrı yer almıştır. Bu konuda ayrıca *aksakal* olarak bilinen yerel halkın yaşlılarına yönelik kutlamalar düzenlenmesi, hediyeler verilmesi ile yaşlıların evlerine ziyaretler düzenlenmesi de onların beğenilerini toplamıştır. Bunun yanında, yerel halkın geleneksel örf ve adetlerine göre *aksakalların* köyün gayriresmî yöneticileri konumunda olduğu bilinmektedir. Onların dediklerine karşı gelmek, dediklerini yapmamak ve sözlerini dinlememek bir nevi aile utancı olarak bilinmektedir. Bu gibi şeyler yerel toplumun nezdinde utanç ve terbiyesizlik olarak algılanmaktadır. Bu konuda şirketin de bilgisi olduğu düşünüldüğünde Kazakhmys firmasının köyün yaşlılarının takdirini kazanmaya yönelik faaliyetlerinin şaşırtıcı olmadığı aşıkardır. *Aksakalların* takdirini almak ve onlar aracılığıyla olası şirket karşıtı düşüncelere sahip genç neslin âdeti sesini kesmek, onları kontrol altına almak şirketin işlerini kolaylaştırmaktadır.

Yerel halka yönelik politikalarının yanı sıra devletin köy konumundaki *ayıl okmot*'u ve bölgesel konumdaki *rayon*, merkezî konumdaki Kırgız hükûmeti ve milletvekilleri ile resmî ve gayriresmî ilişkileri yakından takip edilmesi şirketin diğer temel politikalarını belirlemektedir. Bu tür yakın ilişkiler şirketin yararına olduğu gibi, yakın ilişkide olan devlet temsilcilerinin de işine gelmektedir. Örneğin 2012-2017 yılları arasında Kırgızistan'da 5 hükûmet kabini değişmiş, beşi de Bozumchak Maden Ocağı'na ziyarette bulunmuştur. Beşi de ziyaret sonrası verdikleri demeçlerde Kazakhmys firmasının çalışmasından memnun olduklarını dile getirmiş, şirketin bu seviyeye gelmesinde kendilerinin hükûmet olarak katkılarının olduğunu dile getirmiş, bir nevi hükûmetin yürüttüğü işlerin başarısı olduğunu öne sürmüşlerdir. 2013 yılında dönemin başbakanı Zhantoro Satybaldiev'in başında olduğu heyet maden ocağını ziyaret etmiş ve Bozumchak Maden Ocağı örnek maden ocağı olarak göstermiştir. Heyet, diğer maden ocaklarını da bu seviyeye getireceklerini belirtmiştir. Başka bir

deyişle, Kırgız hükûmeti bir maden ocağında bunu başardıklarını, diğer maden ocaklarında da başarabileceklerini öne sürmüştür.

Firmanın, bölgesel hükûmet temsilcileri ve kamu kurumlarına maddi yardımlarda bulunarak onların da desteklerini kazanmaya çalıştığı bilinmektedir. Örneğin 2013 yılında Ala Buka ilçesinde yeni askerî bölük organize edilmiş ve askerî bölüğün konumlanacağı binaların açılışı, dönemin cumhurbaşkanı Atambayev'in katılımıyla gerçekleşmiştir. Açılış töreninde Kazakhmys şirketi kendi inisiyatifi ile askerî bölük için çok sayıda buzdolabı hediye etmiştir. Şirketin bu tür hediyeleri cumhurbaşkanı tarafından da takdir görmüştür. Aslında şirketin bu tür hediyeler vermesi veya sosyal destekte bulunması herhangi bir sözleşme ya da karşılıklı anlaşmaya bağlı kalmaksızın tamamet şirketin inisiyatifine bağlı olarak yürütülmektedir. Bunun yanında gayriresmî maddi desteklerle ve hediyelerle yerel halkın, yerel hükûmetlerin takdirini kazanması yolsuzluk şüphesini uyandıran hareketler olarak değerlendirilebilir.

