The Risk is in the Relationship, Not the Country: Politics and Mining in Kazakhstan

John Edward Conway

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Abstract

How do we account for foreign firms that are successful in politically "risky" countries? While traditional political risk indices may tell us why a country is considered a difficult operating environment, they tell us very little about why some foreign firms are nevertheless able to operate successfully in such countries over long periods of time. In fact, risk indices by their very nature make "success" almost impossible to capture due to their sole focus on "host country" behavior. Rather, as this thesis argues, the political risk is in the relationship between the firm and a series of stakeholders within a given country, not the country itself.

This is a thesis of deviant cases: it holds the "successful relationship" between a foreign firm and its stakeholders as the constant dependent variable in the "significantly risky" country of Kazakhstan. Success is defined as the ability of each actor to pursue its own goals to a self-satisfactory degree, with the resources an actor mobilizes to achieve those goals and the constraints that restrict those resources as the independent variables. Three self-contained cases of "successful" foreign mining firms operating in Kazakhstan are analyzed here to determine the distinct causal pathways that led each firm to seeming "success"; the thesis then pivots to a between-subjects examination aimed at drawing out the common themes among the three different foreign firms. Within international relations theory, the relationship between the foreign firm and its stakeholders is considered here as a window into the intersection of the international political economy and the domestic political economy of a country in transition, but critically, allotting agents and structures equal ontological status. Thus the ultimate aim of this investigation is to enrich our

understanding of social behavior – here, co-existence – within the context of the agent-structure debate in larger social scientific inquiry.

Declarations

1. Candidate's declarations:

I, John Edward Conway, hereby certify that this thesis, which is approximately **79,000** words in length, has been written by me, that it is the record of work carried out by me and that it has not been submitted in any previous application for a higher degree.

I was admitted as a research student in February 2010 and as a candidate for the degree of PhD in February 2011; the higher study for which this is a record was carried out in the University of St Andrews between 2010 and 2013.

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Acknowledgements

This thesis began as a short paper on an under-covered sector in an under-covered region written many year ago as a MLitt postgraduate within the Institute of Middle East, Central Asia and Caucasus Studies (MECACS) at the University of St Andrews. Since that time, life's many events have challenged the process of moving what was essentially a puzzle into a concrete research track, but always along the way there was the MECACS Institute and its supporters to serve as a positive, driving force in seeing this thesis realized. At the head of the Institute sits Sally Cummings, my adviser, to whom I will be forever indebted for her guidance on this specific project and more broadly, for her willingness to fold me into her larger research and teaching interests. If we are to conceptualize the adviser-doctoral student relationship as one of mentor and apprentice, which I think is apt, Sally has found that perfect balance in knowing when to step in and help steer, when to counsel from a distance, and perhaps most importantly, when to push me into the world to find my own way. I must also thank Michael Denison, who, under the auspices of visiting lecturer at the MECACS Institute back when I was a MLitt student, was the individual who inspired me to dedicate several years of my life (and likely many more) to the study of Central Asia. Michael has continued to serve as a guiding force throughout this project, particularly in keeping me attuned to the interests and perspectives of the political risk industry in London. My thanks also to the other doctoral students within the MECACS Institute and to the postgraduate students within the Middle East and Central Asia Security Studies program at the University of St Andrews, particularly those who traveled with me over the years to the region, and their counterparts at the OSCE Academy in Bishkek. My thanks also to the many individuals who have provided support and comments, either formally or informally, on various components within this larger project, specifically: Cynthia Buckley, John Collis, Alexander Cooley, Rick Fawn, George Gavrilis, Nargis Kassenova, Marlene Laruelle, David Mallette, Eric McGlinchey, Mariya Omelicheva, Gül Berna Özcan, Sebastien Peyrouse, Anna Walker, Ali Watson and Andrew Webb and to the anonymous reviewers of *Energy Policy* and *Central Asian Survey*. I would also like to thank the participants of the regional dialogue, "Foreign Policy and Competing Mediation in the Middle East and Central Asia," hosted by the Hollings Center for International Dialogue in Istanbul in July 2012, the participants of the workshop, "Crossing Boundaries," hosted by the Social Science Research Council in Washington, DC, in November 2012, and the participants in the roundtable, "Kazakh Perspectives on Chinese Investment," hosted jointly by KIMEP and the Hollings Center in Almaty in February 2013. I must also thank the School of International Relations at the University of St Andrews for continued research funding, the Honeyman Foundation for funding my field research, and the Dr. Ernest L Ransome III Scholarship Trust and the US Department of Defense for funding my formal MLitt postgraduate study. The Ransome Trust along with the Department of Defense allowed me the financial freedom to study and travel across Kazakhstan back when that short paper (that would later become this thesis) was initially written, and it is more than fair to say that without their early encouragement, I would not be in the position I am today. Finally, my loving thanks to my family, particularly to my wife Gabriela for her patience and support over the last several years – and her willingness to take our little Maria on long walks away from the house at critical points in the thesis-writing and review process.

Note on Transliteration

Throughout this thesis I have used the Library of Congress system of transliteration, although with a series of exceptions made either because of familiarity in English or in the case of personal nouns, if the individual or institution of interest has transliterated his, her or its own name from Russian into English following a system other than that which would be anticipated using the Library of Congress system.

Introduction: Coming in from the cold: foreign investment in politically "risky" Kazakhstan

Introduction

On a particularly cold night in Ust-Kamenogorsk, a city in eastern Kazakhstan not 150 miles from the Chinese border, I found myself walking back to my apartment after a heated interview with the city *akim* (the Western equivalent of a mayor).[1] The meeting had ended abruptly, with some sharp words from the *akim* following a discussion on water security in the region, at which point his staffers took my documents to photocopy and made inquiries into a local business that had been helping me set up meetings in the region. I was unaware at the time of on-going negotiations between a US-based multinational and the *akim* on a nearby hydroelectric plant. Later I would find out that due to the friction between the company and the government, US embassy personnel had been disinvited from visiting the local government that very same week in which I was there.

I recall asking myself in the deep snow and a temperature of minus 20 Fahrenheit (minus 29 Celsius) if I had just been kicked out of the city, and when the owner of the same small business called me later that night to cancel our contract, apologizing but hoping that I understood, he answered that question for me in recommending that I leave Ust-Kamenogorsk immediately the next morning. "Do not show up for your meeting tomorrow [with another government official]," he said to me. "We have secret police here, like the KGB. They might be waiting there for you."[2]

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[1] Source-42 (2011), Feb. 24. See Appendix I for source numbers and corresponding source descriptions, interview dates and locations.
[2] Source-35 (2011), Feb. 24.

In my experience in post-Soviet states, limited as it may be, the KGB threat was tossed around quite loosely, and so more importantly, I wondered, were those his words? Or was he delivering a message from the *akim*'s staffers, with whom he had just come off the phone? It was tough to tell, but I would be lying if I said I slept easily that night. I had been in Kazakhstan for just two weeks, researching the political risks associated with mining companies in the region and Ust-Kamenogorsk had been mining lead and zinc since the days of the Russian Empire (in fact Ust-Kamenogorsk roughly translates from Russian into "mouth of stone"). Now the lead and zinc mines are run by Kazzinc, a company majority-owned by the famously secretive Glencore, a Switzerland-based metals trading firm that until recently was one of the largest privately owned companies in the world (Glencore went public on the London and Hong Kong stock exchanges in May 2011).[3] I had planned on Kazzinc playing a large role in my thesis, but now that seemed unlikely. That next morning I had to make a decision: do I leave or do I stay?

In hindsight, what I decided to do turned to be the most important single choice I made over the course of my trip, but to understand why, I need to start from the beginning.

The Question

A few weeks after President Ben Ali fled Tunisia, and right around when events in Egypt began to heat up in what would later become known as the Arab Spring, President Nursultan Nazarbayev[4] of Kazakhstan called a snap election for April 3, 2011, almost two years earlier than expected. It was difficult for political analysts not to wonder aloud if the events were related – if Nazarbayev was trying to get ahead of any anticipated latent

[3] Ferreira-Marques, C. and MacLellan, K. (2011) 'Glencore's record IPO makes muted debut', *Reuters*, May 19.

[4] All spellings of non-English names in this thesis are based on the preferred spelling of the specific individual. For instance, in the English version of President Nazarbayev's official website, his last name is spelled Nazarbayev, and so that is how it is presented here.

political unrest by holding elections – but the truth is that at the time the situation in Kazakhstan was very different, in fact the exact opposite of what was happening in other parts of the world. Analysts tend to agree and independent polling shows that most people in Kazakhstan support Nazarbayev – his approval rating has moved between 80 and 90-percent from 2008 to 2011.[5] They support him so much that in one region, which happened to be where I was in East Kazakhstan, villagers allegedly began collecting signatures in late December 2010 to have a referendum on extending his presidency until 2020. By mid-January, supposedly 5 million people in the country had signed the petition (which equals over half the eligible voting population in the whole country signing the document in three weeks – an unlikely and thus suspicious feat).[6]

Explanations vary in identifying the impetus for the referendum – from the movement being wholly grassroots to the more cynical suggestion that the entire process was staged by Nazarbayev and his staff – though publicly the president distanced himself from the proposal. The international community also frowned upon the initiative, particularly in the wake of legislation passed in 2010 that named Nazarbayev "Leader of the Nation," granting him immunity from prosecution for life and deeming falsification by others of his biography a criminal offense.[7] After his veto of the referendum was overridden by the parliament, Nazarbayev put it all to an end by calling an early election. International community response? Then US State Department spokesman Philip Crowley:

[5] See, for example, (2011) 'Kazakhstan national opinion poll', *International Republican Institute*. Survey conducted between Feb. 17-28; further, Source-56 (2011), Mar. 16.
[6] Foster, H. (2011) 'Nazarvayev move could block election referendum', *Central Asia Newswire*, Jan. 11, available at: http://www.universalnewswires.com/centralasia/viewstory.aspx?id=2958; (2011) 'Kazakhstan: Nazarbayev President Till 2020?', *ZeiTGeiST Asia*, February edition; (2011) 'Kazakhstan's benevolent father: Long like the khan, Nursultan Nazarbayev, very nearly eternal', *The Economist*, Jan. 6.
[7] (2010) 'Kazakh President Nazarbayev granted "Leader of Nation" title', *RIA Novosti*, Jun. 15, retrieved via *Nexis*.

"It appears to us that Kazakhstan has decided not to pursue a national referendum and we think that's the right decision."[8]

Representatives of foreign governments in Kazakhstan walk a fine line with the "Leader of the Nation." Despite Nazarbayev's popularity in the polls, the country is no beacon of democracy – not a single election here has been credited by international observers as free and fair, and there is one dominant political party, the "party of power," Nur Otan, of which the president is party chairman and until recently, all parliamentarians were members.[9] But Kazakhstan is rich in mineral resources, which is often the "other" reason the country makes it into the newspapers (albeit on the business page). The country's Kashagan oil field, for instance, is believed to be the largest single oil deposit outside of the Middle East, and certainly one of the most significant finds in decades (if not the most significant find).[10] There is great financial opportunity here, which puts diplomats in the awkward position of political finger-pointer *cum* business match-maker.

At around the same time Nazarbayev announced the election, I was preparing to begin the bulk of my field research for this thesis. In mid-February 2011 I would leave for Almaty, the biggest city in the country and former capital, to study the business climate beyond oil and gas, specifically within the metals mining sector. Oil and gas in Kazakhstan receive the majority of attention, but the country is also rich in uranium, copper, chromium, zinc, lead, magnesium, gold and iron ore. Despite the fact that the country is considered "significantly risky" by political risk advisory firms such as IHS Global Insight,[11] there are several success stories – such as the aforementioned Glencore, which is listed on the

[8] (2011) 'World applauds Kazakh election decision', *UPI*, 1 Jun., retrieved via *Nexis*.
[9] (2011) 'Nazarbayev named presidential candidate by Nur Otan', *Kazakhstan Today*, Feb. 11.
[10] Gizitdinov, N. (2011) 'Biggest oil find in decades becomes US$29B cautionary tale', *Bloomberg News*, Nov. 17.
[11] (2010) 'Country Risk Ratings: Kazakhstan', *IHS Global Insight*.

London's FTSE 100 Index (the 100 most capitalized companies on the London Stock Exchange) and has a virtual monopoly on lead production in a country that ranks among the top in lead reserves worldwide.[12]

I wanted to explore this divide. What does it take to be successful in Kazakhstan? What does a multinational enterprise need to know? And as a student of international relations, what does that tell us about a post-Soviet state's experience with integrating into the international market economy? If Kazakhstan is a "significantly risky" country, according to political risk indices, why are some firms able to operate successfully here? Put together, this thesis asks a rather straightforward question: how do we account for firms that are successful in countries in which we would expect them to fail?

Why Kazakhstan?

To the outside world, Kazakhstan is known (if at all) for the country's oil and gas, ranking around 11th in oil reserves and 15th in gas reserves worldwide.[13] The country is landlocked, located south of Russia and west of China, and is a former Soviet Republic, which in sum presented a challenge for the country with independence in 1991 as the only pipelines out of Kazakhstan went through Russia (as was often the case with Soviet-era linear infrastructure). This allowed Russia to play gatekeeper to Kazakh gas exports, for instance, paying half market price for Kazakh gas until it announced in 2007 that by 2009 it would begin to pay full market prices for Central Asian gas, a nod to the increasing

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[12] Ferreira-Marques, C. and MacLellan, K. (2011) 'Glencore's record IPO makes muted debut', *Reuters*, May 19; (2010) 'Kazakhstan – Not Just Another "Stan"', *Engineering and Mining Journal*, Dec. 6.

[13] There is not total agreement on worldwide rankings in proven oil and gas reserves. According to BP, Kazakhstan ranks 8th in oil and 17th in natural gas; according to the CIA World Factbook, Kazakhstan ranks 11th in oil and 15th in natural gas. See (2011) *BP Statistical Review of World Energy*, available at www.bp.com/statisticalreview; (2011) 'Country Comparison – Oil – Proved Reserves', CIA World Factbook, available at: https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html; and NA (2011) 'Country Comparison – Natural Gas – Proved Reserves', CIA World Factbook, available at: https://www.cia.gov/library/publications/the-world-factbook/rankorder/2179rank.html.

competition from China and the country's associated pipeline developments, providing a country like Kazakhstan with the ability to charge market prices for its gas for the first time since the country gained independence.[14]

But there is much more to Kazakhstan than oil and gas. It is the ninth largest country in the world and rich in many other minerals, as previously mentioned and as identified in global rankings in Table 1. During the Soviet era, for instance, 95-percent of the chromium for the USSR came from Kazakhstan[15] (chrome is predominately used as a hardener in steel) and in 2009 Kazakhstan eclipsed Canada as the number one uranium producer in the world.[16] Being that China's demand for metals essentially serves as the benchmark for international market prices and that Kazakhstan shares a 950 mile border with the Chinese, the country is in a good position for mining development.

Table 1.1: Estimated Mineral Reserves in Kazakhstan Beyond Oil and Gas[17]

Mineral	Reserves (est.)	Global Rank (est.)
Zinc	30 million mt	Top 5
Lead	10 million mt	Top 10
Uranium	1.6 million mt	Top 3
Chromium	300 million mt	Top 3
Manganese	600 million mt	Top 5
Copper	40 million mt	Top 5
Iron Ore	17 billion mt	Top 10
Coal	34 billion mt	Top 10
Gold	1900 mt	Top 10

[14] Whitmore, B. (2007) 'Russia, China vie for Central Asia's energy resources', *The Times of Central Asia*, Mar. 28, retrieved via *Nexis*.
[15] Peck, Anne (2004) *Economic Development in Kazakhstan*, London: Routledge.
[16] (2011) 'World Uranium Mining', *World Nuclear Association*. Available at: http://www.world-nuclear.org/info/inf23.html
[17] NOTE: reserve estimates vary by source and both estimates and rankings should be treated only as approximations. See: (2011) 'Mining Industry', Embassy of the Republic of Kazakhstan to the United States, available at: http://www.kazakhembus.com/index.php?page=mining-industry; Jones, A., Tarta, R. and Yukin, E. (2010) 'Kazakhstan Mining', a report from *Global Business Reports* for *Engineering and Mining Journal*, December issue (estimates noted in here are most ambitious)

All of this is not to say that Kazakhstan is the perfect place for investment. The country is considered a frontier market by financial analysts – a subset, second-tier of "emerging market," defined as a country that does not meet the criteria required to be considered an emerging market yet demonstrates an openness to foreign investment and is not currently experiencing extreme political or economic instability (notably Kazakhstan is the only Central Asian state to be considered a frontier market).[18] And according to business intelligence firms like IHS Global Insight, Kazakhstan is still a "significantly risky" place to invest: the country ranks 108 on Global Insight's country risk rating, placing it just behind Russia (#107) but well before the other Central Asian states (Turkmenistan – #160, Kyrgyzstan – #165, Uzbekistan – #167, and Tajikistan –#183).[19] The least risky country in the world according to this ranking is Singapore and the most risky is Somalia (#204). The United States is at #14.[20]

Global Insight is not alone in its rankings. Control Risks, a London-based business intelligence firm, places the country in a similar spot – right around Russia but ahead of the other Central Asian states.[21] Looking specifically at the mining industry (outside of oil and gas), the mineral industry advisory firm Behre Dolbear Group ranks Kazakhstan at #18 (between the Philippines and Zambia) on a list of 25 key mining states, where #1

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[18] (2012) 'MSCI Global Investable Market Indices Methodology', *MSCI*, Jan.
[19] (2011) 'Country Risk Ratings', *IHS Global Insight*, Dec. 2.
[20] *IHS Global Insight* (2011)
[21] (2010) 'RiskMap 2010', *Control Risks*, available by request at www.control-risks.com; Note: the ranking within the RiskMap is not ordinal; rather, the firm assigns a level of political risk and security risk to each country (insignificant, low, medium, high, and extreme) Kazakhstan scored medium on political and low on security risk in 2010; Russia scored medium / medium; Turkmenistan medium / medium; Uzbekistan high / medium; Kyrgyzstan high / high; and Tajikistan high / high.

(Australia) is the least risky place to invest and #25 (Bolivia) is the most risky (the US comes in at #5).[22]

So why is Kazakhstan such a risky place to invest? This question becomes even more difficult to answer when looking at the mining giants of the country – Kazakhmys (copper), ENRC (chromium, iron ore, alumina and bauxite), ArcelorMittal (iron ore and coal) and Kazzinc (lead, zinc and gold). Each of these companies has an overwhelming share, if not virtual monopoly, on mining and production of its respective mineral (or minerals). Kazakhmys, ENRC and Glencore (Kazzinc's majority owner) are listed on London's FTSE 100 and Arcelor Mittal is the largest steel manufacturer in the world.[23] Is Kazakhstan as risky as the business intelligence industry portrays it to be? What do these mining companies know that others do not?

In the initial stages of my investigation, I found that access to key individuals in Almaty (the unofficial business capital of Kazakhstan) for interviews was surprisingly easy, particularly because I was interested in learning more about foreign direct investment to the country outside of oil and gas. This is a theme I would continue to experience in my travels across the country, particularly within the Kazakh government in which the next generation of the country's leaders seemed very keen to re-brand the country beyond its petro-state status.

I put the question to these business professionals and government officials: is Kazakhstan a risky place to do business?

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[22] (2010) *2010 Ranking of Countries for Mining Investment*. Behre Dolbear Group Inc. Available at: www.dolbear.com.

[23] (2009) 'Councils, sittings, meetings - President Nursultan Nazarbayev Receives CEO of Glencore International AG Willy Strothotte and Ivan Glasenberg', *Kazakhstan Government News*, Jun. 24, retrieved via *Nexis*.; (2010) 'Glencore plans Kazzinc IPO', *Daily Deal/The Deal*, Aug. 27, retrieved via *Nexis*.; Ferreira-Marques, C. and MacLellan, K. (2011) 'Glencore's record IPO makes muted debut', *Reuters*, May 19.

The responses were varied – absolutely, not at all, sort of – with no clear correlation between response and nationality or occupation. Some would brush the question off immediately, others would dive in head first: as one Kazakh businessman argued, “Without a strong political roof, you have no chance to do business here.”[24] Needing a *krisha*, or roof, was a phrase I heard over and again, and one I will return to later in this thesis.

To one Western partner for a multinational tax advisory company,[25] I asked what was different about Kazakhstan as opposed to the other countries where he had worked.

He noted the corruption (“less than I thought,” though the financial police were known on occasion to raid his offices in search of client documents), the Soviet legacy of a thick bureaucracy (on account of the volume of papers he is required to sign, his signature has shortened over the years to just initials), the “Big Village” feeling where personal relationships are key, and perhaps most interestingly, how young everyone is.

“I haven’t met a chairman of a public company yet that is actually over 40,” he explained. It was a slight exaggeration, but an important point. Kazakhstan may be the ninth largest country by landmass, but by population it is 64th at around 16 million, and 71-percent of that population is between the ages of 15 and 64, with a median age of 30.[26] With the country’s oil riches as well as government-funded scholarship programs like *Bolashak* (Kazakh for “the future”),[27] many of the more fortunate Kazakhs send their children abroad for university for a degree or at least language training – to the UK or the

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[24] Source-6 (2011), Feb. 18.

[25] Source-4 (2011), Feb. 15.

[26] (2011) ‘Kazakhstan’, *CIA World Factbook*, available at: https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html.

[27] (2011) ‘“BOLASHAK” translates from Kazakh to English as “FUTURE”’, *The Embassy of the Republic of Kazakhstan in the UK*, available at: www.kazembasy.org.uk/bolashak_program.html (last accessed on 17 Nov. 2011)

US – and while similar programs exist in other countries, with a population as small as Kazakhstan's, over the years this experience begins to add up.

"Would you consider this a risky place to do business?" I asked him.

"Well there are so many types of risk," he reminded me. "It depends on what you mean."

He was right. What exactly is political risk? What did I mean?

Political Risk Analysis

Since the 1970s, political risk analysis as a discipline has held a single overarching priority: the identification of those non-technical factors in a given country that impact the firm's ability to operate.[28] "Non-technical" here is juxtaposed against the technical factors associated with a given operation, such as engineering challenges, which is why miners often refer to political risks as "above ground" problems, which we broadly define here as social, legal, regime, labor and tax risks. By "non-technical" we exclude purely financial risks – for instance, the possibility of sudden changes in the tax regime would be considered a political risk, because such a change would ultimately rely on the will of the ruling government, whereas the international market price for copper is considered a financial risk and beyond the scope of this thesis. The initial concept of political risks as directly related to those factors that "impact" the firm is key, and I will refer to such research throughout the thesis as "impact-focused" political risk analysis because the focus on "impact" has significant epistemological and ontological implications (which we will discuss), manifested most prominently in political risk research through the several indices

[28] Kobrin, Steven (1979) 'Political Risk: A Review and Reconsideration', *Journal of International Business Studies*, 10 (1), p. 67-80; Henisz, W. (2000) 'The Institutional Environment for Multinational Investment', *The Journal of Law, Economics, and Organization*, 16 (2), pp. 334-364; and Jarvis, D.S.L. and Griffiths, M. (2007) 'Learning to fly: the evolution of political risk analysis', *Global Society*, 21(1), p. 5-21.

that aggregate the various proposed impacting political factors within a country into a single country score. The index serves as the foundation for the political risk industry: Eurasia Group has the *Global Political Risk Index*, Control Risks has the *RiskMap*, and IHS Global Insight has the *Country Risk Ratings*. Generally, a political risk index identifies qualitative variables believed to be significant (e.g. corruption, or religious radicalism, or military involvement in a country), assigns a score to that variable (often via subject-matter expert surveys or in-house research), and sums all the various scores to determine an overall score that places the country on a risk spectrum among other countries. Multinationals and financial institutions then leverage these indices in making decisions about global investment strategies.

In this way the political risk index can be understood as a rank ordering of "where not to go" – where, *ceteris paribus*, if a firm has a choice of investing in country A or country B, it should defer to the less risky. This is captured perfectly in the Behre Dolbear Group's (2010) annual *Ranking of Countries for Mining Investment* – what the mining advisory firm short hands as a ranking of where "*not to invest.*"[29]

Considerable advances have been made in identifying and measuring those political variables that impact a firm's ability to operate, which I will explore in the following chapter,[30] but an unintended consequence of impact-focused political risk research (which I will also explore in the following chapter) has been its avoidance of the curious phenomenon that is at the heart of this thesis: why some firms are able to operate successfully in these so-called "risky" countries – that is, the exceptions to the "rules." From a practical standpoint, research in this vein is important because many firms are not

[29] (2010) *2010 Ranking of Countries for Mining Investment*. Behre Dolbear Group Inc. Available at: www.dolbear.com.

[30] Henisz (2000); for a literature review, see Jarvis & Griffiths (2007).

faced with the simplicity of the "country A or country B" choice, and for those firms already located in such a country, or with the intention to do so, the compelling question is one of political risk management: how to manage the non-technical risks (i.e. the political, social and cultural) that face the firm every day?

But such an inquiry is about much more than determining best practices for a particular company, especially as this thesis is set within the discipline of international relations. Where the multinational enterprise meets the host country, we see "the nodal point of and interface between two realms: that of the *internationalization* in global structures, and that of the *embeddedness* in the domestic structures of national/regional political economies."[31] In other words, the multinational enterprise can be understood as globalization's first contact with the domestic economy of a developing country.[32] Political risk indices may tell us quite a bit about the failure of that first contact, but it is in the exceptions that we begin to learn about what works – how different actors, often with conflicting goals, manage to co-exist. That is, how different actors are able to find and maintain order among themselves, "one of the oldest and most discussed topics in political enquiry," defined in this thesis as the ability for different actors to pursue their own goals to a self-satisfactory degree, a concept detailed in the next chapter and then examined across our case studies.[33]

Why are some firms able to operate successfully in "risky" countries? Phrased more broadly, what is happening between the foreign firm and its host country that the political

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[31] Sally, R. (1994) 'Multinational Enterprises, Political Economy and Institutional Theory: Domestic Embeddedness in the Context of Internationalization', *Review of International Political Economy,* 1 (1), p. 161-192 (p. 162).
[32] Sally (1994)
[33] Rengger, N. J. (2000) *International relations, political theory and the problem of order: beyond international relations theory?* London: Routledge (p. 1).

risk index fails to capture? In this thesis, I argue that the epistemology and ontology embraced by the political risk index seriously misinform our understanding of why a firm may or may not be successful in a given country.

First and foremost, the index advocates an approach to understanding political risk wholly through the country's actions; the consequence of such an epistemology is that we fail to recognize the agency inherent in the firm. To briefly use an example that will be further covered in later chapters, in 1997 the Kazakh government expropriated a uranium mine owned by the Canadian firm World Wide Minerals. As the political risk index is structured, such an event would be reflected in an upgrade in Kazakhstan's risk score. However, if we dig beneath the headline, we learn that at the time, World Wide Minerals was in violation of the performance conditions outlined in the subsoil license agreed upon between the firm and the Kazakh Republic. The company was negotiating with the government for increased international marketing rights, and as a show of force, decided to shutdown all operations until the Kazakh government agreed to accept its new position – a clear violation of the subsoil license that both parties previously agreed to. In other words, World Wide Minerals' *own actions* (in part) led directly to the expropriation of the company's uranium mine, and yet according to the political risk index, Kazakhstan is the perpetrator and the firm the victim. Perhaps not surprisingly, when the case went to international arbitration, the decision sided significantly with the Kazakh Republic, further reaffirming the company's own hand in its failure.[34]

But there is also an ontological aspect to the political risk index that oversimplifies the way in which a firm actually operates in a given country. Specifically, the concept of

[34] (2011) 'The Kazakhstan Story', *World Wide Minerals*, May 2. Available at www.worldwideminerals.com/investors/kazakhstan.pdf.

the "host country" is a myth: there is no "host country" that a CEO rings up on the phone in order to negotiate or re-negotiate a license or permit. Every country is unique in how power is dispersed – to whom and to what degree – and equally unique in its social and cultural norms. In Central Asia in particular, Gül Berna Özcan argues convincingly for embracing an approach to the region that recognizes each state as an "historical construct shaped by a set of competing actors and institutions,"[35] and we see this play out in Kazakhstan today on a variety of levels. On a very practical level, for instance, the regional government controls almost all permitting issues while the central government controls all subsoil licenses and this has significant implications, as I will later demonstrate, for how a particular firm must deal with each actor and how corruption manifests itself within the government. On a broader level, Kazakhstan may be a *post*-Soviet state but many of the values inculcated during the Soviet era remain important today – to return to Glencore's Kazzinc, the firm funds several schools, health and sport centers, the local hockey team, orphanages and nursing homes in Ust-Kamenogorsk.[36] This is not considered philanthropy in Kazakhstan; it is an obligation that dates back to a time when the mine was considered the life and blood of the community in all respects, and as we will see, is significantly different from traditional understandings of the obligations of firms within the concept of corporate social responsibility.

All in all, this thesis argues that the solution for overcoming these issues within political risk analysis is to shift our approach from focusing on host country impact to instead taking as the unit of interest the relationship that exists between the firm and a variety of stakeholders within (and outside of) a given country. The risks are in the

[35] Özcan, Gül Berna (2010) *Building States and Markets, Enterprise Development in Central Asia* (Basingstoke: Palgrave Macmillan), p. 12.
[36] See www.kazzinc.com

relationships, I propose, not the country. And so while this thesis embraces a broad definition of political risk – "the activities of governments (and or its agencies) whose decisions, policies, edicts and rulings create outcomes that distort, impact, change or adversely effect (sic) the interests of stakeholders (economic and non-economic actors)," recognizing that "change in any political parameter that has ramifications for stakeholders in the affected policy area" is a political risk[37] – we remain acutely aware of the likelihood that government "activities" do not exist in a vacuum and are often largely influenced by the various non-government actors in the area of interest, such as the "affected" foreign firm.

The Bargain

Where to turn for a theoretical framework concerned with relationships? For several years, the obsolescing bargaining theory outlined in Raymond Vernon's *Sovereignty at Bay* (1971) stood as the "accepted paradigm of Host Country-MNC [multinational corporation] relations in international political economy,"[38] characterizing the relationship between the multinational and the nation state it enters as one of a "bargain," which Vernon interpreted as the interface of the goals, resources, and constraints of both actors.[39] A country may have a resource (e.g. uranium) but lacks the technological capacity to mine the resource (which the multinational possesses), both actors may have the shared goal of benefiting, economically, from the resource, but there may be some constraints that stand in the way (e.g. the US Foreign Corrupt Practices Act may prevent the mining company from fulfilling the financial demands of the prospective country's leadership). Vernon believed the bargain

[37] Jarvis, D.S.L. (ND) 'Conceptualizing, Analyzing and Measuring Political Risk: The Evolution of Theory and Method', Lee Kuan Yew School of Public Policy, p. 40-41.
[38] Kobrin in Eden, L. (1991) 'Bringing the firm back in: multinational in international political economy', *Millennium Journal of International Studies,* 20 (2), p. 197-224 (p. 200).
[39] Vernon, Raymond (1971) *Sovereignty at Bay*, New York: Basic Books.

"obsolesced" because as the multinational became more entrenched in the host country (e.g. with its associated infrastructure), bargaining power shifted away from the multinational and toward the host country. Put quite frankly, once the country receives the technological investment from the multinational, so went the line of thinking, why not boot the company out and retain full ownership?

In the years following the publication of *Sovereignty at Bay*, Vernon seemed justified in his view on multinational-host country relations as waves of nationalism in developing countries across the world led to a series of nationalizations (or renationalizations) of key industries. But over time the obsolescing bargaining theory lost much of its predictive power, piece by piece: researchers found that there was no single decision-maker known as the "host-country,"[40] that there was an overemphasis on hard power at the cost of recognizing how a company participates (or fails to participate) in the "promotion of certain social norms and values,"[41] and perhaps most damning, the fact that many subsequent researchers were finding toward the turn of the century that the bargain did not obsolesce at all – that is, bargaining power did not necessarily shift toward the host country over time.[42]

Lorraine Eden, Stefanie Lenway and Douglas A. Schuler gather many of these observations together and propose a revised bargaining framework, what they call the "political bargaining model," (PBM) as an answer to the shortcomings of the obsolescing

[40] Moran, Theodore H. (1974) *Multinational Corporations and the Politics of Dependence*, Princeton: Princeton University Press; Teegen, Hildy, Doh, Jonathan P., Vachani, Sushil (2004) 'The Importance of Nongovernmental Organizations (NGOs) in Global Governance and Value Creation: An International Business Research Agenda', *Journal of International Business Studies*, Vol. 35, No. 6, Nov., pp. 463-483; Ramamurti, R. (2001) 'The Obsolescing 'Bargaining Model? MNC-Host Developing Country Relations Revisited' *JIBS*, 32(1), pp. 23-39.

[41] Dahan, Nicolas, Doh, Jonathan and Guay, Terrence (2006) 'The role of multinational corporations in transnational institution building: A policy network perspective', *Human Relations*, 59(11): 1571–1600 (p. 1574).

[42] For example, Ramamurti (2001) and Luo (2001)

bargain while at the same time maintaining that the fundamental epistemology of the bargain – focusing on relationships – is sound (note: Eden et al.'s PBM is not to be confused with larger political science work in political bargaining models – the "political bargain" here is a direct reference to Vernon's "obsolescing bargain").[43] The PBM drops the idea that the bargain necessarily obsolesces; problemitizes the "host country" as the primitive unit, instead recognizing the bargain as existing between the multinational and many stakeholders; and finally, recognizes that the multinational is able to actively influence its stakeholder relationships.[44]

It is under Eden et al.'s PBM that I offer three propositions for understanding the success of companies like Glencore in the politically "risky" country of Kazakhstan. In line with my epistemological and ontological concerns with the political risk index, I propose the following propositions to examine in Kazakhstan:

> **The Stakeholder Proposition:** there is no "host country"; the successful multinational recognizes that its ability to operate in a given location depends on its relationships with those groups or individuals that can impact the firm's operations (stakeholders);
>
> **The Agent Proposition:** multinationals are agents – "purposeful actors whose actions help reproduce or transform the society in which they live";[45] successful multinationals embrace this agency and are proactive in their maintenance of

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[43] Eden, L., Lenway, S., & Schuler, D. A. (2004) 'From the obsolescing bargain to the political bargaining model', Bush School Working Paper #403, Jan.; also available in: (2005) 'From the obsolescing bargain to the political bargaining model' in R. Grosse (ed.), *International Business and Governmental Relations in the 21st Century*, Cambridge: Cambridge University Press.
[44] Eden et al. (2004)
[45] Wendt, A. (1987) 'The agent-structure problem in international relations theory', *International Organization*, 41(3), pp. 335-370 (p. 338)

stakeholder relationships, regardless of whether or not such maintenance is required explicitly by formal governance structures (i.e. the state); and

The Structure Proposition: "Society is made up of social relationships," which structure the interactions between multinationals and other actors;[46] successful multinationals respond to the unique social structures within a given country, shaped over time by its stakeholders.

For students of business ethics or development and sustainability familiar with the concept of corporate social responsibility (CSR), the stakeholder proposition will come as little surprise. Proper identification and management of stakeholder interests, it is argued, allot the firm its "social license to operate."[47] Stakeholder theory within CSR was born out of the simple fact that multinationals navigating the "turbulent" environment of globalization learned very quickly that there is no single point of contact for obtaining this "social license" (especially from some sort of mythical "host country") and as such argues that a more helpful unit of analysis is focusing on those groups and individuals who have a direct stake in the firm's progress.[48]

The agent and structure propositions are equally unsurprising to those familiar with the "agent-structure" debate within social scientific inquiry, captured neatly (and famously) by Alexander Wendt who points out that individuals (and their organizations) are actors, capable of transforming society, while at the same time society as a structure is capable of shaping the actions of these same individuals.[49] To Wendt, it is impossible to study an

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[46] Wendt (1987), p. 338

[47] Jenkins, H. and Yakovleva, N. (2006) 'Corporate Social Responsibility in the Mining Industry: Exploring Trends in Social and Environmental Disclosure', *Journal of Cleaner Production*, 14 (3-4), pp. 271-284.

[48] Freeman, R. Edward, Harrison, Jeffrey S, Wicks, Andrew C, Parmar, Bidhan L, and de Colle, Simone (2010) *Stakeholder Theory: The state of the art*, Cambridge: Cambridge University Press.

[49] Wendt (1987)

actor's behavior without an implicit nod to the social relationships in which the behavior is set; equally true to Wendt is the idea that the analysis of social structures must include some deference to the individual actors whose behavior contributes to these structures. In this sense, Wendt argues "that the properties of agents and those of social structures are both relevant to explanations of social behavior."[50] As a post-Soviet state with a high degree of foreign direct investment, Kazakhstan is uniquely positioned for studying the interaction of market-based economic forces with an historical state structure based on a command economy with significant social welfare expectations.

To some, the fact that these concepts have been developed to some degree within their respective disciplines may lead to a "so what?" response, but the fact equally remains that despite the development of concepts like stakeholder management or the recognition that social behavior draws on the interaction of agents and structures with one another,[51] or even Eden et al.'s PBM, we fail to see such concepts fully developed within political risk analysis. In focusing on country-level scores, the political risk index fails to appreciate the stakeholders that exist within (and outside of) a given country; by relying on actions like expropriation to a calculate a country's risk score, the index fails to consider the fact that maybe the multinational's own behavior contributed to such a result; and finally, when countries are normalized across one another within an index to ease comparison, we lose the unique history and social values of a country that may make it more or less particularly suited for a specific company.

Therefore the approach that follows is at its heart interdisciplinary, and as is often the case in advocating for and relying on an interdisciplinary approach to solving a

[50] Wendt (1987), p. 338.
[51] Wendt (1987)

common problem, I have found that most of the elements behind adjusting the PBM for political risk analysis already exist in some other form in some other discipline for a closely related but separate purpose. I see this as a strength of the research design within this thesis, not a weakness, and in support of this claim I submit the interdisciplinary call from the *Journal of International Business Studies* (2009) to escape the "externally defined silos of narrow theoretical and empirical legitimacy" and in so doing recognize the need to avoid "replication of such silos."[52] Instrumentally, CEOs or investment bankers making misinformed decisions about the political risks within a particularly country is a serious problem with serious implications for the ability of a country to attract foreign direct investment. Philosophically, particularly for scholars of international relations, such a situation is an example of unrealized co-existence, and as such a failure of the commitments that serve as the founding principles of our discipline.

Method and the Outline of this Thesis

This thesis focuses wholly on successful firms operating in a country in which we would expect them to fail. "Success," is the dependent variable, to be defined in-depth in the chapter that follows, and we hold this dependent variable constant as we look at three separate cases of three respective foreign firms in the metals mining sector, all of which maintain successful operations in the country of Kazakhstan, a "significantly risky" operating environment according to IHS Global Insight's country risk ratings (an industry standard, to be further detailed in the next chapter). In this sense, this thesis is a thesis of deviant cases – a deliberate selection of the least representative cases in the country – and one that seeks to explore the possibility of equifinality among cases, or the idea that distinct

[52] Cheng, Joseph L. C., Henisz, W. J, Roth, Kendall and Swaminathan, Anand (2009) 'EDITORIAL: From the Editors: Advancing interdisciplinary research in the field of international business: Prospects, issues and challenges', *Journal of International Business Studies* (2009) 40, 1070–1074 (p. 1072).

causal pathways in each case can ultimately lead to the same outcome (i.e. success). In terms of theoretical development, the aim is to make progress in typological theory-building: a combination of theory testing and heuristic development under the umbrella of typological theorizing. Theory testing case studies "assess the validity and scope conditions of a single or competing theory," whereas heuristic case studies "inductively identify new variables, hypotheses, causal mechanisms and causal paths."[53] Typological theorizing focuses on, as one would expect, identifying "types" within particular theories, or more formally, "the development of contingent generalizations about combinations or configurations of variables that constitute theoretical types."[54] Because of its focus on drawing out "types," typological theorizing is a common approach within research designs of multiple case studies and, notably, is well-suited for investigations concerned with equifinality.[55]

Overall, however, the approach here is grounded, by which I mean the aim is to leverage mainly qualitative data sources and rely on both inductive and deductive reasoning to build toward hypotheses, as opposed to beginning with a set of explicitly defined hypotheses (hence our propositions). The approach is inductive in that the objective in each case is to draw out the causal pathways that bring us to understand the firm as successful (i.e. heuristic development); the approach is deductive in that we begin with a methodological framework, the PBM, which though itself is largely undeveloped, is nevertheless set within a larger body of scholarship that maintains its own theoretical

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[53] George, A. and Bennett, A. (2005) *Case Studies and Theory Development in the Social Sciences,* Cambridge: MIT Press (p. 75).
[54] George & Bennett (2005), p. 233
[55] George & Bennett (2005), p. 235

expectations on a firm's success in a given country, and thus our examination will begin with a series of propositions (i.e. theory testing).

The primary sources that inform the three cases are company documents from the mining firms of interest, government documents from a variety of ministries within the Republic of Kazakhstan and the provincial (*oblast*) governments; archival research of primary source reporting as well as secondary source analyses of Kazakhstan in Russian during the Soviet Union and in English from before the Soviet Union; a series of semi-structured interviews conducted in Kazakhstan over the course of 2011 with representatives from several mining multinationals, government officials, local NGOs, and the consultants, accountants, auditors, lawyers, trade union representatives, and foreign government trade officials associated with the mining industry (totaling close to 100 interviews ranging from 1 to 2 hours in length); and finally site visits to the various cities, towns and villages associated with the metals mining sector. The information cut-off date for this thesis is December 2011.[56]

Chapter Two begins with a more thorough critique of the political risk index as it has developed both within industry and academia since the 1970s. Behind this history is a broader intellectual history on the study of the multinational enterprise within the disciplines of international business studies (IB) and international political economy (IPE), with the former establishing itself over time as the intellectual home for studying multinational-host country relations. At the core of this history is the concept of the bargain: under the tutelage of its initial author, Raymond Vernon, IBS and IPE were more or less one in the same, initially growing together in research institutes of both business and international affairs with significant interdisciplinary collaboration. But when the second

[56] See Appendix A for more information on methodology.

generation of contemporary researchers concerned with multinational-host country relations famously called for "bringing the firm back in" to the study of international politics, as Lorraine Eden did in 1991,[57] she answered the challenge herself by taking up the role of editor at the *Journal for International Business Studies*, effectively ensuring, as I will show, that our understanding of the firm in a given country and larger political risk analysis would develop within the discipline of business studies, not international relations.

