

BPC Round-table "Prospects for international business development in Kyrgyzstan"

On June 9th 2008 a round-table on the topic "Prospects for international business development in Kyrgyzstan" took place in the Bishkek Press Club. The participants in the round-table represented businesses, international and non-governmental organizations, deputies of the Jogorku Kenesh and economic experts.

The list of invited participants:

Taalay Asylbekov, Director of the International Business Council; Chinara Seydahmatova, Executive director of the Business Associations Congress of Kyrgyzstan; Elena Ananeva, Director of the Real Estate Agency "Vash Dom," and deputy chair of the Public Foundation of Kyrgyzstan's realtors; Ulan Sarbanov, ex-chairman of the National Bank, KR; Nurbek Elebaev, Chairman of the Committee of Directors of the Kyrgyz stock exchange and Executive Director of the financial-consulting company "Niet-Araket"; Bahytbek Jeldibaev, chairman of the Kazakh investors' association; Nurlan Joldoshev, Director of the Exporters' Association.

The **moderator** was Muratbek Imanaliev, President of the Institute for Public Policy.

Muratbek Imanaliev introduced guests and announced the topic of the round-table.

Chinara Seydahmatova: Within the priorities of the country's economic development, the leadership of the country pays attention to the matter of creating conditions to increase investment. However, last year there was a decline in investments compared to previous years. First of all, as a Kyrgyz citizen and an individual who is related to the small and medium business sectors, I am concerned with the psychological atmosphere and psychological climate in the country, which could have encouraged foreign investment. This year there were serious debates over the purchase of rest-houses in Issykkul, the sale of mining rights, and investment in the mining industry.

There are many international initiatives in Kyrgyzstan that equip our public with the instruments to inform themselves on how such investments take place, particularly in the mining sector. Unfortunately, our public is not aware of these initiatives. Very few experts are working on improving transparency in the mining industry. Since the public does not have information, tensions grow. In addition, there is political instability, and the opposition appeals to the fact that public have no information, and starts to exaggerate issues related to large investments, the selling of mineral rights and land in Issykkul, etc.

I am in the sphere of entrepreneurship and I know that our foreign investors have enough serious problems, no less than domestic investors. As for the domestic investors, the situation is very serious. Last week I met with representatives of very small businesses – the association of patent-holders, which unites about five thousand people. They boycotted the purchase of patents when the price of patents increased. They do not pay the state for a patent, but tax administrators. But they think it is normal. In other words, the state moves away from its public. The state system and society function separately. Everything is solved on tête-à-tête basis. Once Adam Smith said that the developed economy and wealthy people – it is peace, reasonable laws and taxes. I would add that such reasonable laws must have mechanisms of control over their implementation. Until there are such mechanisms, there will be overwhelming corruption. Representatives of medium-size businesses told me that now tax-administrators come every week and demand money, and if you fail to give it to them, then the tax police come, and you have to give more to them. Corruption has increased and laws are not implemented.

If small and medium-size businesses have such difficulties, i.e. domestic investors, then what may one say about foreign investors? Foreign investments, I guess, are being "solved" at a higher level and for larger amounts of money. There is a conflict of interest between foreign investors and the local population.

