



## **Kyrgyz Republic's Dilemma Over Natural Resource Exploitation**

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Use of natural resources by foreign companies has been an emotive issue in Kyrgyzstan. Mining natural resources is crucial for the Kyrgyz economy but it is facing many predicaments, thus, hindering the country's development. The country has got a wide array of natural deposits such as gold, silver, coal, rare earth metals, mercury, lead and zinc etc., but under utilization of natural resources is causing economic and political tensions in the country. Kyrgyzstan needs foreign investments and technologies to tap its resources but the nationalists and environmentalists are demanding nationalization of foreign-owned mines. The Kumtor gold mine issue probably truly represents the country's present dilemma. Kyrgyzstan is a parliamentary democracy and it is undergoing transition to market-based economy; the political evolution needs matching economic measures.

Kyrgyzstan is strategically placed in Central Asia. Kazakhstan and China, the two rapidly growing economies, are its neighbours. Its strategic significance can also be understood from the fact that both Russia and the US have military bases there. Kyrgyzstan is Central Asia's second largest gold producer and endowed with other natural deposits. The country's hydropower potential is more than 150 billion kilowatt, second highest in the region. However, it is able to exploit only 10 per cent of the total potential and imports energy resources from neighbouring Uzbekistan. Under utilization of natural resources is costing the country and with one-third of population below poverty line, it is one of the poorest countries in the region. Kyrgyzstan needs

lasting political stability to utilize its mineral resources for development. In this regard, the Kumtor gold mine issue is important and merits attention. Located in the country's southeast near Chinese borders, the mine is owned by a Canadian-based company. Kumtor contributed about 12 per cent to the country's GDP (total Kyrgyz GDP is US \$ 6 billion) and accounted for nearly 50 per cent of its total exports (about US \$ 1.6 billion) in 2011. The present problem began when a parliamentary report and a government body slammed the mining company for environmental degradation and mismanagement. Though mine is operating again, its closure for several weeks has impacted the country's economy, leading to the downward revision of the GDP growth rate.

Notwithstanding the mine's importance for the country, the opposition led by the Ata Jurt (Fatherland) party possibly saw a good opportunity in the issue to mobilize people and ramp up its support-base. They, along with the environmentalists, demanded nationalisation of foreign-owned mining projects on the grounds that the state should run mines due to environmental concerns – believing that the foreign companies may give precedence to profit over environment – and that it would result in better distribution of income accruing from the country's natural resources. The nationalists have been successful in increasing people's concerns and gaining political advantages due to lack of transparency in many business dealings. Many people got mobilized and started protesting. The demonstrations reached a climax in October after the protesters surrounded the parliament in Bishkek that also houses several government offices. A fragile situation is evolving in the country where two governments have collapsed due to popular uprisings in the past.

However, many Kyrgyz people also voice concerns over the nationalization of mine and natural resources. They are of the view that nationalization is unrealistic because of widespread corruption in the country. According to the Transparency International, Kyrgyzstan is at the 164th position of 182 countries in the corruption rating. They are also not sure of the government officials' ability to run mines efficiently.

Prospective foreign investors, including many from India, would be watching the developments anxiously. Kyrgyzstan is in India's 'extended neighbourhood' and the two countries have close political and cultural relations. Bishkek is vital to New Delhi's policy on Central Asia. Highlighting Kyrgyzstan's significance in the region, India launched a major

policy initiative ‘Connect Central Asia Policy’ in June 2012 in Bishkek during the First India-Central Asia Dialogue – a Track II process. India is also engaged in capacity building and it is establishing the Central Asian University in Bishkek.

However, India-Kyrgyzstan economic engagement is unsatisfactory. The total bilateral trade in 2011-12 was US\$ 31 million and tilted in India’s favour i.e. \$ 30 million export and less than 1 million dollar of import from Kyrgyzstan. This needs to be rectified to make it sustainable. India has been looking for external supply of mineral resources such as coal, rare earth and gold etc. Kyrgyzstan can emerge as a source for India’s growing mineral requirements. Indian companies may also process Kyrgyz minerals within the country and export them as finished products. Besides generating foreign exchange for Kyrgyzstan and employment for local population, it would also overcome the problem of connectivity between the two countries.

Kyrgyzstan is an evolving democracy in the region; at the same time it is undergoing transition to market-based economy. The country needs to fulfil the democratic aspirations of its people and that of the foreign investors, which at times may be contradictory. A delicate balance needs to be created. It is pertinent to note that the country needs foreign investments for development and in a globalised world economic system no country would like to be isolated. However, to make the business environment conducive and attractive, Bishkek authorities need to address the concerns of the nationalists and the environmentalists diligently. It would mitigate local hostility against foreign investors. In order to achieve the larger objective of development, domestic political issues must be separated from the country’s economic policies. Virtue of good governance and market economy aptly tuned with social welfare are the key to inclusive development and economic prosperity.

It seems Kyrgyzstan has already taken a firm stand to overcome its dilemma over exploitation of natural resources. Referring to the Kumtor issue, Prime Minister Jantoro Satybaldiyev recently stated that the mine would not be nationalized and that mining is the ‘core’ of the Kyrgyz economy. This was perhaps a timely move to address the concerns of foreign investors.

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