I believe, however, that Eden's recent call (along with her co-authors) for now bringing the "political" back into Vernon's bargaining model through the creation of the PBM is itself an implicit admission that the discipline of international relations has something to contribute in understanding multinational-host country relations that the IB community has failed to fully grasp. As such, I see this thesis as a small step in bringing the IB and IR/IPE community back together again, and as will be reflected in the chapters that follow, I leverage heavily the existing IR literature on Kazakhstan and Central Asia to underscore the gravity of the ontological and epistemological shortcomings within contemporary political risk analysis.

Chapter Three details the history of mining in Kazakhstan in the context of the existing scholarship on the country and the greater Central Asia region of which Kazakhstan is a part. Here I argue that existing researchers have inappropriately lumped traditional mining together with oil and gas development as part of a larger natural resources scholarship rooted mainly within the resource curse or rentier state literature. While it is true that oil and gas represent the overwhelming share of Kazakhstan's export-driven economy (in terms of monetary value), it equally remains the case that traditional mining – that is, mining outside of oil and gas – has a much deeper role in the country's

[57] Eden (1991)

socio-economic development that stretches back to the early twentieth century. Oil production in Kazakhstan is limited almost entirely to the Caspian coast of the country (with some exceptions); traditional mining, alternately, occurs across Kazakhstan and in fact many of the largest cities in the country were initially formed and founded for their mineral wealth and subsequent mining development.

In the chapters that follow (Chapters Four, Five and Six) I test and develop my propositions as outlined in Chapter Two against three foreign metals mining firms in Kazakhstan. I figured that there were two ways I could have done this – the first being to take each proposition (and its associated independent variables, as explicitly developed in Chapter Two) as a separate chapter and investigate each proposition across these three firms; the second approach being to take the firms separately and within each chapter examine all three propositions. I have opted for the latter approach for two reasons, one practical and the other theoretical. Practically speaking, taking each firm in step saves me from having to re-familiarize the reader in every chapter with a particular company's operating history in Kazakhstan. In initial drafts, I found myself having to rewrite over and again passages on a multinational's initial entry strategy, joint-venture structure, or the local political situation in which the company is established. Theoretically, there is such great variance in the types of mining companies within the metals mining industry (admittedly unbeknownst to me when I started this project), which appear to have significant implications for the independent variables of interest, that I felt it necessary to approach each firm "type" individually (detailed below) and slowly build across chapters to develop a richer understanding of the independent variables that will then be drawn together in the penultimate chapter (Chapter Seven). In other words, this thesis is structured via the conditions under which we will examine the independent variables, not by the independent variables themselves. Each case, therefore, remains a self-contained study of firm success in a risky country under the framework of the PBM, but this within-case design is then flipped into a between-cases study in the penultimate chapter, drawing parallels and distinctions among the different pathways (or possible theoretical "types") as observed in the three cases.

The cases that this thesis is based upon were selected for a combination of reasons. First and foremost, as our interest is in seemingly successful foreign firms, initial research was conducted to identify those mining firms that have been present in Kazakhstan for a lengthy period of time. These firms were then filtered by the diversity of conditions they represented, with the forethought that this would allow us to draw out any possible similarities and/or differences between cases. Practically speaking and in the interest of full disclosure, the cases were then limited by those mining firms that provided the necessary level of access to staff members and internal documents. Both Glencore and Kazakhmys, for instance, were initially considered as possible cases but had to be dropped during my field research because of either lack of cooperation or evidence of a clear intent to limit access. Finally, some initially proposed cases were dropped simply due to space limitations. Both ENRC and Uranium One, for instance, were very cooperative, along with a series of smaller mining firms such as Sunkar Resources, but incorporating these firms into the thesis itself with the level of detail desired quickly became impossible.

The first case study (Chapter Four) focuses on the mining giant ArcelorMittal, the largest steel manufacturing multinational in the world, with operations in close to 60 countries. In Kazakhstan, ArcelorMittal employs an overwhelming proportion of the

Kazakh work force – approximately 50,000 people – and operates almost entirely within legacy Soviet mines and facilities that the firm bought from the Kazakh government in 1995. The company is publically traded on stock exchanges in New York, Paris, Luxembourg, Madrid and Amsterdam, and was formed when Mittal Steel merged with Arcelor. The CEO today continues to be the company's founder, Indian billionaire Lakshmi Mittal, and as one might expect, many managers within the firm's Kazakhstan headquarters in the city of Termitau are Indian nationals.[58]

Our second case study (Chapter Five) focuses on the uranium mining industry in Kazakhstan, specifically the largest publically traded, non-state owned uranium producer in the world, the Canadian-headquartered company Cameco. Uranium mining has its own set of unique attributes, particularly in Kazakhstan, that warrant separate consideration. Specifically, the extraction method used by Cameco is in-situ leaching, which is a complicated, high-technology method of mining uranium that requires the employment of very few individuals (unlike, for instance, the steel operations of ArcelorMittal which require significant manual labor in the iron ore and coal mines of the country). Additionally, the mining "footprint" of in-situ leaching (that is, its visibility to the outside world) is very small: from the surface, an in-situ field is nothing more than a series of pipes going underground connected to a processing station (compare this to the gigantic craters left behind by open pit mines across the country).[59] Unlike ArcelorMittal, Cameco operates in only four countries – Canada, the United States, Australia and Kazakhstan – with Kazakhstan the clear outlier in terms of political risk levels. Further, Cameco's operations

[58] (2009) 'ArcelorMittal reaches agreement with workers', *Kazakhstan Today*, Jun. 2. Retrieved through *Nexis* via *IntelliNews*; see also (2011) 'Recovery Underway: Annual Report 2010', *ArcelorMittal*, available at www.arcelormittal.com; Personal observation in Temirtau, March 25, 2011.
[59] For background, see (2011) 'What is ISL mining?', *Uranium One*, available at: www.uranium1.com/index.php/en/mining-operations/what-is-isl-mining (last accessed on 17 Nov. 2011)

in Kazakhstan are through a joint venture with the Kazakh government, whereas ArcelorMittal owns its Kazakh operations outright.

The final case study (Chapter Six) moves away from the community of well-established mining multinationals to cover a unique but critical component of the greater mining industry: what are known as mining “juniors.” Mining as an industry operates on a model wherein prospecting (that is, the discovery of new or undeveloped mining deposits) is left mainly to the smaller mining companies (known as “juniors”) for a variety of reasons, with technical risk (geology) being the most significant – only a handful of discovered deposits are actually financially feasible given the geological challenges. Once a mining junior discovers such a deposit, the company will often develop the mine just far enough to prove its feasibility and then sell it off to one of the mining industry giants (like ArcelorMittal). Our final case study looks at one of these juniors, Frontier Mining, which is listed on the London Stock Exchange’s Alternative Investment Market (AIM) and is in the early stages of developing gold and copper mines in Kazakhstan.[60] See Table 1.2 for a summary of the case studies elected and their different attributes.

Table 1.2: Case Summary

Case	ArcelorMittal	Cameco	Frontier
Mining Activity	iron ore & coal; steel production	uranium	gold & copper
Local Location	Temirtau (city)	near Taikonur (remote village)	various, all remote
Global Presence	60+ countries	Canada, USA, Australia, Kazakhstan	Kazakhstan w/ occasional interest in Russia & Mongolia
Employees (local)	Approx. 50,000 people	200-500 people	Approx. 500 people

[60] See http://www.frontiermining.com/; Frontier Mining is not a multinational in the traditional sense, but because it was for many years registered in the US (and now the BVIs), listed on the UK’s AIM, and with operations in Kazakhstan (and at one time Russia), it nevertheless is exposed to multiple jurisdictions and thus faces many of the same institutional constraints, though on different scales, as the more traditional multinationals of ArcelorMittal and Cameco.

Employees (global)	Approx. 245,000	Approx. 3300	Approx. 500 people

As noted, before ending with a short conclusion, the penultimate chapter (Chapter Seven) brings the various propositions as applied to these three cases back together to return to our initial question: why are some firms able to operate successfully in so-called politically "risky" countries? Here we also assess the strength of using the PBM as a framework for answering this question, and touch on the implications of the PBM and our cases toward the larger philosophical debate within the social sciences on the competing influences of structure and agency. Finally, and most importantly, I rely on the conclusions drawn out of these investigations to offer a greater commentary on the significance of my research to the study of international relations, specifically the possibility of finding and maintain co-existence at the intersection of the "globalized" foreign firm and the domestic political economy of a post-Soviet state.

* * *

To finish where we began: at some point on that cold night in Ust-Kamenogorsk, lying in my bed that seconded as a sofa, I fell asleep. Perhaps the neat way for the story to end would be if I caught a plane that next morning and off I went to Astana, the capital of Kazakhstan, never to return to Ust-Kamenogorsk again and escaping the "KGB" trap that apparently awaited me at my 10am meeting. But that is not the way it played out. When I awoke the next day and realized, happily, that I was still alive, I had a renewed sense of confidence, feeling almost silly with how concerned I had been the night before. I arrived at the regional government's main building to find no Kazakh KGB (actually known as the National Security Committee) and no suspicious glances from security when they wrote down the details of my passport and supporting documents. Instead I was met by a young, late 20s or early 30something specialist in the East Kazakhstan *oblast*'s Department of Foreign Relations, as scheduled, and we had a frank discussion about the local investment climate, issues within the legislature that, in the opinion of the interviewee, needed to be fixed, and some advice on how companies in the region could forge successful relationships with the local communities.

As we parted ways and I suited up into my winter weather gear for the outdoor trek to my next appointment, the fact that Kazakhstan continues to be a country in transition could not have been clearer. The night before, the *akim* who was raised under the banner of the USSR, and who cut his teeth as the director of a state-run farm, had me all but completely convinced that beneath the veneer of today's Republic of Kazakhstan remained the Soviet Socialist Republic of Kazakhstan, with all the trappings of a closed society. But that next morning, sitting across from the younger civil servant in this remote city who, like myself, likely remembers only bits and pieces of the bi-polar Cold War that ended before we became teenagers, I genuinely felt as if Ust-Kamenogorsk was committed to embracing the international system of the market economy, albeit certainly on its own terms. I would feel this back and forth for the duration of my time in Kazakhstan, in populous cities and remote villages alike and across generations, and on a personal level, this thesis is about unfolding those mixed experiences in order to more fully understand where the country has been, where it is today, and where it will be going in the future, and how the multinational enterprise – the international market economy incarnate – has both complemented and complicated that path.

Chapter Two: The theoretical foundations of political risk analysis

Introduction

The *Economist* describes the political risk consultancy Eurasia Group as "an inspiration for any academic with a seemingly useless degree in political science,"[61] which while sure to get a few laughs (and certainly the attention of students on the eve of graduating), highlights inadvertently a less than obvious irony to general perceptions on the discipline of political risk analysis: an almost insignificant degree of scholarly research on political risk has actually developed from within political science, or for that matter, international relations. To highlight, take the following definition of political risk, as quoted in 1979 in a journal I will reveal in a moment, followed by a passage from an article in the inaugural issue of the *Review of International Political Economy* (*RIPE*) in 1994:

(1) "[P]olitical risks arise from the actions of national governments which interfere with or prevent business transactions, or change the terms of agreements, or cause the confiscation of wholly or partially foreign owned business property."[62]

(2) "[C]onsider the [multinational enterprise] as the nodal point of and interface between two realms: that of *internationalization* in global structures, and that of *embeddedness* in the domestic structures of national/regional political economies."[63]

My reading of the second quote, which is to be understood in the context of a greater call from the editors of *RIPE* for maintaining the study of multinational-host country relations as a tenant of IPE (to be explored, they anticipated, in *RIPE*), is that the study of political risk as defined in the first quote would have found a natural home in this (at the time) newly formed journal. But a search for "political risk" within the annals of

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[61] (2003) 'Political-risk analysis: The new bull market', *Economist*, May 22.
[62] Weston, V. Fred and Sorge, Bart W. (1972) *International Managerial Finance*. Homewood, IL: Richard D. Irwin, Inc. (p. 60), as cited in Kobrin (1979).
[63] Sally (1994)

RIPE almost twenty years later returns only a few results[64] and, in fact, it appears as if very few took up Razeen Sally's call for studying MNE-host country relations in the journal.[65] So where is that first quote from? And where did our understanding of the multinational enterprise develop?

The answer to both questions is international business, or more specifically in the former, the *Journal of International Business Studies* (*JIBS*), and in the later, the disciple of international business studies (IB), traditionally understood to have become a formal area of academic study with the founding of the Academy of International Business in 1959. In fact, Sally himself was fully aware of this fact when making a call for the study of the multinational enterprise (MNE) in IPE, recognizing not only that this was at the "heart of IB scholarship" but also that one of the ways in which this focus manifested itself in IB was through political risk research.[66] Sally felt compelled to wrestle the study of MNE-host country relations into IPE (and from IB). Why? He believed that IB was missing the full picture on the implications of the MNE within international relations, and that IPE could fill in this gap.

So what did Sally believe was missing? And why does it appear as if no one took up his call? We will return to these questions explicitly in a moment, but first a bit of background. In truth, it is not exactly fair to claim that Sally was trying to wrestle the MNE

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[64] Since the journal's inception in 1994, only 7 articles have referenced the research regime of "political risk" analysis (as of November 23, 2011) Of those 7, only 3 are truly focused on political risk: Haftel (2010), who looks at the relationship between FDI, bilateral trade agreements, and domestic institution strength, using a political risk index as the proxy measurement of the latter; Egan (2011), who finds a positive correlation between labor rights violations and political risk; and Lusztig (1998), who argues that increasing trade liberalization results in increased political risk as domestic-level rent seekers become disenfranchised. See: Haftel, Y. Z. (2010) 'Ratification counts: US investment treaties and FDI flows into developing countries', *Review of International Political Economy*, 17(2), pp. 348-377; Egan, P. J. W. (2011) 'Is worker repression risky? Foreign direct investment, labour rights and assessments of risk in developing countries', *Review of International Political Economy*; and Lusztig, M. (1998) 'The limits of rent seeking: why protectionists become free traders', *Review of International Political Economy*, 5(1), pp. 38-63.
[65] No articles in *RIPE* cite this article.
[66] Sally (1994), p. 162 and 166, respectively.

away from IB and toward IPE. A more accurate statement would be to say that Sally was trying to mark the discipline of IPE as an interdisciplinary home for the study of the MNE – a home that would bring IB perspectives on the MNE together with political science perspectives (and others) to realize fully the significance of the MNE to international and domestic political economies (so was the hope). Not to discount their importance, nor Sally's article, but calls for interdisciplinary studies are frequent, while finding research that specifically answers such calls is not as easy. Eden (the same Lorraine Eden who developed the PBM, the framework of this thesis) made a similar call a few years before Sally in the *Millennium Journal of International Studies* for "bringing the firm back in" to the study of IPE[67] and most recently the editors of *JIBS* (to bring the "interdisciplinary call" full circle and back to Sally) released a "call to arms" in 2009 to the IB field to maintain relevance by increasing interdisciplinary research. In other words, whereas in 1994 Sally was calling for IB study to be brought into IPE, in 2009 the editors of *JIBS* were calling for IPE study (along with other disciplines) to be brought into IB.

Why does all this matter? This chapter begins with an overview of the political risk index as a prerequisite for understanding specific epistemological and ontological issues within the index that I argue prevent us from accounting for successful MNEs in risky countries. But while unfolding these issues, I show how all of these challenges have been investigated to some degree within either IB or IR or both, though often without reference to one another. It is that last part – "often without reference to one another" – that compels the researcher (or journal editor) to publish these calls for interdisciplinary study, like Sally did in the inaugural issue of *RIPE*. They find, from the semi-omniscient perspective of the editor, as I have wholeheartedly found in pursuing this thesis, that researchers address

[67] Eden (1991)

many of the same issues, and face many of the same challenges, in focusing on the same phenomena, and yet painfully do so in parallel and yet without referencing one another – that is, without learning from one another (a tragedy certainly not unique to political risk analysis).

A second element to the frustration is the fact that the more one reads – and the more one discovers these research silos existing in parallel and without interaction, often between disciplines and sometimes even within disciplines – the more one becomes discouraged that their particular line of analysis is not novel, and as such, fails to contribute. But here I believe, as the *JIBS* editors rightfully note, that the stringing together of alternate understandings of a similar phenomena is one of those neat instances in which the "sum is greater than the parts."[68] In other words, this in itself is novel and stands as a contribution because it succeeds in doing what others have failed to do: applying now "the sum" to a particular problem in order to reveal a fuller understanding that until now had been understood only in piecemeal, or in isolation, and therefore, one could argue, misunderstood. This chapter brings those pieces together and creates that "sum" as a precondition for understanding why some firms are successful in politically risky countries – for understanding how Sally's two realms, the international and the domestic, can seemingly co-exist with one another.

The political risk index and its variants

We begin with the political risk index, the core contemporary product of political risk analysis both in industry and in scholarly research. Robin L. Diamonte, John M. Liew and Ross L. Stevens' study on political risk in emerging markets serves as an apt representative sample of typical approaches to the political risk index, which I will recount

[68] Cheng et al. (2009)

here before getting into the variants of this sort of index-focused research.[69] They use the International Country Risk Guide's (ICRG, produced by the Political Risk Services Group) political risk index to measure political risk and the Morgan Stanley Capital International fund (MSCI, now produced by MSCI Inc.) to measure market performance. The ICRG is a monthly report that analyzes 130 countries across 13 political risk variables on an overall risk scale of 0-100 (100 = lowest possible risk), with such examples (all of which are outlined in Table 2.1) including "corruption in government" (10-percent of the final score) and "law and order tradition" (6-percent of the final score), while the MSCI is an index of stock performance in developed and emerging markets.

Table 2.1: Components of the International Country Risk Guide

Component	**Description**	**Numerical Weighting**
Economic Expectations versus Reality	Measures the perceived gap between popular aspirations for higher standards of living and the ability or willingness of the government to deliver improvements in income and welfare	12-percent
Economic Planning Failures	Measures business support for the current government and the ability of the government to adopt a suitable and successful economic strategy	12-percent
Political Leadership	Assess the viability of the current government based on the degree of stability of the regime and its leader, the probability of the effective survival of the government and the continuation of its policies if the current leader dies or is replaced	12-percent
External Conflict	Measures conflict based on the probability of external invasion, border threats, geopolitical disputes, and full-scale war	10-percent

[69] Diamonte, R.L., Liew, J.M. & Stevens, R.L. (1996) 'Political Risk in Emerging and Developed Markets', *Financial Analysts Journal*, 52(3), pp. 71-76.

Corruption in Government	Assesses corruption risk by looking at how long a government has been in continuous power, whether a large number of officials are appointed or elected, and the frequency of bribe demands	6-percent[70]
Military in Politics	Reflects the likelihood of military takeover and the degree of military control over government and governmental policies	6-percent
Law and Order Tradition	Reflects the degree to which citizens of a country are willing to accept the established institutions to make and implement laws, the strength of the court system, and provisions for an orderly succession of power	6-percent
Racial and Nationality Tensions	Measures the degree of tension within a country that is attributable to racial, nationality, or language divisions and the extent that opposing groups are intolerant or unwilling to compromise	6-percent
Organized Religion in Politics	Measures the degree to which religious groups control the government and governmental policies	6-percent
Political Terrorism	Measures the extent to which dissidence is expressed through political terrorism, such as armed attacks, guerrilla activity, or attempt assassinations	6-percent
Civil War Risks	Measures the probability that terrorist opposition to a government or to its policies will turn into a violent internal political conflict	6-percent
Political Party Development	Measures broad-based political participation in the determination of changes in governments and in the formulation of government policies	6-percent
Quality of Bureaucracy	Measures institutional strength, the quality of the bureaucracy, and the expertise to govern without drastic changes and policy interruptions in government services	6-percent

Table 1: Diamonte et al. (1996) use the ICRG in their study on political risk-market performance correlations. The ICRG consists of 13 different variables, or what they call "components," with varying degrees of strength within the overall country score.[71]

[70] Diamonte et al. (1996) indicate that the "corruption in government" weight is 10-percent while in Erb, C.B., Harvey, C. and Viskanta, T.E. (1996) 'Political Risk, Economic Risk, and Financial Risk', *Financial Analysts Journal*, 52(6), pp. 29-46, they publish a weight of 6-percent; if the former is to be accepted, the total sum of all weights equals to 104-percent and as such I present Erb et al.'s (1996) figure here, assuming Diamonte et al.'s figure is a typological error.

The primary finding in Diamonte et al.'s research is that the ICRG political risk index correlates strongly with the MSCI in emerging markets, and less so in developed markets, which leads them to argue that the ability to forecast changes in political risk in emerging countries will allow one to predict stock performance in such countries. In other words, as a country becomes more risky, financial performance in the country decreases – a conclusion that, on the face of it, achieves the ultimate goal of the political risk index: to identify those political variables that predict financial performance. There are several studies that follow this same track, such as the work by Patrick J.W. Egan, who sees a relationship between ICRG's political risk index and labour rights violations (which he interprets as a determinant of FDI),[72] and that of Gour Gobinda Goswami and Saima Khan, who find that political risk, as measured through the ICRG, has a significant impact on the real exchange rate in a given country.[73] However, for every study that reveals a similar correlation,[74] there is another that finds the opposite is true. For instance, Claude B. Erb, Campbell R. Harvey and Tadas E. Viskanta look at all of the ICRG's indices (along with a political index, the guide also publishes a financial index, an economic index, and a

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[71] NOTE: the component descriptions within this table are copied verbatim from Diamonte et al. (1996) – aside from footnote 70, this is an exact replication.

[72] Egan, P. J. W. (2011) 'Is worker repression risky? Foreign direct investment, labour rights and assessments of risk in developing countries', *Review of International Political Economy*, DOI:10.1080/09692290.2011.592117.

[73] Goswami, G.G. and Khan, S. (2005) 'Does Political Risk Lead to Purchasing Power Disparity? A Panel Disaggregated Approach', *The Bangladesh Development Studies*, 31(1/2), pp. 25-55.

[74] For example, results from Bagheri & Habibi (1998) indicate a negative correlation between political risk and the independence of central banks in developing countries; Erb, Harvey and Viskanta (1997) argue that population demographics in a given country predict risk exposure tolerance; Humphreys and Bates (2005) use ICRG measures to show that increasing electoral competition in a given country increases policy performance (where in positive policy performance is understood to be synonymous with lower political risk levels); and Neumayer (2004) finds a negative correlation between political risk and tourism. See: Egan, P. J. W. (2011); Goswami, G.G. and Khan, S. (2005); Bagheri, F.M. and Habibi, N. (1998) 'Political Institutions and Central Bank Independence: A Cross-Country Analysis', *Public Choice*, 96(1/2), pp. 187-204; Erb, C.B., Harvey, C.R. and Viskanta, T. E. (1997) 'Institute Demographics and International Investments', *Financial Analysts Journal*, 53(4), pp. 14-28; Humphreys, M. and Bates, R. (2005) 'Political Institutions and Economic Policies: Lessons from Africa', *British Journal of Political Science*, 35(3), pp. 403-428; and Neumayer, E. (2004) 'Impact of Political Violence on Tourism: Dynamic Cross-National Estimation Author', *The Journal of Conflict Resolution*, 48(2), pp. 259-281.

composite index of all three) and find the political index to be the least powerful in predicting portfolio performance.[75] Jean-Claude Cosset and Jean Roy find that simple economic indicators are often a far better predictor of financial performance within a country than risk indices.[76] And both Yoram Z. Haftel and Reid W. Click see no evidence of the political risk index influencing FDI flows at all.[77]

This controversy behind the prediction power of the index has been the locus of debate within political risk research, with study after study providing evidence of a new, previously unaccounted for political variable that increases predictive power, followed by study after study that then debunks such findings. Theoretically, this back and forth manifests itself within an on-going debate in political risk research circles on the differences between political risk and political instability – a debate that is as old as the discipline itself. Darryl S. L. Jarvis and Martin Griffiths, in one of the more detailed reviews of political risk research to date, point to one of political risk's founding fathers, Stephan Robock, as initially instigating this dispute. Frustrated by studies overly focused on political instability in a given country, Robock argues back in the 1970s for increased focus on those political activities in a country that *impact* a firm's ability to operate, as opposed to general observations about the country's instability.[78] For instance, the level of religious radicalism in a country may point to its possible instability, but religious radicalism by itself may not necessarily imply a more difficult operating environment for foreign firms. And so in line with Robock, "impact" became the keyword, and successive

[75] Erb et al. (1996)
[76] Cossett and Roy (1991)
[77] Haftel, Y.Z. (2010) 'Ratification counts: US investment treaties and FDI flows into developing countries', *Review of International Political Economy*, 17(2), pp. 348-377; Click, R.W. (2005) 'Financial and Political Risks in US Direct Foreign Investment', *Journal of International Business Studies*, 36(5), pp. 559-575.
[78] Jarvis and Griffiths (2007); see also Robock, S.H. (1971) 'Political Risk Identification and Assessment', *Columbia Journal of World Business*, 6(4), pp. 6-20.

reviews on political risk research would continually try to shepherd the political risk community back toward variables that specifically impact a firm's ability to operate and away from variables that simply measure political instability.[79]

Thomas L. Brewer's work on *policy* instability (as opposed to political instability) embraces this guidance for impact-focused political risk research. He argues that a policy instability index should serve as a better measure of firm impact because changes in a government's policy are oft the primary drivers of subsequent changes that impact a firm. When his policy instability index is compared to traditional political risk indices, he finds no significant correlation between the two and understands this as evidence of his index capturing something different about a country – something he believes to be more relevant – as it pertains to risk.[80]

Others have further developed this concept of policy as commensurate with impact, such as Nathan Jensen who creates an index of political constraints in light of his view that traditional risk index and financial performance correlation studies are "far from a direct test of the causal link between politics and risk." He finds that the greater the political constraints within a country (defined as individuals or institutions with veto powers), the lower the risk in currency transfer (Jensen's concern is the insurance side of political risk analysis, which has a sub-focus on the risk surrounding a firm's ability to transfer host country currency into its currency of choice).[81]

[79] See, for example, Kobrin (1979), Fitzpatrick (1983), and Jarvis and Griffiths (2007)
[80] Brewer, T. (1983) 'The Instability of Governments and the Instability of Controls on Funds Transfers by Multinational Enterprises: Implications for Political Risk Analysis', *Journal of International Business Studies*, 14(3), pp. 147-157.
[81] Jensen, N. (2006) 'Measuring Risk: Political Risk Insurance Premiums and Domestic Political Institutions' (working paper), p. 17, footnote 31.

Witold J. Henisz (2000) similarly pursues this track in developing an index aimed at measuring institutional commitment to upholding private property rights. Similar to Jensen, he sees constraints as a net positive for the MNE, looking for veto points that prevent the executive branch of a given government from interfering with a firm's operations – aggregating variables like the strengths of the judiciary and the lower and upper houses of parliament to come to an overall "political constraints" score (what he shorthands as POLCON).[82]

A key turn in political risk research can be seen in the works of individuals like Charlie Dannreuther and Rohit Lekhi or James H. Davis and John A. Ruhe, who conceptualize "risk" as being in many ways synonymous with "different." In other words, that the risk is inseparable from the perspective of the hypothetical firm of interest: the more different the operating environment is for the firm, the riskier it is. This is a key insight, and parallels a research track within IB that we will reference throughout this thesis: the institutional-based model of strategic management. Specifically, the institutional-based model sees conformity to the institutional environment (government agencies, laws, courts, etc.) as a "survival value" for the MNE and argues for following national (or local) rules and norms.[83] For instance, Oliver finds that MNEs tend to seek legitimacy within a country for the purposes of "demonstrating social worthiness." Conforming to the social norms in a given country, he argues, can increase the MNE's domestic prestige which itself can lead to operating stability. Eventually this may mean that previously thought constraints (e.g. government regulatory agencies) will perceive the

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[82] Henisz, W. (2000) 'The Institutional Environment for Economic Growth', *Economics and Politics*, 12(1), p. 1-31.

[83] Oliver, C. (1991) 'Strategic Responses to Institutional Processes', *The Academy of Management Review*, 16(1), Jan., pp. 145-179 (p. 148).

MNE as “one of us.” As such, an MNE may decide upon a strategy of acquiescing to social norms if in so doing the firm can achieve a certain degree of domestic legitimacy.[84]

Dannreuther and Lekhi and Davis and Rue develop the idea of a “cultural” distance existing between the firm and the operating country of interest. Dannreuther and Lekhi, for instance, argue that risk is a socially constructed concept – that its very definition relies on a set of culturally embedded beliefs in a society. “Rationality,” in this sense, is whatever a particular group understands it to be (e.g. the foreign firm or one of its stakeholders), what they claim is based on group-specific tradition and not, “the formal rules of statistical science or cost benefit analysis.”[85] Davis and Rue generate a series of hypotheses on risk revised to incorporate its cultural dimensions. They test four components of culture to see if there is an impact on perceptions of country corruption:[86]

> **Power distance:** the level of acceptance by a society of the unequal distribution of power in institutions (*hypothesis:* countries with higher power distance will have higher corruption).
>
> **Uncertainty avoidance:** the extent to which people in a society feel threatened by ambiguous situations (*hypothesis:* countries with high uncertainty avoidance will have higher perceived national corruption).
>
> **Masculinity / Femininity:** wherein a highly masculine society has clearly distinguished gender roles, male assertiveness and dominance, work takes priority over family, and advancement, success and money are more important (*hypothesis*: countries with high masculinity will have higher perceived national corruption).
>
> **Individual / Collectivism:** the relationship between the individual and the group in which he/she belongs (*hypothesis*: countries with high individualism will have lower perceived national corruption).

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[84] Oliver (1991)
[85] Dannreuther, C. adn Lekhi, R. (2000) 'Globalization and the Political Economy of Risk', *Review of International Political Economy*, 7(4), pp. 574-594 (p. 580)
[86] Davis, J.H. and Ruhe, J. A. (2003) 'Perceptions of Country Corruption: Antecedents and Outcomes', *Journal of Business Ethics*, 43(4), pp. 275-288 (p. 278)

They then score each country on these various cultural dimensions and look for correlations in Transparency International's *Corruption Perceptions Index* (CPI), finding significant correlations between corruption scores and levels of power distance, masculinity, and individualism in a society, seeming to indicate that perspective does in fact play a role and that typical risk indices appear to be aimed at a particular audience with a particular understanding of risk. In this sense, the political risk index (and its many variants) seems to be outlining for the hypothetical firm a series of structural factors that can be perceived as challenges, with the degree of difficulty in overcoming those challenges based on how "foreign" those factors appear to be from the perspective of the firm.

Setting our propositions within their theoretical silos

Structure and nuance

Henisz's admission within his research on POLCON serves as an apt starting point for beginning to understand why these indices have trouble in accounting for successful MNEs in politically "risky" environments – mainly, because it is not their concern. Specifically (and admirably) he admits that the POLCON index rests on a series of assumptions, one of the greatest being its simplification of various institutions within states to make them comparable, defending this standardization by claiming that the "incorporation of more refined and realistic game structures and preference distributions presents severe complications for analytic tractability."[87] In other words, if we want to compare Country A with Country B, or better yet – if we want to compare dozens of countries – we have to strip away some of the structural nuance within each country – a standard challenge in any comparative exercise.

[87] Henisz (2000), p. 8

This thesis, however, is not bound by these same design challenges. In fact it is specifically constructed to avoid them. If we are to picture a dataset of foreign firms mapped against countries, research in the vein of the index is interested in that cluster and its corresponding *r*-value. But not here. Our concerns are those dots that refuse to bundle together with the pack – the outliers, the deviant cases that appear to be very "different" from the countries in which they equally appear to be successful. So while Henisz and others focus on fitting the structural elements of countries into a neat set of comparative factors, this thesis moves in the opposite direction – moving down the "ladder of abstraction," with less concern for parsimony and generalizability and more concern for the richness of detail in tracing the causal paths of three mining firms that seem to stray from the large-n cluster.[88]

Of course, there is no deficit of unique social values within Kazakhstan, no lack of structural nuance. The country is a former Soviet Socialist Republic (SSR), having spent the majority of the last one hundred years as one cog among many in a larger Soviet Union-wide command economy: the Russian imperial presence in what we today consider Kazakhstan dates back to at least 1680; by 1920 the majority of the country was controlled by the Bolsheviks; in 1936 the Kazakh SSR became official and would remain a part of the Soviet Union until the 1991 collapse that created by default the independent Republic of Kazakhstan.[89] There are great debates surrounding the impact of the Russian and then the Soviet empire on the country (with the idea that the Soviet Union was an "empire" equally contested[90]), with significant Russian influence remaining in the country to this day

[88] Giovanni Sartori as quoted in George and Bennett (2005), p. 243.
[89] Cummings, S. N. (2012) *Understanding Central Asia* (Abingdon: Routledge)
[90] See, for instance, Cummings, S. and Hinnebusch, R. (eds) (2011) *Sovereignty After Empire* (Edinburgh: Edinburgh University Press).

(Russian remains the official language of business; in 1970 the country was 43-percent ethnic Russian and 32-percent ethnic Kazakh; today the split is around 24/63).[91] Kazakhstan has a deep ethnographic history associated with both nomadism and sedentarism that some have interpreted as having a profound impact today on the informal power networks that maintain a group of ruling elites within the government (to be expanded on in-depth throughout our cases).[92]And Kazakhstan's natural resource wealth rapidly exposed the country, post-independence, to the expectations embedded within the structures of the international market economy (to be covered in depth in the following chapter). All of these factors and more contribute in some way to what makes Kazakhstan *Kazakhstan* – and not, for instance, Thailand, Samoa or Algeria (despite the fact that these three states, from a comparative perspective, are closer in their political risk scores to Kazakhstan than any of the other Central Asian states).[93]

So does this mean that only "Russian-esque" MNEs (or post-Soviet MNEs) can be successful in Kazakhstan? The IB concept of institutional distance, which we will examine in depth in a moment, predicts that MNE success in a given country is a reflection of the distance between the MNE's home country and that of its host (or operating) country. ArcelorMittal, however, operates in 60 different countries and is the amalgamation of a series of mergers; Cameco is a Canadian multinational; Frontier Mining was founded by an American and trades on the London Stock Exchange. How do we account for their success? I offer the first proposition of this thesis:

[91] Cummings (2012); CIA *World Factbook* (2011)
[92] See, for example, Collins, K. (2006) *Clan politics and regime transition in Central Asia* (Cambridge: Cambridge University Press)
[93] *IHS Global Insight* (2011)

The Structure Proposition: successful MNEs respond to the unique social structures within a given country.

Agency and perspective

Recall the World Wide Minerals case, in which the company ceased operations at its uranium mine in Kazakhstan and the government consequently expropriated the mine. Sure, we could interpret this case as one that proves Kazakhstan is a politically risky country, or we could provide an alternate, though by no means necessarily opposing, way to interpret the incident: when CEO Paul Carroll made the decision to cease operations, he did so by his own volition. He had a choice, and he chose to shut down the mine in retaliation to marketing negotiations at the time. This brings us back to the debate on political instability versus political risk (bare with me for a moment), which remember prompted Roback to call for impact-focused political risk analysis – that is, for researchers to focus on those political activities that specifically impact a firm's ability to operate. Jarvis interprets this move as Robock's attempt to "capture political risk as an analytical category and set of processes exclusive to *foreign investors*," (emphasis added) and his diagnosis of the profound effect this had on studying MNE-host country relations is spot on:[94]

> …the false dichotomy Robock constructs between the intellectual interests and concerns of international business practitioners and those of political scientists, seems disingenuous and ultimately destructive to the emergence of integrated theory able to analyze risk not just in terms of how it impacts end users (firms), but the drivers and causal variables from which it originates and its possible future trajectories for a whole rostrum of end users and stakeholders.

[94] Jarvis, D.S.L. (ND) 'Conceptualizing, Analyzing and Measuring Political Risk: The Evolution of Theory and Method', Lee Kuan Yew School of Public Policy, p. 40-41.

Focusing on how political events impact the firm has had the (unintended?) consequence of neglecting the fact that the "drivers and causal variables" of such political events may in fact originate with the MNE itself. In other words, Carroll's decisions as the CEO of World Wide Minerals likely played a strong causal role in the Kazakh government actions that followed. This is a second major shortcoming of the political risk index: it fails to acknowledge MNE agency.

It is important to realize that this specific critique of the political risk index is actually a broader critique of IB as a discipline, and it is here where we see the epistemological thread to those "research silos" we discussed earlier that fail to collaborate. Sally believed that bringing the disciplines of business and political economy together would expose the shortcomings of existing, isolated approaches dealing with the firm and as such improve our "theoretical understanding as well as empirical evaluation of the MNE."[95] I mentioned briefly before that this call was actually preceded by a similar appeal made by Lorraine Eden in 1991 in an article aptly titled, "Bringing the firm back in: the multinational in international political economy." Eden points out in her critique of IB that most studies tend to be "exercises in problem solving and little attempt is made to examine MNEs from a critical perspective."[96] Pit this argument against the words of IR/IPE scholar Mark Rupert and we begin to see why Sally wanted IB, IR and IPE to come together in *RIPE*. Similarly self-criticizing, Rupert claims that the contemporary study of IR (which he also extends to IPE), "has interpreted the world from the perspective of states and statesmen." And just as Eden condemns IB to a best practices literature for businesspersons

[95] Sally (1994), p. 163
[96] Eden (1991), p. 203

(which was exactly what Robock wanted for political risk analysis and promoted back in the 1970s), Rupert equally classifies IR/IPE as cast "in the role of advisor to the prince."[97]

The consequence of embracing a single perspective, be it that of the firm or the nation state, is the failure to introspect – the failure to see the agency inherent in either the firm or the state as it looks outward. Subsequent warnings both in IB and IPE continue to remind researchers of this mono-perspective snare. Hildy Teegen, Jonathan P. Doh, and Sushil Vachani, in their examination of the role of NGOs in global governance (published in *JIBS*), see their work as questioning the status quo acceptance of "the firm as the global organization of interest within the field of IBS"[98] and Louise Amoore, Richard Dodgson, Randall D. Germain, Barry K. Gills, Paul Langley and Iain Watson warn within *RIPE* to "resist the urge to assume rather than account for the centrality of key actors (whether firms, states, classes or institutions)" within IPE research.[99] Yongqiang Gao affirms this warning when he notes that in traditional political risk analyses the MNE is treated as "passive" wherein reality political risks are often directly related to the behaviors of the MNE.[100] Taken together, this leads me to the second proposition within this thesis:

> **The Agent Proposition:** Multinationals are agents; successful multinationals embrace their agency, recognizing that their very presence in a given country will affect the structure of that country and the behaviors of actors within it.

How exactly does a firm "embrace" its agency? There are pockets of research within IB that have investigated this very idea (after all, Eden claimed only that *most*

[97] Rupert, M.E. (1995) '(Re)Politicizing the Global Economy: Liberal Common Sense and Ideological Struggle in the US NAFTA Debate', *Review of International Political Economy*, 2(4), pp. 658-692 (p. 658).
[98] Teegen, Doh & Vachani (2004), p. 463.
[99] Amoore, L., Dodgson, R., Germain, R.D., Gills, B.K., Langley, P. and Watson, I. (2000) 'Paths to a historicized international political economy', *Review of International Political Economy*, 7(1), pp. 53-71 (p. 55).
[100] Gao, Y. (2009) 'Managing Political Risk in Cross-national Investment: A Stakeholder View', *Singapore Management Review*, 31(1), p. 99-114 (p. 100).

studies within IB fail to be critical of the MNE). Here we turn to the resource-based school of strategic management, which focuses on MNE reaction to environmental uncertainty and, importantly, advocates for an active management style (the previously discussed institution-based school and here the resource-based school are considered to be on opposite ends on the spectrum of strategic management). Thomas A. Poynter offers the simple observation that not all MNEs experience the same degree of political intervention in the same country, and even MNEs from the same industry in the same country experience different levels of "discrimination."[101] Researchers in this field understand politics as a resource, not a constraint: government officials can provide (or deny) "permission to trade and invest, protection against sovereign risk, competitive advantages against rivals" and more *in return* for "various economic and noneconomic contributions."[102] In other words, it is not just about adapting to what already exists.

The second part to the above proposition is a bit more loaded (and leading for those familiar with debates within social scientific inquiry) – restated, "the very presence in a given country of an MNE will affect the structure of that country." What do I mean by this? Building off the first proposition (structure matters), together these two propositions are an implicit reference to the agent-structure debate within IR as captured by Wendt. As he explains, we tend to understand the world in two ways:[103]

> (1) [H]uman beings and their organizations are purposeful actors whose actions help reproduce or transform the society in which they live;

[101] Poynter, T.A. (1982) 'Government Intervention in Less Developed Countries: The Experience of MultinationalCompanies', *Journal of International Business Studies*, 13(1), pp. 9-25 (p. 12)
[102] Poynter (1982); see also Kim, W.C. (1988) 'The Effects of Competition and Corporate Political Responsiveness on Multinational Bargaining Power', *Strategic Management Journal*, 9(3), pp. 289-295, and Boddewyn, J.J. and Brewer, T.L. (1994) 'International-Business Political Behavior: New Theoretical Directions', The Academy of Management Review, 19(1), pp. 119-143.
[103] Wendt (1987), p. 338

(2) [S]ociety is made up of social relationships, which structure the interactions between these purposeful actors;

Wendt's work is meant to be a critique of neorealism and world-systems theory, and so many of his arguments behind the agent-structure "problem" are responses to issues within these specific approaches, which I will touch upon in the conclusion. But what is important for us as we press forward with our investigation into the successful MNE is to recognize, as Wendt does, that it is possible (in fact necessary) to understand agents and structures as co-determined, mutually constituted entities. For us this means the following: the MNE is an agent that both responds to and influences the host country structure in which it operates; equally so, the host country influences and responds to the actions of the MNE. As it relates to my propositions, this is nothing more than a reminder that those same "social structures" in the first proposition that the successful MNE responds to can in themselves be influenced by the MNE. That is, structure is not static.