I was glad when IPP offered to discuss this topic, since there is a need for dialogue between investors and the public. It would be even better to have a dialogue about common efforts by society, NGOs, businesses, and foreign and internal investors. Such dialogue is necessary. I met representatives of Kazakh investors; they have some real and serious social initiatives. I mean, the situation today is that investors come without a social program; our government does not require such a social program, which is necessary to do business in certain places. According to international norms, an investor should come to a certain place with a social program prepared, and, while mining gold, it must contribute to the social sphere of that area, i.e. infrastructure, medicine, education and social packages for its employees. Our investors do not have such social programs, and no one asks for them. Maybe some of them have such programs, and they indeed do something for that area of work, but we do not know about it. As a result, the available information suggests that the interests of local people are contrary to those of foreign investors. But, if we do not protect our interests ourselves, do investors need to protect them? Therefore, it is possible through dialogue to find a consensus, where we will start protecting our rights and agree to rules of the game. Now, we do not state the rules of the game; investors come with their own rules and pursue their own purposes. Then what can be said about ecology, about the social needs of certain areas? Such large investors like "Kumtor" could have improved the whole region, if they could devise the right programs with a transparent realization of investments in the social sphere. "Kumtor" contributes a lot into the social sphere of that area, but again the question is about the effectiveness of these investments. No one checks that. There are NGOs which, I feel, work based on orders. I think this because the same NGOs said one thing before, and now they say other things. For example, prior to the Revolution, NGOs said that it is necessary to support "Kumtor," but now they say that it is necessary to nationalize it. The question is: why such a difference in views?

I would like to touch upon the following question. The tax reforms have eventually moved forward and the new Tax Code has been given to the Jogorku Kenesh for consideration. I talked to Tatyana Kim, who represented civil society and worked as an expert during the process of forming the New Code. According to her, a taxpayer with good faith would prefer that the tax payments from turnover be reduced to 6%. Now, a producer pays 26% on average, and it is promised that this number will decrease to 20%. It was promised to reduce the VAT to 12%. The income tax remains at 10%. Social assessments and the tax on profits will not change, but the Social Fund moves forward and they agreed to reconsider social assessments as the joint consolidated tax together with tax on profit and considerably decrease its sizes sometimes next year. What we can achieve through effective tax reforms can be seen by the example of Georgia, where during the period of three years they increased tax collection by 6 times. We all say that the question of administration cannot be strengthened, and it leads to the corruption. But in Georgia they started by strengthening administration. Taxes were not immediately decreased. There was a serious promotion program, in which the President publicly stated "If my brother violates the law and does not pay taxes, arrest him and penalize him." It had an effect. During the first year, they increased tax collection for about 50%. Later when they started gradually decreasing taxes, collection increased by 3-4 times during two years, and now it has increased to 6 times. It is very serious. If we could have 6 times more than 370 million, it could constitute 2-3 budgets of the country. Therefore, we hope that tax reforms will start before the end of the year.

I hope that we will be able to lobby for a further decrease in social assessments, and somehow optimize these assessments. And we will support the good faith taxpayer and good faith investor. Therefore, it is important for me to understand what it means when we say 'good faith investor' - both domestic and foreign? What are the expectations of civil

society from investors, what does good faith investing mean? I think if we can answer these questions and harmonize our interests, it will guarantee stability in society. If we fail to popularize tax reforms, to inform people and to increase entrepreneur's literacy in this respect, there will be no results. It is always necessary to make sure that any law includes a package of instruments to advance this law and control its implementation. I would like to urge you to talk seriously about this and take concrete steps in this direction. If a foreign investor has good faith, I think local associations of small and medium-size business could encourage that investor. In other words, if the local community receives something, it has to be more than something like a "feeding" place. It must be some important programs for improvement of skills, training local entrepreneurs, some cultural and educational programs for the local population and youth. It is time to think seriously about optimizing programs for investors.

Muratbek Imanaliev: Thank you for your thoughts. I think these are very interesting issues to discuss. But I want to say one thing. What type of businesses do we have in the country, and what kind of shape have these businesses taken, considering the above-stated comments, corruption and other points? I am a bit confused with such emphasis on the issue of corruption. My personal experience shows, for example, in countries where I worked, the corruption level is not less than here, but results are completely different. It can be explained. I read in reports of the Asian Development Bank that without corruption the economy will not advance. At least it is true in the geographical area that is covered by ADB. I have a question: what kind of form is taken by business in our country, taking into account all realities? Of course, foreign investors say that our legislation is not good; there is no rule of law. I regard them quite critically, because I understand that a businessman wants to have favorable conditions for him, i.e. to have exemption from certain taxes, social programs, etc. Is it a fact that our current condition provokes formation of such business, with certain clearly negative characteristics? Does it meet international standards?