Diğer bir ifadeyle Kök Serek köyünün sosyoekonomik düzeni, tüm bu tür resmî ilişkiler yerine gayriresmî ilişkiler; karşılıklı yapılan sözleşmeye dayanan anlaşmalar yerine, sosyoekonomik desteklerin şirket inisiyatifine bağlı kalmasına, yerel halkın çıkarlarının eskiden beri sürdüregelen geleneksel ilişki değerleri kullanılarak kontrol altında alınmasına, işçi piyasasında rekabetçi ve işini bilen uzmanların yerine; tanıdık ailelerden veya şirkete bağlılığı olan işçilerin tercih edilmesine olanak sağlayacak hâl almıştır. Günümüz itibarıyla Bozumchak Maden Ocağı etrafında oluşan düzenin, neoliberallerin 1990'ların başında vaat ettiği serbest piyasa düzeninin çok uzağında kaldığı sonucuna varılmıştır.

Neoliberalizmde devlet rolünün asgariye indirgenmesi, piyasanın serbest bırakılması, aslında özel şirketlerin gayriresmî olarak devlet rolü statüsü kazanması ile sonuçlanmıştır. En azından alan araştırması yapılan Kök Serek köyünde, Kazakhmys şirketi hangi yıllarda, hangi tür sosyoekonomik yatırım yapılması gerektiğini ve ne kadar bütçe ayrılacağı konularında gayriresmî olarak karar verici bir merci hâline gelmiştir. 2010 yılındaki yerel halktan 200 civarında kişinin katılımıyla gerçekleştirdiği protestoda görüldüğü gibi yerel halk, taleplerini iletmek için ne *ayıl okmotu* ilene de ilçeden gelen hükûmet temsilcisi ile görüşmek istemiştir. Kazakhmys şirketinin yönetisi ile görüşmeyi talep etmişler ve ona isteklerini iletmek istemişlerdir. Yerel halkta talebini kime iletince sonuca ulaşacağının az çok farkına varmaya

başladığı gözlemlenmiştir. Ancak tüm bu gelişmelerin yasal çerçevelere dayandırılmadan gayriresmî olarak karşılıklı görüşmelerle sonuçlanıyor olması, kısa sürede yerel halkın çıkarına gözüke de uzun sürede onlar için bir kayba dönüşmesi olasıdır. Anlaşmalar yerine getirilmediği koşullarda yasal yollara başvuruda bulunmak için gereken belge ve evrakların olmaması, şirketin de bunun farkında olarak yasal belge ve evrak işlerinden uzak durması uzun dönemde şirketin lehine olacağı aşıkardır.

Maden ocağı işletim zamanının kısıtlı olduğu yani ilerleyen 25-30 sene içerisinde bu zamanın tamamlanacağı bilinmektedir. Bunun yanında yerel halkın yol inşaatı, ek okul veya sosyal binalarının yapılması isteklerinin mümkün olduğu kadar ertelenmesi şirketin yararına olduğu açıktır. Örneğin 30 yıl içerisinde 2 kere yol yapılması gerekirken bir kere yapılmasıyla maden ocağının ömrünün tamamlanması düşünülmüş olabilir. Bunun yanı sıra, ilerleyen zaman içerisinde şirketin, istediği kâr elde ettikten sonra maden ocağını satıp gitmesi veya maden ocağının el değiştirmesi olasılıklar arasındadır. Bu tür durumda şu an içinde bulunulan sosyoekonomik düzen Kazakhmys şirketinin lehine çalışmaktadır. Bunun yanı sıra, bir tarafta giderlerini asgariye indirgemeye çalışan, yaptığı harcamalar karşısında azami ekonomik gider ve kâr elde etmeye çalışan uluslararası tecrübeye sahip, çok iyi organize olmuş şirket; diğer tarafta eski usul, geleneksel kurallara bağlı, yasal ve sosyoekonomik haklar bilgisinden uzak, iyi organize olamamış yerel toplumun olması ve bunların arasındaki dengeyi gözetmeyen devlet temsilcilerinin gayriresmî olarak özel şirketlere bağlı kaldığı dikkate alındığında ülkede bulunan düzenin, özel firmaların çıkarları için ayarlanan bir düzen olduğu aşıkardır. Serbest piyasa ekonomisine dayalı neoliberal düzen, vaat ettiği ve hedeflediği düzenin çok uzağında kalmakla beraber, sosyoekonomik, hatta politik istikrarsızlığa açık olup geleceği belirsizliklerle dolu olduğu göstermiştir.

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