Stakeholders, not host countries

Understanding now that the MNE and the host country structure are mutually constituted, and that, by the very nature of the political risk index, it cannot account for this relationship (recall that the index focuses only on country structure – not MNE agency – and further, homogenizes this structure to make it comparative), I want to return to the research of Amoore et al. and Teegen et al. to emphasize a related deficiency within the political risk index from which my third (and final) proposition is derived. Amoore et al. warn us to "resist the urge to assume rather than account for the centrality of key actors,"[104] while Teegen et al. argue that in the case of IB, this is exactly what has happened with the

[104] Amoore et al. (2000), p. 55

MNE (noting in their own work the unexamined significance of the NGO).[105] We seem to be guilty of falling into this trap as well if we're to claim that host country structure both influences and is influenced by the MNE – not because of what we claim, but because of what we fail to claim. Specifically, reducing the units of analysis within our puzzle on the successful MNE to just the MNE and the host country is a gross oversimplification of the situation as it actually exists. The reality is that there is no host country, but rather a series of actors both within and outside of the country, each with varying levels of relevance to the MNE and each that influences and is influenced by sub- and supra-state structures.

Such a finding is no surprise to researchers concerned with integrative theories of stakeholder management within the discipline of CSR that focus on how an MNE develops within the community of interest groups, local, provincial and national governments, indigenous peoples, and international governmental and non-governmental organizations in which it must operate. These groups, known within CSR as stakeholders, are defined by the fact that they can either influence or are influenced by the firm's ability to operate in a given location.[106] Whereas the traditional political risk index aggregates impacting factors into a single host country score, CSR research identifies the actors behind those impacting factors and proposes that they should be analyzed and managed as distinct units.

As I warned earlier (with respect to finding answers that exist in one form or another within or between disciplines), an alternative to the "host country" ontology is not totally alien to political risk analysis (but it is severely undeveloped and unincorporated with the existing "silo" of CSR research). For instance, a case study by Jeffrey D. Simon on political risk in South Africa identifies "flows of risk" as emanating from home and host

[105] Teegen et al. (2004)
[106] Freeman et al. (2010)

governments, home and host societies, the home and host business and legal communities, the home and host media, regional organizations, international activist groups, and global organizations.[107] And more recently, Gao points out that traditional political risk analysis takes the “political environment as given and exogenous” when in fact the interests of different actors as they pertain to the MNE should be considered separately. He identifies a series of interest groups very similar to those of Simon, and explicitly calls for relying on CSR theories to develop this further, though he himself does not (Gao self-identifies as a researcher within CSR, not political risk).[108]

This leads us to my third and final proposition, which I state below and follow with the other two propositions though now revised to dismiss the concept of the host country, embrace the idea of the stakeholder and recognize the significance of the agent-structure debate:

> **The Stakeholder Proposition:** There is no “host country”; the successful MNE recognizes that its ability to operate in a given location depends on its relationships with its stakeholders.
>
> **The Agent Proposition:** MNEs are agents; successful MNEs embrace this agency and are proactive in their maintenance of stakeholder relationships, regardless of whether or not such maintenance is required by formal governance structures (i.e. the state).
>
> **The Structure Proposition:** MNEs are reagents; successful MNEs respond to the unique social structures within a given country, shaped over time by its stakeholders, including the MNE itself.

[107] Simon, J.D. (1984) 'A Theoretical Perspective on Political Risk', *Journal of International Business Studies*, 15(3), pp. 123-143.
[108] See Gao (2009); also email correspondence with author, January 14, 2011.

The Framework for Analysis

It is one thing to show how an existing framework for analyzing political risk – the index – fails to account for the successful firm in the so-called risky country. But how now to approach our propositions? Under what alternative framework can we investigate the MNE's active maintenance of stakeholder relationships within a set of social structures influencing and influenced by the MNE and these same stakeholders?

Let us first briefly recap the ontological and epistemological assumptions we took issue with in the political risk index before moving forward, in an effort to avoid repeating the same mistakes as we look to adopt a new analytical framework. Recall that the political risk index's approach to understanding is through the country and from the perspective of the MNE; this, we found, was preventing us from recognizing the agency in the MNE and how as an actor the MNE both shapes and is shaped by the structures within which it operates. Ontologically, we understand through the extant research on CSR that the concept of the "host country," which is the primary unit of analysis within the political risk index, does not appear to exist in practice. As noted comically but truthfully in the introduction, CEO's do not ring up the "host country" to broker a deal. So whereas ontologically we want to disaggregate the host country into the actors an MNE actually establishes a relationship with, epistemologically we want to approach the situation from an angle that does not rely on a single perspective (be it the MNE, the prince, the NGO, or any other stakeholder). See Table 2.2 for a summary of our epistemological and ontological critiques.

Table 2.2: Epistemological and Ontological Challenges in Political Risk Analysis

Issue	Critique	Type	Solution
Concept of "host country"	Firms do not interact with a single "host country" actor	ontological	Deconstruct "host country" into "stakeholders"

Focus on "firm impact"	"host country" behavior used to explain all events; no recognition of firm agency or role of other stakeholders	epistemological	Focus on the relationship between the firm and various stakeholders

In this sense, we can say that whereas existing political risk research places the "question mark" on the country, with all eyes on the country, I argue that in order to understand the successful MNE in the politically risky country, we need to shift the "question mark" onto the *relationship* that exists between the MNE and its stakeholders, looking both at and through each of these players. In other words, the risk is in the relationship, not the country, and by embracing an epistemology focused on relationships we are allowed access to the multiple perspectives that constitute those relationships.

The bargain, focused on multinational-host country relations, is the major theoretical contribution of scholar Raymond Vernon, initially outlined in his book *Sovereignty At Bay*, a sort of IB equivalent to Hans Morgenthau's *Politics Among Nations*. Because the analytical framework outlined by Vernon in *Sovereignty At Bay* will play such a large role in this thesis, and because his research is often widely misinterpreted,[109] let us take a moment and recount the core arguments of his book (as they relate to our study) before getting into how his framework has been modified over the years by subsequent researchers (it is the most recent and comprehensive iteration of his framework – that also happens to be largely untested – which this thesis will adopt). Vernon's story also provides an added context to our on-going sidebar on the intellectual history between IB and IPE/IR, showing just how closely intertwined these disciplines used to be and possibly showing us

[109] See, for instance, Vernon's own reflections on *Sovereignty At Bay* a decade after its initial release, in which he criticizes those who have misinterpreted his work: Vernon, R. (1981) 'Sovereignty at Bay Ten Years After,' *International Organization*, 35(3), pp. 517-529.

exactly why the break was made between embracing the perspective of businessperson or that of the prince.

Sovereignty At Bay grew out of a larger project at Harvard University during the 1960s, the Multinational Enterprise Project, aimed at understanding the significance of the rapid growth of US MNEs in foreign countries. “Suddenly, it seems,” Vernon begins the book, “the sovereign states are feeling naked,” and as the titled suggests, Vernon was particularly interested in examining the ways in which an MNE affected the sovereignty of a nation state and then how that nation state would respond.[110] Later in the book he would formalize this concept into a framework he called “the bargain,” which became the foundation for investigating MNE-host country relations for decades. I will return to the bargain in a moment, but first a bit more context on Vernon – who was he? Why does it matter?

The historiography behind *Sovereignty At Bay* predates the silos of IB and IPE, and as such provides us insight into how researchers understood MNE-host country relations before they felt compelled to embrace one of the two perspectives (i.e. the business person or the prince). That historiography begins with the author, and by Vernon’s own admission, he “stumbled into the field” of IB back in 1959 (recall that the Academy of International Business was founded in the same year; Benjamin Cohen, in his history of IPE, places IPE’s founding much later, in 1970).[111] As Vernon once recounted:

> One of my first tasks, it seemed to me, was to get some sense of the territory over which I was expected to preside [in the international business curriculum at Harvard Business School]. In retrospect, my innocence and my ignorance served as a kind of shield. If there

[110] Vernon (1971), p. 1
[111] Cohen, B.J. (2008) *International Political Economy: An Intellectual History* (Princeton: Princeton University Press).

were territorial limits, my rudimentary sense of smell proved incapable of detecting them. As nearly as I could tell, my fellow faculty members seemed to be saying that anything that fell outside the United States was eligible for the "international" label.[112]

Vernon had served in a variety of positions, both in the private sector and the government, before coming to Harvard. He was an analyst at the US Securities and Exchange Commission (an oversight body for the US-based stock exchanges), wrote civil affairs guides for the US Army during World War II, detailing in these guides the capital markets in Germany and Japan in anticipation of US occupation of those countries, then later he would serve as an administrator of the Marshall Plan under the State Department, playing a significant role in the implementation of the General Agreement on Tariffs and Trade (GATT), and he even held a short stint before Harvard as a director at Forest Mars, maker of the M & M.

The point is that Vernon's experiences would move back and forth between advisor to the businessperson and the prince, and he would take that equal interest in business administration and government administration to Harvard, sharing his time between the university's business school and its Center for International Affairs (where he would eventually serve as director). And because he did so at a time in which IB was still trying to find itself (giving him wide research latitude) and IPE was slowly becoming its own discipline, he had equal influence in both of these spheres. One need only look a research generation out to see how *Sovereignty At Bay* would be claimed as a founding text for IB *and* IPE. Later IB researchers would clue in on the entry strategies that Vernon provided for MNEs in foreign countries while IPE researchers like Robert Gilpin would be drawn to systemic theories on how to reconcile the MNE with the nation state as a level of analysis.

[112] Vernon, R. (1994) 'Contributing to an International Business Curriculum: An Approach from the Flank', *Journal of International Business Studies*, 25(2), pp. 215-227.

Gilpin, along with other established contemporary IPE researchers today such as Robert Keohane, explicitly acknowledges the influence of Vernon on his early IPE research. Keohane for that matter believes that some of the earliest conferences and texts on topics that would later become known more formally as IPE would not have existed without Vernon's encouragement.[113]

Both of these threads within *Sovereignty At Bay* – the MNE's entry into a domestic economy (IB) and the larger implications of this entry for the international system (IPE) – are critical to my research, and we will take them in turn.

It is within Vernon's chapter on raw material ventures that he outlines the concept of the obsolescing bargain. "When a foreign investor in raw materials takes the plunge into the dark and chilly waters of a less-developed country," he writes,

> the event is generally celebrated by the signing of some sort of contract between the investor and the government…Yet, almost from the moment that the signatures have dried on the document, powerful forces go to work that quickly render the agreements obsolete in the eyes of the government.[114]

Vernon sees the initial terms of agreement between the MNE and the host government as the bargain, and argues that it obsolesces because over time the MNE becomes more entrenched in the country (e.g. with infrastructure, with local nationals playing an increasing role in management) and power shifts from the MNE (who initially provided new technologies, marketing practices, and a host of other skills that the country required to develop a particular resource) to the host government (as the government becomes literate in those skills and believes it can develop the resource on its own).

Vernon attributes this determinism to an inescapable tension between the MNE and the host government that extends from the opposing goals of each actor: in the case of the

[113] Cohen (2008), p. 32, 29
[114] Vernon (1971), p. 46

host government, its own particular philosophy on how wealth should be distributed within the country (e.g. among the elites, among the people, etc.); in the case of the MNE, its commitment to maximizing shareholder wealth. As long as the "potential clash of interests" behind these goals remains unsolved, political tensions ensue and the bargain ultimately obsolesces.[115]

At first glance Vernon's obsolescing bargain theory is an attractive framework for my own study because of its focus on the relationship between the MNE and the host country (as opposed to embracing wholly the perspective of a single actor *a la* the political risk index). But of course in all of my other conditions it largely fails. Vernon focuses only on a single relationship (maintaining the unit of the host country, which he sees as synonymous with a nation's elites); and behind his characterization of the relationship as "obsolescing" is a deep-seated determinism that seems to discount MNE agency.

I am not alone in recognizing these frustrations – the bargain as it was revealed in the early 1970s is not without its contemporary critics. For instance, the idea of the MNE forming a relationship with the host country seems to many an oversimplification today as MNEs "develop relationships with a multiplicity of public and private actors" – a critique not just of the dyadic relationship but of the units of analysis.[116] As I noted in the introduction, researchers like Suzana B. Rodrigues and Ravi Ramamurti argue that the bargain need not necessarily obsolesce,[117] with others placing greater emphasis on the

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[115] Vernon, R. (1971) 'The Multinational Enterprise: Power Versus Sovereignty', *Foreign Affairs*, Jul.
[116] Dahan, Doh and Guay (2006), p. 1574; see also Eden, L. and Molot, M.A. (2002) 'Insiders, outsiders and host country bargains', *Journal of International Management*, pp. 359-388, Ramamurti (2001), and Teegen, H., Doh, J.P., and Vachani, S. (2004) 'The Importance of Nongovernmental Organizations (NGOs) in Global Governance and Value Creation: An International Business Research Agenda', *Journal of International Business Studies*, 35(6), pp. 463-483.
[117] Rodrigues, S.B. (2010) *Towards a New Agenda for the Study of Business Internationalization: Integrating Markets, Institutions and Politics* (Rotterdam: Erasmus Research Institute of Management); Ramamurti (2001)

adherence to social norms and values as a condition of positive MNE-host country relations.[118] Charles E. Stevens points out, for instance, that a core assumption of Vernon's bargaining framework is an inherent distrust between the MNE and the host country, whereas researchers such as Teegen et al. have actually found that the so-called "waters" in a given country need not be so "dark and chilly" (to borrow from Vernon's description), if the foreign organization of interest can attain a "trusted position" with local stakeholders based on a commitment to long-term reciprocity and the recognition of a mutually beneficial "common ground."[119]

So has the obsolescing bargain model "outlived its usefulness," as Eden et al. (2005) ask aloud? No, they then answer – the essential elements of Vernon's bargain remain critical in understanding MNE relations in a given country, but that certainly the bargain as originally conceptualized should be upgraded to account for what we have learned since Harvard's Multinational Enterprise project back in the late 1960s. Specifically, Eden et al. propose that we move away from treating the bargain as a theory of MNE-host country behavior and instead see it as a broader framework for understanding MNE-stakeholder relations – what they call the political bargaining model (PBM). As one would expect given the body of critical scholarship in the wake of the original bargain, the PBM drops the idea that the bargain necessarily obsolesces; problemitizes the "host country" as the primitive unit and instead recognizes the bargain as existing between the MNE and a variety of stakeholders; fully recognizes the MNE's agency in influencing its relationships;[120] and perhaps most importantly, remains "sufficiently abstract to enable

[118] e.g. Dahan, Doh and Guay (2006)
[119] Teegen et al. (2004), p. 465; 468
[120] Haglund, D. (2008) 'Regulating FDI inweak African states: a case study of Chinese copper mining in Zambia', *Journal of Modern African Studies*, 46(4), pp. 547-575.

analysis in many different contexts."[121] In other words, they develop a framework that incorporates all of the "lessons learned" in applying the bargain from its inception in the 1970s to the present day, and notably, preserve the one concept that remained uncontested throughout – the framework's epistemological underpinnings. That is, all of these critics continue to believe in the importance of approaching understanding through relationships, not individual actors.

How does the PBM work? Eden et al. argue that each stakeholder has its own specific goals and behind those goals are a series of resources that the stakeholder mobilizes to achieve them. For instance a government may want to increase revenue through the development of a mineral deposit (a goal), an MNE may see development of the deposit as profitable (a goal), and whereas the government can offer a license to the MNE for exploiting the deposit (a resource it mobilizes in order to achieve its goal), the MNE has the technology required to develop the deposit (its own resource to be used in achieving its goals).

There are, of course, a few clarifiers. As it relates to resources, Eden et al. believe that some range of complementarities must exist among respective resources if the two actors are to achieve their independent goals. Here is where we see the normative bend to Eden et al.'s work. "The important point is that there is some range of complementarity or overlap so that there is scope for each party to achieve its own goals through cooperation,"[122] they write, unclear if they are aware of the theoretical jump they are making in presupposing that the bargain between two actors must be cooperative, a clear departure from Vernon's initial view that the bargain rested on a balance of power between

[121] Nebus, J. and Rufin, C. (2010) 'Extending the bargaining power model: Explaining bargaining outcomes among nations, MNEs, and NGOs', *Journal of International Business Studies*, 41, pp. 996-1015 (pp. 997).
[122] Eden et al. (2004), p. 11

stakeholders. In fact the primary driver behind the idea that the bargain obsolesced was that the "you have what I need and you need what I have" system collapsed as the host country believed it no longer needed what the multinational had to offer (e.g. investment, technology, and marketing). For IR theorists the parallels here between liberalist and realist views on order are obvious – the "mutually beneficial exchange" between actors that naturally leads to cooperative behavior versus the self-interested rationalism of actors struggling over "the distribution of gains" in which cooperation, when it exists, is but a fleeting coincidence.[123]

Eden et al.'s belief in the need for resource complementarity stems from the work of Yadong Luo, who himself draws on the research of Peter Buckley and Mark Casson and John Stopford.[124] The transition from a bargain based on power to that of one based on cooperation is not lost on Luo who describes a dichotomy in perceptions of MNE-host country relations as the "conflictual" versus the "cooperative" views (the former starting with Vernon's work in *Sovereignty At Bay*, the latter the more contemporary view). Luo goes so far as to note that the conflictual view embraces a bargain based on the "balance of power," derived from goal or resource incongruities, while the cooperative view rests on interdependence. "MNCs and governments are interdependent on each other for critical resources in today's world economy," he notes, and again we see the clear parallels to IR and IPE theories of order[125] (this is even clearer in Stopford's work, which is a prescriptive, policy oriented paper that presses governments and multinationals to move from a zero-sum

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[123] Abdelal, R. (2001) *National purpose in the world economy* (Ithaca: Cornell University Press), p. 13-14.
[124] See Buckley, P and Casson, M (2002) 'A Theory of Cooperation in International Business' in Contractor, F. and Lorange, P., eds, (2002) *Cooperative Strategies in International Business* (Oxford: Elsevier Science); and Stopford, J. (1994) 'The Growing Interdependence between Transnational Corporations and Governments', *Transnational Corporations*, 3(1): 53-76.
[125] Luo, Y. (2001) 'Toward a cooperative view of MNC-Host government relations: building blocks and performance implications', *Journal of International Business Studies*, 32(3), pp. 401-419 (p. 402).

to a positive sum game of policy coordination).[126] Empirically, Luo hypothesizes that multinational managers will perceive their relations with the host country government to be stronger in cases with high resource complementarity, a hypothesis he confirms through survey work with managers operating in China.

There is a second dimension to the concept of resource complementarity that is equally important, what Eden et al. call "resource valuation," an acknowledgement that behind the "I have what you need" maxim is the assumption that the opposing stakeholder also sees it this way – in other words, perception matters. A stakeholder may believe it brings a particularly desired skill to the proverbial "bargaining table" but if an opposing stakeholder does not value that resource as significant, it will have little effect on the bargain. For example, if several MNEs have the necessary technological capacity to exploit a resource, then that capacity in itself is of little interest to the host government (because there are so many firms to choose from) – so what other qualities will the MNE bring to the country that makes it more worthy of the subsoil license? Alternately, if a natural resource is widely available across the world, what is the host government able to offer that other governments cannot?

Beyond resource complementarity, the PBM stresses that each stakeholder operates under its own set of constraints that are not always shared by the other stakeholders. For instance, the MNE is answerable not only to the laws of the country in which it operates, but to the laws in the country in which it is listed as a publically traded company. An obvious example is the US Foreign Corrupt Practices Act, which severely limits the ability of an MNE to exercise possible resources (e.g. cash payments to a government official) to achieve its goals (e.g. a subsoil license). NGOs and governments have their own constraints

[126] Stopford (1994)

– perhaps as a condition of receiving popular or elite support – and constraints can come from within as well, such as from the firm's internal policies on workplace ethics, a reflection of shareholder demands.

Empirically, the interaction of opposing actor constraints fits squarely within the previously discussed institution-based model of strategic management that led us to our proposition on structure and how conformity to the institutional environment of a given country is often perceived as a "survival value" for the MNE. Eden et al. point to Tatiana Kostova and Srilata Zaheer's work in this regard, who define the concept of institutional distance as "the difference or similarity between the regulatory, cognitive, and normative institutional environments of the home and the host countries of an MNE." They hypothesize that the greater the institutional distance, the "more difficult it will be for the MNE to understand the host environment," and critically, they believe that institutionally distant firms will need to bridge this divide (i.e. "survive") by adapting their own organizational practices to host country requirements.[127] Others such as Stevens have noted that there is a direct link between this concept of foreignness and Vernon's characterization of MNE-host country relations as inherently distrustful. According to Vernon, he writes, the "host government is fundamentally antagonistic towards foreign firms, due to distrust relating to their 'foreignness.'"[128]

It probably comes as no surprise then that research to date leveraging elements of the PBM framework has found it a refreshing alternative to the original bargain for understanding the role of the MNE as it enters the domestic political economy of a given

[127] Kostova, T and Zaheer, S. (1999) 'Organizational legitimacy under conditions of complexity: the case of the multinational enterprise', *Academy of Management Review*, 24(1), p. 64-81 (p. 68).
[128] Stevens, C. (2010) 'A Legitimacy-Based Approach to Political Risk', *Dissertation presented in partial fulfillment of the requirements for the degree doctor of philosophy in the Graduate School of Business Administration* (Ohio State University), p. ii.

country. Dan Haglund, in an examination of Chinese copper mining in Zambia, finds that the firm has "the capacity to shape" the rules and agendas of local decisionmakers, highlighting the PBM's recognition of MNE agency.[129] James Nebus and Carlos Rufin build off the PBM to incorporate bargains between multiple actors (what they call "network bargaining power") in the privatization of utilities in the Dominican Republic.[130] Rudiger Ahrend and William Tompson's study of the political economy of Caspian oil leverages the PBM framework to show how the bargain does not always obsolesce[131] (see also Paul Alexander Haslam's study on mining in Argentina and Chile in the late 1990s).[132] And both Seung-Hyun Lee, Kyeungrae Oh and Eden and Lez Rayman-Bacchus and Silvia Chowdhury find in incorporating components of the PBM into their approach that the "adversarial framework" of the bargain "seems to have given way to a focus on a more cooperative relationship" that exists between the MNE and the country in which it operates.[133]

Advances aside, there are two important shortcomings of existing PBM-influenced research that this thesis intends to develop. First, the existing research is just that – PBM-influenced. None of the above studies fully embrace the PBM framework, rather they leverage Eden et al.'s existing critique of traditional bargaining research as a preamble to their own approaches, noting occasional similarities but remaining largely independent of

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[129] Haglund (2008)
[130] Nebus and Rufin (2010)
[131] Ahrend, R. and Tompson, W. (2007) 'Caspian Oil in a Global Context', *Transition Studies Review*, 14(1), pp. 163-187.
[132] Haslam, P.A. (2007) 'The Firm Rules: Multinational Corporations, Policy Space and Neoliberalism', *Third World Quarterly*, 28(6), pp. 1167-1183.
[133] Lee, Seung-Hyun, Oh, Kyeungrae, and Eden, L. (2010) 'Why Do Firms Bribe? Insights from Residual Control Theory into Firms' Exposure and Vulnerability to Corruption', *Management International Review*, 50(6), pp. 775-796; Rayman-Bacchus, L. and Chowdhury, S. (2006) 'The shaping of relations between a developing economy and MNCs: Bangladesh and Shipping', *Social Responsibility Journal*, 2(2), pp. 165-172 (p. 165).

the PBM framework as prescribed for future researchers. Second, and perhaps most bizarrely, while Eden et al. clearly state in their outline of the PBM the need to disaggregate the “host country” into stakeholders (and in so doing rely on the existing body of research on stakeholder management), they ignore this component in their own applications of the PBM. In a 2004 presentation to the Academy of International Business titled, “From the Obsolescing Bargain to the Political Bargaining Model,” they continue to use the unit of the “host country” as they shift from Vernon’s work to their own. In a presentation to the International Studies Association in 2006, Eden references the significance of stakeholders but then goes on to explore the PBM between the MNE and the national government – not all that different from Vernon’s original conception of the “host country.” [134]

Taken together, because the fact remains that no one to date has fully applied the framework of the PBM to understanding an MNE’s relations within its country of operation (including the model’s initial authors), we can equally say that to date the PBM has yet to be fully assessed as a valid theoretical framework. What are the scope conditions under which the framework will apply? In which will it not? How plausible is the concept of examining several bargains between multiple stakeholders under the prescribed framework of goals, resources and constraints? These unanswered questions justify the theory testing case study methodology that this thesis embraces.

All that aside, at least as described, Eden et al.’s goals, resources and constraints – considered across a variety of stakeholders and coming together in a series of dynamic bargains (i.e. on-going, constantly renegotiated formal and informal agreements) – the necessary epistemological and ontological conditions appear to be satisfied as we explore

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[134] Eden et al. (2004); Eden, L. (2006) ‘Hard bargaining: transfer pricing disputes and the political bargaining model’, presented at the *International Studies Association* (San Diego), Mar. 22-25.

our stakeholder, agency and structure propositions. In how a stakeholder determines which resources it will mobilize to achieve its goals, I see the recognition of stakeholder agency (and the room, notably, to explore developments in resource-based theories of strategic management), while in examining how stakeholders react (or fail to react) to different constraints, I see the space to explore structure and how agents and structures are mutually constituted (equally drawing on institution-based theories of strategic management). This thesis, therefore, attempts to answer our question on the successful MNE in the risky country through the analytical framework of the PBM, fully embraced.

But as is also the case for Eden et al., Luo, and many others referenced thus far, to Vernon *Sovereignty At Bay* was concerned with bigger questions than simply the practical concerns of a given MNE in a developing country, and rightly so (though often overlooked). In the final chapter (which Vernon clearly believes few people read, judging from his later reflections on the book)[135] he concludes that the bigger source of tension here is the idea that an inherent asymmetry exists between the MNE and the state system in that the MNE can shift economic activities from one country to another while the state is anchored to what lies within it. This situation, he warns, "may be tolerable up to a point [to the host-government], but beyond that point there is a need to re-establish balance." What exactly does he mean here? Who needs to re-establish balance? And a balance of what?

It is these questions – and how Vernon develops them throughout *Sovereignty At Bay* – that lead us to our larger questions on order, what we understand in international relations theory as "the minimum conditions for co-existence."[136] Sure, Vernon is interested in operational issues, as I am – after all, my research begins with the question of accounting

[135] Vernon (1981)
[136] Rengger, N.J. (2000), p. 18

for successful MNEs in politically risky countries, and looks to the *Sovereignty At Bay*-inspired PBM as a framework for doing so. "But this is not where the real problem lies," Vernon reminds us.[137] Rather, it is the unavoidable threat that the MNE, he argues, though having "something to offer that the host countries badly want,"[138] nevertheless equally represents a challenge for "government leaders bent on control, for local businessmen who aspire to compete, and for intellectuals who are hoping to challenge the status quo."[139] This tension creates an imbalance in power that, if not corrected, will result in the realization of (at the time) "apocalyptic projections" on the future of the MNE – and with almost Nostradamus-like talent (that Vernon himself humbly denies), the years immediately following the publication of *Sovereignty at Bay* were marked with a series of expropriations and nationalizations.

As has already been loosely referenced, Vernon's characterization of MNE-nation state asymmetry as requiring the reestablishment of "balance"[140] might lead one to believe that he ascribes to more realist notions of order as we understand them today within IR and IPE. Certainly Gilpin, who claimed to be influenced by Vernon's work, takes this route, believing that liberal notions of interdependence as a source of order are impossible because of the likely asymmetry between actors that will in turn lead to conflict.[141] It is hard not to see the similarities here with Vernon's realized apocalyptic projections. Vernon also admits in *Sovereignty At Bay* that although the strength of an MNE's affiliation to its home country is debatable – "[m]easured by equity ownership, [US MNEs] are 90-percent or more American; by sources of funds, perhaps 25-percent American; by the identity of

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[137] Vernon (1971), p. 265
[138] Vernon (1971), p. 271
[139] Vernon (1971), p. 265
[140] Vernon (1971), p. 284
[141] Gilpin, R. (1987) *The political economy of international relations* (Princeton: Princeton University Press).

employees, less than one-percent American; and by the identity of the governments that receive their taxes, practically 100-percent foreign"[142] – a US MNE nevertheless experiences more tension in a given country because it is perceived as an extension of the US, a tenant of realist theories on the role of the MNE.[143]

But it is how Vernon formulates an answer to this imbalance that leads us to a different interpretation on order. Vernon notes, as I have already transcribed, that the asymmetry between the MNE and the nation state is "tolerable up to a point," but when that point comes, he hypothesizes "the response is bound to have some of the elements of the world corporation concept." World corporation? To Vernon, the "world corporation" was rooted in his idea that MNE interests would never coincide perfectly with nation state interests because the former's were global (and would affect many nation states) while the latter's were national, aimed at a single country. Vernon therefore proposes that only a "global government" could provide symmetry, what he refers to as the world corporation. In this world corporation (which could be a component of the UN, he notes), when the interests of a nation state conflict with the interests of the global authority, the global authority's interests would always trump, an idea that to him, in 1971, may one day "seem plausible, but not at present."

The idea that institutions induce order is of course a very liberal way of understanding the international political economy. Here Keohane, equally appreciative of Vernon's influence on his research, would point out that the MNE and the nation state actually have more interests in common than Vernon may give them credit for, but without this sort of "world corporation," miscommunication leads to misunderstanding which leads

[142] Vernon (1971), p. 264.
[143] Krasner, S.D. (1994) 'International political economy: abiding discord', *Review of International Political Economy*, 1(1), pp. 13-19.

to the perception of conflicting interests. And whereas Gilpin might argue that interdependence, because it is oft asymmetric, leads to conflict, Keohane (along with Nye) sees interdependence as a source of co-existence, which follows the same philosophical thread behind contemporary IB work in MNE-host country cooperation.[144]

So who is correct? My investigation into metals mining MNEs in Kazakhstan allows us not only to examine the operational issues behind MNE-stakeholder bargaining in a post-Soviet state, but to address this broader question on order as well – just as Sally envisioned the study of MNE-host country relations within the discipline of IPE. The world has changed – perhaps – since Vernon noted that the concept of a global authority did not seem plausible in his era. Today international "authorities" such as the Extractive Industry Transparency Initiative (EITI) or the Equator Principles have a significant influence on the way a mining company operates in any country – Kazakhstan or otherwise. Who are these authorities? Do they matter? Does an asymmetry in interests persist? Is there order? These are some of the larger questions we will explore as we press on and into our case studies.

Grounded theory: building forward our propositions

In light of our understanding of the "bargain" as an approach to MNE relations in a given country – from the Harvard Multinational Enterprise Project of the 1960s to the many critiques over the decades since and now to Eden et al.'s PBM – we can now better define both our dependent and independent variables, and further, augment our initial propositions toward the successful MNE by incorporating the wide body of scholarship that the bargaining approach and its variants clearly draw upon.

Remember that at the heart of our multiple case studies is the dependent variable – the successful MNE – which, critically, is kept constant. In other words, this thesis

[144] Keohane, R. and Nye, J. (2001) *Power and interdependence* (New York: Longman).

presupposes that the MNE in each case study is successful. The obvious follow-on question is to define exactly what I mean by "success," and while the specific details behind each MNE's achievements in Kazakhstan will be addressed in the individual cases, broadly speaking "success" is understood here as synonymous with order: the co-existence of the MNE with the stakeholders in the MNE's area of operation. In this sense the bargain is synonymous with the establishment of order among the stakeholders, an order which is dynamic – from the MNE's entry to its current status. Recall that we narrowly define the "stakeholder" to be any individual or group that can impact the firm's ability to operate, and by co-existence we mean that each stakeholder is able to pursue its own interests to a self-satisfactory degree in the context of the stakeholder's relationship with the MNE. The same goes for the MNE – it too must be able to pursue its own interests to a self-satisfactory degree. The burden is of course on me to illustrate in each case how this is in fact the situation.

Taken together, by holding the dependent variable constant, this thesis is less concerned with outcomes (since all outcomes are assumed to be the same) and more concerned with how MNEs have come to establish this outcome over time – an embrace of equifinality, or the idea that the causal pathway that leads each MNE to success may be different. That said, as this is a case study intent on theory testing and heuristic development, it may very well become obvious that the assumption of a "successful MNE" is overly parsimonious (that is, that our assumption is in error). In this sense, while there will likely exist a typology of "successful MNEs" as marked by the interaction of the various independent variables between cases, there may in fact be variance within the dependent variable itself between each case.

As it regards the independent variables within the cases, to some extent we can say that the conditions of "industry" and "country" are held constant – mining in Kazakhstan beyond oil and gas. To the non-specialist these two conditions may already seem to be quite precise, but within the country of Kazakhstan and within the industry of mining outside of oil and gas there is significant variance, as I have well-learned over the course of my fieldwork. The stakeholders, for instance, are not constant – those individuals and organizations that can impact the firm's ability to operate are unique to both the operating area and the sub-industry of the firm. How our independent variables – the resources and constraints of each stakeholder – interact under these conditions is the empirical focus of the thesis.

With a grasp of the variables of interest in the wake of our understanding of the PBM, we now return, in the spirit of the grounded nature of this research design, to our earlier propositions – generated, as you will recall, from our epistemological and ontological criticisms of existing political risk scholarship – in order to build forward our expectations of MNE success in a so-called risky country. The agent proposition, which emphasizes the importance of firm agency in actively managing stakeholder relationships, can be folded into the concept of resource complementarity. Whereas the traditional resource complementarity hypothesis states that firms with resources more compatible with stakeholder resources will be more successful, because we hold success constant, this thesis expects the following:

> **The Agent/Resource Proposition:** successful firms actively manage and adapt their resources to be more compatible with stakeholder resources.

In other words, in the absence of initial resource complementarity between the MNE and a particular stakeholder, we expect the MNE to reconfigure its own resources to be complementary to the stakeholder's resources.

Our proposition on structure is an apt fit with the PBM's recognition that the MNE and its stakeholders operate under a series of constraints – from physical constraints to cognitive constraints – and the more these constraints are different, the more difficult it is for each actor to work together. Known as institutional difference, the traditional hypothesis here is that the shorter the institutional difference between the MNE's home country and operating country, the more successful the MNE will be. Modified for this study, I submit the following:

> **The Structure/Constraints Proposition:** successful firms bridge potential institutional distance by conforming to the operating constraints of the stakeholder.

Finally, our stakeholder proposition is a clear reinforcement of Eden et al.'s similar call to disaggregate the "host country" into a series of individuals or groups that can impact that firm's ability to operate, the conventional hypothesis being that firms that are accurately able to identify their stakeholders and their potential impact will be more successful, restated here as follows:

> **The Stakeholder Proposition:** successful firms accurately identify and manage those individuals or groups that can affect the firm's ability to operate in a given location.

Conclusion

To sum what we have learned thus far, in looking to explain MNE success in politically risky countries, we found specific epistemological and ontological issues with the classic measure for political risk analysis, the political risk index. The index's focus on the country as the unit of analysis (a) prevents us from determining the significance of MNE agency in the occurrence of a "risk event" in the given country and (b) misleadingly aggregates the country's various stakeholders – groups and individuals that the MNE actually interacts with – into a "host country." Further, because the index is by its very nature comparative, the standardization of variables across countries washes out the structural nuance to a single country, which we propose is significant for understanding MNE success.

Recognizing the need to embrace a framework that allows us to examine MNE agency and country structure in MNE-stakeholder interactions, we turned to the literature on MNE-host country relations and found the concept of the bargain, modified over the years from Vernon's original "obsolescing bargain" to Eden et al.'s "political bargain" to be an apt approach as it embraces an epistemology focused on relationships (not the country) and an ontology that disaggregates the "host country" into stakeholders, each with their own respective resources and operating constraints which they must mobilize and navigate in order to achieve proximate and ultimate goals. We therefore decided to keep our outcome of MNE "success" – defined as MNE-stakeholder co-existence – as the constant dependent variable, looking instead at how our independent variables of MNE and stakeholder resources and constraints lead to this outcome under three general conditions in Kazakhstan: ArcelorMittal, a large mining MNE operating off of the country's legacy Soviet-era mines and plants; Cameco, a high technology uranium miner; and Frontier Mining, a mining junior focused on "greenfield" copper and gold deposits.

Chapter Three: Mining in Kazakhstan: Beyond Oil and Gas

Introduction

To read a contemporary text on Kazakhstan since independence is to follow the parallel narratives of the county's economic and political development, what Charles M. Becker et al. accurately describe as the "double transition" of the country as it was exposed simultaneously to the international market economy and the challenges of becoming a politically independent state with the dissolution of the Soviet Union in 1991.[145] But within the double transition narrative an association has been reinforced in successive publications over the years between the country's economic and political development and foreign direct investment in the oil and gas sector. While oil and gas no doubt play a very strong role in the country's contemporary history, the focus on oil and gas has come at the expense of other critical narratives, of specific interest here metallurgical and coal mining. In Gregory Gleason's *Markets and Politics in Central Asia*, his section on trade and investment in Kazakhstan has but a single paragraph dedicated to mining outside of oil and gas,[146] while in Richard Pomfret's *The Central Asian Economies Since Independence*, the author's section on the "Oil, Gas and Mineral Sectors" of Kazakhstan is in fact a section on oil and gas development.[147] Other volumes are wholly dedicated to the intersection of oil and gas development and political and economic progress, such as Sally N. Cummings' *Oil, Transition and Security in Central Asia*, an edited volume which covers Caspian

[145] Becker, C., Marchenko, G., Khakimzhanov, S., Seitenova, A. & Ivliev, V. (2009) *Social Security Reform in Transition Economies: Lessons from Kazakhstan* (New York: Palgrave Macmillan).
[146] Gleason, G. (2003) *Markets and Politics in Central Asia, Economies in Transition to the Market* (Abingdon Oxon; New York: Routledge).
[147] Pomfret, R. (2006) *The Central Asian Economies Since Independence* (Princeton: Princeton University Press).

developments in the immediate post-independence period,[148] and Wojciech Ostrowski's *Politics and Oil in Kazakhstan*, which in many ways is a follow-up to Cummings' initial work, focusing in on oil's influence in the country in the 2000s period as prices (and revenues) hit historical highs.[149] The early exceptions to the overly oil and gas focused literature are Anne Peck's *Economic Development in Kazakhstan* and Yelena Kalyuzhnova's *The Kazakstani Economy*, two books that give the metallurgical sector is due coverage in the early years of independence and both of which are cited throughout this thesis for their coverage of the privatization process.[150]

Certainly there is a strong historiographical element to this oil and gas trend in the literature, as Kazakhstan is home to the most significant oil discoveries in the world in the last several decades, along with the larger global narrative on the rise of oil prices – following the break-up of the Soviet Union, a barrel of oil bottomed out at around USD 20 while today the price is closer to USD 100. And factually scholars like Gleason and Pomfret (along with a host of others) can find solace in their focus on oil and gas when discussing the Kazakh economy as today these products represent the overwhelming share of the country's exports (59-percent in 2011).[151]

But this was not always the case, and export share is not the only measure of significance (though it is worth noting that in 2011 the metallurgical sector had the second largest export share after oil products).[152] Kazakhstan is not, for instance, Azerbaijan, where as far back as Marco Polo there were reports of "gushers" that in an hour produced

[148] Cummings, S.N. (ed.) (2004) *Oil, Transition and Security in Central Asia* (London: Routledge).
[149] Ostrowski, W. (2010) *Politics and Oil in Kazakhstan* (London: Routledge).
[150] Peck, A.E. (1999) 'Foreign investment in Kazakhstan's minerals industries', Post-Soviet Geography and Economics 40(7), pp. 471-518; see also Peck, A.E. (2003) *Economic development in Kazakhstan: the role of large enterprises and foreign investment* (Routledge) Kalyuzhnova, Y. (1998) *The Kazakstani Economy: independence and transition* (Houndmills: Macmillan Press Ltd.).
[151] (2012) 'Kazakhstan,' *The World Factbook* (Washington, DC: Central Intelligence Agency).
[152] (2012) 'Kazakhstan,' *The World Factbook* (Washington, DC: Central Intelligence Agency).

"a quantity of oil sufficient to load up one hundred vessels,"[153] and whereby the late nineteenth century Baku had become "the centre of the Russian oil industry," producing more oil at the time than was coming out of the United States.[154] No, in fact when mining pioneer Leslie Urquhart arrived by train in East Kazakhstan to the "waving flags and cheering" of local workers surrounding the station in 1916, these miners were not producing oil and gas, but rather lead and zinc.[155] On the eve of independence, when oil and gas development in the country was still in its nascent stages, for the Soviet Union the Kazakh SSR was responsible for 95-percent of chromite production, 60-percent of lead mining and 90-percent of lead smelting, 50-percent of zinc mining, over 30-percent of all copper mining and refining, and 10-percent of iron ore production. The SSR was also the third most important source of coal for the entire union (note: while coal is not a metal, this chapter groups coal mining in with our larger discussion on mining outside of oil and gas – as we will see in Chapter Four, coal mining is integral to ArcelorMittal's steel-producing operations). Today, the oil-producing regions (e.g. Atyrau) of Kazakhstan have nowhere near the populations (508,000 people) of the mining regions like Karaganda (coal, copper, manganese; 1.3 million people) or East Kazakhstan (lead, zinc, gold; 1.4 million), Pavlodar (coal; 750,000), Aktobe (chromite; 716,000) or Kostanai (iron ore, alumina; 889,000).[156] While it is true, of course, that other factors contribute to the populations in these regions (for example, the labor-intensive role of agriculture, which is equally undeveloped within the scholarship on Central Asian economies), there is no mistaking the fact that the

[153] Levine, S. (2007) *The Oil and the Glory: the pursuit of empire and fortune on the Caspian Sea* (New York: Random House), e-book version location 203-14.
[154] Kennedy, K.H. (1986) *Mining Tsar: The life and times of Leslie Urquhart* (Sydney: Allen & Unwin).
[155] Kennedy (1986), p. 94.
[156] (2012) *The Agency of Statistics of the Republic of Kazakhstan*: ob"emy_regiony(angl).2003-2010.xls; proizv_reg_gornodob(angl).xls; and Srednegodovaya chislennost' naseleniya za 2000-2009 gody.xls, all available from: http://www.stat.kz.

predominately urban areas of these regions are clustered around mining developments, past or present. Contemporary narratives may think of Kazakhstan as a petro state, but the country's history with mining is much deeper, much more geographically expansive, and as such, with a completely different set of consequences – both positive and negative – for the country's double transition.