Elena Ananeva: I had been preparing for today's meeting for several days. I made a small informational note – "Vision of the realtor on the investor's problems." We often meet investors; maybe they are not as large as "Kumtor." We meet investors who work in small and medium-size business. During 2007, about ten investors visited my company. They are from Turkey, Iran, China and Russia. The questions they asked can be grouped into three. The first question that is often asked: "What is the basis of our presence here?" If I want to open business here, I want to have residency permit." In Kyrgyzstan, the residency permit is given for six months. In fact, this period is extended to one and a half year. Russians may simply prolong their registration, while a citizen of a remote country must obtain visa. He/she will have problems with that. People usually want to control their business and locate somewhere not far away.

The second question, which investors ask is about the purchase of housing. We have the government decree #82 of 1999 which says that expropriation of houses and apartments to foreign citizens is possible with the consent of Ministry of Justice. For that consent, the Ministry of Justice will consult with four other ministries – Ministry of Interior, National Security Service, Migration Agency and Ministry of Foreign Affairs. The period of obtaining such consent is three months.

the third question concerns stability of laws and power succession. In principle, Kyrgyzstan has demonstrated a complete stability when after 2005, the rights of small business were violated, the property rights were violated as well, and nothing was taken away. It is a good sign of stability. But in 2008 there were some events that strongly frightened Kazakhs, Iranians and Turkish. On February 19, the City of Kenesh issued a decree, and then the Mayor's decree of February 20th which strongly alarmed investors. It was about the right to rent land. The Mayor's office ordered people who have the right to use those lands to purchase them immediately. Any investor who comes to the market counts each coin. They counted that there was a difference of more than 5-6 times. The decree of the Mayor's office clearly states that if an individual brings to the commission documents for a direct purchase of land that was handed to him for use, the commission has a right to increase or decrease the price of 10*10 square meters of land by 30%. At the meeting of the public

association of realtors we considered the example of Russia. From the first days of real estate market's emergence any foreigner had a right to purchase real estate in Russia.

In the United Arab Emirates a law was introduced on March 14, 2006 which allows foreigners to purchase houses, and residency is given automatically not only to the owner of the house but to all members of his family. Besides, they have access to the banking system of the UAE.

Today there are about a hundred firms which include foreigners in Kyrgyzstan. Let's say that each firm will involve about ten foreigners during a year, and each foreigner usually buys a 3 room apartment, which costs about 100 thousand USD. He also wants to buy premises for business, which constitutes an additional 200 thousand USD. And the turnover means there are not less than two hundred. Totally, each of them has a half million in their hands. I calculated that our country lost half a billion in investments after investors were informed about the situation in the country and left. It is mostly because our laws are not good. Even though it does not require anything special. We have a state registry in Bishkek which offers two types of documents procedures: urgent procedure and common procedure, with a coefficient of 2-3. Why not to do the same regarding the residency and the purchase of real estate? Let an investor pay to his budget. We all know that people obtain residency in spite of all problems, by paying 1.5 thousand dollars, according to my information. Within 3 weeks one can get a residency permit. The same is true for receiving a permit to purchase real estate, and it costs a similar price. Any foreigner says: "Why do I pay this money?" basically, it is an addition to the budget and reduction of corruption.

There is one more question. For renting land, the state required payments for each 10*10 square meters of land of about 3000 soms annually. In accordance with the Mayor's office decree during 2008, if the land that is being rented is completely sold, then the tax rate in 2007 from each 10*10 square meters was equal to 150 soms. Please, compare two numbers – 150 and 3000 soms. It turns out that if in 2008 we sell all lands which are being rented to supplement the budget, then how will we fill up the budget next year?