The intent of this chapter is to set our case studies in an historical context that places greater focus on the mining sector's influence (outside of oil and gas) on the country's economic and political development from the days of the Russian empire up through the current period. In the spirit of Özcan's words – that the state should be recognized as an "historical construct shaped by a set of competing institutions and actors"[157] – it seems fair to say that a consequence of research concentrated on oil and gas politics in Kazakhstan has perhaps led to a skewed perspective on broader relations between the private sector and government and each actor's influence on the other. Other sectors – and in fact, as in Özcan's case, other classes and other markets – interact with the state in different ways, and thus round out and add depth to how we understand the country and the actors and institutions within it. The role of agriculture in Kazakhstan is quite different from that of oil and gas, for instance, employing more Kazakhs than both the metallurgical/coal and oil and gas sectors combined;[158] equally, an entrepreneur's experience with the judicial system and the various governing ministries is likely to be much different from that of the oil executive.[159] In this thesis, of course, we focus on the history of metallurgical/coal mining in the country as pretext for understanding how this history now shapes the actors and

[157] Özcan (2010), p. 12.
[158] (2010) 'Key indicators for Asia and the Pacific', *Asian Development Bank*, available at: www.adb.org/Statistics
[159] Özcan (2010)

institutions associated with the sector in Kazakhstan today. We begin by recounting the pre-independence exploration and development of the mining sector under imperial Russia and then as a Soviet Republic, and then move into the early years of independence and privatization, bringing us to the present day. Note that from here on out the term “mining,” unless otherwise specified, will refer to mining outside of oil and gas. Further, details on the histories of the specific developments behind our case studies will be addressed within the cases themselves; this chapter instead covers more general trends in the mining industry across the country from the early 1900s to the present.

One of the more significant consequences of the conflation of oil and gas with all forms of mining under the rubric of “natural resources” has been the latter’s assumed role as an accomplice in the resource curse and rentier state literature, but the reality is that oil and gas, particularly in Kazakhstan, share few similarities with the metallurgical/coal sector. Oil and gas development in the country occurs mostly off-shore in the Caspian – mostly out of sight and mind to the average Kazakh – while as previously noted, many of the larger cities in the country (outside of Almaty, Astana and the centuries-old trading hub of Shymkent) are synonymous with the metallurgical/coal mining sector. In this sense mining outside of oil and gas is more socially and environmentally disruptive on the local level and plays a greater role in directly influencing (and being influenced by) local and regional politics across the country. The profit margins in metallurgical/coal mining are also slimmer than in oil and gas, meaning there is less money to spend on salaries and social development projects, or to go into government coffers, and as a sector, metallurgical/coal mining and associated processing employs far more Kazakhs than in oil and gas.[160] As a quick example, look at two of the most significant land-based oil developments in the early years following independence: Kumkol near Shymkent in the south and Tengiz in the northwest along the Caspian shore. Pauline Jones Luong describes in one report the initially onerous social burdens of the Canadian company Hurricane Hydrocarbons, which was awarded a majority share in Kumkol in the mid-1990s:[161]

> In lieu of taxes, many foreign companies agreed to make huge capital investments in technology and infrastructure, as well as to pay back wages, contribute to pension funds, and build roads, schools, apartments, and hospitals. Hurricane Hydrocarbons, the company that eventually won the tender for Yuzhneftegas, is a case in point. Written into the contract was a provision requiring Hurricane to assume all the social obligations and economic costs of the company and surrounding area, including US$4 million a month in local salaries for workers (some of whom never actually existed).

And as it regards Tengiz, she notes how the governor of Atyrau viewed the foreign investment as “crucial to the region’s economy,” since it employed at the time “over 3,000 workers in the region” and provided “more than a quarter of its tax revenues.”[162] But the comparisons here to the mining sector neglect the sizeable differences in scale. Take, for instance, ArcelorMittal’s Karmet operation, around which the city of Temirtau (“Iron Mountain”) was built (with a population of around 180,000), and which we will detail in depth in the following chapter. At the time of its privatization in 1995, Karmet employed over 50,000 people including 10,000 people in non-core business activities completely unrelated to steel production (i.e. the social obligations Jones Luong mentions above though on a much larger level, such as funding kindergartens, the transportation system of the city, farms, apartments, heating, hot water, etc.), with these social obligations alone at an annual cost of USD 40 million. To put this in perspective, Hurricane Hydrocarbons

[160] (2012) *The Agency of Statistics of the Republic of Kazakhstan*
[161] Jones Luong, P. (ND) 'Kazakhstan: The Long-Term Costs of Short-Term Gains', *NBR Analysis* (p. 45).
[162] Jones Luong (ND), p. 45-6.

employed around 5,000 people in total, which added to the 3,000 workers at Tengiz comes to 8,000 individuals – less even than the non-core employees at Karmet. And while it is true the Hurricane operation is near Shymkent, a major Kazakh city (but certainly not a city created because of the Kumkol oil field – Shymkent's significance dates back to the days of the Silk Road), Tengiz back in the late 1990s was still close to 60 miles away from the closest village.[163]

All of these variables and more interact differently with the formal and informal structural components of Kazakh society and have significant implications for the country's ability to maintain economic and political stability. It is this history of the sector's interaction with stability that serves as the underlying theme of this chapter, a critical pretext to understanding how successful metals mining companies today are able to maintain order within their area of operations in this so-called risky country.

Mining before independence

In A. Nursulatov and A. Kirpota's *Gold Along the Irtysh*, an early 1990s monograph on the history of gold mining in eastern Kazakhstan, the authors provide an apt introductory quote from famous Soviet writer Maxim Gorky:

> In each situation one needs to understand the history of the development. If the workers in each industry, and better yet, each factory, knew how it originated, how it gradually evolved and improved production – workers would work…with a deeper understanding and with great enthusiasm toward the cultural and historical significance of their effort.[164]

In proposing a strong structural influence on the successful MNE operating in Kazakhstan, we too need to understand the history behind the mining developments in the country, which in our case stretches back at least to the early 1900s. Perhaps the single

[163] Brauer, B. (1998) 'CHEVRON'S KAZAK OILFIELD WEALTHY', *Associated Press*, Jul 17.
[164] Nursulatov, A. and Kirpota, A. (1992) *Zolotoe Preertysh'e* (Alma-Ata), p. 9.

most important detail to grasp about the industry's correlation today with Kazakhstan's high population centers is that mining came first. As one executive described to me, you do not normally build a lead smelter with its accompanying air and water pollution at the heart of a city's downtown, as is the case in Ust-Kamenogorsk.[165] But when the smelter predates the city's now 300,000 citizens, it is difficult to place the blame on the smelter.[166]

This concept of the "company town," where effectively a single enterprise employs the entire city,[167] is evident as early as the 1900s in the memoirs of mining pioneers such as John Wilford Wardell, a British metallurgical engineer, and in the papers of the aforementioned Leslie Urquhart, whose investment adventures in the country are neatly captured in historian K.H. Kennedy's *Mining Tsar*. In Wardell's *In the Kirghiz Steppes*, for instance, he describes the town of Spassky Zavod (located in present day Karaganda) in 1914 as synonymous with the British mining company Spassky Copper Mine Ltd., noting that "the Company's stores, school and hospital" lay to the east, "while the Company's stables, the bazaar, the creek, and the Russian and Tatar trader's settlement" lay to the west. According to Wardell the town had a population of roughly 3,000 people, two-thirds of which were Kazakhs, and "with the exception of a few traders," all the male Kazakhs were employed by the company – around 1,500 individuals.[168]

During the Soviet era the one-company town was known more formally as a "territorial-production complex," as V.F. Kosov and B. Ya. Dvoskin describe it, a concept they date to being explicitly outlined in the earliest Soviet five year plans. Defined very technically as an "interrelated combination of production enterprises and residential places"

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[165] Source-5 (2011), Feb. 10
[166] Actual population is 299,000, available at: http://*akim*vko.gov.kz/en/rule1_1_3.htm
[167] Term used by Martin Taylor, p. 60, in 'The business culture in Kazakhstan', from Bateman, M. (1997) *Business Cultures in Central and Eastern Europe* (Butterworth-Heinemann).
[168] Wardell, J.W. (1961) *In the Kirghiz Steppes* (London: The Galley Press), p. 32-34.

within a restricted territory, or the "combination of urban settlements" with a "single production-administrative center," the single-enterprise town would grow over the years to be not only a center of production but a center of social and cultural development. Karaganda, for instance, would become home to "more than 60 clubs and theaters, several palaces of culture and sport, four institutions of higher education," along with several technical secondary schools, as described in the 1971 monograph *Coal Riches of Kazakhstan*.[169]

As one can imagine, and as we will see in the section that follows on the mining sector in the early years of independence, the risk in tying a single industry (often focused on a single commodity) to a population center is in the exposure this places the town's citizens to the commodity's demand. For this reason Pomfret refers to these Kazakh towns in the independence era, which numbered between fifty and sixty, as "sick towns,"[170] but we can see the consequences of such a dependence on the political risk management strategies of mining companies as early as the 1900s when Urquhart protested foreign investor demands to close down a particular mine site on the present day Russian-Kazakh border. Successfully arguing to the London board that such a measure would result in "the loss of thousands of jobs on which the estates' inhabitants depended," Urquhart's efforts won him "the full respect and loyalty" of the miners, and in Kennedy's words, "cemented his patriarchical authority over the district."[171]

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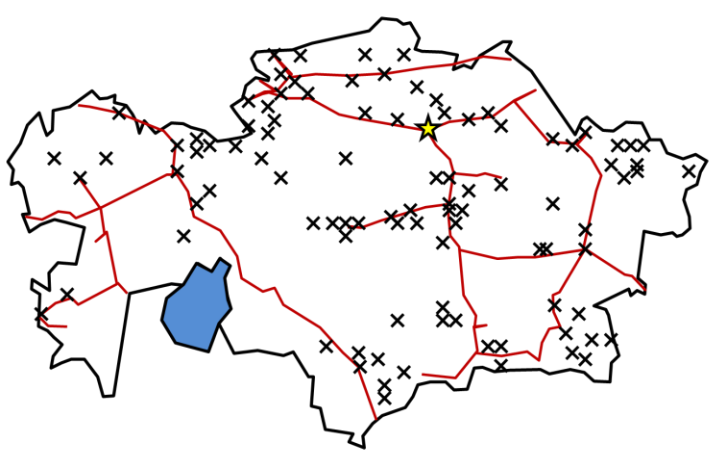
[169] Kosov, V.F. & Dvoskin, B.Ya. (1972) 'The Territorial Structural Organization of the Productive Forces of Kazakhstan', *Soviet Geography* 13(10), p. 692; Kushev, G.L. (1971) *Ugol'nye bogatstva Kazakhstana* (Alma-Ata: Nauka), p. 21

[170] Pomfret, R. (2006) *The Central Asian Economies Since Independence* (Princeton: Princeton University Press), p. 16.

[171] Kennedy (1986), p. 64

Satellite imagery today underscores the significance of the territorial-production complex in Kazakhstan's development – as simplified in Map 3.1, in mapping current geological survey data against the country's rail infrastructure, we see a neat match in mining deposits and railroad track. This is, of course, no coincidence. Urquhart recounts the building of this original rail (at his own investment) with painstaking slowness, as does Wardell who paints a picture of caravans in Spassky "carrying copper ingots from the mines to the railway." Beyond the linking of rail stations to key deposits during the Soviet era, Kosov and Dvoskin argue that because of the country's "intermediate situation" between the European "part" of the USSR and the eastern regions, Kazakhstan was a favored country for rail development. Just as the oil and gas industry within Central Asia would find itself frustratingly dependent on Russia with independence as the Soviet era pipeline system wound its way through the center (i.e. Russia), as we will see in the section that follows, mining enterprises in Kazakhstan found their own export networks – rail – to be equally beholden to Soviet era planning.

Map 3.1: Mining deposits and railways in Kazakhstan[172]



[172] The map is a representation only. Known deposits drawn from USGS data available at: http://tin.er.usgs.gov/mrds/.

Along with the paired development of the mining enterprise and the town (and its associated infrastructure), a second core theme behind the mining sector in Kazakhstan during the Soviet era was the emphasis on production. If the literature today on Kazakhstan is marked by an overemphasis on oil and gas production, the same could be said for coal mining during the times of the Kazakh SSR. According to the 1989 historical monograph *Karaganda*, the Karaganda coal basin was relied upon as early as the 1930s as the "coal base" of the Soviet Union after, as legend had it, a local shepherd discovered in a marmot burrow "fragments of black, heavy stones glistening in the sun," upon which being "thrown into the fire, they burned with a bright flame." As the author notes, the "rumor of an unusual burning black stone flew across the steppe,"[173] with output increasing by a factor of six from 1940 to 1970.[174]

Coal, as would later become oil and gas, was the lifeblood of energy during the majority of the Soviet era, with Kazakhstan responsible for fueling coal-fired power stations that provided electricity not only to the republic (and its high energy requirements for other metallurgical production) but also to neighboring SSRs. Soviet era monographs such as *Wake Up the Cultural and Technical Level of the Workers of the Coal Industry of Kazakhstan* (1965) or *Coal Riches of Kazakhstan* (1971) or *The Problem of Increasing the Economic Efficiency of the Karaganda Coal Basin* or *Ways to Improve the Organization of Production and Labor in Coal Mines*[175] were all focused on meeting the demands of Soviet economic planners which defined "the main task of the economic development" of the

[173] (1989) *Karaganda*, p. 10
[174] Kosov & Dvoskin (1972), p. 701
[175] Abisheva, B.N. (1965) *Pod'em kul'turno-technicheskogo urovnya rabochikh ugrol'nou promyshlennosti kazakhstana* (Alma-Ata: Nauka); (1965) *Problemy povysheniya ekonomicheskou effektivnosti karagandihskogo ugol'nogo bacceina* (Alma-Ata: Nauka); Petukhov, R.M., Fedorova, E.M. & Kosmombetova, R.E. (1970) *Pumi uluchsheniya organizaiii proizvodstva i truda na ugol'nykh shakhtakh* (Алма-Ата: Nauka);

Kazakh SSR to be coal production. According to Anne Peck, as independence approached, Kazakhstan was the third most important source of coal for the entire USSR, producing the lowest-cost coal in the entire union.[176]

But the emphasis on mining production went beyond coal, with iron ore producers in the northwestern city of Kostanai arguing that their advances in production represented "one of the brightest pages of the heroic struggle of the Soviet people,"[177] and the development of the gold sector in the aforementioned *Gold Along the Irtysh* described as going hand in hand with the "revolutionary struggle" of "Soviet power."[178] Production was patriotic, and Kazakh miners were "often leading patriotic initiative" in their development of the metallurgical sector in the SSR.[179]

This system of economic development through increased production within the framework of a series of single-enterprise cities or towns spread across the country was essentially Kazakhstan as it existed when the Soviet Union collapsed in 1991 (and as foreign investors would soon after find it). Each enterprise represented the intersection of the interests of ministry leadership in Moscow concerned with production targets and those of the local Communist Party, which viewed the enterprise as a resource for employment and social and cultural development.[180] According to Yelena Kalyuzhnova, the consequence of economic leadership from Moscow was not just a "vertical dependency, but also a psychological one, where enterprise managers were unable to make independent

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[176] (1965) *Problemy povysheniya ekonomicheskou effektivnosti karagandihskogo ugol'nogo bacceina*, p. 10; Peck (1999), p. 494.
[177] Pan, N.G. (1966) *Sokolovsko-Sarbaiskii kombinat* (Alma-Ata: Nauka).
[178] Nursulatov, A. and Kirpota, A. (1992), p. 8.
[179] (1976) *Trudovaya doblest' shakhterov karagandy* (Pravda).
[180] Kalyuzhnova, Y. (1998) *The Kazakstani Economy: independence and transition* (Houndmills: Macmillan Press Ltd.), p. 17.

decisions."[181] As a social resource, full employment was an expectation despite seemingly contradictory efficiency initiatives at production sites, with every local promised a house or apartment of their own.[182] In fact, according to Kalyuzhnova, if we use the metric of gross social product as an indicator of quality of life, the mining centers of the Kazakh SSR come out as the clear socio-economic winners in the republic: Karaganda in first place, Pavlodar and East Kazakhstan in third and fourth, and Kostanai coming in sixth. In terms of per capita income as a percentage of the Kazakh SSR average in 1990 (1935 rubles), Karaganda scores at roughly 120-percent, with East Kazakhstan and Pavlodar both above average as well. Kostanai comes in at 97-percent.[183]

Along with the enterprise's dependence on Moscow leadership and Russia-centric export infrastructure, and the local community's social welfare dependence on the enterprise, the territorial-production complex as a concept led to an overall dependence on the Soviet command economy, in which stages of production paid little deference to SSR borders. In 1987, more than 80-percent of ferrous metals trade for the Kazakh SSR was with Russia,[184] the SSR was so integrated into the USSR that only 27-percent of what it produced it could do so on its own,[185] and roughly 70-percent of all machinery required for the coal industry, 80-percent of the machinery for non-ferrous metallurgy and 90-percent of the machinery for ferrous metallurgy came from outside of the Kazakh SSR.[186] In the section that follows, we see in the immediate independence period what happens to the one-company town – and the community dependent on it – when Moscow leadership is

[181] Kalyuzhnova (1998), p. 19.
[182] Kalyuzhnova (1998)
[183] Kalyuzhnova (1998), p. 9-10.
[184] Kalyuzhnova (1998)
[185] Kalinichenko, L.N. & Semenova, N.N. (2001) 'The Economy of Kazakhstan', p. 55, in Vassiliev, Alexei (ed.) (2001) *Central Asia: Political and Economic Challenges in the Post-Soviet Era* (London: Saqi Books).
[186] Kalyuzhnova (1998)

removed, Russian customers cannot afford Kazakh exports, and the machinery support services in the neighboring SSRs collapse.

Independence

The post-independence literature on mining in Kazakhstan centers on the decade immediately following independence in which the majority of state-owned enterprises were privatized. Interpretations of this period, not surprisingly, rest largely on perspective. For those concerned with transparency and corruption (the political track of the "double transition"), the 1990s represent the "most corrupt stage" [187] in the country's history, marked by "a sense of casino or crony capitalism" [188] that undermined "the institutional quality of the economy." [189] For others focused on investment opportunities (i.e. the economic track), the narrative is one of "competent management" within government, especially the banks, which boosted "foreign investors' confidence,"[190] and wherein Kazakhstan "established the necessary legal framework for attracting foreign direct investment."[191]

Broadly defined, to "transit" is to move from one "state" to another, and thus it follows that a transition period would end with the arrival at the new "state," however defined. Economists often use GDP as a generic metric for the end of the transitionary period – for example, with regard to the Republic of Kazakhstan, when the country reached and surpassed its 1991 Kazakh SSR level of GDP. This occurred in 2003, and in a similar vein we can point to other critical economic milestones that happened around the same time

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[187] Olcott, M.B. (2002) *Kazakhstan: Unfulfilled Promise?* (Washington, DC: Carnegie Endowment for International Peace), as quoted in Pomfret (2006), p. 45.
[188] Pomfret (2006), p. 6
[189] Pomfret (2006), p. 49
[190] Becker et al. (2009), p. 107.
[191] Grigoriev, L. and Nusupova, A. (2004) 'Kazakhstan: Capital formation problems on the way to a market economy', *Central Asia and the Caucasus: Journal of Social and Political Studies.*

– such as, for instance, the March 2002 decision by the US Department of Commerce to revise Kazakhstan's status to one of "market economy," making it the first former Soviet Union state to receive such standing.[192]

Of course the disparity in the "double transition" interpretations highlights the fact that the transition period is significant to different actors in different ways, and depending on which metric one chooses to follow, the status of the country's transition even today remains highly variable. We must recognize, however, that while an economist may point to March 2002 or 2003 as the end point in the country's transition, for Kazakhstan's leader the end of the "first trial" in the country's new history came in 1997, when Nazarbayev argued that Kazakhstan had "safely emerged from the abyss of chaos and disorder" of a transition period defined not by GDP or corruption but by stability. "At present," he announced to the country in October of 1997 in his now famous speech commonly referred to as the 2030 plan, "we pass over to the stage of stabilization."[193] To Nazarbayev, the dominating narrative of the 1990s was the *return* to stability, with the end of the first stage of the country's full transition being when life went from getting worse to getting better – to him the year 1997, which is roughly the same time at which the privatization period ended. It is from this perspective – the return to stability – in which we approach the contemporary history of mining in the country, a necessary prerequisite as we later attempt to identify and understand in our cases the goals of Kazakh stakeholders today as they relate to the mining multinational.

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[192] Gleason, G. (2003) *Markets and Politics in Central Asia, Economies in Transition to the Market* (Abingdon Oxon; New York: Routledge).
[193] Nazarbayev, N. (1997) 'Strategy "Kazakhstan 2030": Prosperity, security and ever growing welfare of all the Kazakhstanis', Speech delivered by President Nursultan Nazarbayev, Astana, Oct. 10.

With independence the mining community quickly came to realize the local vulnerabilities of the industry's "complicated connections among enterprises often hundreds of miles apart"[194] paired with the fact that the enterprises themselves were unnaturally buoyed by supply and demand curves dictated from a center (i.e. Moscow) that no longer existed. Debts to other CIS countries mounted (they would eventually peak at 4 times that of CIS debts to Kazakhstan),[195] a higher and higher percentage of machinery and equipment operating at double its standard lifecycle became obsolete with no hard currency to buy replacements,[196] and enterprises found themselves to be over employed by as much as a factor of two.[197] By the mid-1990s, production of Kazakhstan's key minerals had declined to a level that was only a fraction of output when the country became independent. Recall, for instance, that 95-percent of all the chromite for the Soviet Union came from the Kazakh SSR – by 1996, chromite production was at 34-percent of 1992 levels. Copper production bottomed in 1995 at 55.7-percent of 1992 levels, refined lead in 1996 at 27-percent of 1992 levels, refined zinc in 1995 at 65-percent, and iron ore and coal failed to recover fully until after the Asian financial crisis in the late 1990s, producing at 48.3-percent and 56.7-percent of 1992 levels, respectively, in 1999.[198]

As one would expect, the quality of life in these one-company towns mirrored production decline. The construction of housing, schools and nursery homes "practically stopped,"[199] wage arrears amounted to the point where workers would go for months

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[194] Peck (1999), p. 474.
[195] Kalyuzhnova (1998)
[196] Kalinichenko, L.N. and Semenova, N.N. (2001) 'The Economy of Kazakhstan', in: A. Vassiliev (ed.), *Central Asia: Political and Economic Challenges in the Post-Soviet Era* (London: Saqi Books), p. 60.
[197] Kalyuzhnova (1998)
[198] Peck (1999), p. 481
[199] Kalinichejo & Semenova (2001)

without pay,[200] and basic services such as heat and electricity became sporadic, particularly poignant during the harsh winter months.[201] Budget resources at the national level in 1993 were at 50-percent the level in 1991, health care and education deteriorated rapidly,[202] and subsequently strikes in the mining towns, especially in the Karaganda region, were common.[203]

Perhaps it is no surprise, then, that the state's actions in the mid-1990s to turn these mining enterprises over to foreign investors was initially "greeted with enthusiasm for the promise it provided in reviving the local economy," with newspaper headlines like "Privatization Brings Stability" describing the significance of the process.[204] As Nazarbayev would note in his 1997 speech, quoting a Kazakh proverb, "he who knows not what tightness is will never rejoice space," and with the sale of the key mining sectors to foreign investors, investment would return and production would begin to rise again, albeit faster in some areas than others. Increasing living standards would follow.

The dichotomy in the literature describing these years as everything from the "stealing" of the state[205] to the "course towards" stability[206] is important to address explicitly because it underscores the mismatch in perspectives on the condition of Kazakhstan in the 1990s. The common criticism of the mining sector privatization process is that a handful of largely unknown foreign investors retained monopoly-level ownership of the country's key mining sectors for almost nothing. Importantly, a rebuttal of this view rejects none of the presuppositions, but rather their negative connotations.

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[200] Kalyuzhnova (1998)
[201] Olcott (2002)
[202] Becker et al. (2009)
[203] Petrov, N.I. and Gafarly, M.S. (2001), 'The course towards political stability', in Vassiliev, Alexei (ed.) (2001) *Central Asia: Political and Economic Challenges in the Post-Soviet Era* (London: Saqi Books) p. 36.
[204] Peck (1999), p. 471.
[205] Olcott (2002)
[206] Petrov & Gafarly (2001)

As Leonid Grigoriev and Asem Nusupova remind us, though Kazakhstan had significant mining assets, as a wholly new country to outside investors, without any sort of credit history, the necessary level of return on a particular project would need to be exceptional to attract investors with an average appetite for risk.[207] They refer here to a more technical aspect of mining investment that we will address briefly because it is significant for understanding not only this time period but Kazakhstan today. Under normal circumstances, when a mining analyst at an investment bank in say Toronto or London evaluates the strength of a mining company, the very basic method is to determine what it currently costs to produce, for instance, a pound of copper at the mine site and compare that to the current and expected future market price of copper. That margin (assuming there is a margin) is then downgraded by a risk premium (X-percent), which is essentially where the political risk variable comes into play. In the mid-1990s, copper was trading at between USD 0.75 / lbs and 1.25 / lbs, which was considerably low. So at the time of privatization, not only was production in Kazakhstan highly inefficient (recall that mining enterprises tended to be over employed and with exceptionally out of date machinery), but the country had no history from which mining analysts (and by extension, investors) could set a risk premium. Add to this the fact that the price of copper was already incredibly low, shortening any potential margins that would be further shortened by a large risk premium.

Stated bluntly, Kazakhstan in the 1990s was not a viable investment environment for the typical institutional investor, and as such, the idea that only largely unknown foreign investors would be drawn to the Kazakh market is not all that outrageous – these are the investors willing to take on significant risk. As Pomfret notes, even for these risk-taking firms, "initial euphoria at making bargain purchases was quickly tempered by operational

[207] Grigoriev and Nusupova (2004)

difficulties, hidden commitments, and concern about the state's ability to recontract."[208] The truth is that the Kazakh government was hardly in a position to set a high purchase price for these enterprises, particularly if the government set as a requirement specific production and investment quotas (including social investments) – which it did – to ensure that these single enterprise towns came back to life. Further complicating the investment climate (and the government's bargaining position) was the unreliable electricity production that plagued most of the country.

To highlight with a brief example that is not one of our specific cases, electronics manufacturer Samsung was invited in 1995 to manage the largest copper producing enterprise in the republic, an agreement that over the years would expand into ownership of almost all of the copper-based enterprises in the country. Known today as Kazakhmys, the firm was required to meet strict production quotas while settling all existing debts (hundreds of USD million) and investing over USD 1 billion into the enterprises and their associated communities.[209] At a time when the country was receiving almost no hard currency, Kazakhmys was contributing on average USD 100 million per year in taxes to the central budget, and according to Anne Peck, the firm was responsible for as much as 40-percent of the regional budget of Karaganda *oblast*. In other words, the *oblast* that back on the eve of independence had the highest gross social product and per capita income in all of Kazakhstan, was now heavily supported by a South Korean multinational electronics manufacturer. Under Kazakhmys, copper production increased rapidly (roughly 56-percent of 1992 levels in 1995 compared with 70-percent and then 88-percent in successive years)

[208] Pomfret (2006), p. 48.
[209] Peck (1999), p. 480.

and at a fraction of the original cost (the multinational had reduced production costs per pound of copper by close to 40-percent).[210]

Was this process shrouded in corruption? Highly likely. Certainly key elites with close ties to Nazarbayev somehow managed to have small but significant minority stakes in the agreement (initially Samsung owned a 40-percent stake and the Kazakh government a 35-percent stake, leaving 25-percent of the company for unidentified individuals; Samsung has since sold its controlling share). According to one mining analyst covering the Kazakh market, when Kazakhmys chairman Vladimir Kim sold 58.9 million shares of the company in 2010 – an 11-percent stake – to Samruk-Kazyna (the state's sovereign wealth fund), only some of that USD 1.3 billion likely went back to him:[211]

> **Analyst:** Let's be frank…we know that [the money] was cashed into someone's pocket.
>
> **Question:** So your impression is that the money doesn't go to Kim, it goes to someone else?
>
> **Analyst:** Yes.
>
> **Question:** For whom do you think?
>
> **Analyst:** For the top person in command [i.e. President Nazarbayev]. Samruk said [to us], "We were told to buy this stake. We don't even know what to do with it."

And further, not all of those required "social investments" are realized in actual projects, such as the USD 130 million on a national library in the country's capital of Astana,[212] announced in 2010 that as of 2012 has yet to be built. As the same mining analyst explained, when outside investors asked to see the library ("Look, we spent USD 130 million on this library – let's see this library"), the analyst had to explain that there was no library, at least so far (although even if a library was eventually built, the analyst

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[210] Peck (1999), p. 483.
[211] Official details on sale from MacNamara, W. (2010) 'Kazakhmys chairman offloads $1.3bn stake', *Financial Times*, Oct 5; Source-19 (2011), Feb. 15
[212] MacNamara, W (2010) 'Kazakhmys spends $130m on Astana library', *Financial Times*, Aug. 28.

wondered aloud to me, "how much does a library cost? 10 [million]?"). "This is the price of doing business," the analyst was forced to admit to the investors.[213]

In fact according to the extractive industries watchdog NGO Global Witness, Kazakhmys' entire history is marked with corrupt practices closely associated with Kazakh leadership, referring to Kim as a "frontman" for the regime and to others in leadership positions as "unofficial" advisors to the President Nazarbayev.[214] The Kazakhmys rebuttal? According to one mining executive familiar with the company's operations, of course Kazakhmys is close to the Kazakh government. In line with Grigoriev and Nusupova's contextual reminder that the Kazakh business environment in the 1990s was incredibly risky, as this executive relayed to me, a mining firm as large as Kazakhmys is so exposed to the country's politics that it has no choice other than to become intimately involved with leadership. In this vein, as the executive explained, what Global Witness considers to be negative (e.g. Nazarbayev's brother serving on the Kazakhmys board) is in many ways what mining management and mining analysts in London or Toronto would consider to be clear positives – confirmed in a separate interview with a mining analyst that focuses on Kazakhmys, who when asked about the company's close relationship with the government, explained, "it's the only way to do it."[215]

The question we have to ask, therefore, particularly if our intent here is to determine the interests of local stakeholders surrounding a firm like Kazakhmys, is if these stakeholders in, for instance, Karaganda, actually care about the corruption? About Kim's USD 1.3 billion cash-in and the Library That Doesn't Exist? These questions are closely

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[213] Source-19 (2011).
[214] (2010) *Risky Business: Kazakhstan, Kazakhmys PLC, and the London Stock Exchange* (London: Global Witness).
[215] Source-5 (2011) and Source-19 (2011)

related to the controversy surrounding Nazarbayev's popularity with the populace despite his significant consolidation of power. Critically, for instance, Petrov and Gafarly argue that the Kazakh people sincerely voted for the 1995 constitution (which increased Nazarbayev's power at the expense of the parliament) "in the interests of preserving stability," specifically noting strong support for the referendum in the mining communities in contrast to resistance from both the parliament and the local *akim*s who were largely against Nazarbayev's privatization strategy (a component of which was the proposed constitutional changes).[216] In line with Nazarbayev, the presidents of these enterprises were also supportive of the constitution because they too believed it to be pro-business (stemming from a specific clause granting private property rights) and since the workers in these one company towns attributed any shred of stability to the enterprise's leadership, they too went along with the new constitution.[217] Fast forward to today and Kazakhmys employs 61,000 people in the country, represents 2-percent of the country's GDP, provides electricity to 20-percent of the Kazakh market for electricity outside of the company's own needs, and in 2010 alone spent USD 70 million on social development projects (if we subtract the USD 130 million library).[218] In a 2008 speech on corporate social responsibility, Nazarbayev specifically singled out Kazakhmys for its "development of social facilities, including schools, medical and pre-school institutions, rehabilitation centers, disabled persons' rehabilitation centers, as well as culture and sports faculties."

In this light, certainly one could argue that the reignition of the social welfare model of the one company town by these foreign investors was a much more compelling interest of local stakeholders than specifics on Vladimir Kim's share in the firm and whether or not

[216] See Gleason (2003) for parliament resistance to privatization and Petrov and Gafarly (2001)
[217] Petrov and Gafarly (2001), p. 46
[218] (2010) *Annual Report and Accounts 2010* (London: Kazakhmys PLC).

his payout went back to the Nazarbayev regime (or the handful of similar instances of seemingly corrupt activity). Anecdotally, when I would bring up Nazarbayev's tenure as president in the local pubs or cafes in these mining towns, almost reflexively the patrons would cite the harsh period of the 1990s and how Nazarbayev was able to turn their particular town around. Whether or not we can extend this anecdote across cases – and across stakeholders – is to be examined in this thesis, but clearly the desire for socio-economic stability appears to be a primary goal of these single mining enterprise communities.

Kazakhstan Today

Following Nazarbayev's 1997 speech – in which variants of the word "stability" were mentioned over thirty times – the country would experience a shock to its growingly globalized economic system with the advent of the Asian financial crisis, but it weathered the incident rather successfully according to most accounts,[219] and then with the turn of the century came the spike in commodity prices (in metals too – not just oil and gas) and subsequent GDP growth at roughly 10-percent on average from 2000 to 2008.[220] In 2003 alone, 80-percent of all FDI to Central Asia went to Kazakhstan, attracting the most foreign investment of any country in the CIS in that year. And between 2001 and 2005, the country halved the number of people living under the subsistence level and suffering from hunger (achieving Millennium Development Goal Targets 1 and 2).[221] In response to the most

[219] e.g. Becker et al. (2009) argue that the monetary policy maintained by the National Bank of Kazakhstan during the Asian crisis increased the country's overall standing among foreign investors.
[220] (2010) 'Key indicators for Asia and the Pacific', *Asian Development Bank*, available at: www.adb.org/Statistics
[221] 'MGDs in Kazakhstan', United Nations Development Programme in Kazakhstan, accessed at: http://www.undp.kz/en/pages/9.jsp; see also Chaman, K. (2006) 'Kazakhstan: A State-led liberalized Market Economy?', in Lane, D. and Myant, M. (eds) (2006) Varieties of Capitalism in Post-Communist Countries (Basingstoke: Palgrave Macmillan)

recent financial crisis, in 2008 the country created the previously mentioned Samruk-Kazyna, the country's sovereign wealth fund and national investment enterprise, initially provided with USD 10 billion to assist in the crisis recovery efforts. Gradually, government shares in major enterprises were transferred over to Samruk-Kazyna for management, with wholly owned subsidiary Tau-Ken Samruk in charge of most government mining stakes outside of oil, gas and uranium (to be discussed at length in Chapter Five, Kazatomprom, not Tau-Ken, manages stakes in uranium ventures but is also a wholly owned subsidiary of Samruk-Kazyna).[222]

As the country's economic performance has increased, Nazarbayev has continued to consolidate his power. Since re-election in 1999 in which he banned the only significant competitor from running for office, the president has ruled largely unchallenged, with successive elections in 2005 and 2011 in which he won an overwhelming majority of the vote (again, none of these contests have been deemed free and fair by outside observers).[223] The formal governance structure in Kazakhstan today is highly concentrated in the executive from the capital in Astana down to the local districts. The president appoints all *oblast* (province) *akim*s (governors), who in turn appoint district and city/town level *akim*s.[224] And while technically the parliament is tasked with legislative responsibilities, in practice almost all legislation originates in the ministries. Of specific significance to the mining industry, the Ministry of Industry and New Technologies is responsible for the

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[222] Babak, V. (2009) 'Kazakhstan's economy in the grips of the world financial crisis', *Central Asia and the Caucasus: Journal of Social and Political Studies*, 6(60); see also official websites: Samruk-Kazyna at: http://www.sk.kz; Tau-Ken Samruk at: http://www.tks.kz/ru/; and Kazatomprom at: http://www.kazatomprom.kz.

[223] Cummings, S. (2012) *Understanding Central Asia* (London: Routledge); see also Ostrowski, W. (2010) *Politics and Oil in Kazakhstan* (London: Routledge)

[224] On local governance, see Makhmutova, M. (2001) 'Local Government in Kazakhstan', in Munteanu, I. and Papa, V. (eds) (2001) *Developing New Rules in the old Environment. Local Governments in Eastern Europe, in the Caucasus and Central Asia. Volume 3.* (Budapest: Local Governance Initiative/Open Society Institute).

provision and regulation of all subsoil leases for mining companies outside of oil and gas.[225] The significance of these stakeholders (and others) and their formal and informal goals, resources and constraints will be developed throughout our cases.

Conclusion

There are several histories to Kazakhstan, each with its own theme. Within the mining sector outside of oil and gas, the organizing principle of the "territorial-production complex" or the "one company town" emerges as the clear unit of analysis for studying the intersection of political and economic development across Kazakhstan's history, from its status as a frontier of the Russian empire, to a key production SSR during the Soviet Union, to the country's current standing as the independent Republic of Kazakhstan. When we propose that "structure matters," and hypothesize that successful MNEs in Kazakhstan bridge the difference "between the regulatory, cognitive and normative institutional environments" [226] of the MNE's home country and that of Kazakhstan, we can begin to see through the single enterprise town how social stability and economic stability are inextricably linked, and as we now progress into our cases, we will see how this emphasis on stability manifests itself in the bargains brokered between the MNE and its stakeholders.

[225] See ministry website at www.mint.kz

[226] Kostova, T and Zaheer, S. (1999) 'Organizational legitimacy under conditions of complexity: the case of the multinational enterprise', *Academy of Management Review* 24(1), p. 64-81 (p. 68).

Chapter Four: Moving Iron Mountains: Maintaining Resource Complementarities in Temirtau

Introduction

On July 3, 2000, President Nazarbayev and ArcelorMittal CEO Lakshmi Mittal celebrated together the 40th anniversary of the No. 1 blast furnace at the Karaganda metallurgical combine (Karmet) in Temirtau, Kazakhstan. Back in 1960 the blast furnace marked a key step in Karmet becoming a fully integrated metallurgical enterprise, and notably Karmet was also where President Nazarbayev first worked.[227] With the No. 1 blast furnace up and running, the town of Iron Mountain ("Temirtau" in Kazakh) would soon become synonymous with steel and coal production across the Soviet Union – at the time of independence, Karmet was one of the largest steel mills in the world, representing 10-percent of Kazakhstan's GDP.[228]

At the 40th anniversary jubilee, Nazarbayev recalled the poor state of Karmet back in 1995 when it was sold to ArcelorMittal. "We made no mistake when selecting our investor," he said to the gathered crowd, noting that Karmet was all but bankrupt at the time and suffering from serious disrepair. Mittal followed up on Nazarbayev's words, explaining

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[227] (2000) 'LNM Group invests $650 mln in Ispat-Karmet steel works in five years', *Interfax Russian News*, Jul. 4, retrieved by Nexis. NOTE: this chapter uses the term ArcelorMittal over the period of 1995 to the present but the reader should recognize that from 1995 to 2004 the multinational was known as Ispat, from 2004 to 2006 the company was known as Mittal Steel, and then with the merger of Mittal Steel and Arcelor in 2006, the multinational became known as ArcelorMittal. Throughout all of the firm's mergers and acquisitions, the CEO has remained Lakshmi Mittal. See: (2004) 'ISPAT KARMET TO BE RENAMED MITTAL STEEL TEMIRTAU', Mining & Metals Report, Dec. 30, retrieved by Nexis; (2006) 'Steel firm opts for Mittal offer', *BBC News*, Jun. 25.
(2000) 'Kazakh president to take part in iron casting jubilee', *Interfax-Kazakhstan news agency*, Jul. 2, from *BBC Monitoring Central Asia Unit*, Jul. 3, retrieved by Nexis.
(2000) 'British-Indian group increases investment in Kazakh metals firm', *Interfax news agency*, Jul. 4, *BBC Monitoring Former Soviet Union - Economic*, retrieved by Nexis.
[228] (1995) 'Work for Baker & McKenzie', *Lawyer International*, No. 38, Dec., retrieved by Nexis.

that since 1995 the multinational had invested USD 650 million into the combine and planned an additional USD 600 million over the next five years.[229]

True to Nazarbayev's memory, in 1995 finished steel production in Kazakhstan was less than half of 1992 levels,[230] though by the time of the jubilee, Karmet under ArcelorMittal was providing steel to 65 countries worldwide, and in Kazakhstan it was the largest consumer of equipment on the domestic market – not to mention the employer of 55,000 people.[231] Further, by 2005 Kazakhstan was a top ten coal producer in the world, first in the CIS by per capita coal production, and with reserves accounting for 4-percent of the world's total coal reserves. About one-quarter of that 4-percent – that is, 1-percent of global reserves – was under the ownership of ArcelorMittal in Kazakhstan, which through a series of acquisitions over the years under the continued leadership of CEO Lakshmi Mittal would become the largest steel producing multinational in the world.[232]

By the Kazakh government's own measure, ArcelorMittal's almost two decade long presence in Kazakhstan is considered a success. A 2011 brochure published by the Foreign Investors' Council (FIC), a public-private forum chaired and initiated by President Nazarbayev "to promote direct dialogue between the Government of Kazakhstan and foreign investors," named ArcelorMittal one of ten "success stories" for foreign investors in the country.[233] That is not to say, however, that success in Kazakhstan came easy for ArcelorMittal. This chapter proceeds by examining the bargains formed and managed by

[229] (2000) 'LNM Group invests $650 mln in Ispat-Karmet steel works in five years', *Interfax Russian News*, Jul. 4., retrieved by Nexis.
[230] Peck (1999), p. 478 in 'Foreign investment in Kazakhstan's Minerals Industries'.
[231] (2000) 'LNM Group invests $650 mln in Ispat-Karmet steel works in five years', *Interfax Russian News*, Jul. 4, retrieved by Nexis.
[232] (2005) 'COAL MINING INDUSTRY IN KAZAKHSTAN', *Central Asia & Caucasus Business Weekly*, Oct. 25, retrieved by Nexis.
[233] See FIC website (www.fic.kz); (2011) *Success Stories: foreign investors in Kazakhstan: ideas for potential players* (FIC, Astana).

the multinational with critical stakeholders during three distinct phases: the privatization of Karmet from 1995 to 1997, the commodities boom from the early 2000s up until the global financial crisis (2002-2007), and then during the financial crisis itself (2008-2009). In doing so, we begin to understand how achieving resource complementarities between stakeholders (not the "host country") leads to multinational success, as expected, but that the process is active, subjective and dynamic, shaped by outside constraints, and can at times be cooperative and resting on interdependence while at other times be conflictual and based on the balance of power. We also begin to see evidence that in some instances, adapting to the structural components of the domestic environment can actually increase a firm's exposure to political risks, contrary to what the existing scholarship would suggest.

Privatization: 1995-1997

In unfolding the privatization of Karmet, it becomes clear that a necessary component of understanding political risk is firm agency – many of the early so-called "failures" of the Karmet privatization process can be attributed at least partially to the initial foreign firms' own actions before the Kazakh government finally found "success" with ArcelorMittal. In these failures we also begin to understand how resource complementarity is inherently subjective – dependent not only on how stakeholders value corresponding, potentially complementary resources (what Eden et al. call resource valuation[234]) but also how the stakeholder self-values its own resources. It is not only about being attracted to the other stakeholder's available resources, but about valuing your own resources to a degree in which the "trade" is perceived as balanced. In the case of Karmet's privatization, it becomes clear that firms (and their stakeholders) need to work actively to find this congruence in resource valuation.

[234] Eden et al. (2004)

Early Failures Followed by Success

There are very few secondary source analyses of the failed privatization efforts of Karmet in the mid-1990s before the combine was finally awarded to ArcelorMittal. Those researchers that do cover these failures tend to place the blame on the host country, describing the process as yet another data point in "the list of negative examples of transitional governments," with failure a result of the government's "mishandling" of the situation. [235] Others ignore some failures altogether, such as Peck's brief analysis of the process that claims the initial contract was awarded to US Steel, when in fact the first failed privatization of Karmet was actually under a joint venture led by an Austrian firm.[236] In review of the details surrounding the experiences of foreign firms prior to ArcelorMittal, we see a very different story than simple government "mishandling" of the situation.

By 1995, thousands of Karmet employees had gone without pay for months, critical infrastructure was in a state of significant decay and the enterprise owed hundreds of millions of US dollars to a variety of public and private debtors, including to the cash-starved Kazakh government's central budget.[237] "The benefit of the Soviet plan was that when these people were working in the plant, producing 50 million tonnes per year in coal, they didn't have any problems with sales, with the market – no problems with pricing," and of course that all changed with independence, as one director within ArcelorMittal explains. In those first few years, "we almost lost Karmet," he notes. "This is a city-based plant – if we lose, the city disappears."[238]

[235] Kalyuzhnova (1998), p. 106-7
[236] Peck (1999), p. 489
[237] Peck (1999), p. 489
[238] Source-68 (2011), Mar. 25

The government recognized the need for immediate foreign investment – "to find a professional metallurgist company"[239] – and decided to privatize Karmet under a management contract scheme typical in the privatization process of large assets within Kazakhstan at the time. The concept of the management contract often involved some sort of up-front payment on the part of the foreign firm to settle legacy debts, with a promise to reignite stagnant production levels while following a series of scheduled capital investments into the enterprise. In return the foreign firm would receive a percentage of any profits and retain the option to buy a sizeable share of the enterprise at any moment (if not outright ownership). In practice, the management contract was a way for interested foreign firms to conduct their own internal audit of the asset in advance of making any larger investment decisions,[240] but of course the reverse was also true – the contract period provided a "testing out" phase for the Kazakh government with a potential long-term foreign investor.

On May 19, 1995, a 5-year management contract for Karmet was awarded to the First Alpine JV, a consortium of Voest Alpine Intertrading (an Austrian firm), Butya (a Kazakh company), and an unidentified Canadian consulting company. The contract was annulled within less than a month, due seemingly to a combination of firm inactivity and a government decision to go with a more established (and capable) partner. One of the main conditions of the contract was an immediate injection of USD 40 million into Karmet and to its debtors (primarily the government), which First Alpine repeatedly failed to pay despite a series of warnings.[241] At the same time, a consortium led by US Steel had been

[239] Source-68 (2011)
[240] Peck (1999)
[241] (1995) 'Dispute flares over management of major steelworks', *Kazakhstanskaya Pravda*, Jun. 24, from *BBC Summary of World Broadcasts*, Jul. 1, retrieved by Nexis.

developing its own bid for Karmet, which the government found considerably more attractive, and thus when the final First Alpine payment deadline passed without the USD 40 million transfer, the contract was annulled and a new management deal was struck with US Steel – a 10-year management contract with the following conditions: [242]

(1) meet a series of production targets;
(2) settle all direct and indirect debts to the state budget over the course of the year; settle all other debts over 2.5 years (approx. USD 286 million);
(3) implement and execute a 10-year investment plan in industrial improvements worth approx. USD 1 billion; and
(4) maintain all current social obligations of the combine under the previously explained "territorial-production complex" or "one company town" structure – an estimated 10,000 employees at an annual cost of USD 40 million all in non-core business activities, specifically the operation and maintenance of:
    a. 36,000 residential apartments and a series of hotels;
    b. at least 25 kindergartens (some estimates as high as 80);
    c. seven industrial farms;
    d. a garment factory;
    e. a sanitarium and several medical clinics;
    f. a skating rink and stadium; and
    g. the Temirtau bus / tram transportation system

[242] Bromby, Robin (1996) 'FORTUNES MIXED AS EAST MEETS WEST', *The Australian*, Apr. 16, retrieved by Nexis; Thoenes, Sander (1996) 'STEEL MAKER GETS MORE THAN IT BAR-GAINED FOR: When Britain-based, Indi-an-owned Ispat International bought a steel mill in Kazakhstan, it nearly got the entire city', *Financial Times*, Aug. 20., retrieved by Nexis; Peck, p. 490 (80 kindergartens and sanitarium); Gotova, Natalya (1995) 'Managing Company Changed At Karmet', *RusData DiaLine - BizEkon News*, Jun. 27, retrieved by Nexis.

A radio report on the Kazakh Radio First Programme in Almaty that August provided a window into why by October of that same year the Karmet contract would be annulled yet again. Along with significant production issues, according to the reporter US Steel had yet "to resolve the metallurgists' social problems," specifically noting that the "promise to pay off the workers' wages" – arrears in the amount of USD 32 million – had not been fulfilled.[243] Just months afterward, Karmet was renationalized by the Kazakh government, specifically citing a failure to meet immediate financial obligations (apparently investing only USD 5 million of an expected 50 million) and a failure to increase production (allegedly after the four month period, production was still 10 to 15-percent short of mandated targets).[244]

Moving very quickly, ArcelorMittal signed a management contract for Karmet that same October and by November offered to buy the enterprise outright, "the biggest outright sell-off in Kazakhstan since independence in 1991," according to the law firm hired to advise ArcelorMittal on the deal, Baker & McKenzie.[245] The multinational committed to an immediate USD 50 million payment in debts to the Kazakh government and USD 10 million in wage arrears to the Karmet employees during the short management phase,[246] along with a purchase price of approximately USD 450 million and an investment guarantee of USD 500 million over five years.[247] Critically, however, ArcelorMittal was able to unload many of the pre-existing social commitments onto the local Kazakh

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[243] (1995) 'Kazakh metal works still in dire straits', *Kazakh Radio first programme*, Alma-Ata, in Kazakh 0300 GMT, Aug. 21, *BBC Summary of World Broadcasts*, Aug. 25, retrieved by Nexis.
[244] Burchilina, T. and Ivanov, P. (1995) 'A Steel Mill Is Casting About For A Third Rescuer', *RusData DiaLine- BizEkon News*, Oct. 24. Retrieved by Nexis.
[245] (1995) 'Work for Baker & McKenzie', *Lawyer International*, No. 38, Dec., retrieved by Nexis.
[246] (1995) 'Karaganda steelworks sold off to British-based firm', *ITAR-TASS* news agency, Nov. 21, *BBC Summary of World Broadcasts*, Nov. 30, retrieved by Nexis.
[247] (1996) 'Ispat to expand Kazakh steel firm', *The Irish Times*, Feb. 27, retrieved by Nexis.

government. “If the company had struck the deal one week earlier,” it was reported at the time, it “would have bought a whole city.”[248]

Explaining Failure (and Success)

How do we account for ArcelorMittal’s initial success? And the failure of First Alpine and US Steel? And why was ArcelorMittal able to negotiate better terms than US Steel in shedding significant non-core assets?

The first rather obvious point to understand is that ArcelorMittal paid. First Alpine, US Steel and ArcelorMittal all agreed to their own separate debt repayment schedules that began with an immediate cash injection to the Kazakh state budget, yet only ArcelorMittal made good on that payment. In First Alpine’s case, the JV simply could not get the money together – the Austrian banks behind Voest Alpine Intertrading refused to offer credit guarantees to the JV in the absence of an in-depth audit; the bankers were also uneasy with the system of barter payments that was typical at the time in the former Soviet Union as enterprises transitioned out of the command economy,[249] as in, “we give you coal, you give us TV sets,” as described to me by one Karmet director.[250] US Steel, alternately, seems to have actively decided not to pay. Though the multinational remained largely silent as the contract was annulled, at the time the firm noted publically that the combine’s actual debts were much larger than it had been led on to believe.[251]

In both cases the firms had choices (agency) and their decisions clearly influenced the behavior of the Kazakh government. The First Alpine JV signed up for a series of

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[248] Thoenes, Sander (1996) 'STEEL MAKER GETS MORE THAN IT BAR-GAINED FOR: When Britain-based, Indi-an-owned Ispat International bought a steel mill in Kazakhstan, it nearly got the entire city', *Financial Times*, Aug. 20., retrieved by Nexis; Peck, p. 490

[249] Gotova, Natalya (1995) 'Managing Company Changed At Karmet', *RusData DiaLine - BizEkon News*, Jun. 27, retrieved by Nexis.

[250] Source-68 (2011)

[251] Burchilina, Tatyana (1995) 'A Steel Mill Is Casting About For A Third Rescuer', *RusData DiaLine - BizEkon News*, Oct. 25, retrieved by Nexis.

financial commitments before it had received sufficient guarantees from creditors – or in the words of the same Karmet director who remembers the early privatization attempt, "people were showing us foreign papers, that they were rich, and promising that they would make [Temirtau] flourish, yet [we found out later] with false guarantees from banks."[252] US Steel, on the other hand, decided the asset was not worth the investment and decided not to pay. ArcelorMittal, alternately, paid immediately, and but a month later offered to buy the asset outright under conditions more favorable than past suitors. It seems, therefore, that some sort of reputational effect must be considered: whereas the behavior of First Alpine and US Steel led to negative government action, the behavior of ArcelorMittal led to positive government action.

Though First Alpine and US Steel were both unsuccessful in Kazakhstan, there is a significant difference between these two firms that calls into question an expectation of Eden et al.'s PBM. Unlike US Steel (and for that matter, ArcelorMittal), the First Alpine JV included a Kazakh partner: Butya, a company responsible for a series of commercial shopping centers in Kazakhstan owned by a Kazakh named Bulat Abilov. According to Eden et al., Butya's presence within the JV should increase First Alpine's chances of success. They argue that when a foreign firm enters into a given country, the multinational suffers from a "liability of foreignness," which causes the government to treat the firm like an outsider without legitimate status. Foreign firms can overcome this legitimacy deficit, they believe, by developing partnerships with local firms[253] – in our situation, for example, the Kazakh company Butya.

[252] Source-68 (2011)
[253] Eden et al. (2004), p. 5

But Butya's value in the First Alpine JV is highly questionable. Abilov was considered a member of the Kazakh elite back in the early 1990s, described in Sally Cummings' *Kazakhstan: Power and the Elite* as an "influential person with prospects" and a leader within an early opposition movement in Kazakhstan known as the *Novoe Pokolenie* ("New Generation").[254] Prior to the privatization of large assets like Karmet, light industry privatization schemes in Kazakhstan were based off of a vouchers system in which Kazakh citizens were granted vouchers by the government that they could then apply toward owning shares in enterprises up for privatization. The idea was that ownership of the enterprises would be turned over to the people, though as Martha Brill Olcott notes, by 1994 Bulat Abilov curiously gained 10-percent of all vouchers printed in the country, making him "by far the largest single actor in the second stage [i.e. the light industry stage] of privatization."[255] By December of that year – just 6 months away from Abilov's JV winning the ArcelorMittal management contract – Abilov along with a handful of other "investment private fund" leaders (the term Sally Cummings uses to identify those individuals that managed to gain an exceptionally high number of vouchers) formed *Novoe Pokolenie* with the demand that the government put up the larger enterprises for tender – in fact Cummings herself notes Karmet as an example of such an enterprise raised by the opposition group.[256] Just months later Abilov would get exactly what he wanted in being awarded the Karmet management contract as a partner within the First Alpine JV.

Domestic legitimacy? Perhaps, but at what cost? Critically, neither Abilov's Butya nor Voest Alpine Trading had any previous experience in coal and iron ore mining or steel production. At the very minimum, therefore, it seems clear that Eden et al.'s emphasis on

[254] Cummings, S. (2005) *Kazakhstan: Power and the Elite* (London: I.B. Tauris), p. 45.
[255] Olcott, *Kazakhstan: Unfulfilled Promise?*, p. 138
[256] Cummings (2005), p. 30-1

domestic legitimacy, while possibly valuable, did not supersede more pressing concerns in Kazakhstan such as the ability to bring up production levels or settle significant government debts. But Abilov himself was (and continues to be) a controversial figure within Kazakh elite politics, further questioning his ability to provide “legitimacy” to the JV. His role in forming *Novoe Pokolenie* – a direct reaction to Nazarbayev’s handling of privatization in the early 1990s – would evolve into a greater role as a leading opposition figure in a country that is not known for its plurality. Today Abilov is the chairman of Azat, an opposition party in Kazakhstan that he established and one that aligned itself in 2009 with the All National Social Democratic Party, a “radical opposition party in the sense that it opposes the government and the president outright.”[257] Abilov’s Azat, for instance, boycotted the 2011 presidential elections.[258] Butya’s situation affirms for us the significance of nuance – partnering with a local firm is no guarantor of “domestic legitimacy,” particularly in a country like Kazakhstan wherein elite associations carry significant political liability.

The very fact that the First Alpine JV was succeeded by two wholly non-Kazakh multinationals also indicates that domestic legitimacy must be reconciled with stakeholder goals. The impetus behind the privatization of Karmet was to bring in foreign capital and technology in order to transition the combine out of the command economy and integrate it into the international market economy. In other words, domestic legitimacy was the opposite of what the Kazakh government wanted at the time – Karmet needed *foreign* legitimacy. Again, this underscores the significance of nuance.

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[257] Isaacs (2011), p. 176.

[258] (2011) 'Kazakh Opposition Party Says It Will Not Participate In Presidential Vote,' RFE/RL, Feb 12. Available at: http://www.rferl.org/content/kazakhstan_presidential_vote_opposition/2307195.html

ArcelorMittal's initial success, however, is deeper than simply paying when First Alpine and US Steel could not (or would not) or the fact that it provided foreign legitimacy (which US Steel also provided). The multinational's decision to pay immediately is representative of the firm's larger effort to actively find resource complementarities with Kazakh stakeholders. Recalling the bargaining framework, each actor enters into a bargain that represents the intersection of the actors' goals, resources and constraints. A significant component of success is resource complementarity – "I have what you need, I need what you have." ArcelorMittal's available resources were not all that different than US Steel's available resources, yet somehow ArcelorMittal was successful: both firms offered capital, technology and market entry in return for access, cheap labor and geostrategic position (i.e. next door to China, a leading consumer of steel). ArcelorMittal recognized, however, that Kazakhstan's resource deficits (i.e. what the country needed) existed on a spectrum of need. As was made clear in the First Alpine case and to a lesser extent with US Steel, settling government debts was the government's clear overriding priority. First Alpine's contract was annulled within a month – hardly enough time to turn around production (even if it was clear that this would be difficult given the JV's lack of experience), but plenty of time to settle USD 40 million in debts. US Steel, alternatively, seemingly made the calculation that Kazakhstan's resources were not worth the investment.

ArcelorMittal, however, was able to shift the resource calculus altogether. According to ArcelorMittal CEO Lakshmi Mittal, before he took over Karmet, Nazarbayev "sat down with me and we discussed the steel business for several hours. He wanted to know what our plans were, my experience and so on, and we understood each other very well."[259] Of specific importance was an agreement not to layoff any workers (aside through attrition), settle wage arrears and to ensure suppliers (and budgets) were paid regularly.[260] No mention of production and no mention of the significant non-core assets.

It seems as if the firm paid particular attention to understanding how its primary stakeholder – the Kazakh central government – prioritized its own resource deficits and therefore conversely how the government in turn valued ArcelorMittal's resources. "The value of each party's resources is measured," Eden et al. explain, "not by its owner's evaluation, but by the other party's desire for those resources."[261] Certainly this seems to be the case between ArcelorMittal and the Kazakh government, and it begins to explain why, for instance, ArcelorMittal was able to unload many of the combine's non-core assets. Though maintaining the social responsibilities inherent in the concept of the "territorial-production complex" was important, it was not as important as budget debts or wage arrears, and as such ArcelorMittal was able to shift the management and ownership of these non-core assets over to the local government in exchange for supporting them financially – USD 10.5 million per year under the agreement.[262]

That said, we must at least partially attribute ArcelorMittal's accurate perception of Kazakh interests to the hindsight of the failed First Alpine and US Steel deals (both of which clearly highlighted the significance of wage arrears and budget debts); equally we must recognize that the Kazakh government itself learned from these episodes, lowering its own expectations (i.e. its own resource self-valuation) particularly in the wake of the

[259] Pala, Christopher (2002) 'Kazakhstan - FDI Pours In', *The Banker*, Jul. 1, retrieved by Nexis.
[260] Robinson, Anthony (2002) 'Opinion: Working class hero', *Prospect*, Mar. 21, retrieved by Nexis.
[261] Eden et al. (2004), p. 7
[262] Thoenes, Sander (1996) 'STEEL MAKER GETS MORE THAN IT BAR-GAINED FOR: When Britain-based, Indi-an-owned Ispat International bought a steel mill in Kazakhstan, it nearly got the entire city', *Financial Times*, Aug. 20.

established multinational US Steel's inability to turn the enterprise around. Perhaps it is not surprising, therefore, that as Zhannat Ertlesova explains (then deputy economics minister), by the time of the ArcelorMittal deal a considerable "change in the psychology" of the Kazakh people had occurred as it regarded social services –an increased appreciation that everything comes at a cost despite what may have been considered to be free in the past.[263] In other words, the failed privatization attempts increasingly sensitized the country to the gravity of the situation for foreign investors. This affirms not only that finding resource complementarities between stakeholders is a subjective process, but that it is a dynamic one as well – stakeholders' proximate goals can shift (or flex) over time to ensure that actors find those resource complementarities among one another necessary for maintaining the pursuit of larger, ultimate goals.

Finally, we begin to see in ArcelorMittal's navigation of the privatization process the need to view bargains as existing between stakeholders (not host countries), each with its own ability to impact the firm's ability to operate to varying degrees. Thus far we have focused primarily on ArcelorMittal's bargain with the central government, but beyond settling debt payments into the central budget the firm also made good on its promise to settle wage arrears with Karmet workers while maintaining Temirtau social services (though under a new system of responsibility). Johannes Sittard, then managing director of ArcelorMittal's Karmet operations, recognized that if the combine had "disgruntled workers" because of a lack of social services, it would negatively impact the firm's productivity, and therefore the firm "had to get involved" to some extent in meeting social expectations.[264] In fact within the following year ArcelorMittal would reacquire the

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[263] Thoenes (1996)
[264] Thoenes (1996)

transportation system, the garment factory, and a hotel, and purchase outright the entire Temirtau electricity system (generation and distribution) to ensure that the combine and the town had consistent electricity and heat (over the course of 1996, Temirtau and Karmet lost power 16 times).[265] A tram system that does not operate on schedule and a town (and plant) without electricity would obviously impact worker productivity.

ArcelorMittal also created new stakeholders within Kazakhstan that would strengthen the multinational's operating position – stakeholders whose goals would be inextricably tied to those of the firm. In shifting the management and ownership of key social services over to the local government, ArcelorMittal strengthened the capacity (and responsibility) of the local *akim* while making him wholly dependent on ArcelorMittal budgetary contributions, and by extension, the firm's success. "As it turned out," then Temirtau *Akim* Aliy Karabalin notes, "a week before KarMet was handed over to Ispat [ArcelorMittal], I got the whole social sector dropped in my lap…Of course, that was not accompanied by any additional financing from the government," but rather from ArcelorMittal.[266] According to the PBM, such interdependence between ArcelorMittal and the local *akim* should lead to stronger, more cooperative relationships between the two actors.[267]

ArcelorMittal also brought in the European Bank for Reconstruction and Development (EBRD) and the World Bank's International Finance Corporation (IFC) to help the firm meet the Kazakh government's investment requirements. ArcelorMittal secured a USD 54 million loan from the EBRD in 1997 along with additional financing

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[265] Frantz, Douglas (2001) 'Temirtau Journal; Steel Company Buys a Mill, Gets a Kazakh Town', *The New York Times*, Aug. 1, retrieved by Nexis.
[266] Thoenes (1996)
[267] Eden et al. (2004) and Luo (2001)

from the IFC and private banks totaling USD 450 million.[268] In the EBRD's own words, the bank "strengthens an investment through its relations with the [Kazakh] Government and by helping to avoid specific political risks."[269] In other words, ArcelorMittal tied its own operating goals to those of larger financial institutions with their own unique powers over the Kazakh government. Further, in turning to the EBRD and IFC, ArcelorMittal was able to satisfy part of its investment commitments through outside banks sensitized to "risky" countries – unlike, critically, the Austrian banks tied to the First Alpine JV. These alternating experiences in securing financing point directly to the significance of structural constraints, the third component to the PBM along with resources and goals. As Eden et al. note, "The exercise of potential bargaining power, which depends on each party's resources as valued by the other party, can be reduced by exogenous constraints." The Austrian bankers operated under a system of investment values that balked at concepts like bartering or at the idea of providing financing in advance of an extended, in-depth audit, constraining the ability of First Alpine to provide the central government with the necessary financial resources; the EBRD and IFC, on the other hand, are two financial institutions specifically designed to provide financing in these riskier situations. This in itself is an interesting finding because it underscores the different institutions at play when it comes to "institutional distance" – the IFC is by no means "Kazakh" or "domestic" and yet in terms of international financing, the so-called "distance" to be bridged is quite small. And so whereas the First Alpine JV was inhibited in pursuing its goals by the Austrian banks, for

[268] (2010) 'Ispat-Karmet Steel Works (Mittal Steel Termitau "MST")', EBRD website, last updated Apr. 23 and accessed on Mar. 26, 2012. Available at: www.ebrd.com/pages/project/psd/1997/3324.shtml ; (1998) 'EBRD and IFC launch "landmark" syndicated loan for giant steel company, Ispat Karmet, in Kazakhstan', EBRD, Apr. 19.
[269] (2002) 'Working with you in Kazakhstan', EBRD investment brochure.

ArcelorMittal the EBRD and IFC were resources the firm learned to mobilize in order to achieve its larger goals amongst fewer institutional constraints.

Taken together, Table 4.1 summarizes the resource complementarities of ArcelorMittal and its stakeholders during the privatization of Karmet.

Table 4.1: Resource complementarities between ArcelorMittal and Kazakh stakeholders

Stakeholder	Goals	Resources	Resource complementarities with ArcelorMittal?
ArcelorMittal	Ownership of Karmet; profitability	Capital, technology, market entry	n/a
Kazakh Central Gov't	Settle past debts, pay into central budget regularly, increase production	Karmet, cheap labor, geostrategic position	Yes: ArcelorMittal, with the assistance of the EBRD, IFC and private banks, was able to satisfy all stakeholder goals; in return ArcelorMittal became the outright owner of Karmet
Temirtau Local Gov't	Receive financing for social services	Productivity of Karmet	Yes: ArcelorMittal agreed to pay approx. USD 10.5 million per year into the local budget; in return ArcelorMittal could expect its workers to live in decent conditions
Karmet workers	Maintain employment, settle wage arrears	Productivity of Karmet	Yes: ArcelorMittal settled all wage arrears and restarted stagnant production; in return ArcelorMittal received a productive work force
EBRD	Increase foreign investment in former Soviet Union countries	Capital	Yes: ArcelorMittal was able to rejuvenate one of the largest former Soviet Union enterprises with EBRD support
IFC	Increase foreign investment in former Soviet Union countries	Capital	Yes: ArcelorMittal was able to rejuvenate one of the largest former Soviet Union enterprises with IFC support

Table 4.1: A significant component of ArcelorMittal's success during the privatization period was a result of its ability to find resource complementarities with key stakeholders.

The Steel Boom: 2002 – 2007

In February of 2005, a television station in Kazakhstan ran a short human interest story on Vladimir Nemchinov, an assistant steel worker at Karmet. He had been working for the combine since 1994 and was "glad when the new master came to Temirtau," as the narrator described his feelings when ArcelorMittal took over Karmet. "But," the narrator continued, "10 years have passed, and the country and people have changed."[270]

Sure enough, the circumstances in Temirtau were much different in 2005 than they had been back in the mid-1990s. Steel production worldwide had transitioned from the "stagnant years" of the 1970s, 80s and 90s to the "steel boom" of 2002-2007, driven primarily by demand from China.[271] Karmet was perfectly positioned to take advantage of the situation, but the rise in the combine's success would coincide with two other trends that would complicate the multinational's ability to maintain stakeholder bargains in Kazakhstan: (1) an information technology boom that would increase local Kazakh workers' awareness to comparative living standards worldwide, and (2) an increasingly hazardous working environment for Karmet miners. In this section we see how the bargain between ArcelorMittal and the Karmet miners' union transformed from cooperative to conflictual (to use Luo's term[272]), and how that transformation spilled over into the multinational's bargains with other Kazakh-based stakeholders, upsetting the system of complementarities reached during the privatization phase.

Different Kinds of Booms

Despite the global growth in steel production and demand in the 2000s, for developed countries the profit margins were shrinking. Heightened environmental awareness and labor codes increased operating constraints and the equal boom in commodity prices – specifically iron ore and coal – made steel production expensive.

[270] (2005) 'Kazakh TV reports problems at Indian steel magnate's plant, SOURCE: Channel 31 TV, Almaty, in Russian 1500 gmt 14 Feb 05', *BBC Monitoring Central Asia Unit*, 14 Feb. Retrieved by Nexis.
[271] (2009) 'OECD Steel Committee', *Presentation for the Council Working Party on Shipbuilding*, Jun. 9.
[272] Luo (2001)

Transportation costs were also high.[273] ArcelorMittal, however, was in a prime position to benefit from all of these constraints. Because in Kazakhstan industrial emissions rates were set by local governments, the multinational's strong relationship with the local *akim* allowed Karmet to operate under minimal environmental regulations, despite the fact that the Kazakh Ministry of Environmental Protection claimed Karmet was one of two mining enterprises in the state that collectively produced 44-percent of all harmful emissions in the country (the other being the copper miner Kazakhmys).[274]

Karmet coal miners were also paid between USD 200-300 per month,[275] way below international standards.[276] And because Karmet was a fully integrated steel combine – meaning that all the coal and iron ore mines necessary to produce steel were included within the enterprise in Kazakhstan – ArcelorMittal was unaffected by high iron ore and coal prices that significantly impacted the ability of competing steel manufacturing multinationals to turn a profit. Finally, with China next door, and other strong demand markets equally nearby (Russia, India and Iran), transportation costs were also low.[277]

ArcelorMittal's success during these years would allow it to acquire competitors to the point where by 2007 it was the largest steel manufacturing company in the world, with over 300,000 employees in 60 countries, representing 10-percent of global steel production

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[273] Suni, P. (ND) 'The 2000's and the Renewal of World Steel Market', available at: http://www.etla.fi/files/2158_SUH_08_1_the_2000s_and_the_renewal_of_world_steel_market.pdf; (2004) 'RECENT STEEL MARKET DEVELOPMENTS: Prepared for the OECD Special Meeting at High-Level on Steel Issues', OECD, Jun. 28.
[274] (2003) 'Kazakh ministry, steel giant agree to jointly protect environment; SOURCE: Kazakh Television first channel, Astana, in Russian 1330 gmt 31 Jul 03', BBC Summary of World Broadcasts, Jul. 31.
[275] Calculated by taking the 2006 wage and determining what that wage would have been in March 2005 prior to a 10-percent raise in June/July and a 22-percent raise in November. See (2005) 'Wages of Mittal Steel Temirtau miners to be raised', Kazakhstan Mining Weekly, Jul. 5; 2006 wage drawn from (2006) 'Coalminers of Mittal Steel's Kazakh arm ask for better wages', The Press Trust of India, Jun. 4.
[276] Sharma, V. (2004) 'The town that Mittal built', *Hindustan Times*, Oct. 31.
[277] For exports, see for instance: Pala, C. (2002) 'Kazakhstan', *The Banker*, Jul. 1; (1998) 'NEW TECHNOLOGY AT TEMIRTAU PLANT', *Middle East News Items*, Oct. 19.

and serving as "the number one supplier to all major market sectors, including automotive, construction, household appliances and packaging."[278]

But there were other "booms" going on during the 2000s period in Kazakhstan – quite literally and tragically, a series of fires and explosions in Karmet plants and coal mines that resulted in significant fatalities. High profile incidents include a methane blowout in early December 2004 that resulted in the deaths of 23 workers and a similar explosion in September of 2006 that killed 41 workers. These incidents came at a time when Kazakh access to internet and mobile phones was rapidly increasing. Anecdotally, Karmet workers were well aware of, for instance, CEO Lakshmi Mittal's USD 55 million wedding for his daughter at a time when local workers were dying due to substandard safety conditions, like an incident in which the bucket of a bulldozer came down on one worker, crushing him to death, because he was wearing black overalls (clothing) that blended in with the coal (the industry standard is bright orange overalls). Other complaints at the time included:[279]

- Cheaply manufactured boots
- Helmets that had exceeded their operational service life
- Washing soap that caused a series of rashes (it was later determined, reportedly, that the soap had a high formalin content and was intended to be used in morgues to wash corpses)
- Cheap gloves with rotted thread

[278] (2007) *Bold Future 2007: ArcelorMittal Annual Report*, p. 2. Available at: http://www.arcelormittal.com/corp/~/media/Files/A/ArcelorMittal/investors/annual-reports/2007/638-0-0-ArcelorMittalAnnualreport2007.

[279] (2005) 'Profits come before safety in Kazakhstan's Karaganda coalfield; SOURCE: Karavan website, Almaty, in Russian 27 May 05', BBC Monitoring Central Asia Unit, Jun. 1. Retrieved by Nexis.

- The re-opening of mines suffering from fires/incidents before increased safety measures were put in place

Statistically, communication and information access increased substantially during this time period. Between 2000 and 2009, national mobile phone subscribers jumped from roughly 1 in 100 people to 94 in 100 people and internet usage increased from 1 in 100 people to 33 in 100 people.[280] In the Karaganda region alone (in which Karmet is located), medium-level computer literacy rates increased from roughly 54-percent of the population in 2006 to 72-percent of the population in 2008.[281]

Following the December 2004 disaster, Karmet coal miners began to express dissatisfaction with their low wages, and the head of the local coal miners' union made the unusual step of travelling to London, believing he could negotiate a new wage with CEO Lakshmi Mittal one on one; Mittal refused to see him, and the union boss returned empty handed. By March of 2005 the repeated refusal of Karmet management to meet with the coal miners' union led to government action and labor protests (but no strikes). By the end of June, the union boss (with government support) had negotiated an immediate 10-percent raise to be followed by a 22-percent raise four months later, eventually increasing wages from roughly USD 300 per month to USD 415 per month by the end of 2005.[282]

By June of 2006 – roughly one year since the initial negotiations – the coal miners union sought a pay raise again, holding a rally numbering 3,000 workers in the nearby town of Shakhtinsk.[283] But it was not until the explosion in September of that same year, killing

[280] (ND) 'ICT At-a-glance: Kazakhstan', World Bank, available at: http://devdata.worldbank.org/ict/kaz_ict.pdf

[281] (ND) 'Уровень компьютерной грамотности населения' (The Level of Computer Literacy), Excel available for download from www.stat.kz (Kazakhstan State Statistical Agency) No data available prior to 2006.

[282] See (2005) 'Wages of Mittal Steel Temirtau miners to be raised', *Kazakhstan Mining Weekly*, Jul. 5.

[283] (2006) 'Kazakh miners stage rally demanding pay rise', *BBC Monitoring Central Asia Unit*, Jun. 4.

41 workers, that the situation spiraled out of control and ArcelorMittal and the government took notice. The timeline in Table 4.2 outlines the succession of events following the September disaster that would eventually lead to a 20-percent immediate raise and a follow-on raise of 10-percent the next year. All told, by 2007 coal miner wages at Karmet had increased by over 80-percent during a two year period.

Table 4.2: Timeline of Karmet Coal Miners' Strike (2006)[284]

Date	Event
20-Sep-06	Methane explosion in local mine kills 41 people
25-Sep-06	In the town nearest to the disaster, Shakhtinsk, hundreds of workers go on strike in the town square to demand higher wages and improved safety conditions; other workers from the night shift refuse to exit the mine in protest
26-Sep-06	Workers at three other mines nearby Shakhtinsk join the strike
27-Sep-06	Workers at a fifth mine join the strike, limiting Karmet's steel output to just 3 operating mines (of 8)

[284] (2006) 'Kazakh coal miners stage demonstration', AFX International Focus, Sep. 25; (2006) (2006) 'Miners at Mittal Steel Temirtau mine end strike', *Central Asia General Newswire*, Sep. 25; (2006) 'Kazakh miners protest demanding pay rise', BBC Monitoring Central Asia Unit, Sep. 26; (2006) 'Four Mittal Steel Temirtau mines in Kazakhstan go on strike', *Central Asia General Newswire*, Sep. 26; (2006) 'Some 500 miners continue to strike in central Kazakhstan', *BBC Monitoring Central Asia Unit*, Sep. 27; (2006) 'Kazakh coal miners continue strike', *AFX - Asia*, Sep. 28; (2006) 'More miners join strike in central Kazakhstan', *BBC Monitoring Central Asia Unit*, Sep. 28; (2006) 'Workers of another mine joined their on-strike colleagues from Mittal Steel Temirtau', *Kazakhstan General Newswire*, Sep. 28; Ten, T. (2006) 'Kazakh coal miners continue strike despite Arcelor Mittal's pay-raise pledge', *Associated Press Worldstream*, Sep. 28; (2006) 'Arcelor Mittal workers strike for 5th day', *AFX.COM*, Sep. 29; (2006) 'Kazakhstan coal miners' strike against Arcelor-Mittal spreads to 8 mines', *AFX International Focus*, Sep. 29; (2006) 'Another mine joins strike in central Kazakhstan', *BBC Monitoring Central Asia Unit*, Sep. 29; (2006) 'Kazakh human rights official supports striking miners', *Central Asia General Newswire*, Sep. 29; (2006) 'Eighth mine joins Mittal Steel Temirtau strike', *Central Asia General Newswire*, Sep. 29; (2006) 'Seventh mine joins Mittal Steel Temirtau strike', *Central Asia General Newswire*, Sep. 29; (2006) 'Head of Ombudsmen's Office supports on-strike miners of Mittel Steel Temirtau', *Kazakhstan General Newswire*, Sep. 29; (2006) 'All eight mines are on strike now at Mittal Steel Temirtau', *Kazakhstan General Newswire*, Sep. 29; (2006) 'Kazakh metallurgists threaten to join miners' strike', *BBC Monitoring Central Asia Unit*, Sep. 30; Ten, T. (2006) 'Thousands of Arcelor Mittal workers in Kazakhstan protest, demand pay raises', *Associated Press Worldstream*, Sep. 30; (2006) 'Mittal Steel's top managers in Kazakhstan to resolve conflict', *BBC Monitoring Central Asia Unit*, Oct. 2; Uppal, R. (2006) 'Miners' Strike in Kazakhstan Spreads', *Global Insight*, Oct. 2. (2006) 'Mine strike cuts output at Kazakh mill', *AFX International Focus*, Oct. 3; (2006) 'Mittal executive says output at Kazakh mill down 30 percent due to strike', *The Associated Press*, Oct. 3; (2006) 'Mittal Steel Temirtau CEO changes', *Central Asia General Newswire*, Oct. 3; (2006) 'Mittal Steel vice presidents arrived in Karaganda', *Kazakhstan General Newswire*, Oct. 3; (2006) 'Mittal strikes deal with Kazak miners', *AFX International Focus*, Oct. 4; (2006) 'Kazakh parliament wants to defend miners' rights', *Central Asia General Newswire*, Oct. 4; (2006) 'Mittal Steel Temirtau gives salary rise to miners - *oblast akim*', *Kazakhstan General Newswire*, Oct. 5; (2006) 'Kazakh PM hails Mittal Steel Temirtau compromise', *Central Asia General Newswire*, Oct. 6. All retrieved via Nexis.

28-Sep-06	Workers at two more mines join the strike; Karmet managers claim the workers will receive an unspecified raise but the miners note that they will not return to work until the raise is received
29-Sep-06	Workers at the final operating coal mine under Karmet go on strike, bringing coal production to a complete stop
30-Sep-06	A protest held on Saturday in Temirtau numbers 6,000 Karmet workers from all operational lines; the metallurgists attending the protest threaten to join the labor strike the following week -- if this were to occur, the entire Karmet combine would cease to operate; banners at the protest read, "No more dying for Mittal!" and "We don't want to live in poverty!"
3-Oct-06	Karmet management announces that the strikes have caused a 30-percent dip in output; the CEO of Karmet is replaced
4-Oct-06	Karmet management reaches a deal with both coal miners and metallurgists; coal miners are to receive a 20-percent immediate raise and a 10-percent follow-up raise at the beginning of 2007; the strikes end.

From Cooperation to Conflict

ArcelorMittal's successful stakeholder management during the privatization process of the mid-1990s led to a series of interdependent relationships aptly characterized as cooperative – as previously noted in Table 4.1, the multinational's efforts to find resource complementarities with local actors allowed the company to be successful where others had failed. Clearly the situation was different by the height of the 2000s steel boom. What does this later period tell us about our initial propositions?

First, just as we saw the firm's own actions contribute positively to the bargaining process during the privatization phase, we must acknowledge here that the firm's failure to act in improving management and safety standards during this second period had a negative impact on the firm's ability to maintain cooperative relations. As one mining executive for a large multinational with significant Kazakh operations explained to me, fatalities at a mine site are generally understood within the mining industry (particularly by mining analysts in London-, Toronto- or New York-based investment banks) to be indicative of the overall quality of the operation's management.[285] Agency matters, and as such we must recognize that the labor strikes during this period were clearly influenced by the firm's own negative behavior. Just as ArcelorMittal chose to pay the central government during the privatization phase, they chose not to pay for orange overalls, quality hardhats or a wage increase.

Beyond firm agency, the steel boom phase teases out interesting changes in stakeholder relations that emphasize not only the significance of stakeholder management (as opposed to treating the country as a single, "host country" unit) but also the significance of maintaining a sort of "equilibrium" in resource complementarities – ensuring that the firm is constantly offering a series of resources to stakeholders that are equally valuable to those stakeholders, and that the reverse is also true.

The imbalance in complementarities is clearest in the bargain between ArcelorMittal and the coal miners' union. The human interest story on Vladimir Nemchinov at the beginning of this section captures this perfectly – what had been satisfactory in the mid-1990s was no longer adequate. Coal miners' pay had stagnated as operational risks increased; Karmet was more profitable than ever before. In other words, the coal miners' goals changed – simply the guarantee of employment and a wage was no longer adequate – while ArcelorMittal was achieving its own goals to record levels of success along with both the regional and central governments.

But less obvious and just as significant were the ways in which other Kazakh-based stakeholders' interests changed over time to ensure that the Karmet workers and ArcelorMittal returned to resource complementarity. The mistake here is to assume that the other stakeholders supported the coal miners' demands out of sympathy for the harsh

[285] Source-5 (2011), Feb. 10

working conditions (as witnessed in these two high profile catastrophes in December 2004 and September 2006). A closer reading of the situation shows that wage raises associated with these periods were much more nuanced – less about the safety conditions and more about the effects of those conditions on larger social and economic stability.

For instance, initially the methane explosion in December of 2004 did little to upset the existing bargains between ArcelorMittal and other stakeholders (aside from the coal miners' union). "The miners keep appealing to public opinion, the regional governor, influential officials, politicians and MPs," as one writer indicated at the time. "Everyone nods in agreement, but no-one wants to quarrel."[286] In March of 2005, for example, the local Temirtau government refused a request from the coal miners' union to hold a rally outside the Karmet operations;[287] a similar refusal was made by the local administration in advance of the June 2006 rally (though eventually the request was approved).[288]

This is not to say that no stakeholders in Kazakhstan took up the miners' cause. In March of 2005 the Karaganda region's prosecutor's office recommended Karmet be fined for refusing to meet with the union[289] and that May Dariga Nazarbayeva (the president's daughter and then deputy minister within the parliament) publically supported the miners as her political party at the time had aligned itself with the larger federation of trade unions.[290] Nevertheless the central government – that is, the president and his ministries – seemed more concerned with the deteriorating standards' effect on production. For instance a fire in

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[286] (2005) 'Profits come before safety in Kazakhstan's Karaganda coalfield; SOURCE: Karavan website, Almaty, in Russian 27 May 05', *BBC Monitoring Central Asia Unit*, Jun. 1. Retrieved by Nexis

[287] (2005) 'Kazakh miners refused permission to picket Indian magnate's plant', *BBC Monitoring Central Asia Unit*, Mar. 11.