I designated three problems: the frightening off of foreign investors, residency permits and the Ministry of Justice. If we can manage to deal with these problems as soon as possible, I believe we can attract enough investors. At the moment, the real estate market is in a complete coma, there are almost no buyers at the market. This results in suspending construction activities. People who worked in the construction are unemployed; the markets for building materials are silent. It may also affect the market for furniture, sanitaryware, carpets, etc. My proposal is to reach somehow our public servants and ask them to deal with these problems.

Taalay Asylbekov: The previous speakers raised questions that our business community faces everyday. I would like to note that today in our country there is no concrete strategy on improving the business atmosphere and business development as such, which has the a long-term character. As you may know, there are intensive activities in many areas. The government is working on indicators, on the Tax Code. These issues are being addressed. What will happen in 5-6 years, what is being done today to improve the business climate in the future? The major problems are the protection of property rights, the succession of those decisions that were made, and the competitive atmosphere. At the same time, there is no single coordinating body which is in charge of it. At the moment, no one can coordinate this work. For example, the Ministry of Economic Development and Trade tries but it acts along its own axis, it cannot ask other ministries to follow the law. The Council of Investments works very actively today, but unfortunately, it is a project that will end in several years.

Why have I touched on the issue of coordination? The example of the Mayor's office decree on land rental was mentioned. Journalists covered this question very well. But the decree is still in force. Even with media participation, we failed to convince anyone. In other words, if there is a coordinating body, it would have addressed the Mayor office with an official letter stating that it hinders the development of entrepreneurship. We, the International Business

Council, raised the question of violating the rights of international foreign companies, and we received a sufficient answer. In other words, we solved this question locally, but the system remains the same. Another question to mention relates to the system of issuing right-giving documents.

Nowadays, all our state bodies in various fields – mining, banking and other can give rights and at the same time are entitled to recall those rights. In most countries which succeeded in attracting investments, the system gives the right to state bodies to issue right-giving documents, but recall is possible only through the court procedure. Unfortunately, we do not have such a system, even though we have been trying for a while to solve this issue. Why did I raise this question? There are many facts regarding our mining companies in Kyrgyzstan. Today there are 15 companies and their stocks are competitive in corresponding stock markets like Australia, UK and other countries. All potential investors, which could invest into these companies, depend to a certain extent on the government. If all these issues including the recall of license are solved through the courts, then potential investors would have fewer risks to invest money, because they would know that there is a judicial system which does not depend on the government.

Another important question in our view is the question of entering the market and issuing permits. It is interesting that we talk today on the topic of developing this or that sector, but I can give an example of when a serious investor could not enter the market. One well-known example is in the banking sector. At the moment, a good investor represented by "ProKredit Bank" wants to enter our market, but for a long time they haven't received a license. The same situation is true in mining. There are investors who are ready to enter the market, but there are circumstances limiting it. The same is true of the re-processing industry.

The last question that I want to mention is the succession of decisions. I believe it is the most serious question among those we are discussing today. We talk about attracting investors, and when we succeed in attracting them and they start their activities and invest money in the country, we start demanding something from them. The previous speakers touched on the question of the social responsibility of business, but we do not require that. In the past, there was the first mobile phone operator in Kyrgyzstan, the company "Katel." When we were inviting this company, there were official letters from the president inviting them to work in our market. As soon as they started to work and develop, there were some complaints about the license. In other words, they were entitled and when they started their operations, some problems and complaints appeared. There are some other examples. This is a reason why for the period of 7-8 years, we have not seen new and serious investors from abroad. In the International Business Council, when we meet the representing company, we ask them to give us advice or ideas that we can incorporate into the law and share with our experts. I understand very well the ministry which works on the problem of attracting investment. We can hardly offer anything in this field.

And, of course, there are questions about the competitiveness of our business environment. Recently we conducted some mini-research. The only advantage under the conditions of conducting business in our region is the stability of the Kyrgyz som. Certainly, the resources are important as well, but if you do not have access to these resources, it is not an advantage. This is the current situation.