[288] (2006) 'Kazakh central town administration says no to miners' rally', *BBC Monitoring Central Asia Unit*, May 30.

[289] (2005) 'Kazakh prosecutor moves to fine Indian steel magnate's plant: SOURCE: Channel 31 TV, Almaty, in Russian 0700 gmt 9 Mar 05', *BBC Monitoring Central Asia Unit*, Mar. 9.

[290] (2005) 'Kazakh party leader pledges to back miners in row with foreign investor: SOURCE: Khabar Television, Almaty, in Russian 15:00 GMT, 23 May 05', *BBC Monitoring Central Asia Unit*, May 24.

a steel rolling plant in February of 2005 went largely unreported until the dip in production was felt within the national budget. Concerned with the dangers of future production shortfalls, Economics and Budget Planning Minister Kairat Kelimbetov recommended at the time the need for formal talks between the government and Karmet's management to ensure such accidents were avoided in the future (notably this statement came within days of reports that the miners' union was being ignored by the government on their wage demands).[291] The February fire reportedly reduced Karmet's output by a third which reverberated across the country – regional output declined by over 11-percent and national manufacturing output by 5-percent during this time period.[292]

A similar indifference to safety conditions unfolded during the September 2006 strikes. At around the same time as the June 2006 rally, ArcelorMittal was finalizing a memorandum on cooperation on social projects with the regional *akim*. Hailed by a local television channel as "manna from heaven," the *akim* announced in July that ArcelorMittal would provide coal at discounted prices to local towns, macadam for road construction, funding for local athletes training for the Beijing Olympics, 40 ambulances for local towns, and the construction of a football stadium – the stadium being the "best news," according to the television show, because the *akim* was "a big football fan."[293]

And while the head of the Ombudsman's Office in Kazakhstan submitted a report to then Prime Minister Daniyal Akhmetov that same month outlining the lack of workers'

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291 (2005) 'SLOWER MANUFACTURING GROWTH WORRIES KAZAKHSTAN', *Central Asia & Caucasus Business Report*, May 24; (2005) 'Profits come before safety in Kazakhstan's Karaganda coalfield; SOURCE: Karavan website, Almaty, in Russian 27 May 05', *BBC Monitoring Central Asia Unit*, Jun. 1. Retrieved by Nexis.
292 Ibid. Also: (2005) 'MITTAL STEEL TEMIRTAU FIRE DENTS KAZAKH INDUSTRIAL GROWTH', *Central Asia & Caucasus Business Report*, Mar. 22.
293 (2006) 'Mittal Steel pledges aid to Kazakh region', *BBC Monitoring Central Asia Unit*, Jul. 4.

rights within Karmet operations,[294] the central government was equally silent until the September strikes brought Karmet production to a halt. After the initial strike on September 25 at a single mine, a conciliatory commission was formed and headed by Emergency Situations Minister Shalbai Kulmakhanov; two days later, as the strike had expanded from one mine to five, the commission promised a resolution within 10 days. But after the eighth mine went on strike that Friday, followed by a threat on Saturday that metallurgists would join the strike and a report on Tuesday that steel output had declined by 30-percent since the strike, the wage demands were settled by the next day. That Friday PM Akhmetov would meet with the chief operating officer of Karmet to express “his satisfaction with the fact that the company’s administration managed to find a compromise with the miners.”[295]

The relative apathy to the miners’ situation in comparison to other concerns (e.g. production and social activities) – whether it was in 2005 or 2006 – indicates just how complementary Karmet had become to other stakeholders’ goals by that time. Local administrations across Karaganda along with the regional *akimat*, heavily dependent on Karmet for everything from basic social services to football stadiums, clearly were initially reluctant to upset the firm. “The main target of the memos [on social cooperation] is for the company to find the chance – the way – to help [the region] on those issues in which the budget funds are not enough,” as one Karmet director explained to me.[296] The process is admittedly political, according to the director, but while some projects are clearly luxuries (e.g. the football stadiums), others are more critical – from providing ambulances to clean water. Both “political and social significance are taken into account,” he explains, noting that there are battles among the various cities and towns that the regional *akim* and the head

[294] (2006) 'Kazakh human rights official supports striking miners', *Central Asia General Newswire*, Sep. 29.
[295] (2006) 'Kazakh PM hails Mittal Steel Temirtau compromise', *Central Asia General Newswire*, Oct. 6.
[296] Source-68 (2011)

of ArcelorMittal's Kazakh operations sort out together. So while "Shakhtinsk wants a sport complex, Karazhal wants water, and Karaganda City a mosque," the net effect is region-wide dependence on ArcelorMittal as each city administration depends on the firm's support to achieve its own local goals.[297] Karaganda citizens train in ArcelorMittal gyms[298] and go to ArcelorMittal dental and medical clinics;[299] their kids take judo lessons or do arts and crafts in ArcelorMittal recreations centers;[300] and the family together goes on vacations to subsidized ArcelorMittal resorts.[301]

Nationally, Karmet represented roughly 4-percent of Kazakh GDP[302] and was the largest purchaser of domestic goods.[303] The combine also contributed to larger goals within the central government, specifically the state-led strategy to transition the economy from natural resource exports to manufacturing. When President Nazarbayev drove the first "Kazakh car" from a Skoda plant in East Kazakhstan, hundreds of kilometers to the east of Temirtau, he proudly noted at the ceremony that the steel had come from Karmet.[304] Hundreds of kilometers to the west in Aktau, on the other hand, ArcelorMittal was constructing a pipe mill to supply the oil industry with piping,[305] and in fact the first time the Aktau seaport on the Caspian reached its design capacity for exporting dry goods – that is, not oil – it was because of Temirtau steel products.[306]

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[297] Source-68 (2011)
[298] Source-66 (2011), Mar. 25
[299] Source-65 (2011), Mar. 25
[300] Source-64 (2011), Mar. 25
[301] Source-67 (2011), Mar. 25
[302] Sharma, V. (2004) 'The town that Mittal built', *Hindustan Times*, Oct. 31.
[303] (2000) 'LNM Group invests $650 mln in Ispat-Karmet steel works in five years', *Interfax Russian News*, Jul. 4, retrieved by Nexis.
[304] (2005) 'Kazakh president drives first Kazakh-assembled Skoda car: SOURCE: Khabar Television Almaty, in Russian 15:00 GMT, 25 Jun 05', *BBC Monitoring Central Asia Unit*, Jun. 25.
[305] (2005) 'MITTAL STEEL PUMPS $1.5 BLN INTO KAZAKHSTAN', *Russia & CIS Business & Investment Weekly*, Oct. 7.
[306] (2005) 'AKTAU COMMERCIAL SEAPORT (KAZAKHSTAN)', *Central Asia & Caucasus Business Report*, Apr. 19.

Whereas one could argue that the return to resource complementarity between ArcelorMittal and the Karmet workers was an order based on the balance of power – once the bargaining position of the union was increased by support from alternate stakeholders, ArcelorMittal was forced to negotiate – the more likely explanation, particularly judging from the reserved response of the central and local governments, was that all parties had an interest in restoring complementarity to a level in which all parties could continue to pursue their own goals to self-satisfactory degrees. The only reason this restoration became conflictual as opposed to cooperative seems to be due to the behavior – that is, the agency – of ArcelorMittal. ArcelorMittal chose repeatedly to ignore the miners' demands, and it was not until the miners' dissatisfaction with Karmet management reached a critical point – significant workplace fatalities – that the miners were willing to transition from a cooperative to a conflictual strategy and upset the existing equilibrium among all stakeholders. Once that equilibrium was upset, the corresponding stakeholders stepped in to ensure that complementarity was resolved between ArcelorMittal and the miners.

The Financial Crisis: 2008 – 2009

With the advent of the global financial crisis in 2007, and the subsequent drop in construction, came a sharp decrease in global steel demand. In developed countries like the US, for example, between January 2008 and January 2009, demand cut in half. As the OECD described the situation, "the global economic crisis has pushed the world steel industry into recession," and complicating the situation for ArcelorMittal was the growing production and productivity in China that risked dramatic oversupply.[307] Chinese productivity since 1995 – "tonnes of crude steel per worker" – had more than doubled,[308]

[307] OECD (2009)
[308] OECD (2009)

while by the end of 2008 domestic Chinese demand had decreased by 20 million tonnes over the year.[309] To put this in perspective, Karmet exported on average 5-6 million tonnes of steel per year total,[310] with the majority of exports in 2008 to China and Russia, while by 2010 Karmet exports to China were "almost nil," in the words of the head of ArcelorMittal's Kazakh operations.[311]

Kazakhstan felt the impact of the crisis earlier than most so-called developing states, recognizing a tightening in liquidity as early as mid-2007 as foreign banks restricted borrowing and began to call in debts. The construction sector in the country was hit particularly hard and with it, heightened fears of rising unemployment.[312] In this final period we see how both ArcelorMittal and its Kazakh stakeholders worked together to maintain equilibrium in resource complementarities despite the change in conditions.

The Canary in the Coal Mine

On October 1, 2008, ArcelorMittal placed over 4,000 Karmet workers on a temporary two-week leave (at 50-percent salary), which the company later extended to the entire month of October in the wake of an announcement that production levels would be cut at the combine by 30-percent due to a decrease in global demand.[313] Of the major mining multinationals operating in the country, ArcelorMittal was the first to announce such drastic measures as the crisis began to make the firm's existing bargains untenable.

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[309] (2009) China's Iron and Steel Industry amid the Financial Crisis, KPMG, available at: http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/China-iron-steel-200906.pdf

[310] (2008) 'ArcelorMittal recalls Kazakh workers stood down', Thomson Financial News Super Focus, Oct. 31.

[311] (2011) 'ArcelorMittal sees Kazakh unit buoyed by CIS demand', *Reuters*, reposted in *The Economic Times*, Jul. 4.

[312] Babak, V. (2009) 'KAZAKHSTAN'S ECONOMY IN THE GRIPS OF THE WORLD FINANCIAL CRISIS', Central Asia and the Caucasus: Journal of Social and Political Studies, 6(60).

[313] (2008) 'ArcelorMittal recalls Kazakh workers stood down'; (2008) 'Arcelor Mittal Temirtau will not reduce coal pro-duction - Karaganda Oblast *akim*', *Kazakhstan General Newswire*, Oct. 15.

The Kazakh stakeholders responded immediately. On October 3, Prime Minister Karim Massimov met with ArcelorMittal CEO Lakshmi Mittal in Astana to discuss possible anti-crisis measures.[314] By mid-October the regional *akim* of Karaganda, Nurlan Nigmatulin, had negotiated with the multinational to ensure that despite a necessary decrease in steel production, coal production would remain the same, and that of the over 4000 workers on leave, 500 would return.[315] And by late October a formal committee had been set up between all the major stakeholders to formalize a plan forward – not just between ArcelorMittal, the unions, and the regional and central governments, but with Kazakhmys and ENRC as well, the two other mining giants in the country that along with ArcelorMittal represented close to 300,000 jobs in Kazakhstan.[316]

On October 28th, all stakeholders signed the "Memorandum on the initiative of the Government of the Republic of Kazakhstan on mutual cooperation regarding the production processes stabilization and employees social protection." Signatories included the minister of industry and trade (representing the central government), along with all the relevant regional government heads and the chief executives of the major mining firms, including ArcelorMittal's Kazakh operations CEO. A final signatory was the head of Samruk-Kazyna, the country's sovereign wealth fund, whose relevance will become clear in a moment.

The overriding goal of the Kazakh stakeholders was to maintain employment – a promise not to layoff any workers. If, for instance, employees were no longer relevant due to decreases in production, the firms should transition these employees to modernization

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[314] (2008) 'KAZAKH GOVT INSISTS ON ENDING LAYOFF AT ARCELORMITTAL TEMIRTAU', *Central Asia & Caucasus Business Weekly*, Oct. 28.
[315] (2008) 'Arcelor Mittal Temirtau will not reduce coal pro-duction - Karaganda Oblast *akim*',
[316] (2008) '28th of October saw signing of Memorandums on the initiative of the Government of the Republic of Kazakhstan and employees social protection...', *Kazakhstan Government News*, Oct. 29.

and other investment projects, which the firms agreed to expedite (ArcelorMittal, like ENRC and Kazakhmys, was under specific capital investment schedules over certain periods of time). In return, the central and regional governments would increase "investment attraction" – essentially decrease regulatory constraints and tax burdens – while the unions were "obliged to raise employee's awareness of [the] measures being taken" by the multinationals, specifically in order to ensure "labor and production discipline." In other words, as long as the employees retained their jobs, no strikes. And finally, Samruk-Kazyna offered to provide co-financing to the firms for investment projects under the accelerated investment schedule.[317]

Employment Equals Stability

During the 2005 presidential elections, President Nazarbayev emphasized the country's stability as its key to economic success – a theme that was particularly apt at the time as nearby Kyrgyzstan was in the midst of its first political revolution.[318] In many ways Nazarbayev was right. Kazakhstan by 2005 was below the average risk rating for the CIS (though globally, still significantly risky),[319] while the country scored much closer to its neighbors on metrics of political freedom, corruption, and free speech (that is, they all scored poorly with the exception of Kyrgyzstan).[320] Though Nazarbayev has never been elected in a "free and fair" contest, the president remains largely popular and most analysts tend to agree that his popularity is mainly based off of his ability to attract foreign investment into the country, which is a direct result of his ability to maintain political

[317] Ibid.
[318] Saidazimova, G. (2005) 'Kazakhstan: Nazarbaev Touts Stability In Run-Up To Election', RFE/RL, Nov. 14. Available at: http://www.rferl.org/content/article/1062915.html
[319] (2012) 'Country Report: Kazakhstan', *IHS Global Insight*.
[320] (2011) 'Freedom in the World, Territory Ratings, 1972-2011', FIWAllScoresTerritories1973-2011.xls, available at www.freedomhouse.org.

stability, which overall leads to economic stability.[321] In fact the Kazakh government's investment website lists among the "10 Reasons to Invest in Kazakhstan," the country's political stability.[322]

But the financial crisis threatened to undercut that stability in a way the country had not experienced since the days of independence in the early 1990s. Whereas in 2005 independent polling indicated that 90-percent of Kazakhs believed the country was headed in the right direction and 5-percent that it was headed in the wrong direction, by 2008 that split had changed to 67/18, the lowest public opinion scores in the country between 2004 and 2011. Further, 33-percent of individuals polled were only able to buy "basic products" for their households, with an additional 12-percent reporting that they did not have "enough money for basic needs" – in other words, almost half the country was only able to afford at best basic needs. Perhaps most threatening to the president's ability to maintain stability, 72-percent of individuals expressed concern over high prices, and critically, 45-percent of individuals blamed high prices on the "government's lack of a coherent economic plan." Likewise in 2008, 58-percent of those polled indicated that overall they perceived the "majority or many" of the people in Kazakhstan to be afraid to "openly express their political views," compared to 41-percent in 2004 and 34-percent in 2011.[323] With increasing economic stress seemingly came increasing perceived political repression.

Clearly stability in Kazakhstan in 2008 was threatened like it had never been in recent years, and when ArcelorMittal responded to the decrease in global steel demand by lowering production and temporarily laying off workers, central and regional government

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[321] (2012) 'Jitters in Kazakhstan: Unsettled', The Economist, Feb. 5. Available at: http://www.economist.com/blogs/banyan/2012/02/jitters-kazakhstan
[322] http://www.invest.gov.kz/?option=content&section=4
[323] IRI (2011)

stakeholders recognized that unlike during the boom period – when maintaining production levels (and its benefits, whether those were budgetary payments or football stadiums) appeared to be more important even than worker safety – now employment was the priority. Put more bluntly, social stability became these stakeholders' ultimate goal: taxes, transport tariffs and environmental regulations were all negotiable.[324] Table 4.3 provides direct quotes from four key stakeholders explicitly stating that the memorandum's priority was to maintain employment and thus social stability.

Table 4.3: Key Stakeholder Assessments of the Memorandum on Stabilization / Employee Protection

Stakeholder	Quote
Nurlan Nigmatulin, Karaganda Oblast *Akim*	"The first and the most important thing that we have achieved is the guarantee of no layoffs or trimming of personnel. Miners and metal workers will keep their jobs."[325]
Vladimir Shkolnik, Minister of Industry and Trade	The aim of the memorandums is "to guarantee interests of parties in labor relations and provide social protection under possible economic risks."[326]
Karim Massimov, Prime Minister	"Plant workers are our main concern. The workers must enjoy social security despite external factors."[327]
Nursultan Nazarbayev, President	"There was a threat of cutting workplaces. However, we concluded contracts with our investors not to dismiss workers. It is very important. A person has to have a job. He can have a leave but he cannot lose his job, I know it from my own experience. He and his family should know that he has a job. Therefore, we did not allow job cuts."[328]

Within that one critical month of October 2008 we see stakeholder resource complementarities break out of and then return to equilibrium, and notably in a rather

[324] (2008) 'Government and Arcelor Mittal discuss anti-crisis program' Kazakhstan Today, Oct. 28.
[325] (2008) 'SSGPO, Arcelor Mittal Temirtau and Kazakhmys pledge to meet social commitments', *Kazakhstan General Newswire*, Oct. 28.
[326] (2008) 'SSGPO, Arcelor Mittal Temirtau and Kazakhmys pledge to meet social commitments'
[327] (2008) 'KAZAKH GOVT INSISTS ON ENDING LAYOFF AT ARCELORMITTAL TEMIRTAU', *Central Asia & Caucasus Business Weekly*, Oct. 28.
[328] (2009) 'Kazakh economy can withstand crisis - president', *BBC Monitoring Central Asia Unit*, Nov. 14.

cooperative manner. Reportedly ArcelorMittal management presented to the anti-crisis committee three possible future scenarios on global demand and how each would impact Karmet's operations. Communication proved critical – initially, for instance, Kazakh Deputy Prime Minister Umirzak Shukeyev wanted to force ArcelorMittal to maintain Karmet production while decreasing ArcelorMittal production at the multinational's other global sites. "Arcelor Mittal annually sells up to 110 million ton of steel on the world market," he was reported to have stated, asking why "isn't it possible to sell our five million tons?" But when it became clear that the government could not have it both ways, the priority became employment and ArcelorMittal responded accordingly. As one director recalls, "We made a mistake in thinking that unemployment was not our problem but the problem of the government – now we know that this is our problem,"[329] and in turn the multinational lowered Karmet production but maintained Karmet employment while downsizing in other countries (actually by 9,000 people, or 3-percent of the total workforce, just the following month).[330] By the beginning of 2009, though Karmet production had decreased significantly, employment remained steady, and a new tax code was in place that was "very beneficial" to ArcelorMittal, according to the then CEO of its Kazakh operations.[331]

That said, ArcelorMittal would test the boundaries of complementarity throughout the financial crisis. In late December 2008, the firm announced plans to shorten work weeks for some workers from five to four days,[332] and then in January announced that the

[329] Source-68 (2011)
[330] (2008) 'Arcelor Mittal Temirtau, part of the global steel maker, ArcelorMittal, confirmed its previous commitments not to lay off', *Kazakhstan Mining Weekly*, Dec. 9.
[331] (2009) 'Arcelor Mittal Temirtau sold 2.9 million tons of steel products in 2008', *Kazakhstan General Newswire*, Jan. 19.
[332] (2008) Arcelor Mittal Temirtau, part of the global steel maker, ArcelorMittal, confirmed its previous commitments not to lay off'.

company would be spinning off most of the non-core assets it had reacquired back during the privatization phase: Temirtau's public transportation system, a hotel, the garment factory, and the utilities company (responsible for the heat, electricity and hot water for all of Temirtau). Overall in 2009 tax revenues to the government would also decrease by USD 6 million to approximately USD 65 million.[333]

In May 2009 the company revealed that the Temirtau operation ran at a USD 100 million loss in the first quarter, forcing negotiations with the labor unions and a decision to remove an existing bonus structure under which employees that filled orders in time received a 14-percent raise.[334] The company also began offering a voluntary USD 10,000 severance package to workers over the age of 50 who had worked for the company for 10 years or more. This latter move would be one step too far, bringing the unions to file a complaint in November that led to a cease and desist order from the Ministry of Labor and Social Protection. The union's complaint? The decrease in employees had led to an increase in the responsibilities of the remaining workers without a raise; reportedly 1200 people had left the company on these initial terms.[335]

The parallels to the privatization period are obvious, with the key difference being the fact that unlike in the mid-1990s, in 2008 the Kazakh central government was cash rich, not cash poor. Therefore while in the 90s the central government's main priority was direct and indirect budgetary support (directly though cash payments to settle debts and indirectly through production that would lead to tax revenue) and to a lesser but still significant

[333] (2009) 'ARCELORMITTAL TEMIRTAU BUILDING NEW FACILITIES, BUT GIVING UP ...', Kazakhstan Mining Weekly, Jan. 19.
[334] (2009) 'ArcelorMittal Temirtau sales down 15%, loss ex-ceeds $100 million ...', Russia & CIS Metals and Mining Weekly, May 21; Rivituso, C. (2009) 'ArcelorMittal Temirtau resumes full payment to workers', Metal Bulletin Daily Alerts, Oct. 6.
[335] (2009) 'METAL-COMPANY-LAYOFFS-LABOR-MINISTRY', *Kazakhstan General Newswire*, Nov. 12.

extent, social stability, during the 2000s financial crisis, social stability moved to the forefront. In return, just as was the case the in 1990s, ArcelorMittal was allowed significant flexibility as long as it maintained social stability – spinning off non-core assets to increase the firm's balance sheet (exactly what happened in the 1990s), lowering wages and the work week, but keeping the employment roster stable.

Conclusion

The case of ArcelorMittal's successful presence in Kazakhstan for now almost two decades seems to affirm many of our initial propositions. First of all, behavior on the stakeholder (as opposed to the "host country") level is clearly a more appropriate unit of analysis. In several instances ArcelorMittal's Kazakh-based stakeholders acted in alternating, sometimes competing interests, to which ArcelorMittal had to respond differently. During the privatization period the local Temirtau administration was forced to absorb a series of social responsibilities without any financial support from the central government – whose priorities at the time were different – and thus the local administration relied heavily upon ArcelorMittal for support. During the steel boom years in which Karmet reached record levels of profitability, both the central and regional governments seemed much less concerned with employee safety, and in fact did not step in to assist the labor unions until Kamet production (and thus tax revenue and high priced social projects) was at stake. And even more recently we see how the labor unions themselves must be at times disaggregated as ArcelorMittal mistakenly assumed that a voluntary severance package system would be embraced without controversy.

Clearly, stakeholder goals are dynamic – they change as the situation warrants and as information increases. Whereas during privatization the miners were more than happy to see a consistent wage and guaranteed employment, those goals expanded dramatically during the steel boom only to contract once again during the financial crisis. The central government, as earlier discussed, shifted its own priorities as the country went from cash-poor to cash-rich, becoming concerned much more about social stability during the crisis than had been the case during privatization.

Further, agency matters. While resource complementarity certainly seems to be indicative of successful multinational-stakeholder bargaining, maintaining complementarity is an active process and can quickly turn from cooperative to conflictual when the equilibrium is lost. ArcelorMittal found complementarities early on with the central Kazakh government and the miners when it quickly settled Karmet's legacy debts and wage arrears – remember, ArcelorMittal paid; the others did not. But the firm equally caused its own set of problems when it actively decided to ignore union requests for increased wages and improved safety conditions during the steel boom. As the crisis hit home in 2008 and ArcelorMittal and its stakeholders realized resource complementarities were again at risk, the stakeholders came together to actively restore equilibrium, finding that mid-point at which all stakeholders, ArcelorMittal included, could pursue their own goals to a self-satisfactory degree – an attempt to "develop rules wherein our social and economic requirements are balanced," as one Karmet director recalls the situation.

Finally, structure matters. It is as influencing on stakeholders as stakeholders are on it. The failures of First Alpine and US Steel to integrate (or adapt) into the Soviet structure of Karmet's territorial-industrial complex had an influence on the Kazakh government that then allowed ArcelorMittal more flexibility in its negotiations. Conversely, ArcelorMittal found a way to respond satisfactorily to Temirtau's unique system of socioeconomic development while at the same time minimizing the firm's liabilities. And whereas the First Alpine JV was constrained by the risk-averse Austrian banking community, ArcelorMittal relied on financing from financial institutions undaunted by an economy in transition. Later, as the financial crisis threatened Karmet's profitability, ArcelorMittal flexed to the former Soviet state's overemphasis on employment, laying off workers across the globe but not in Karaganda. Equally, whereas during the Soviet era Kazakhstan placed heavy emphasis on production, as the country became more sensitized to the international market economy and the global steel market went into a recession, the central and regional government flexed on meeting previously sacred production targets – that is, these stakeholders recognized the impact of supply and demand constraints on post-Soviet, independent Kazakhstan.

We now turn to Cameco, a Canadian-based uranium mining multinational, to build on our existing knowledge of the active, subjective and dynamic process of maintaining resource complementarities and the inhibiting effect of structural constraints as stakeholders attempt to achieve their own goals to a self-satisfactory degree.

Chapter Five: Becoming more trustworthy, not necessarily more "domestic": Cameco and uranium mining in Kazakhstan

Introduction

In the spring of 2008, journalist Abraham Lustgarten published a profile on Moukhtar Dzhakishev[336] in *Fortune* magazine. At the time, Dzhakishev was the head of Kazatomprom, the Kazakh state-run enterprise for uranium mining and production, and with uranium prices at historic highs in 2008, and Kazakhstan home to almost 20-percent of the world's uranium reserves,[337] Lustgarten's report showered Dzhakishev with compliments that in hindsight seem almost theatrical in their hubris. Describing the rising Kazakh elite as the "self-made Kazakh uranium czar," Lustgarten wrote that Dzhakishev's confidence in his claims about his own power and success to date – "between spoonfuls of Beluga caviar and bites of ruby-colored tuna flown in from Dubai" – "might be laughable if his arguments weren't so damn convincing."[338]

Little did Lustgarten know, or Dzkahishev, that within a year's time this self-made Kazakh uranium czar would be behind bars.

True enough, however, back in 2008 Kazakhstan's uranium industry was on the verge of a major breakthrough since the country became independent in 1991. Uranium production during the 1990s suffered many of the same operating challenges of the larger mining sector in Kazakhstan in the early independence period, as described broadly in Chapter Three and detailed in-depth with regard to the steel industry in the previous chapter. Uranium production under what was then known as the Kazakh National Company

[336] This is how Dzhakishev spells his name in English, according to his own documents.
[337] *Engineering and Mining Journal* (2010)
[338] Lustgarten, A. (2008) 'Hot Metal', *Fortune International* (Europe), 157, 6.

for Atomic Energy (KATEP) declined 35- to 40-percent per year, causing the government in 1997 to revise its overly state-centric strategy and focus instead on drawing foreign investment to the industry[339] – not unlike its decision in 1995 to privatize Karmet in Temirtau. KATEP was scrapped and Kazatomprom was created in June of 1997 to control the state's interest in a series of joint ventures (JVs) that were to be formed with foreign companies.[340]

Dzhakishev was named Kazatomprom's president, and in the late 1990s the company faced a tough balance sheet: significant physical depreciation of uranium assets, 6 month wage arrears of just under USD 12 million, bank loans and debts to foreign companies at USD 44 million, anti-dumping restrictions that put quotas on uranium exports to the US and Europe, and a monetary crisis in Russia that made uranium fuel pellets produced in Kazakhstan unaffordable to the Soviet-era customer they were designed for – nuclear power plants located in Russia.[341] According to Dzhakishev, only a fraction of uranium production in the country during this time was actually booked to customers.[342]

Significant restructuring and foreign deal-making by the "self-made uranium czar," paired with anticipated rising demand in uranium in the 2000s, led Dzhakishev to publically set as policy the country's first major goal within the uranium industry. In September 2004, at the annual symposium of the World Nuclear Association in London, he announced the "15,000 MT, U by 2010 plan,"[343] (henceforth referred to as the 2010 plan) which called for

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[339] Peck (1999), p. 512.

[340] Kazatomprom official website: see http://www.kazatomprom.kz/en/; http://www.kazatomprom.kz/en/pages/Kazatomprom_today; http://www.kazatomprom.kz/en/pages/Uranium_Mining; and http://www.kazatomprom.kz/en/pages/Nuclear_fuel_cycle_strategy. All last accessed on 02-OCT-2012.

[341] Kazatomprom (2012) and Peck (1999)

[342] Lustgarten (2008)

[343] Kazatomprom (2012) and Dzhakishev, M. (2004) 'Uranium production in Kazakhstan as a potential source for covering the world uranium shortage', *World Nuclear Association Annual Symposium*, London, Sep. 8-10

Kazakhstan to become the world's largest producer of uranium by 2010 (in 2004 the country was ranked a very distant third place in production worldwide[344]). At the time, a series of JVs were moving from the exploration to the development and production phase, with more on the horizon. Specifically, Kazatomprom had entered into JVs with a variety of Canadian, French, Russian and Japanese private and state-owned companies.[345]

While Kazatomprom saw its 2010 plan realized – by the end of 2009, Kazakhstan became the leading producer of uranium worldwide[346] – Dzhakishev, for all his success, would ironically witness the event from prison. In May of that year, he was arrested by the KNB following accusations that he had illegally sold state assets as president of Kazatomprom at his own financial benefit. While these allegations may have been true (and Dzhakishev remains in jail at the time of this writing), most analysts believed at the time that the charges were politically motivated, as Dzhakishev had become over the years considerably close to a group of elites within the country viewed as potential contenders to President Nazarbayev's rule, specifically a controversial individual named Mukhtar Ablyazov, who has since fled the country after the government nationalized the bank at which he was chairman.[347]

Dzhakishev's anecdote is but one example in a string of events that together seems to confirm Kazakhstan's reputation as a politically risky country for foreign investment in the uranium sector. As was briefly mentioned in Chapter Two, in 1997 the Canadian miner World Wide Minerals' Kazakh operations were expropriated by the government following

[344] (2011) 'World Uranium Mining', *World Nuclear Association*. Available at: http://www.world-nuclear.org/info/inf23.html
[345] Kazatomprom (2012)
[346] World Nuclear Association (2011)
[347] Lillis, Joanna (2010) 'Kazakhstan: Ex-Nuclear Boss Sentenced Amid Claims of Political Reprisals', *Eurasianet.org*, Mar. 16, available at (last accessed 02-OCT-2012): http://www.eurasianet.org/departments/civilsociety/articles/eav031710.shtml

claims that the miner failed to fulfill its management agreement.[348] And in response to Dzhakishev's arrest in May 2009, another Canadian miner, Uranium One, suffered a near 40-percent dive in share price on the Toronto Stock Exchange (TSX) in a single day, forcing the exchange to suspend trading.[349]

Notably, however, one Canadian uranium mining company has remained successful in Kazakhstan throughout these incidents and up to the present day. Cameco, also traded on the TSX (and the NYSE), has been operating in Kazakhstan since 1993. As World Wide Minerals was on its way out of Kazakhstan, Cameco was becoming increasingly embraced, and while the Dzhakshev arrest almost brought Uranium One to collapse, the event had no effect at all on Cameco's share price, despite the fact that the company was also involved in a venture with the Dzhakishev-led Kazatomprom. In fact, just as ArcelorMittal today is considered one of ten "success stories" by President Nazarbayev's Foreign Investors Council, so too is Cameco.[350]

This prompts us to restate the guiding question of this thesis: why are some firms able to operate successfully in so-called "risky" countries? Why has Cameco been successful, like ArcelorMittal, where others have failed?

The following chapter proceeds in three parts. In the first section we provide a basic overview, set chronologically, of the resource complementarities formed between Cameco and its Kazakh-based stakeholders from 1993 to 2009. While in many ways we reaffirm

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[348] Carroll, P.A. (1997) 'The Reconstruction of the Uranium Industry in Kazakhstan', *The Uranium Institute Twenty Second Annual International Symposium*; see also (2002) 'No. 00-7250: World Wide Minerals, Ltd. v. Republic of Kazakhstan, et al.', *Appeal from the United States District Court for the District of Columbia*, No. 98cv01199, Aug. 2; and Carroll, P.A. (2011) *The Kazakhstan Story*, May 3, available at (last accessed 02-OCT-2012): http://www.docstoc.com/docs/26277582/THE-KAZAKHSTAN-STORY-Overview-In-June-1996_-World-Wide-Minerals

[349] Nuttall, C. (2009) 'ANALYSIS: Kazatomprom corruption probe engulfs head, Canada's Uranium One', *Business News Europe*, Jun. 1.

[350] (2011) *Success Stories: foreign investors in Kazakhstan: ideas for potential players* (FIC, Astana).

broadly our theoretical findings from the previous chapter on ArcelorMittal, in this section we see that resource complementarities need not necessarily be recognized simultaneously (as was the case with ArcelorMittal) but rather can be maintained in an iterative, reciprocating process over the long-term. Critical to this form of maintaining resource complementarities, however, is the concept of trust – opposing stakeholders can only enter into bargains that are not immediately in an actor's self-interest if that actor trusts that the opposing stakeholder will reciprocate the good behavior later (i.e. "return the favor").

In the second section of this chapter we further develop the concept of trust in examining Cameco's bargains with three separate stakeholders from 2009 to 2011: Kazatomprom; the village of Taikonur in which Cameco operates; and the *akim* of South Kazakhstan (the *oblast* in which Taikonur is located). Our intent here is to refine our understanding of our agency and structure propositions under the PBM framework by focusing on relationships that continually challenge Cameco's ability to remain successful in the country in ways separate from what we observed with ArcelorMittal in Temirtau. Whereas ArcelorMittal employs 55,000 people, Cameco employs just about 500; whereas ArcelorMittal inherited a single-enterprise city with a population of 180,000 along with significant non-core business activities (e.g. city-wide transportation and electricity), the village of Taikonur is so small and remote that it is not even legally recognized by the government as a town.[351] These differences and many more (to be detailed) both frustrate and encourage Cameco's ability to be successful in Kazakhstan in ways different than ArcelorMittal, mainly because of the institutional (or structural) asymmetries that exist between the firm and its stakeholders and how these influences in turn can constrain the actors' ability to find resource complementarities. Again, trust here is a core component of

[351] Source-13 (2011), Mar. 7

success. When Cameco cannot act in a way expected by its Kazakh stakeholders due to an inviolable home country constraint, the Kazakh stakeholders must be able to trust that Cameco is telling the truth (and not, for instance, using the issue as an excuse for advancing the firm's own interests). Likewise, when a particular Kazakh stakeholder cannot act in a way expected by Cameco, Cameco must be able to trust that in adapting to the stakeholder's needs, Cameco will be rewarded.

In the third and final section, we bring these different elements of trust together to reflect on their significance for Eden et al.'s political bargaining model, the institution-based school of strategic management within IB, and the greater agent-structure debate within the social sciences. Here I argue, based on what we see in Cameco's case, that bridging institutional (or structural) divides is not necessarily about becoming more "domestic" in the sense of becoming more "Kazakh," as the existing scholarship on institutional distance would suggest, but rather about becoming more trustworthy. By exploring the concept of trustworthiness – how to build and maintain it, and how it is lost – and by specifically focusing on the implications of trust to the PBM and the agent-structure debate, our case study of Cameco in Kazakhstan allows us to enrich our thus far ArcelorMittal-informed understanding of why some firms are successful in seemingly politically "risky" countries.

Building Trust: 1993-2009

We begin by providing an overview of Cameco's relationship in Kazakhstan from independence up until the country achieved its goal of becoming the leading uranium producer in the world. Unlike in ArcelorMittal's case in which the firm established a bargain with Kazakh stakeholders based on resource complementarities recognized by all parties immediately (i.e. the firm agreeing to a series of investment and employment guarantees in exchange for immediate access to a fully vertically integrated steel enterprise), Cameco's early presence in Kazakhstan began with the firm's offer of significant assistance to the country's state uranium company with little guaranteed in return in the short-term (but with the expectation that Cameco would later be allowed to develop uranium resources in the country). Such a situation introduces the concept of "trust" into our characterization of the bargain that is formed between a firm and a given stakeholder when the former enters into the seemingly "risky" investment environment of the latter, and it is this idea of trust that we develop in-depth throughout this chapter.

First impressions

When Kazakhstan became independent in the early 1990s, the government simply had no knowledge of how uranium was typically traded on the international market, much like was the case in many export-driven sectors across the country. Prior to independence, uranium produced in the country had been marketed by the Soviet enterprise Technabexport out of Russia, and considering that in 1993 Kazakhstan was responsible for approximately 8-percent of global uranium production and yet now had little idea on how to sell it, increasing marketing expertise within KATEP (Kazatomprom's predecessor) became a leading priority early into independence.[352]

Cameco sees its own decision to provide KATEP managers with marketing assistance back in 1993 as the early foundation for the company's success in the country up through the present day. In the early 1990s, when Kazakhstan "had no presence in or knowledge of the Western market [for uranium]," as a Cameco director relayed to me, the

[352] (1993) 'Kazakhstan links up with Western uranium companies', *FT Energy Newsletters - East European Energy Report*, Sep. 24.

firm formed a marketing JV with KATEP that allowed the Republic to “earn real money at a time when the country had no hard currency”[353] (recall from Chapter Three that government budget resources in 1993 were at half the level as they were in 1991[354]). Cameco agreed, along with its German partner Uranerz, to invest USD 3 million into KATEP facilities to increase efficiency and safety and environmental standards in return for exclusive responsibility for marketing KATEP uranium on the global market under a 10-year contract.[355]

This initial agreement between Cameco and KATEP illustrates a slightly skewed case of established resource complementarities between stakeholders, as compared to our ArcelorMittal example, because of the large gap in time that passed until Cameco was rewarded for its initial good behavior. Victor Yazikov, the then head of KATEP, was quoted at the time as noting that his intent was to “benefit from the experience of Cameco and Uranerz in negotiating long-term contracts” within the industry.[356] And true enough, up until this point KATEP had run into serious challenges in trying to market uranium on its own – dumping allegations by the US and European countries, for instance, had already led to anti-dumping restrictions on Kazakh uranium in these markets (dumping is when a firm exports a product at a price substantially below market prices, causing importing countries to react with protectionist measures aimed at defending domestic markets). KATEP had the clear goal of rejuvenating the country’s uranium sector, and certainly a structurally-influenced constraint in this manner was its inability to market uranium in an international

[353] Source-13 (2011), Mar. 17
[354] Becker et al. (2009)
[355] (1993) 'Kazakhstan links up with Western uranium companies'
[356] (1993), 'CAMECO ANNOUNCES URANIUM AGREE-MENT WITH KAZAKHSTAN' *Canada NewsWire*, Sept. 8.

market economy (i.e. beyond the Soviet command economy) – which Cameco, as an experienced international player, could easily fulfill.

Cameco, for its part, recognized Kazakhstan for its sizeable uranium reserves, and very explicitly understood the marketing venture to be the first step in creating a positive, lasting relationship with the Kazakh government. "This agreement," then Cameco CEO Bernard Michel explained at the announcement, "provides Cameco with an opportunity to play a major role in uranium development in a country that has proven, extensive, in-situ leachable uranium resources."[357] Cameco had the traditional multinational miner's goal of access to reserves, which KATEP could provide, and thus together the two actors found complementarities in their resources.

The significance of trust

The parallels here to ArcelorMittal's case are clear. The Kazakh government offered ArcelorMittal access, ArcelorMittal in return offered the necessary technological and capital investments, and together each actor pursued the mutual goal of rejuvenating the steel industry, even if the motives behind this shared goal were different (i.e. purely profit vs. budget revenue, social welfare, and employment). However, there is one key difference in Cameco's case that must be underscored. Unlike the bargain formed with ArcelorMittal, Cameco's bargain did not immediately guarantee access to Kazakh uranium reserves. Rather, the initial marketing and investment deal was made *in good faith* (though explicitly stated) that this was just the first step in the firm's long-term relationship with KATEP (and by extension, the Kazakh government). In other words, there was an element of *trust* in Cameco's early presence in Kazakhstan – a sort of "pay it forward" approach to establishing positive relations in the politically "risky" country (and at the time, still a

[357] (1993), 'CAMECO ANNOUNCES URANIUM AGREE-MENT WITH KAZAKHSTAN'

largely unknown country – recall that this initial deal was made in 1993, two years before ArcelorMittal's deal in the country and the failed attempts by the First Alpine JV and US Steel).

Trust in this instance reaffirms the significance of agency. In hindsight, certainly there was an element of trust in Temirtau with ArcelorMittal that we earlier attributed to agency – unlike US Steel and the First Alpine JV, ArcelorMittal paid the initial up-front cash injection of USD 50 million. That was a choice the firm made that its predecessors were unwilling to make. But again, that action was in return for immediate access, whereas in Cameco's case the down payment of an investment of USD 3 million and assistance in marketing was in return for only the *expectation* of future access. It is worth noting as well that Cameco reflects on this early deal as not having been in the firm's interest in the short-term. According to one source familiar with the negotiations, helping Kazakhstan market its uranium had the predictable effect of increasing the supply of uranium on the global market, which had a negative impact on the value of Cameco's own uranium.[358]

Interpreting trust as a component of agency resonates with Teegen et al.'s research, as described earlier, in which they swapped out MNEs in Vernon's traditional MNE-host country bargaining framework with NGOs. Their observations confront the power-focused understanding of Vernon's bargaining model in noting that NGOs appear to develop positive, lasting relationships with stakeholders based mainly on trust. They describe the "trusted position"[359] that successful NGOs maintain within their operating area as a function of a commitment to long-term reciprocity and recognition of mutually beneficial

[358] Source-13 (2011)
[359] Teegen et al. (2004), p. 468

“common ground” among stakeholders.[360] In this sense, trust is treated by NGOs as a resource that can be mobilized to maintain positive relations, seemingly placing Teegen et al.’s research in the resource-based school of strategic management (and therefore in the agent camp in the larger agent-structure debate). It would then follow that Cameco’s aim in 1993 was to accept trust as a resource in return for providing assistance in marketing, the expectation being that KATEP would later reciprocate with permission to develop uranium deposits. Just as ArcelorMittal made the active choice to immediately inject USD 50 million into the Kazakh steel industry, Cameco made the active choice to trust that KATEP would later reciprocate.

Others, however, see trust as more closely associated with the institutional or structural environment of the firm’s operating location. Suzana B. Rodrigues, for instance, examines in a detailed monograph the failures of trust within international alliances and how they are repaired. Equally as cognizant as Teegen et al. of the relationship between trust and reciprocity, Rodrigues adds in a cultural (and thus structural) layer. “Reciprocity is a political weapon,” she writes, “that although not well understood in the West, is a very important mechanism for trust building in business collaborations in the East.” Practically speaking, she points out that in the United States contracts are viewed as impersonal documents maintained by a legal framework wherein China contracts tend to be highly personal and maintained through trust and commitment.[361]

There is no reason why both of these perspectives cannot be reconciled, in fact Rodrigues’ description of “reciprocity” as a weapon implies that it can be used or abused by an agent to achieve a particular goal. Further, Charles E. Stevens argues that a core

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[360] Teegen et al. (2004), p. 465, 468

[361] Rodrigues, S. (2010) *Towards a New Agenda for the Study of Business Internationalization: Integrating Markets, Institutions and Politics* (Erasmus Research Institute of Management), p. 25.

assumption of Vernon's bargaining framework is that the "host government is fundamentally antagonistic towards foreign firms, due to distrust relating to their 'foreignness.'"[362] Here he is drawing a direct parallel between "distrust," "foreignness" and a "legitimacy" deficit, much in the way that proponents of the institution-based school of strategic management see overcoming the "liability of foreignness" as key to ensuring domestic legitimacy and thus decreased exposure to government intervention in the MNE's local affairs.[363] Recall, however, that in our examination of ArcelorMittal in Chapter Four, we saw some limitations to this concept – specifically that becoming more "domestic" can have negative implications if in doing so the firm becomes entangled in informal domestic politics (e.g. elite politics) or if the motivating desire of the government is in fact international legitimacy (as was the Kazakh government's interest in bringing an international player to a legacy Soviet steel enterprise in dire need of international market economy-informed expertise).

Importantly, what Stevens argues (in his interpretation of Vernon's work) is something different than simply an embrace of the traditional institutional distance perspective. In seeing "distrust" here as synonymous with "foreignness," he recognizes a broader interpretation of essentially what Rodrigues argues in the specifically US-Chinese case. Simply to be an outsider, regardless of the country, is to be immediately suspected as distrustful. What then follows from such an observation is what we see in Cameco's case here: that overcoming the "liability of foreignness" is not necessarily about being more "Kazakh," but rather about being more trustworthy. That is a distinct and important

[362] Stevens, C. (2010) 'A Legitimacy-Based Approach to Political Risk', *Dissertation presented in partial fulfillment of the requirements for the degree doctor of philosophy in the Graduate School of Business Administration* (Ohio State University), p. ii.
[363] Eden et al. (2004); see also Kostova and Zaheer (1999)

difference – and one that this chapter and thesis will continue to develop. Cameco's actions in 1993 under this line of reasoning can therefore be equally attributed to agency and structure. The firm actively decided to "pay it forward" in a potentially long-term reciprocating relationship that in turn had a reputational effect as the firm became more "domestic" – a term understood here as having no significance beyond the trait of trustworthiness.

The facts seem to bear this out. In 1999-2000, Cameco finalized its contracts with Kazatomprom for what would eventually be a 60/40 uranium mining joint venture (JV) known as Inkai in which Cameco would not only maintain the majority share but also retain direct control over operations and marketing. Compared to other JVs formed between foreign partners and Kazatomprom, these terms were highly favorable (and continue to be) – almost all other Kazatomprom JVs are operated by Kazatomprom, Kazatomprom is the majority shareholder, and in some cases Kazatomprom controls marketing as well.

Further, we know that KATEP and then Kazatomprom were not seeking foreign partners for the sake of their "domestic legitimacy" as understood traditionally within the institution-based school of strategic management. Cameco was not expected nor encouraged to become more "Kazakh" but rather to make the uranium sector in Kazakhstan more international, through marketing (under the 1993 agreement) and through technology (under the Inkai JV) – precisely what we saw with regard to the Kazakh steel industry and ArcelorMittal.

We also know from the experiences of other uranium mining companies that there were in fact risks in becoming too domestic in the traditional sense. Uranium One's stock suffered following the arrest of Dzhakishev because Dzhakishev – an elite within the country who was increasingly viewed as a threat to Nazarbayev's leadership – constructed the Kyzylkum LLP around Uranium One, Japanese investors, Kazatomprom, and an unidentified offshore company believed to be connected to Dzhakishev. This offshore company became the subject of the KNB investigation that led to Dzhakishev's arrest, led to a larger investigation announced by the KNB of the entire Kyzylkum LLP, which then in turn led to Uranium One's dive on the TSX.[364] In other words, Uranium One's close association with Dzhakishev – what could be interpreted as making the Kyzylkum LLP more "domestic" than, for instance, Cameco's Inkai JV – actually decreased Uranium One's ability to be successful in Kazakhstan. In this sense Uranium One's association with Dzhakishev seems very similar to the relationship described in the last chapter between Voest Alpine Intertrading and Bulat Abilov (another Kazakh elite who fell out of favor with Nazarbayev) in the First Alpine JV.

Rather, domestic legitimacy seems to be more about mutual trustworthiness than about being more "Kazakh." In World Wide Minerals' case, for example, there was a clear lack of trustworthiness between World Wide Minerals and the Kazakh government. World Wide Minerals was convinced that it would be able to freely market its uranium outside of Kazakhstan; the Kazakh government was under the impression that World Wide Minerals would manage and maintain operations at a particular legacy Soviet uranium mine. When World Wide Minerals's ability to market uranium was blocked, the firm suspended operations at its site, which in turn led the Kazakh government to expropriate the mining operations. This instance not only highlights the significance of mutual trust in a successful bargain (or lack thereof in an unsuccessful bargain), but perhaps even more importantly,

[364] Nuttall, C. (2009) 'ANALYSIS: Kazatomprom corruption probe engulfs head, Canada's Uranium One', *Business News Europe*, Jun. 1.

points to the fact that agency plays a critical role in maintaining trust – the Kazakh government actively decided to block World Wide Minerals's ability to market uranium, World Wide Minerals actively decided to reciprocate by suspending operations, which the Kazakh government then reciprocated by dismissing the firm from the country.

To sum, broadly speaking Cameco's successful bargain with the Kazakh government up through 2009 can be understood by the two actors' ability to maintain resource complementarities among one another under a system of trustworthiness. In the early 1990s, when Kazakhstan needed assistance in marketing uranium, Cameco was there to help. Confirming the reputational effect of Cameco's early assistance, the firm entered into the Inkai JV under terms that would eventually be much more favorable than under other production JVs formed with Kazatomprom at the time. By the time Kazatomprom announced an ambitious plan to make Kazakhstan the number one uranium producer in the world, Cameco was already well on its way in investing the necessary technology and capital to transform the Inkai deposit into a world class site capable of producing 5 million pounds of yellowcake per year.[365] Unlike in ArcelorMittal's case, these resource complementarities were not necessarily established concurrently but rather through iterative reciprocity – trust – over a more than 15-year time period (see Table 5.1 for a summary).

Table 5.1: Initial Goals, Resources and Constraints for Cameco in Kazakhstan

Stakeholder	Goals	Resources	Constraints
KATEP	Increase knowledge on uranium marketing	Access to uranium deposits	Knowledge
Kazatomprom	Increase uranium production and sales	Access to uranium deposits	Capital, technology

[365] (2012) Cameco website, specifically (last accessed 02-OCT-2012): http://www.cameco.com/mining/inkai/; http://www.cameco.com/mining/inkai/history_and_innovations/; and http://www.cameco.com/mining/inkai/reserves/

Cameco	Increase uranium production and sales	Capital, mining technology, marketing experience	Access

Losing Trust: 2009-2011

A series of endogenous and indigenous events in the 2009-2011 timeframe significantly altered the operating environment for Cameco in Kazakhstan. Following Kazatomprom's achievement of its first strategic challenge – becoming the leading uranium producer in the world – the state-run enterprise increased its pursuit of a plan aimed at completing the nuclear fuel cycle within the country, reaching out to Cameco for assistance. It was also during this timeframe that the Inkai JV came into full production, which triggered a clause in Cameco's existing contract with the Kazakh government that would increase significantly the importance of Cameco's relations with the regional government of South Kazakhstan *oblast* (where the Inkai JV is located). Furthermore, in 2010 a new subsoil law came into effect, and it quickly became apparent that the Kazakh government would push firms operating under legacy subsoil agreements to comply with the new terms, despite previous assurances that this would not be the case – such as Cameco's existing agreement with Kazatomprom that was forged under the 1996 subsoil law.

In this section we see how these new developments challenged Cameco's ability to maintain resource complementarities with its Kazakh-based stakeholders. Just as Cameco's success up through 2009 was largely characterized by mutual trust between the firm and Kazatomprom, following that period the firm labored to maintain a reputation of trustworthiness within the country, whether through Kazatomprom or through the regional government of South Kazakhstan. Equally, Cameco over this time period became increasingly distrustful of its own stakeholders' intentions with regard to the firm.

Breaking the trust with Kazatomprom

As Kazakhstan was on its way to becoming the number one uranium producer in the world, Kazatomprom turned its focus to a new policy aimed at transforming the state enterprise into a vertically-integrated transnational company "participating in all stages of the nuclear fuel cycle," with the exception of nuclear waste disposal.[366] Because the uranium industry within Kazakhstan during the Soviet era was part of a command economy spread across the USSR, the country's legacy elements in the fuel cycle are disjointed – the full process is: production (mining); conversion; enrichment; reconversion; fuel pellets; fabrication of fuel assemblies; and nuclear power plant construction. Kazakhstan's role during the Soviet years was in production, reconversion and fuel pellets, and while no date has been publically announced for the achievement of full vertical integration, Kazatomprom has signed a series of JVs and memorandums of understanding with Cameco (for conversion), Russia's Techsnabexport (for enrichment), the China Guangdon Nuclear Power Corporation (for better fuel pellets), France's Areva (for fuel fabrication), and Russia's Atomstroyexport (for nuclear power plant construction).[367]

Cameco signed its initial agreement with Kazatomprom in 2007-2008 to form the Ulba Conversion LLP, a 49/51 split respectively in which Cameco would mainly be responsible for providing technological assistance to Kazatomprom as it constructed a conversion facility in East Kazakhstan.[368] Conversion is the process of turning yellowcake uranium (the final product from the Inkai JV) into uranium hexafluoride (UF_6), and

[366] Kazatomprom (2012)
[367] Kazatomprom (2012)
[368] Kazatomprom (2012)

critically, since 2008 the market for UF_6 has remained flat due to a glut in supply. By most market analyses, the dominating conclusion at the moment is that the construction of new conversion facilities globally is simply not financially viable.[369] Cameco, perhaps not surprisingly, has therefore been reluctant to go ahead with the construction of a new facility despite the 2008 agreement with Kazatomprom – a critical choice that we will return to in a moment.

This particular situation is not the first time Cameco and Kazatomprom have had different opinions toward uranium sector development in Kazakhstan. In one anecdote relayed to me by a Cameco director, the company faced significant resistance from Kazatomprom as it pushed to rubberize all production equipment within the facility – something that is "not commonly done" in Kazakhstan because "rubberizing the pipes and tanks add to your capital costs and capital here has been difficult or expensive to get," according to the director.[370] And so while Kazatomprom preferred to "deal with it as an operational issue," Cameco preferred to avoid, quite bluntly, "acid tanks bursting."[371] Because Cameco has maintained operational control at Inkai, it has been able to ensure such safety standards.

Cameco has also long disagreed with Kazatomprom on who should market the uranium from Inkai. Kazatomprom has become increasingly more confident over the years in its ability to market uranium independently to global customers, whereas Cameco argues that Inkai-based uranium is more valuable if marketed through Cameco based on the concept of country risk. "Not every customer likes dealing with state enterprises and not

[369] See, for example: (2011) 'Weekly Roundup', *Nuclear Intelligence Weekly*, 5(6), Feb. 7; Mani, G. (ND) 'Gaining a New Perspective or History Repeating Itself', *ConverDyn* presentation.
[370] Source-13 (2011)
[371] Source-13 (2011)

every customer wants to deal with a sole source," the same Cameco director explained to me. In other words, "Cameco uranium" comes from the US, Canada, Australia or Kazakhstan, while "Kazatomprom uranium" comes only from Kazakhstan, making the latter source much more exposed to country risk. Eighty percent of uranium is sold under long term contracts, defined within the uranium industry as greater than two years – a significant time period for political risk forecasting, or put another way, a significant period of time to trust that the demand will be met – and therefore as Cameco sees it, customers prefer Cameco-marketed (country-diversified) uranium.

Further, Kazatomprom and Cameco hold different philosophies on uranium production quotas in the country. While under open conditions Cameco would adjust production according to demand, Kazatomprom sets very specific quotas for each mine. As it was explained to me by a former official within Kazatomprom in charge of overseeing JVs, the state-run enterprise believes that if it does not set specific quotas, foreign companies will be opportunistic in their mining strategies, taking "the good 40-percent" at the cost of the "bad 60-percent," and so an operating constraint was implemented by Kazatomprom that requires 95-percent efficiency in uranium resource extraction over a period of time set by the government. In other words, Kazatomprom does not trust its foreign JV partners to control production. "All companies have strategic plans," this individual explained to me, and these plans are authored by Kazatomprom and outline specific production quotas (based "on geology") up through the life of the mine (the Inkai JV has an expected mine life of 30 years).[372]

It is on this subject of production that it became increasingly clear over the 2011 timeframe that the pre-existing mutual trustworthiness between Kazatomprom and Cameco

[372] Source-55 (2011), Mar. 16

was eroding. In 2011, Cameco requested permission to double production levels at the Inkai JV and the firm and Kazatomprom signed a memorandum of understanding to this effect in which Kazatomprom agreed to move ahead with making the requisite changes to Inkai's operating licenses to allow this to occur. However, in practice Kazatomprom made no moves on the regulatory side to allow this to happen. Why? As a 2012 Cameco corporate document argues in reflecting on the challenges of operating in Kazakhstan over the course of 2011, "We expect [that] our ability to double annual uranium production at Inkai will be closely tied to the success of the uranium conversion project."[373] The assessment in *Nuclear Intelligence Weekly* was a bit more blunt, describing Cameco's challenge as a "conundrum of how not to build a promised UF6 plant in Kazakhstan."[374]

Cameco's perception (as stated in the above mentioned corporate document) that it had thus failed to receive regulatory permission to increase production because of its failure to move forward on the Ulba Conversion LLP was in essence an admission that Kazatomprom no longer trusted Cameco. Whereas the two actors had previously operated under a system of trustworthiness in which resource complementarities could be realized iteratively over long periods of time as opposed to concurrently, Cameco perceived the production-conversion dilemma in this new period as only possibly resolved via simultaneously realized resource complementarities. "I have what you need" – the technology for conversion – and "you have what I need" – the permission to increase production – and I will not get the latter until you feel confident that you will get the former.

[373] (2012) '2011 Management's discussion and analysis', *Cameco* (based on information known by 8-Feb-2012), p. 81.
[374] Nuclear Intelligence Weekly (2011)

While in the production-conversion dilemma it was Kazatomprom that initially lost trust in Cameco, it is important to note that another development during this time period caused Cameco to lose trust in Kazatomprom. Specifically, the Inkai JV had been signed under the 1996 subsoil law and that agreement included several stabilization clauses – terms that would be guaranteed to Cameco despite any potential future legislation. However, when the 2010 subsoil law was passed, Kazatomprom and the Kazakh government began to "encourage" Cameco to bring its operations under the new law. "Over time, we've found…that you get asked to let go of those contract provisions and follow the law now that the law has been developed," as one Cameco manager described to me. In other words, the government decided to change the terms of Cameco's operating conditions, despite previous promises to the contrary (what is known as a "stabilization" clause). On the smaller points, he continued to describe, if they are not "unreasonable" then Cameco will oblige, but larger points such as the right to international arbitration – which was not guaranteed explicitly in the 2010 law – create more friction and lead to more in-depth negotiations (that at times may include other multinationals or home country embassies).[375]

How to explain this dissolution of trust between Cameco and Kazatomprom? If we look at the main points of friction – capital vs. operating expenditures, country-diversified vs. single-country uranium marketing, market-driven vs. state-determined production quotas and conversion facility construction, and finally honoring stabilization clauses vs. respecting more recent legislation – a clear pattern develops in which Cameco's interests are in line with the expectations of the international market economy and corresponding legal system while Kazatomprom's interests are state-oriented and rooted in either the

[375] Source-13 (2011)

country's Soviet past or contemporary nationalist strategies (or both). Less emphasis on capital expenditures and strict compliance with production quotes extend from the country's Soviet legacy, when capital was not readily accessible and production was managed from Moscow; plans to complete the nuclear fuel cycle, maintain full control over marketing and disregard the previous subsoil law seem more likely rooted in post-independence nationalist strategies aimed at establishing the country's independence among foreign actors.

Therefore in this time period it seems that trust dissipates due to structural gaps between the two actors, an observation more reminiscent of traditional understandings of institutional distance. The clearest structural asymmetry between the stakeholders is on the tradeoff between conversion and production. Kazatomprom, as an agent, is influenced structurally by the country's larger drive toward independence and autonomy, which translates into a desire to complete the nuclear fuel cycle and maintain control on production by foreign firms. Cameco, as an agent, is influenced structurally by the markets under which it trades publically and the capitalist country from which it extends, which translates into a desire to only pursue financially viable projects and to increase production as dictated not by states but by markets. Seemingly the distance between these two structural influences prevents the two actors from achieving resource complementarities (see Table 5.2 for a summary).

Table 5.2: Shifting Goals, Resources and Constraints

Stakeholder	Goals	Resources	Constraints
Kazatomprom	Complete nuclear fuel cycle	Access to uranium deposits, control over production levels	Technology

Cameco	Increase uranium production and sales	Capital, mining technology, marketing experience, conversion technology	Shareholders, regulators

At the same time, however, the fact remains that significant structural asymmetries existed between the two actors back in the early 1990s and yet resource complementarities via mutual trust were still possible to establish. How to reconcile these two periods and their different outcomes? Before we explore the answers to this question, it is necessary to take a look at a similar dissolution of trust though here between Cameco and the regional government of South Kazakhstan (in which the Inkai JV is located). We will then return to further develop the concept of trust in all of these instances in the chapter's ultimate section.

Failing to trust: regional relations

According to the original contract Cameco signed to establish the Inkai JV, the firm was legally bound to spend a specific amount of money annually on social contributions up until the Inkai JV came into full operation (which occurred in the 2009-10 timeframe). Cameco spent approximately USD 4 million on social projects in Kazakhstan over this roughly 10 year period, a sum higher than contractually required due largely to Cameco's own internal corporate social responsibility (CSR) policies. In the end, Cameco decided to spend the USD 4 million almost entirely on the nearby village of Taikonur (Cameco's CSR philosophy is to focus on the communities closest to its operations) and a local council was set up in the village to determine how the money would be spent.[376] The council decided to

[376] Source-13 (2011); Source-54 (2011), Mar. 17

rebuild the local school along with the settlement's water supply system and to construct a medical aid station,[377] all sourced when possible with local people and local supplies.

On the eve of the Inkai JV coming fully into production, therefore, Cameco's bargain with its local stakeholders appeared to be cooperative and based on achieving mutual interests: funding social projects in Taikonur allowed the firm to achieve its shareholder-instituted CSR goals, while the community itself was able to leverage Cameco's social contributions to improve local infrastructure. Once the Inkai JV went into full production, however, social programming shifted from being Cameco's responsibility to technically being the Inkai JV's responsibility (this was agreed upon in the firm's initial contract with the Kazakh government), wherein Inkai was expected to provide the regional *akim* of South Kazakhstan with significant financial assistance on social projects on an annual basis, not unlike the situation between ArcelorMittal, the regional *akim* of Karaganda, and the city *akim* of Temirtau, as described in the last chapter. Just as was the case with ArcelorMittal, if Inkai (and by extension, Cameco) wanted the mandated social contributions to be tax deductible, the JV needed to sign a memorandum of cooperation with the regional governor in which both parties agreed on the social projects to be funded by the JV.

Complicating Inkai's ability to incorporate Cameco's CSR philosophy into this new arrangement, however, was the fact that the Taikonur community is not legally recognized as a town by the Kazakh government because of its small size and remoteness. In other words, during this time period there was no Kazakh-based formal incentive for Inkai to spend money on Taikonur, while there was a compelling tax incentive to spend money

[377] Cameco (2012)

according to the regional *akim*'s interests, hundreds of kilometers away from the Taikonur site.

Furthermore, as was briefly described in the preceding chapter, because a significant level of regulatory power is pushed down to the regional *akimats* in Kazakhstan, Inkai had significant operational risk incentives to keep the regional *akim* pleased. This point is a critical one to grasp as its implications for political risk management are momentous. Recall from the introductory chapter of this thesis the comment made to me by a Kazakh businessman. "Without a strong political roof," he advised, "you have no chance to do business here."[378] This concept of the political *krisha* or roof refers directly to the firm's ability to maintain strong regional level relations. In Kazakhstan, regional *akim*s operate with relative autonomy from the central government. This decentralization, as Shahjahan H. Bhuyian argues, has not led to better governance but significant local corruption.[379] And in neighboring China, Ting Gong finds a similar situation in which the failure to devolve power from local leaders has granted them significant autonomy accompanied with increased corrupt practices.[380]

In Kazakhstan, decentralization manifests itself practically-speaking by the fact that all permitting and regulatory inspection is done on the regional level, controlled by the *akim*'s office (remember, for instance, that ArcelorMittal was able to operate for some time under eased environmental regulations mainly because of its strong relationship with the regional government). The *akim* knows, as a manager within the Inkai JV explained to me, that if the production facility shuts down for a day due to a regulatory roadblock, the JV

[378] Source-6 (2011), 18 Feb.
[379] Bhuiyan, S. H. (2010) 'Decentralization and Local Governance in Kazakhstan', *International Journal of Public Administration*, 33(12), p. 658-672.
[380] Gong, T. (2006) 'Corruption and local governance: the double identity of Chinese local governments in market reform', *The Pacific Review*, 19(1), p. 85-102.

loses approximately USD 500,000. And so the *akim* can withhold permits or order a snap inspection, the manager continued, if the JV does not cooperate with the governor on issues like social contributions.[381] Further, because of the complex and constantly changing regulatory framework, as one former Ministry of Finance official revealed to me, "the government sees that you can't meet all the requirements,"[382] and so if the *akim* wants to catch the firm in non-compliance, he likely can.[383] Even for something as simple as a license plate one needs to pay extra, otherwise the application will just sit there, the Inkai JV manager described to me.[384] It is therefore widely believed that the memorandum process on social cooperation is an opportunity for multinationals to curry positive favor with the regional *akim*, thereby reducing the firm's exposure to operational risks as described above.

While on the surface this may seem like a simple situation for maintaining resource complementarities (as we saw, for instance, with ArcelorMittal) – Cameco has money, the *akim* needs money, and both have a goal of improving the social fabric of the region – in practice, the *akim*'s goals as revealed to Cameco in the 2010/2011 memorandum process put the *akim* at odds with Cameco's shareholder-instituted corporate philosophy on two fronts.

First, as previously mentioned, the firm believes in supporting those communities closest to Cameco's mine sites, a policy challenged by Taikonur's odd status as a town not legally recognized by the government and therefore, as relayed to me by one Inkai

[381] Source-54 (2011)
[382] Source-6 (2011).
[383] Also confirmed by Source-54 (2011)
[384] Source-54 (2011)

manager,[385] not a priority for the *akim*. Second, the company is publically traded, which opens the door to constraints aimed at preventing the company from engaging in corrupt practices. The regional *akim* would prefer a situation in which the two actors agree on a series of social development projects after which Inkai would cut a check to the *akim* to fund their construction, giving the *akim* full control over which contractors, for instance, receive the projects – a significant source of power. In neighboring China this practice is similar to *xiaojinku* ("little money lockers"), in which local leaders are able to garner extra-budgetary funds from local businesses.[386] But as one Cameco director explained to me, for the firm "cutting checks won't do – in fact, it might even cause problems for you with the Securities and Exchange Commission in the US," along with complicating "fiduciary obligations to your shareholders."[387] This was confirmed by two Kazakh-based auditors for mining multinationals who both cautioned that if a company claims a certain deduction due to a social project, and there is no evidence of the project being built (or the amount spent does not match the value of the project), the firm can find itself in significant regulatory danger, for example under the US Foreign Corrupt Practices Act (which Cameco is exposed to as it is traded on the NYSE).[388]

In the 2010/11 negotiating period in which the Inkai JV was required to negotiate with the *akim* on social contributions (if it wanted to claim such contributions as tax deductible and reduce, theoretically, its exposure to operational risks), the process collapsed. Initially the JV agreed to support the *akim*'s budget for social projects at USD 1 million, but when the JV asked the *akim* repeatedly for a government-registered bank

[385] Source-54 (2011); Source-13 (2011)
[386] Gong (2006)
[387] Source-13 (2011)
[388] Source-18 (2011), Feb. 17

account to which it could transfer the money, the *akim* would not give one (Inkai believes this is due to the *akim* knowing that if the money went into a government account, it would be difficult for him to spend it on his informal goals – specifically, patronage to local elites, which we will return to in a moment). Instead, the *akim* provided the bank account of an NGO – what Inkai believed to be a front company established by the *akim* – and so in the end the JV transferred its social contributions to Kazatomprom-Demeu, the philanthropy unit of Kazatomprom.[389] In other words, because Cameco could not trust the *akim* to spend the money as promised, the firm decided to take an alternate route. Whether or not going through Kazatomprom-Demeu would be tax deductible was unclear to Cameco at the time of the decision,[390] but in failing to find common ground with the *akim*, the Inkai JV (and Cameco by extension) nevertheless left itself highly exposed to operational risks associated with the *akim*'s other sources of power (e.g. permitting).

We see here in the friction between Cameco and the regional *akim* the same structurally-derived challenges that prevented Cameco and Kazatomprom from achieving their own resource complementarities, though in this case the *akim*'s actions were influenced not by nationalist strategies and legacy Soviet command economics but rather the informal neopatrimonial system within the *akim*'s area of responsibility. Traditionally research on Kazakhstan (and greater Central Asia) has focused on elite maintenance at the national level or between national level leaders and *oblast*-level leaders,[391] but as described to me by various sources, the same basic concept of balancing competing interests among elites through informal patronage networks exists within *oblast* level as well. Equally it is the case that such neopatrimonialism is an extension of Soviet institutional legacies and the

[389] Source-54 (2011); Source-13 (2011)
[390] Source-13 (2011)
[391] See, for example, Cummings (2005), Luong (2008), and Ostrowski (2010)

pre-Soviet informal politics of the region (sometimes referred to as clan politics).[392] So whereas Cameco as an agent was operating under the influence of its shareholders, the US Securities and Exchange Commission, and the NYSE and TSX, thus driving the firm to invest locally and avoid corrupt practices, the regional *akim*, alternately, operated under the expectation that Cameco's presence would serve as a source for rents to spread to local elites (see Table 5.3. for a summary).

Table 5.3: Goals, Resources and Constraints between Cameco and the Local Akim

Stakeholder	Goals	Resources	Constraints
Oblast Akim	Maintain stability	Control over permitting and local regulatory environment; tax breaks	Funding
Cameco	Operate responsibly while maximizing profits and minimizing costs	CSR funding	Shareholders, regulators

Trust and the Political Bargaining Model

Briefly restated here, Eden et al.'s PBM framework argues that when a multinational firm enters into a given country, the firm establishes a series of bargains with those stakeholders relevant to the firm's in-country operations. Each of those bargains can be characterized as the intersection of the actors' goals, resources and constraints. Each actor has its own individual goal or goals, it has a series of resources it can mobilize to achieve those goals, and while doing so it operates under a series of constraints. Resource complementarities between actors – you have what I need, and I have what you need – lead

[392] Scholarship on the informal politics / neopatrimonialism of Central Asia and Kazakhstan in particular is neatly summarized in Isaacs, R. (2012) *Party System Formation in Kazakhstan: Between formal and informal politics* (Abingdon: Routledge)

to positive relationships that allow each actor to pursue its own goal or goals to a self-satisfactory degree.[393]

In our case study of Cameco, the concept of constraints within the PBM framework seems particularly important. Eden et al. rightfully connect the challenge of operating constraints to the more developed strategic management literature on institutional distance, and both of these concepts clearly identify with the larger theoretical embrace within the social sciences of the influence of structure on agents. Proponents of institutional distance argue that firms are less likely to be successful in a given area as the distance between each actors' home institutions widens, and certainly this seems to be the case here. Philosophical disagreements between Cameco and its Kazakh-based stakeholders on topics like marketing, production, and corporate social responsibility (to name a few) appear to extend from larger institutional asymmetries, whether they be on liberal free market principles, nationalist strategies or the informal patronage network of an *akim*'s *oblast*. And further – and as we would expect given the institutional distance literature – clearly these differences complicate Cameco's ability to be successful in Kazakhstan. These differences and their proposed structural roots are summed in Table 5.4.

Table 5.4: Institutional differences between Cameco and its Kazakh-based stakeholders

Issue	Cameco's position	…structurally influenced by…	Kazakh stakeholder position	…structurally influenced by…
Inkai plant safety	Capital expenditure	Cameco corporate philosophy; shareholders	Operating expenditure	Legacy lack of capital in country
Uranium marketing	Country risk diversification	Liberal free market principles	Single country supplier	Nationalist strategy
Uranium production	Market-driven = increase supply	Liberal free market principles	State-driven = ensure mining is efficient	Legacy state control on production; nationalist strategy; fear of MNE abuse

[393] Eden et al. (2004)

Conversion plant construction	Market-driven = not feasible	Liberal free market principles	State-driven = complete nuclear cycle in country	Nationalist strategy
Revised subsoil legislation	Stabilization	International legal standards	Comply with new standards	Nationalist feeling that previous legislation was unfair
CSR programming	Locally-based	Cameco corporate philosophy; shareholders	Regionally-based	Legacy belief in redistributing wealth
CSR contracting	Performance-based	Cameco corporate philosophy; shareholders; home country regulations	Informal network-based	Legacy informal patronage expectations

But while the institutional distances between Cameco and its stakeholders on a variety of issues challenge the firm's ability to be successful in Kazakhstan, we depart somewhat from the institution-based theories of strategic management in understanding how that distance can be bridged. Recall that the traditional institution-based model argues that conformity to the host country's institutional environment is a "survival value" for the firm, and therefore to remain successful in the country, the firm must embrace the country's local rules and norms.[394] "Legitimacy," Eden et al. write, "can be achieved if the MNE becomes isomorphic with the institutional environment in the host country."[395] Does this mean, then, that Cameco can only be successful in Kazakhstan if it ignores its TSX- or NYSE-instituted operating constraints on issues such as corruption? Or that Cameco must build a conversion facility in East Kazakhstan despite the fact that there is no market for it? Or that the company should disregard its shareholder-demanded corporate policy on employee safety and instead allow the tragedy of bursting acid tanks to be treated as an operational risk?

Cameco's institutional constraints appear to exist on a spectrum, from highly pliable on one end to extremely rigid on the other. And as described to me by individuals familiar

[394] Oliver (1991), p. 148.
[395] Eden et al. (2004), p. 5.

with Cameco's operations, the ways in which the firm manages such constraints is directly related to their flexibility – the difference between actual legal constraints, for instance, and "best practices," in that the former are more rigid (e.g. FCPA) while the latter are more pliable (e.g. shareholder expectations). Explicitly stated, the greater the flexibility of the institutional constraint, the greater the onus is on Cameco as an agent to adapt to the corresponding institutional environment of the stakeholder; alternately – and here we depart from Eden et al.'s expectations above – the more rigid the institutional constraint, the great the onus is on Cameco to influence its corresponding stakeholders and their associated institutional environment to flex to Cameco's constraints. In other words, instead of Cameco becoming more "Kazakh," in some instances the strategy is in fact to make the Kazakh stakeholders more "Canadian." Trust is a key element in both of these situations. In the former, Cameco must trust its corresponding stakeholder to recognize that Cameco is operating against its own self-interest, and therefore will be rewarded in some way for such an action – which is exactly what we saw in the 1993 agreement that later turned into a favorable Inkai JV for Cameco. In the latter case, the stakeholder must trust Cameco: when the firm says a particular operating constraint is inviolable and thus requires the stakeholder to flex, the stakeholder must believe that Cameco is telling the truth. So how to build this latter form of trust?

As alluded to earlier, employee safety (manifested in Kazakhstan as the institutional divide between capital expenditures and operating costs) is one of those challenges for Cameco that extends from rigid operating constraints and thus requires, in Cameco's estimation, the firm's Kazakh stakeholders to flex. Cameco cannot simply say, "Oh we're in Kazakhstan – cut the [safety] standards in half," as one Cameco representative explained to me. The firm realizes that they would "get pillared" by shareholders if something happened because they were operating to lower standards than in Canada, Australia or the US.[396] So how to convince Kazatomprom that such safety standards are necessary? That is, how to convince Kazatomprom that it, not Cameco, must flex? Cameco's strategy under these circumstances is to expose the stakeholder to other operations in order to build trust – to put it bluntly, to prove to the stakeholder that it is not getting swindled while other host country governments are getting a better deal. Specifically, Cameco flies key Kazakh stakeholders out to its other operations. In one instance, Kazakhs toured an older Cameco uranium mining facility located in the US and could not believe that the equipment at Inkai was in a better condition than it was in the US. The Cameco representatives reminded them that the Inkai facility was newer, so of course it was in better condition. Along this line Cameco also works in concert with the Canadian embassy in Kazakhstan to fly Kazakh officials out to Canadian mining conferences, such as the Prospectors and Developers Association of Canada's annual conference, to further increase these stakeholders' exposure to international best practices.[397]

We see a similar strategy in the firm's reaction to the changes between the 1996 and 2010 subsoil law that challenged some of Cameco's more rigid operating constraints. As was briefly pointed out earlier, the firm remained willing to flex on most changes but not on the right to international arbitration (the right to international arbitration is the ability of the firm or the host government to seek an objective third party judgment on a particular dispute; for those that may question the objectivity of such a third party, it is worth pointing out that in World Wide Minerals' case, international arbiters repeatedly sided with the

[396] Source-13 (2011)
[397] Source-14 (2011), Mar. 17; Source-13 (2011)

Kazakh government, not the firm). The 2010 subsoil law failed to explicitly confirm the right to international arbitration, which became an issue not only for Cameco but for a variety of foreign and domestic operators in the country. The overall strategy therefore was the same – increase the Kazakh government's exposure to the industry-wide consequences of such a law in order to build a broader trust. Practically speaking, this meant that Cameco worked through its industry associations within the country to show how it was not the only one with this problem.[398, 399] Specifically, the American Chamber of Commerce (AmCham) in Kazakhstan and the Association of Mining and Metallurgical Enterprises (AGMP) are two organizations that exist to maintain and defend industry interests in the Kazakh government. These organizations influence the Kazakh government in a variety of ways (see Table 5.5 for descriptions) – from reacting to controversial laws to working with legislators while laws are in draft form in order to ensure that the broader industry's interests are defended. Whereas AmCham draws on all the major multinationals operating in Kazakhstan, AGMP consists of both foreign and domestic members, and thus adds credibility to Cameco's argument that inflexible operating constraints such as the right to international arbitration are not limited to Cameco or even to foreigners. The net strategy remains the same as in the example of employee safety: influence the opposing stakeholder and its institutional environment in order to flex the host government to the home goverment – which is the direct opposite approach of what is traditionally argued in the institutional distance literature. Here the idea is to make Kazakhstan more "Canadian," or in fact more "international."

Table 5.5: Making Kazakhstan more "international" through industry groups

[398] Source-13 (2011)
[399] Note that at the time of writing, this issue was not yet resolved but regardless shows Cameco's approach

Group	Goals	Power	Notes
The American Chamber of Commerce (AmCham)	"Representing its diverse membership on issues of common interest; providing a forum for networking and accessing information; improving the business environment in Kazakhstan; serving as a trusted and influential advocate with governments"	Drawn from its membership, which includes almost all of the main multinational enterprises operating in the country; also the US Embassy.	All foreign businesses are invited to become members of AmCham – the firms need not be American. AmCham draws much of its strength from both its membership and the understanding that its activities are strongly supported by the US Embassy. Most foreign investors agree that AmCham is the most powerful organization in Kazakhstan in support of foreign business, and the chamber is in contact frequently with deputy-minister level representatives in the Kazakh government. Headquartered in Almaty.
Association of Mining and Metallurgical Enterprises (AGMP)	"To protect the legitimate rights and interests of companies that are members of the Association, promoting open and constructive dialogue between state authorities and business community"	The largest industry association in Kazakhstan, consisting of 65 companies in all mining activities outside of oil and gas	AGMP is an industry-specific association and because it focuses only on mining outside of oil and gas, its predominating relationship is with the Ministry of Industry and New Technologies (MINT). The majority of its work deals with commenting on draft legislation that may affect the mining community or raising complaints with the MINT when miners run into operating issues because of new legislation.

The situation with the *akim* of South Kazakhstan is more complicated but captures neatly the spectrum of flexibility as it regards operating constraints – much like above in that Cameco was willing to adopt many but not all of the new clauses in the 2010 subsoil law. Whereas Cameco would ideally prefer to spend all of its CSR funding on Taikonur (in keeping with its shareholder-enforced corporate philosophy – an institutional constraint), it has opened itself up to the *akim*'s interests in social spending across the entire *oblast*. Going forward, as one Cameco manager described to me, Inkai will support:

> social contributions in the area, and by "area" I now mean probably the region of South Kazakhstan because one of the criticisms we got in developing Taikonur was that the two *akims*[400] were going, "but you didn't spend any money on my projects," [which was] true…[And so even though] we will probably continue the community based structure as well, I think we have realized [that because] we draw employees from as far as Kyzylorda, as far as Shymkent…we realize that we'll probably look at doing [social projects there].[401]

In other words, Cameco has since adopted a social programming philosophy more amenable to the greater region, seemingly justifying the project by noting that employees come from across region but nevertheless explicitly stating that such a philosophy is more in line with the interests of the local and regional *akim*s – Shymkent is the capital of South Kazakhstan with a population of roughly 630,000. Such behavior is exactly what proponents of institution-based school of strategic management would expect.

Further along these lines, Cameco also recognizes the need to become more adept at understanding the informal politics of the region – in order to adapt to them. For instance, the firm employs directly or as consultants local Kazakhs that work on maintaining "government relations" but in practice are tasked with the responsibility of understanding and explaining to Cameco and Inkai management the formal and informal sources of power of the *oblast akim* and his corresponding *akimat*. One individual familiar with the company's operations describes a government relations specialist for Cameco who "analyzes and instantly knows the clan structure [and] then probable power basis within the clan" of stakeholders critical to the firm. "You still have to deal with people," this

[400] "Two *akim*s" here seems to be a reference to the *oblast akim* and the *akim* in the district in which Taikonur is geographically located, similar to a governor and a mayor in Western governance parlance; that said, it could also be a reference to the South Kazakhstan *oblast akim* and the Kyzylorda *oblast akim*, as Kyzylorda and Shymkent are in different *oblasts* (unclear).
[401] Source-13 (2011)

individual describes, "but it's better to know their interests."[402] This is particularly important with CSR spending, where local informal leaders "are really keen on mapping were those [social contributions] go." As another individual familiar with Cameco's operations continues, "You have to be conscious of the tie to the *oblast,* which fits into the broader tribal structure. Because that is what they [i.e. local leaders] are going to be thinking about…They want to know how this helps their *akim*."[403]

While such a description of the operating environment resounds well with existing scholarship on neopatrimonial politics in Kazakhstan (and greater Central Asia), the fact remains that Cameco cannot wholly align itself with traditional practices if it means violating those less flexible operating constraints relating to corruption. As was previously described, in brokering the 2010/11 memorandum on social programming, the firm opted to go through Kazatomprom and not the *akim* of South Kazakhstan, effectively refusing to adapt to the informal institutional environment of the *oblast* and thus increase the firm's operational risk exposure. In this sense, concepts like domestic legitimacy or organizational credibility – proposed by Eden et al. and Luo, respectively, as avenues for increasing cooperativeness in multinational company-host country bargaining[404] – are at times largely irrelevant. If gaining domestic legitimacy requires Cameco to violate its seemingly inviolable institutional constraints, Cameco may actually cede the hopes of achieving a cooperative bargain and instead revert to a strategy more aptly described as conflictual that nevertheless allows the firm to achieve its ultimate goals to an acceptable degree. When Cameco decided to contribute to Kazatomprom-Demeu instead of to the budget of the regional *akim,* the firm essentially decided that the proximate goals of tax deductions and

[402] Source-13 (2011)
[403] Source-14 (2011)
[404] Eden et al. (2004) and Luo (2001)

domestic legitimacy were less important than those of social responsibility and adhering to shareholder-instituted constraints. This also runs contradictory to Eden et al.'s expectation that good social performance will result in lower costs for managing stakeholder relationships within a country and therefore result in higher financial returns for the firm.[405] In Cameco's case, a commitment to good social performance (i.e. not participating in corrupt practices) would come at the cost of managing a positive relationship with the regional governor, which translates into lower financial returns as the Inkai JV is exposed to greater operational risk in the form of permitting and inspections.