Muratbek Imanaliev: As far as I understand the main point above is on the role of the state in developing business in general. It starts with issuing visas and ends with problems of purchasing property in the territory of our country. I guess there are various ways to solve these problems. When the state is interested in solving problems, they are solved. I know that it is not as easy to work in China for foreign investors as it may seem to be. However, people go there and actively work. Why do we have this problem? We have to seriously discuss it. We always forget about one problem - the role played by the institutions of civil society. I will say that unfortunately these institutions do not always play a positive role. It has to be noted that the institutes of civil society often seem to limit business development in our country. The most extreme limitations relate to the

development of mining business. It is obvious that there is no need to always and in everything blame some specific people, it may be the general situation. But, we have to understand it. I would like to turn your attention to this question and view it in respect of type and common parameters of business in our country. If state does not encourage the business development and creates additional limitations, then complaints may be addressed to civil society. What kind of business do we have in our country?

Ulan Sarbanov: What I say may be not really optimistic, but I try to look objectively at the current situation. Let's start with the size of internal market; specialists call it the scale of market. With the population of 5 million and its income, one can hardly talk about the scale of market. If we look to the wider region of Central Asia (excluding Turkmenistan), one can add to the 5 million of Kyrgyzstan, 17-18 million in Kazakhstan, 25 million in Uzbekistan, and 7 million in Tajikistan. Roughly speaking, the total number is 50-55 millions. In the view of international business, it is not yet a market.

Another factor: Let's have a look at the external markets that are relevant to Kyrgyzstan. Perhaps, we can talk about the Chinese market, but in my view, we are not yet ready to enter this market. The second market that is rarely mentioned is India, with respect to population, geographical proximity, tourism and climatic conditions. The third group of external markets is Russia-Kazakhstan-Uzbekistan. Again, we cannot find ways to enter these markets despite the historical relationship. The shadow sectors of these countries interact. But, the official sectors do not interact.

Let's look at one factor relating to accessing information about external markets, language. We promote the Russian and English languages. But, we do not promote the Chinese and Indian languages. The situation is a little better with Turkish. Also, try to find a specialist who knows Arabic. No need to mention that knowing a language is not only the ability to talk, but also knowing the culture, which is also quite important. It is not matter of fact that if I know English, I can work successfully with English investors. The next factor that influences the access to external markets is communication, particularly rail and air connections. Here, the situation is sad. And there are questions about standards of production. We all want to work with China, but what are the metal standards in China? For example, Iran is not really a popular country, but as far as I know they have Soviet standards on metals. But, we do not work with Iran based on foreign policy considerations, even though from the technical viewpoint, this country is formally closer. The question of customs clearance while crossing borders within Central Asia and the question of transportation services are relevant as well.

The third group of questions to perceive objectively is the attraction factors. For example, one mentioned the absence of real cultivation but the development of market relations. It is not really a clear formulation. Let's consider the definition of developed market infrastructure. It does not mean having the large stock exchange. For an investor, it may be an indicator of business activities in the stock exchange. If there is the index of business activities in the stock exchange, it is an indicator for the investor that he will be treated as an investor. To any strategic investor, the treatment must be special. In our country, when one says "investor", something large is meant. The minimum is something like "Comeco." According to international standards, "Comeco" can hardly be included into the medium-size. There are much stronger and more well-known companies working in Uzbekistan. "Comeco" may be a large player in the uranium market, in the market for gold it is less than the middle-size player. When there is an index of business activities, one can understand that there is a minimal number of other investors, who received some attention. Let's talk about such attractive factors as court proceedings. Basically, there is no difference for investors who judges, the judiciary is formal for them, and it is the accessibility to the court. Perhaps, you will agree that our judicial system can hardly be called accessible. Predictability, with the exception of politically biased decisions, is absent. It is also important to look at the speed of decision-making: we cannot afford to have property-related or other disputes last a long time. Earlier the recall through the court was mentioned, but such recall cannot make the whole sector attractive.

Let's analyze now in accordance with production factors. For me, land means accessibility, property or long-term rent. We have problems with all three aspects. Another factor of production is resources. What can we mention except water and other resources for mining? As for mining, it was discussed already, as for water and energy; the quality of water and standards for a stable supply of hydroelectric energy are absent. Therefore, it is unlikely that investor will be attracted. With regard to the quality of labor, it is said that an attractive factor is low salaries. For a primitive investor it may be true. In fact, investor looks not at salary but at the unit cost of the labor force. In this view, we are less attractive. Please, consider only the assessments to social insurance, it will be enough. If you add problems with the dismissal of employees, medical services, social services, labor unions...The unit cost of the labor force is not attractive for the investor. Regarding capital, it can be said briefly, banks are not de-capitalized; the stock-exchange is not developed.

As for corruption, it is said that in such countries corruption allows the advancement of economic processes since economic relations do not really work. My approach to it is completely negative. Why is there corruption in other countries, but there are not such problems. It is because there is corruption, but no need to build relations with the authorities for an entrepreneur. Conversely, in countries with transitional economies, mostly CIS countries, there is corruption but also one has to build relations with the authorities. Regarding our authorities, there is no difference for investors in the type of policies, it is important for him to have policies that easy to understand and possible to predict. When there is a clear policy that can be predicted, but does not really work in the interests of people, investors will come and work. If it is an unclear policy that helps the people, it is unlikely to attract investors.

Now, I will say a few words about the production and management culture. Whatever we say, our management culture is very poorly developed, if present at all. As an example, I will mention the approach to corporate management. If in the West one calls any public company, it will give you all kinds of information about itself. In our country we have the completely opposite situation.

Besides objective economic indicators there are social ones. For example, an investor may be interested in a reliable local partner. What "local" means, everyone understands. What does "reliable" mean? The reliable one is a person who can solve problems. If one has no qualified specialists, and is politically biased, it is unlikely that he will be a local and reliable partner from the viewpoint of the investor. The second aspect of reliability is when an individual solves a problem, it is potentially promising, but the foreign investor asks himself: "Will I have problems with this partner after 5 years?" As well-known millionaires said: "I will tell you about all my millions except the first one." The second indicator is recognition. Those who have been abroad know. When you say that you are from the Kyrgyz Republic, people do not know this country. It is impossible to explain to a typical American or French person the location of the republic without mentioning Kazakhstan, China or Russia. From the viewpoint of recognition, it is a big problem.

Now, regarding the provocative statements on the prospects for international business development. There are prospects, quite large prospects, and not only for shadow businesses of criminal or semi-criminal character. The prospects are absent for international business in its traditional and typical sense. Such prospects will be feasible when there is a new generation and people with market-type thinking come to power, or we will find a unique solution, for example, like Ireland or Britain. These countries are halfway between the American market and the market of Western Europe. We can take an economic position halfway between the former Soviet Union and China. We have good prospects irrespective of the level of our officials and laws, because both large countries must take us into account. Prospects are possible if we move in favor of the Russian Federation, China and Kazakhstan. Then, we have to deal with the issue of national self-identification. Economic problems are easily solved, if we position in favor of Russia and China. All activities that they are engaged in and international business will be present in our country as well. In

addition, there will be more prospects if a large transnational company comes. I will repeat once again there are no such companies nowadays. "Kumtor" in accordance with international standards is not a transnational company, it is a large investor. We have "Reemtsma" here, which to a certain extent can be considered a transnational company, but not its activities in our country. We have "Coca-Cola" which is a large transnational company, but it is represented here through its Turkish branch, and in practice, it does not play the role of a transnational company that allows us enter international markets.

Muratbek Imanaliev: Does corruption have some positive features? I would like to bring up some examples. South Korea and Zambia started reforms in the 60s with the participation of the World Bank, International Monetary Fund and other institutes, which are represented in our country today. The scale of corruption in both countries was almost similar. There was a little difference in culture. After ten years the economy of South Korea exceeded Zambia's four times. Why did it happen? Why was it possible in one place, but not in other? There are different answers to this question. There are problems of cultural interaction, behavioral stereotypes, culture of production relations, etc. Why do serious investors not come to us? Why do we have such problems? We like to blame the World Bank, IMF, this or that institute, to name specific states which are responsible for our problems, but never talk about ourselves. I think we have to pay serious attention to problems that we have today. These are problems related to our energy, food and investment security. Another serious problem of Kyrgyzstan today is demographic security. Let's think about the ethnic composition in 15 years. I think there will be various scenarios. Who will take this niche in 15 years?

Nurbek Elebaev: I am glad to participate in this Round-table, where quite important questions are being discussed that mostly define our future. Until today we have witnessed that there is no well-targeted ideology or policy which could make our country participate in international or international business. In our discussion we have touched on various aspects of business. I want to try to summarize and say that the international business contains at least three key positions. The first is the presence of transnational companies and their successful activities in our country. "Coca-Cola Bottlers" does participate directly, but through mediation, and its production is mostly concentrated in a neighboring country. There are no other serious enterprises that could be referred as transnational companies.

The problem first of all is the terrible condition of our market. Kyrgyzstan is a small country with a population of 5 million, and demand is limited. The second component in analyzing our relations to international business is the direct participation of the subjects of our economy in the international distribution of labor. Here I mean first of all export and import. What do our enterprises export to the world economic market, and what is imported to Kyrgyzstan. Here, we have to admit unfortunately that our trade balance is negative, we import twice as much as we export. Mostly it can be explained with the consumption-oriented character of our economy. The third component is the inter-penetration of investors. It is not only when Kyrgyzstan attracts investors from abroad to develop our economy, but when our subjects of business and individual investors participate in the realization of investment projects abroad.

The first part is more or less present. In my view, investors in our country do not demonstrate a sufficient degree of serious investment presence in Kyrgyzstan. In other words, these are not large investors, it is middle-size companies which work in our country, and enter our market through certain schemes of protectionism, patronage, etc. The second part, the participation of our investors abroad, is zero, if we do not consider the illegal participation of our rich people in international business and some developing investment projects abroad.

I think when we talk about prospects, we have to base our discussion on three components. Why do transnational companies not work in Kyrgyzstan? The market is limited, but the geographical advantage of the country is its transit location between Europe and Asia, and it

may create quite positive conditions, if a number of transnational companies are interested in developing the infrastructure. For this purpose, we have to have suitable programs and the motivation to attract such companies. It must be a serious matter that concerns our government in the process of developing a strategy for Kyrgyzstan to participate actively in the international distribution of labor. The presence of transnational companies in the country will provide a huge inflow of capital, and will have a large effect on employment and infrastructure development. Above all, our government must be interested in this matter. Why does the difference between exports and imports increase? Primarily, it is because of the absence of at least a mid-term oriented strategy of economic development. Are there economic sectors or enterprises that may be export-oriented? The elaboration of a program that is directed to a more active position of exports over imports in the country is a very important task. We have seriously degraded in this respect and turned into a country which depends on the outside.

Third, concerning the inter-penetration of investors, I would like to mention one example. Many companies from the CIS nowadays actively attract capital at the international financial markets. Only at the London stock exchange, where an alternative investment ground is being developed, there are more than 400 companies which during 2007 attracted more than 15 billion pounds sterling. The majority of these companies are represented by our neighbors, about 70 Russian companies, 8 companies from Kazakhstan. In this view, the first example is given by the enterprise "Kyrgyzaltyn." Our government suddenly included into the action plan for 2008, into the strategy of country's development, the entry of "Kyrgyzaltyn" into the alternative investment ground of London. In fact, the state has not decided on what it wants: to privatize "Kyrgyzaltyn" or to develop the company further. There is an ambiguity from the side of state institutions regarding this question. Do we have the capacity to take our companies into the international financial market? We have, but only when these companies will be sufficiently transparent and accessible to internal investors. Unfortunately, 100% of capital of this company belongs to the state. Therefore, we cannot talk about the attractiveness of this company at the London stock exchange. For this reason, we propose to advance these issues via internal investors. We raise this question in front of state agencies, so at least a minimum of 10-15% of the shares of state companies will be sold in the internal market. We will have the investment to demonstrate the attractiveness of these companies abroad; moreover, we will establish the normal market price of these companies and introduce them to the world investment community, because the information about these companies is closed.

Finally, I want to say that to discuss such matters will be trendy when there is the leading role of state on this matter. Therefore, I wanted to raise these questions at the round-table: how the government, civil society and business can participate. It is possible to place the frames of state partnership on this program. It is not promising to rely only on the state on this issue. The program of this country's development has many positive points, but the mechanism of realization is not elaborated. Thank you.

Muratbek Imanaliev: I would like to add few words on the problem discussed about developing the infrastructure or transport type of economy of Kyrgyzstan, i.e. the transit role. I believe that international business in most regards will be connected to the country in this role. I will not talk about financial and other inflows that do not go through our country. For example, the railroad-highway infrastructure causes serious regrets. The construction of a Kazakh-Chinese road is about to end and does not enter the territory of our country. Now, China together with the Tajiks have started to construct a railroad through Afghanistan, which goes to India. The highways must be repaired and constructed, there is nothing like this happening. While we are discussing this, note that the Tajiks and Chinese constructed an independent highway through the Tash-Kurgan Tajik autonomous region, and the conditions of road construction were much worse than Torugart. Is there interests in this from the Chinese side? Yes, there is. But do we have any interest? It is obvious that we do not. Prospects in this context are not really good. It is because we understand the importance of China not only in the regional economy, but in the future of world economy.

The neighborhood with China is an important factor for the development of Kyrgyzstan's economy. But my impression is that this is better understood in Tajikistan and Kazakhstan.

Nurbek Elebaev: Our association has been working in Kyrgyzstan for three years. Last year, the most productive economic investments in Kyrgyzstan were worth 393 million dollars. Of this amount 197 million dollars were invested by Kazakhstan. Among CIS countries, we take the second position in terms of donors and grants with the interest rate of 45.7%. This is a very high interest rate. We are engaged in mining, banking, industry and other sectors. Despite all difficulties, we can say that Kyrgyzstan is developing. In other countries there are structures which deal with investments. For example, there is the "Asia-Invest" in Kazakhstan to which both citizens of the country and foreigners refer. Take the example of Malaysia: when one comes to invest, he submits documents, and after 15 days he may start to work. It was correctly stated that there are no rules of the game in Kyrgyzstan. It is a sign of the poor policies of the authorities. Nevertheless, there was a good increase in investments last year. If we continue this way, it is possible that other investments will come. It is necessary to define programs and doctrines. It is necessary to attract investments. There have to be the rules of the game: how to start and where to end.

Muratbek Imanaliev: I forgot to mention one giant project – the Eurasian highway, the road from China to Europe. It is an initiative of China and Kazakhstan. Several large institutes will participate. Those involved include the Asian Bank, Islamic Bank, European Bank for Reconstruction and Development, the World Bank and many other private banks. The length is about 7 thousand kilometers. It is pity that we are not involved again. This case, may well depend on Kyrgyz-Kazakh relations, how they develop, and whether we will receive the easy access to the highway. It is a very important instrument for developing business and the economy as a whole.

I would like to thank all participants, especially those who stated their ideas. It was very interesting. If someone is interested in organizing similar round-tables, please, send your proposals. I wish you all success. I want very much to have our business develop rapidly.