Since the 2010/11 crisis, however, Cameco has increased its Kazakh staff members and actively worked to educate regional stakeholders on what the firm can and cannot do as it regards institutional constraints such as the US Foreign Corrupt Practices Act. In other words, the firm has recognized that continually refusing to address its operational risk exposure at the local level is not a viable strategy over the long-term (i.e. it does not want to repeat the 2010/11 standoff). Therefore, again it has embarked on a policy of education to gain trust, though notably through Kazakh (not Canadian) Cameco employees (a point we will return to in a moment). The head of Cameco in Kazakhstan, for instance, is now for the first time a Kazakh with a background in key leadership positions within Kazatomprom, a series of local Kazakh banks, and within the Ministry of Economy and Budget.[406] Further, other mining multinationals and individuals within industries supporting the mining sector (e.g. lawyers, consultants and auditors) confirm that a regional *akim*'s willingness to flex to a multinational's home country operating constraints is generally directly correlated to that

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[405] Eden et al. (2004)

[406] (2012) 'Executive Profile: Pirmatov Galimzhan Olzhayevich', *Bloomberg Businessweek*, last accessed on 1-OCT-2012 and available at http://investing.businessweek.com/research/stocks/people/person.asp?personId=54551218&ticker=CCO:CN&previousCapId=379153&previousTitle=CAMECO%20CORP

akim's past exposure to multinationals in his *oblast* – over time, as the *akim* becomes more sensitized to Cameco's operating constraints, the *akim* should become more flexible.

On the most pressing set of institutional asymmetries between Cameco and Kazatomprom – conversion vs. production – the firm appears to pursue a similar approach of adapting when possible and terraforming when necessary. On the question of production, just as was the case in promoting the firm's safety standards, Cameco exposes the relevant Kazakh stakeholders to how production at the firm's other operations is determined – by demand, not regulators. In one anecdote that was relayed to me by a Cameco manager, a Kazakh official visiting a Canada-based Cameco operation asked an accompanying Cameco employee how much the operation produced in a year, to which the individual replied that the market determined how much the operation produced. A Canadian government nuclear regulator was also accompanying the delegation, and so the Kazakh official then turned to him and asked, "How much do you limit their production?" The official replied that his office does not limit production, and he waved his hand toward other potential mines that were currently being assessed. "If those get approved," he told the Kazakh, "those companies could all open their mines to produce." The visiting Kazakhs could not believe it, according to my source. "'If the market will bear it,'" the regulator continued, then the investments will be made and production will occur.[407] Here we see again the idea that bridging institutional distance is not always about becoming more "domestic," but rather about bridging gaps in trust. This Canadian regulator trusts us to produce freely, the firm appears to be arguing – *and so you can trust us too.*

The fact remains, however, that despite the firm's attempts at educating Kazatomprom on production, Cameco has become increasingly drawn to the conclusion

[407] Source-14 (2011); Source-13 (2011)

that Kazatomprom will not amend the current production quota structure in the absence of the actualization of the conversion plans outlined by the two actors in 2007-2008. Notably, this is not because Kazatomprom distrusts Cameco to extract uranium from Inkai efficiently (which is the traditional argument made by Kazatomprom for the production quota policy) – and therefore to some degree it appears the firm's "exposure policy" as highlighted in the production anecdote above is working. Rather, it seems that Kazatomprom's distrust is in Cameco's willingness to fulfill its past promise on conversion. In other words, the friction here is not caused by a lack of understanding – Kazatomprom recognizes that the UF_6 market is flat – and therefore overcoming the dispute is not about increasing information that in turn leads to the state enterprise embracing Cameco's position.

In fact Cameco initially attempted to settle the dispute in early 2011 by brokering an agreement in which Kazatomprom would have access to conversion facilities at a plant in the UK, the theory being that this would give Kazatomprom a stake in the existing international conversion market and thus allow Kazatomprom to achieve its conversion goals within its greater national strategy of completing the nuclear fuel cycle.[408] Kazatomprom's refusal of this offer and continued pursuit of a conversion facility constructed in Kazakhstan underscores the obvious – that Kazatomprom's goal is not a consequence of a lack of understanding of the international UF_6 market but rather rooted in a nationalist strategy, and therefore educating and exposing Kazatomprom to international practices (i.e. low international demand for conversion), as has been the strategy in other challenges (e.g. safety, international arbitration, and corrupt practices) is largely irrelevant. In this situation, the roles are reversed – whereas in the past Cameco has often required its Kazakh stakeholders to flex to its own inviolable institutional constraints, here we find an

[408] *Nuclear Intelligence Weekly* (2011)

instance in which a Kazakh stakeholder is claiming the reverse situation – that the structural constraints under which Cameco operates must now flex to Kazatomprom's structural constraints.

As the institutional distance literature would predict, it appears as if Cameco has turned the corner and realized that it must adapt to the nationalist strategy of its operating country if it is to gain permission to increase production. While this particular situation remains unresolved at the time of publication, most recently Cameco and Kazatomprom have begun to work out the necessary regulatory issues required by the Canadian Nuclear Regulatory Commission to allow a Canadian company to transfer nuclear-related technologies to a non-Canadian partner.[409] It is the most serious step that has been made in the direction of realizing conversion plans in Kazakhstan since the signing of the memorandum in 2007-8 and is arguably a direct result of Cameco's conclusion as identified in the firm's 2011 annual review that an increase in production will be unlikely without moving forward on the conversion facility. Just as Cameco operated outside of its own short-term self-interest in 1993 in order to build trust and realize long-term success, it appears the same situation has presented itself to Cameco today.

Conclusion

As we recounted in Chapter Two, IPE encourages us to see the MNE as the point of interface between the international market economy and the domestic political economy of, in our case, a country in transition. Scholarship within the field of strategic management provides us with a worthy theory in deconstructing this interface: that both the MNE and

[409] (2012) 'Kazakhstan and Canada may seal peaceful atom agreement by next year', *Interfax-Kazakhstan*, Jul. 19. Available at (last accessed on 03-OCT-2012): http://www.interfax.kz/?lang=eng&int_id=10&news_id=5215

the country's stakeholders are heavily influenced by a series of institutional constraints, and that the greater the divide between these structures, the greater the difficulty the MNE will find in being successful in the given country. It then follows, according to the proponents of this theory, that in order to increase MNE success in the country, the MNE must adapt to the country's structural constraints. Such an act is described as the ability to "become domestic" or overcome the "liability of foreignness" that characterizes an MNE when it enters into a given country.[410]

Eden et al. draw these institutional (or structural) challenges into the PBM through the concept of constraints. They argue that when the MNE enters into a country, it pursues a string of proximate goals that lead to its ultimate goal of profitability but must do so under a series of operating constraints that stem from larger institutional differences. But critically, Eden et al.'s PBM also recognizes that the MNE possesses a series of resources that it can mobilize within these operating constraints in order to achieve its proximate and ultimate goals. By bringing in the concept of resources, Eden et al. equally recognize the agency inherent within an MNE, and thus in our case, the PBM becomes a neat framework for analyzing the intersection of agents and structures (resources and institutions) against the setting of a uranium mining multinational's political risk management strategy in Kazakhstan.

In many ways our case study of Cameco confirms what proponents of institutional distance would expect. When the institutional constraints stemming from Cameco's home country are flexible, the firm adapts to the Kazakh institutional environment. On the regional level, this is most readily obvious in the firm's decision to expand its CSR activities from the small village of Taikonur to the greater *oblast* of South Kazakhstan; on

[410] Eden et al. (2004)

the national level, we see such behavior in the firm's decision to assist KATEP in marketing uranium and lately, to assist Kazatomprom in constructing a conversion facility in the country. It is important to recognize that all of these actions are not in the immediate self-interest of Cameco and in fact violate what the firm's shareholder or market-instituted constraints would demand. However, Cameco is able to flex to the Kazakh environment in these instances because (1) these particular home country constraints are relatively pliable and (2) Cameco trusts that the firm will be rewarded over the long-term for such actions – on the regional level, by decreased exposure to operational risks, and on the national level, initially through the Inkai JV and now through the expectation that the firm will be able to increase production levels. Therefore, we slightly amend the current understanding of "the liability of foreignness" as described within the institution-based school of strategic management by arguing that there is an element of trust in bridging these institutional divides. Becoming more "Kazakh" for Cameco is related to the firm's ability to trust that the opposing stakeholder will reciprocate.

Perhaps more interesting is the firm's reaction to institutional divides that stem from more rigid home country constraints such as legal and safety demands and the need to maintain profitability through increased production. Here we provide a more powerful addition to our existing understanding of institutional distance scholarship. In cases in which Cameco feels it cannot violate its structural constraints, instead of becoming more "Kazakh," the firm opts instead to make its operating area more "Canadian." Again, this process relies heavily on Cameco's ability to maintain trust with its Kazakh-based stakeholders. In these instances, Cameco exposes these stakeholders (literally in many cases) to the firm's inviolable institutional constraints to impress upon the Kazakh stakeholders the brevity of the situation. Cameco's strategy here underscores the influence of structure on agents and agents on structure – the firm believes that by exposing these Kazakh agents to the US or Canadian institutional environment, the agents will in turn influence the Kazakh institutional environment to become more symmetrical (or isomorphic, to use Eden et al.'s term) to these legal, safety and capitalist principles. Compounding the success of this strategy is Cameco's practice in bringing in other stakeholders (foreign and domestic) or other Kazakhs to reinforce Cameco's trustworthiness – to essentially corroborate Cameco's claims on what it can and cannot do (due to home country structural constraints) in Kazakhstan. In other words, when Cameco puts in place a new head of its Kazakh operations who is in fact Kazakh and with previous employment with a key Cameco stakeholder – Kazatomprom – Cameco is not becoming more "Kazakh," but rather relying on Kazakhs to relay the exact same "Canadian" messages, enact the exact same "Canadian" strategies and enforce the exact same inviolable "Canadian" operating constraints. The difference is that these individuals are received by Kazakh stakeholders as more trustworthy – they do not bring with them the inherent foreignness (and distrust) of a Canadian corporate executive.

The Cameco case, therefore, tells us that the "survival value" as outlined by the institution-based school of strategic management is not necessarily about becoming "more domestic," as in, "more Kazakh," but about becoming more trustworthy. In fact, as we saw in the case of Uranium One and in Chapter Four in the First Alpine JV, actually becoming more "Kazakh" – by aligning, for instance, with elites – can in some instances challenge a firm's ability to "survive" in a given country if by doing so that firm damages its trustworthiness (which seemed to be the case when Uranium One's and First Alpine's respective elites fell out of favor with the country's leadership). We now move onto the next chapter, in which we examine the bargains formed by a small gold and copper miner – Frontier Mining, our ultimate case study.

Chapter Six: Junior Miner, Major Challenges: Frontier's hyper-sensitive gold and copper developments in Kazakhstan

Introduction

During the late 1990s, an American named Brian Savage was working on a project in Kazakhstan funded by the US government to help the country determine radiation levels in the former Soviet nuclear testing grounds of Semipalatinsk. Savage was at the time the president of Earth Sciences Services, a remote sensing company contracted by the US Department of Energy to provide the technology for the Kazakh project. Over the course of the group's investigations into the Semipalatinsk area, they came across significant mineral deposits in areas free of radioactive contamination. Savage saw the opportunity immediately and left Earth Sciences Services to create Frontier Mining, a company incorporated in the US that would soon acquire the requisite subsoil rights to develop two gold and copper deposits in Kazakhstan within the former nuclear testing ground.[411]

In 2004 Savage would take the company public on London's Alternative Investment Market (AIM), known for its lower regulations and created specifically by the London Stock Exchange for companies operating under riskier circumstances – whether they be financial, political, operational, or a combination thereof.[412] By the end of 2011, Frontier would employ over 500 people[413] and operate under a series of subsoil licenses in various

[411] (1998) *AMPS Mission to Kazakhstan* (US Department of Energy: Office of Nonproliferation and National Security), DOE/NN/ACNT-98A; (2004) *Frontier Mining Ltd. Prospectus for Admission to Trading on AIM*, available at www.frontiermining.com (last accessed 10-OCT-2012).

[412] Waller, M. (2004) 'New AIM firm to dig at nuclear test sites', *The Times*, Jul. 29; Ackerly, T. aand Amies, S. (ND) 'The Attraction of London's AIM Market', *Outside Perspectives from Covington & Burling*; see also (2010) 'Listing in London: A guide to flotation on AIM', *PricewaterhouseCoopers*.

[413] (2011) *Annual Report* (Frontier Mining)

stages of exploration and development across Kazakhstan, with financial and mining analysts lauding the company's current and future potential success.[414]

To the non-specialist, Savage's luck and Frontier's case may seem highly unusual, but in practice, such instances are a regular component of the larger mining industry. Frontier is known as a mining "junior," meaning it is a small mining company primarily focused on exploration and early stage development of mineral deposits. Mining juniors are the riskiest component of the mining industry – high potential rewards, yes, but also a high rate of failure – and they are designed to absorb much of the geological risk that larger, "major" mining companies (e.g. like ArcelorMittal or Cameco) are unwilling to take. Such juniors often begin with some sort of "local knowledge" – like in Savage's case – and from there expand into larger operations. Once the junior has established a particular deposit as profitable, the firm has two options – continue to develop the deposit on its own (and perhaps grow the company into a mid-level player or even an eventual "major") or sell the company to a major mining multinational and move on to the next potential deposit.[415] Roderick Eggert, a professor within the Division of Economics and Business at the Colorado School of Mines, surmises that in roughly 500-1000 exploration projects, 100 might lead to advanced exploration of which 10 might become actual development projects. Of those 10 mines, only 1 is likely to become profitable.[416]

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[414] See, for instance, the following equity analyst reports recommending "buy" for Frontier Mining based on the company's success: (2012) 'Frontier Mining: Great time to buy', *XCAP Securities UK Equity Research*, Feb. 3; (2009) 'Frontier Mining: Undiscovered junior copper-gold play', *Libertas Partners*, Aug. 26.; and (2007) 'Digging Kazakhstan: Initiating on Kazakh mining plays', *VisorCapital*, Sept. 12; all available online at www.frontiermining.com (last accessed 10-OCT-2012).

[415] For a good overview of the business behind mining, particularly the concept of the mining junior in relation to the larger industry, see Whyte, J. and Cumming, J. (eds) (2007) *Mining Explained: A Layman's Guide* (Toronto: The Northern Miner).

[416] Eggert, R. G. (2010) 'Mineral exploration and development: risk and reward', Prepared for the *International Conference on Mining: Staking a Claim for Cambodia*, Phnom Penh, Cambodia, May 26-27.

To sum, mining juniors are hyper-sensitive to risk in all forms – geological, financial, and operational challenges are common and regularly threaten the company's ability to be successful. All of these risks are complicated by political risks – as we will see in Frontier's case in Kazakhstan, a geological delay may put the firm in violation of quotas set within its subsoil agreement if the license cannot be amended, exposing the firm to the political will of the regulatory body. Such a delay might then push back production expectations, which in turn could affect the firm's profitability.

In this way and others, Frontier Mining – the third and final case study of this thesis – represents a situation distinctly different from that of ArcelorMittal or Cameco and as such, provides us with a set of unique circumstances from which to apply our bargaining framework and further develop our propositions on agency, structure and the role of stakeholders. Not only is Frontier hyper-sensitive to all the risks previously captured in our previous case studies, but additionally the mining junior's deposits back in 1998 were "greenfield" (meaning that prior to Frontier's activities, the mining sites were almost completely undeveloped), and the sites themselves were and continue to be several kilometers away from any form of substantial population (more so even than Inkai). Frontier's Naimanjal site – its first development site – is 40 km from the closest village of Kurchatov, a city with a population of 8,000. Finally, Frontier's operations in gold and copper represent a purely primary source extraction enterprise, playing no role in the country's larger industrial diversification plans (such as is the case with ArcelorMittal in manufacturing steel or Cameco in contributing to Kazatomprom's initial production goals and current nuclear fuel cycle plans).

Taken together, unfolding Frontier Mining's success in Kazakhstan introduces a series of new conditions for our independent variables which this chapter will explore in depth. We proceed in three parts. First, we look at the junior's experience up until 2009, under which the firm's success was regularly threatened by technical and financial delays that were amplified by political challenges from both the central and regional governments. In the second part, from 2009 up through the present, we follow the firm's turnover in management from its initial founders and directors – primarily non-Kazakh – to a new management team composed of Kazakhs with deep experience in operating successful enterprises within the country and with access to capital from within Kazakhstan. Savage, for instance, would be moved from CEO and chairman to non-executive director by the end of 2008, and by 2011 would be off the board altogether.[417] As the institutional distance scholarship would expect, this "Kazakhization"[418] of the firm correlates neatly with the firm's decreased exposure to operational (or institutional) constraints that previously limited the company's ability to pursue its ultimate goal of profitability.

However, in unfolding Frontier's experience, a larger theme develops with regard to our proposition on the role of stakeholders, to be covered in the final section. Though previously observed to some degree in both ArcelorMittal's and Cameco's case, Frontier's junior status, which makes it hyper-sensitive to any changes within the operating environment, accentuates the importance of acknowledging and adjusting to the unique goals, resources and constraints of the firm's various stakeholders, here specifically the differences between the regional and central governments. Frontier's case shows that there

[417] (2009) *Annual Report* (Frontier Mining); (2011) *Annual Report* (Frontier Mining); both available at www.frontiermining.com

[418] This is the term used by Ostrowski in *Politics and Oil in Kazakhstan* (2010) to describe the staffing of oil enterprises within the country with local nationals.

truly is no such thing as the "host country": even within a given country's own government, under the ultimate leadership of the same individual, there can be distinct groups with their own distinct challenges. In Kazakhstan's case, these differences are largely attributable to the fact that – as Frontier's experience makes clear – the country is still largely in transition from a Soviet Socialist Republic within a command economy to an independent nation state within the international market economy.

Changes as challenges: 2004 – 2009

In this first section we look at two different dynamics regarding Frontier's regulatory environment in Kazakhstan and the consequent challenges for Frontier that emanate from their combination. We begin by describing the legislative and regulatory process as it moves from the central to the regional government – from where legislation is envisioned and drafted to where it is enforced. Here we see how well-intentioned, rapid reforms enacted in Astana to make the country more competitive according to international standards are misinterpreted – generally unintentionally – as they are implemented in the *oblast*s (provinces) by poorly trained local regulators. We then see in the second section how the confusion surrounding the interpretation of Astana's reforms are further complicated by the constant turnover within the *oblast* machinery itself (the provincial government offices), again, often under good intentions but with adverse effects for Frontier's operational environment. The combination of these constant changes – either from Astana to the *oblast*, or within the *oblast* itself – place an added complexity on Frontier's ability to maintain strong relationships both with central government and regional government stakeholders, as at times these stakeholders' own actions may be incompatible with one another.

Top-down changes, bottom-up challenges

President Nazarbayev aims to create "the most attractive conditions for investors" in Kazakhstan, often at an alarming rate.[419] Take, for instance, the World Bank's *Ease of Doing Business* rankings. Kazakhstan scored at 63 of 183 countries in 2010, leading the government to state as a goal by the year 2020 to break into the top 50 – which it accomplished well in advance, coming in at 47 in 2012.[420] But as we noted in Chapter Two, despite such commendable rankings, the country nevertheless continues to score as a significantly risky environment for investment on most political risk indices. How to reconcile these two different perspectives?

Critically, the World Bank's *Doing Business* survey focuses almost entirely on legislative reforms – not how that legislation is then enforced – and further, the measures within the index refer specifically to the "largest business city" in the country (Almaty), not, for instance, a mine site 40 km away from a town with a population of 8,000 in East Kazakhstan *oblast*.[421] In fact, according to multiple interviews detailed within this chapter from government officials, trade groups, consultants, auditors, accountants, lawyers and mine operators (including, of course, from Frontier), the country's rapid pace of reform has had the adverse and unintentional effect of creating a legislate environment that changes at such a rate that local regulators cannot keep up.

To highlight with a small anecdote, the very literature that the Kazakh Ministry of Industry and New Technology gives to English-speaking investors is full of typos or poorly phrased sentences, such as the following:

[419] (2010) *Investor's Guide: Kazakhstan* (Astana: Ministry of Industry and New Technology), p. 3.
[420] (2009) *Doing Business* (Washington, DC: World Bank); (2010) *Doing Business* (Washington, DC: World Bank); (2011) *Doing Business* (Washington, DC: World Bank)
[421] (2011) *Doing Business 2012 Data Notes* (Washington, DC: World Bank).

> Nowadays the power has chosen the main priority in establishing a good dialogue with the business that would promote joint search of optimal solutions for the common aim – development of Kazakhstani economy.[422]

Passages like these (or the "50 milliard dollars" that the National Fund now has in gross reserves[423]) are rather harmless to investors – aside from the reputational effect such typos or complicated sentences may have on potential investors – but the same sort of sloppiness is evident in legislation as well – with much more serious implications for firms operating in the country. Typos or a misplaced comma can lead to alternate interpretations of the same legislation, or the legislation itself may be "inconsistent with other acts," as the managing partner of one consulting and accounting firm relayed to me, requiring the mining executive or accountant or local regulator to make his or her own interpretation on how to reconcile one law with a competing law.[424]

The country's 2008 change of the tax code captures neatly this confusion. The Ministry of Finance drafted new legislation over the course of 2007 to revise the tax code away from what accountants call a "tax stability" program in which a miner's corporate tax rate would be locked in for the duration of the firm's subsoil contract with the government (e.g. at 30-percent). Most developed countries instead work off of a tax rate that is variable – one that depends on the parliament and can be increased or decreased as these legislators decide, year to year. This latter system of tax reform is looked on as more favorable by the World Bank because it generally results in lower rates, and in line with such expectations, the Ministry of Finance claimed publically in the run-up to the new code that the 2009 corporate tax rate would be 20-percent, the 2010 rate would be 17.5-percent, and the 2011

[422] *Investor's Guide: Kazakhstan* (2010), p. 14.
[423] *Investor's Guide: Kazakhstan* (2010), p. 3.
[424] Source-4 (2011), Feb. 15

rate would be 15-percent.[425] Not surprisingly, one of the key drivers of Kazakhstan's movement within the *Doing Business* survey during this time period was its revision to the tax code.[426]

However, because the legislation was crammed through the *Mazhilis* (parliament) so quickly, the new tax code is full of typos, including misplaced commas that according to tax experts create space for alternative interpretations. Enter the local tax inspector, interpreting such changes in his or her own way. According to the director of one tax advisory multinational operating in Kazakhstan, these local inspectors always err on the side of over taxing, less out of a desire to "punish" the firm and more out of a fear of under-taxing the firm and thus losing their job. "Don't worry," these local inspectors are known to say to firms, "[my judgment] will probably be overturned by the national government" (where the officials are better educated and trained).[427]

Of course, there is also no guarantee that the Ministry of Finance will change the tax rate as promised and in fact in some instances, the ministry has been known to change its mind mid-year and apply the changes retroactively for the entire year (as of 2011, for instance, the corporate tax remained at 20-percent).[428]

Frontier explains such risks as a result of the country's "transformation from a command to a market-oriented economy," warning shareholders that

> various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, National Bank officials, and the Ministry of Finance.

[425] Source-3 (2011), Feb. 17 and Source-18 (2011) Feb. 17
[426] *Investor's Guide: Kazakhstan* (2010), p. 14.
[427] Source-3 (2011) and Source-18 (2011)
[428] Follow-up email correspondence with Source-18 (2011), Mar. 29

> Instances of inconsistent opinions between local, regional, and national tax authorities and between National Bank and the Ministry of Finance are not unusual.[429]

Tax advisors agree, attributing such legislative acts to "national pride," wherein President Nazarbayev believes the country is in a new stage of development closer to being a developed rather than a developing economy, and therefore should maintain legislation in line with such a status.[430] And to the country's credit, such acts like the anecdote from the Ministry of Finance are well-intentioned and these good intentions exist across the spectrum of ministries in Astana. That said, good intentions in the country's capital lead to confusion in the local *akimats*, and not just on taxes but across the full range of regulations concerning a mining operation like Frontier (to be covered specifically in a moment). This is largely due to a lack of training at the local level compared with the fear (as described above) of quick reprisal for any mistakes that favor the foreign operator at the expense of the government. One mid-level manager from the Ministry of Industry and New Technology (the MINT, responsible for regulating the mining industry) explained to me, half-joking, that "it's a problem of what we call a 'human factor'." This individual admitted that there are some situations "where the law does not consider all the issues, or there is some kind of error" that then lead ministries to release "instructions" to local governments that are then further confused by the local regulators and inspectors. While acknowledging that "we sit here in Astana and sometimes we don't know about all these problems," the manager nevertheless noted that the local level regulators are "not very competent,"[431] an observation echoed by mining juniors including Frontier.

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[429] (2006) *2005 Annual Report* (Frontier Mining Ltd), available online at www.frontiermining.com, p. 27.
[430] Source-3 and Source-18 (2011)
[431] Source-12 (2011), Feb. 10

Changes within the akimat

In Kazakhstan, the president maintains the power to appoint *oblast akim*s, and in turn these regional leaders (akin to governors) maintain the power to appoint district level leaders as well as staff the *akim*'s machinery (the regulators, inspectors and general staff of the *oblast akimat*). Researcher Rico Isaacs describes this framework as following a system of "interconnected patron-client relationships" that extend from President Nazarbayev all the way down to the local level, a system specifically designed to maintain loyalty among all levels of leadership within the country.[432] For foreign firms, this method of appointing government officials is complicated at the local level by two issues: first, as previously described in Cameco's case, all general permits and licenses are provided at the regional level, and the revenue from such responsibilities is cycled back into the regional *akim*'s budget; second, government officials within the country – at all levels – are regularly rotated into different offices, often in different regions, under a policy aimed formally at reducing corrupt practices but recognized informally as a method for ensuring no single leader at any level becomes too powerful and thus capable of succeeding his or her superior. This is widely observed among the regional *akim*s and the ministers in Astana, where Nazarbayev is continually shuffling these officials to new positions,[433] but the same system exists within the regional governments themselves, all the way down to the local police officer being moved from district to district.[434]

This latter strategy – the constant rotation of employees – has the unintended consequence of preventing individuals from developing expertise in a particular field,

[432] Isaacs, R. (2011) *Party System Formation in Kazakhstan: Between formal and informal politics* (London: Routledge), p. 64.
[433] See, for instance, Cummings (2005)
[434] Source-62 (2011), Mar. 24

whether it is taxation, environmental regulation, business development or investment attraction. Take, for instance, my own personal experience with an individual named Erzhan Sembinov, the Head of External Relations and Protocol for East Kazakhstan *oblast* (the region in which Frontier's Naimanjal site is located). Apparently naively, I assumed Sembinov to be my best initial point of contact (as head of external relations) to discuss mining investment opportunities in East Kazakhstan, including Frontier's operations, when I arrived in Ust-Kamenogorsk, the *oblast*'s capital. Sembinov, however, provided on a daily basis excuses for not being able to meet (while, notably, government officials in the region with much greater authority welcomed me into their offices). At points I even received conflicting messages on whether or not Sembinov was actually in the office, raising suspicions that he may be actively trying to avoid me – suspicions that were confirmed, in my estimation, when I had him on the phone at one point, lost the connection, and called back immediately only to be told by his secretary that he was not in the office.

Recall that Sembinov's title is Head of External Relations, but in investigating his background, it turned out that Sembinov (in his late 30s) had held at least 10 different positions, many of which were unrelated to one another, since becoming Deputy Director of Traffic Safety within the *oblast* in 1998:[435]

- Deputy director then director of Public Revenue in East Kazakhstan (1999-2002)
- Director of a regional investment firm (2002)
- Deputy director of Real Estate within the regional Ministry of Justice (2003-2006)
- Unidentified private industry work (2006 – 2007)

[435] (2011) 'External Relations and Protocol Department', *Eastern Kazakhstan Akim Official Website*, available at: http://www.akimvko.gov.kz/en/rule/akimat-vostochno-kazaxstanskoj-oblasti/apparat-akima-vostochno-kazaxstanskoj-oblasti/otdelyi-apparata-akima/otdel-vneshnix-svyazej-i-protokola/personyi/sembinov-erzhan-altaevich.html (last accessed April 14, 2013).

- Chief expert at the Processing Industry Department (2008)
- Head of Foreign Economic Relations (Jan 2009 – Aug 2009)
- Head of External Relations and Protocol for East Kazakhstan (Aug 2009 – Sep 2009)
- Head of *akim* machinery for Ridder town (Sep 2009 – Nov 2010)
- And then in December of 2010, he returned to his position as Head of External Relations and Protocol for East Kazakhstan

Under such conditions, Sembinov's lack of professionalism in my instance becomes much more understandable – at the time of my trip to Ust-Kamenogorsk, he had just over a year of experience in external relations. Now apply this experience across the regional government, and one can begin to understand the "human factor" challenges facing foreign miners on the local level. One consultant for mining juniors in Kazakhstan described to me the great difficulty in simply finding a single individual within the *akim*'s office that understands at a minimum "the process of business," because "they have no clue about mining practices, absolutely no clue, and it's very difficult to explain to them why you need to do this, this and that." At least an individual versed in business can "understand – at least he can hear you," this consultant continued, and then he or she can in turn explain the situation to the person who is actually in the relevant decision-making position.[436] Such a trend was affirmed by the management of another mining junior operating in the country, equally attributing the root of the problem to the constant "changes in the management of

[436] Source-52 (2011), Mar. 15

the *akimat*," under which "every new manager brings in a new team,"[437] resetting the points of contact for a local mining operation.

Frontier's perfect storm

To review the implications of these different dynamics, let us take the position of the local inspector against Frontier's operations in Naimanjal in 2005. As a stakeholder, the inspector's formal goals remain ensuring that Frontier is operating according to the law. This goal is immediately challenged by the fact that the inspector is likely not experienced or specialized within his or her particular position, and further, the legislation pushed down to the inspector from Astana is changing at such a rate, with regular inconsistencies and unclear passages, that even if he or she was specialized, interpretation would still be challenging. Informally, the inspector recognizes that he or she is in this particular position of authority because of an appointment likely from the regional *akim*, a relationship traditionally understood in Kazakhstan to be one of patron and client. Because the legislation is inconsistent and unclear, it is often easy to find the foreign miner operating in non-compliance, thus exposing the miner to operational risks which could be settled formally by fines or informally through "grease" or outright corrupt payments, all of which allow the inspector to "reward" his or her superior through increased budget revenues (formally) or patronage (informally).

As stated at the beginning, by Frontier's very nature as a junior miner, the firm is already exposed to significant geological, operational and financial risks in advance of this particular situation in Kazakhstan. If we now focus in on the firm's early operations in

[437] Source-60 (2011), Mar. 16

2005, we will see how all of these issues came together to challenge seriously Frontier's ability to remain successful in Kazakhstan.

Frontier operated in 2005 (along with most miners) under a very specific subsoil contract that detailed exploration, production and investments across a strict schedule – as another manager for a junior described the situation, the contract is "very strict and you should be at any time in compliance." The various schedules tend to be listed in 2 to 2 ½ year timeframes, and if at any time the firm anticipates needing to operate outside of this schedule, it will need to renegotiate the contract with the relevant ministry back in Astana,[438] which in itself will take several months and therefore deviations from the schedule essentially need to be anticipated several months before they are likely to occur. Aside from the natural geological challenges that Frontier may encounter that would require the firm to renegotiate the subsoil contract, there are a series of procedures indirectly related to maintaining the subsoil schedule that require approval from the local *akim*. So in other words, as a manager for Frontier described to me, "you have the national regulation looking after your performance on the subsoil [contract] and the locals looking at [your operations] in their place [of authority] – construction, the use of cyanides…everything related to your operational place, and everything is controlled."

Access to cyanides was a sticking point in 2005 that caused the company serious delays. The gold extraction process for the Naimanjal site leveraged a concept known as heap-leaching, which is the practice of dripping a cyanide solution on a large pile of crushed ore which in turn dissolves the gold within the ore into the cyanide solution, and is then collected to re-separate the gold from the solution. Unfortunately for Frontier, the company was mining ore out of the ground, according to schedule, but unable to turn the

[438] In 2005 this was the Ministry of Energy and Mineral Resources.

ore into poured gold due to local delays in getting the appropriate permits to use the cyanide. This backed up the company's ability to mine, as stockpiled ore reached several thousand tonnes without the requisite cyanide to turn it into gold, causing the firm to miss its 2005 production targets ("due to delays in obtaining the required permits")[439] and overall requiring a 2 ½ year extension to Naimanjal's existing subsoil schedule.[440]

According to one individual working for Frontier at the time, episodes like the cyanide delay were common and due to "Western managers," sent to Kazakhstan "to manage the company" who "ignored all the small things like regulation and tried to concentrate on doing things for the shareholders as opposed to the right way based on regulations." This is a direct reference to these Western managers' overwhelming focus on production at the cost of "small things." After all, it is in moving from the exploration to the production stage that a junior miner proves to its shareholders (or London's AIM) that the company can produce gold or copper at a margin. Proving that point leads to more capital which in turn allows the company to stay alive.

The rush, however, without the due deference to the regulatory process, is often what puts foreign miners in jeopardy. Lawyers in Kazakhstan describe similar situations in which the miner – unwilling to wait for the proper licenses – acts in a way or imports a particular chemical without a permit that then exposes the firm to government interference. "They come to us and we say that if you came to us earlier you wouldn't have had this problem," one Almaty-based lawyer with clients in the mining industry relayed to me. My source within Frontier agreed. "Not paying attention to the small things" and instead "trying to push" is a mistake that in the end will lengthen the waiting period. That said, the

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[439] See (2005) *Annual Report* (Frontier Mining), p. 4. and (2005) 'Frontier Mining (FML)', *Investors Chronicle*, Sep. 2.
[440] (2005) 'Frontier Mining receives approval for Naimanjal license for extra 2-1/2 yrs', *AFX.com*, Sep. 2.

situation is further complicated by the fact that regulatory or licensing agencies take much longer to respond to a given request than legally mandated. “Theoretically you could sue,” as the Almaty-based lawyer describes, but “as a practical matter you’ll never sue them because you’ll never get the consent.”[441] In other words, bringing a lawsuit leads to a negative reputation which in turn will further expose the firm to the operational risks of the local permitting office.

How to interpret these challenges within the bargaining framework? In this instance, Frontier’s goal was profitability, or more specifically, the ability to produce gold and/or copper at a profitable margin. To do so, the firm mobilized its capital and technological resources, but under the regulatory and licensing constraints of the local and central Kazakh government, the looser regulatory constraints of London’s AIM, and the patience and risk tolerance of the firm’s shareholders. Because Frontier’s involvement in Kazakhstan does not fold into any of the country’s larger strategic initiatives (such as industrial diversification), both the central and regional government’s goals at the time were limited to revenue, mainly through taxes and fines in the case of the former and licensing fees in the latter. Informally, however, local level inspectors were incentivized to find firms in noncompliance (and thus subjected to fines) as a source of patronage for their superiors (that would translate into job security up the line of interconnected patron-client relationships) or as a source of leverage for small, local graft (i.e. payment in lieu of formal fines).

The friction point for these three stakeholders was on Frontier’s production. Frontier’s ability to produce affected directly the level of tax revenue the central government could draw from the company. If local government inspectors were

[441] Source-2 (2011), Feb. 15

overcautious in assessing Frontier's operations to the degree that production was seriously threatened by unnecessary delays, or if local government regulators could not process licensing requests (such as for cyanide) at reasonable time intervals, a situation begins to form in which the local government's goals run contrary to the central government's goals. And on a larger level, the more such challenges to Frontier's ability to be successful in Kazakhstan become public or widespread across the industry, the less attractive Kazakhstan would appear to foreign investors, again challenging the central government's ability to raise future tax revenue. This was all further complicated by the fact that Frontier, because of shareholder expectations to show as quickly as possible that the firm could produce gold and/or copper at a profitable margin, would apparently under Western management often ignore the regulatory bureaucracy, placing the firm in actual noncompliance.

Two larger threads are evident here, both of which we will further develop throughout the chapter. First, the tension between the central and local governments seems to be more of a tension between formal and informal institutions within Kazakhstan. While legislative reforms aimed at international best standards may emanate from Kazakhstan's center, so too does Nazarbayev's patron-client strategy that is replicated down to the local level. If government officials were rewarded (and held accountable) wholly on competence, then processing times would shorten, regulators and inspectors would be encouraged to specialize, and the consequences for overcautious behavior would be as dire as for under-cautious behavior.

Second, Frontier's active decision to ignore the "small things," as one Frontier managed put it, reinforces yet again a theme we have seen across this thesis: that firm agency can contribute to or complicate the firm's ability to be successful in a given country.

We now turn to Frontier's operations from 2009 onwards to see how these issues changed with subsequent changes in the firm's management.

Frontier's Kazakhization

By the fall of 2008, then CEO Brian Savage was forced to recognize that the production delays at the Naimanjal site were "not technical in nature," admitting that the site proved to be a "more challenging project than anticipated." In early 2009, Savage would step aside as CEO and chairman in place of an individual named Erlan Sagadiev, a young, talented Kazakh with a record of business success in Kazakhstan. Under Sagadiev's leadership, other Western managers who had been with the firm since the early years would be swapped out for Kazakh operators, what could be termed the "Kazakhization" of Frontier, or to use parlance from the institution-based school of strategic management, the making of the firm as "more domestic," as in, more Kazakh. In the short sub-sections that follow, we examine this Kazakhization at Frontier that ultimately loosened the firm's operating constraints under three key stakeholders: the central government, the regional/local government, and finally, the AIM and the expectations of its associated shareholders.

Friends in Astana: Erlan Sagadiev

According to one Western mining consultant for the World Bank in Kazakhstan, the key to success in the country is for the firm to have "someone within the organization spending 99-percent of their time with local officials or national officials" in order to minimize operational risks,[442] and according to my source in Frontier, Erlan Sagadiev is

[442] Source-32 (2011), Mar. 7

that individual on the national (central government) level.[443] Sagadiev was appointed CEO and chairman of Frontier at the age of 41 after successfully purchasing and running a failed dairy enterprise during Kazakhstan's privatization period in the early 1990s. The company turned to be the largest dairy provider in Central Asia with "dominant" market share in Kazakhstan and Moldova and to a lesser extent in Ukraine, and in 2004 the company was sold to a European dairy multinational.[444]

In a US study on successful practices in foreign dairy-food markets, W.D. Dobson profiles Sagadiev's company, Foodmaster, as a small case study in how to avoid corrupt practices associated with foreign markets. According to Dobson's interview with a major Western investor in Foodmaster, the company "encountered relatively few problems with corruption because the firm is managed by a well-connected Kazak (sic)," that is, Erlan Sagadiev, whose father, Dobson notes, was president of Kazakhstan's Academy of Sciences. "These sorts of connections will allow a firm to be left alone by local officials who would normally solicit bribes," the study concludes.[445]

But describing Sagadiev's father as the president of the Academy of Sciences is just the tip of iceberg. Kenzhegali Sagadiev was a prominent figure in the early 1990s formation of the pro-Nazarbayev political party known as the Union of People's Unity of Kazakhstan (SNEK). SNEK was an early advocate for a strong presidential system in Kazakhstan and supported Nazarbayev's push to dissolve parliament in 1993, which opened the door for Nazarbayev to pass the 1995 constitution (strengthening the

[443] Source-1 (2011), Feb. 17
[444] (2009) 'Frontier Mining Ltd Directorate Change', London Stock Exchange Aggregated Regulatory News Service, Feb. 9.
[445] Dobson, W.D. (2001) Policy and management lessons for dairy exporters and investors in foreign dairy-food business -- What did we learn in the past decade? Paper presented at the annual meetings of the *International Agricultural Trade Research Consortium*, Auckland, New Zealand, Jan. 18-19., p. 21-22,

presidency) and move forward with his privatization plans (as covered in Chapter Three). SNEK is widely recognized as the precursor to Nur Otan, Nazarbayev's political party that today continues to dominate the parliament (in fact up until 2012, every member of parliament was a member of Nur-Otan, as noted in Chapter One).[446] While it is true that Kenzhegali Sagadiev was president of the National Academy of Sciences from 1994-1996, more notably in 2004 he became a deputy of the *Mazhilis* (parliament) as the chairman of the Finance and Budget Committee and in 2007 as the chairman of Nur-Otan's Council on Diversification of the Economy within the *Mazhilis*.[447]

Under Erlan Sagadiev's leadership today, Frontier's subsoil licenses are routinely updated with minimal government delay, the firm's annual reports highlight the strengthened management of the firm,[448] and on a critical acquisition for the firm's continued success – taking over a small Kazakh mining firm known as Coville Intercorp Ltd – Frontier received government approval. This last achievement must be further emphasized: in 2010, Coville and Frontier were in a 50/50 joint venture to develop a copper deposit with high expectations known as Benkala. Though Frontier expressed interest in taking over Coville's share of Benkala and owning the deposit outright, the Kazakh government by law had the pre-emptive right to buy Coville's share for itself, which would have been effectively creating a 50/50 JV between Frontier and the Kazakh government.[449]

[446] Isaacs (2011), p. 57.
[447] (2012) 'Biographical Summary of K.A. Sagadiev', University of International Business (Kazakhstan) website, cached copy of webpage as it appeared on 3 Oct 2012.
21-22.
[448] (2008) *Annual Report* (Frontier Mining); (2009) *Annual Report* (Frontier Mining).
[449] (2011) 'Frontier Mining hopes Kazakhstan to rule on Coville deal in March or April', *Trend Daily Economic News,* Mar. 9.

In the end, however, the government waived this right and now Benkala is wholly owned by Frontier.[450]

Sagadiev is also responsible for driving the further "Kazakhization" of the firm's management team, as detailed in the two sub-sections that follow.

The local krisha

In Frontier's first year under Sagadiev's leadership, the firm was able to cut overhead costs at its operations by 50-percent, a feat attributed to Frontier's "new and stronger management team"[451] that happened to be more heavily staffed with Kazakhs. This trend would continue up through the present, a nod to focusing more heavily on the "small things," such as maintaining strong personal relations on the local level, something that is "very important," as described to me by one Frontier manager because there are bound to be "some misunderstandings" like those on permits or regulations as described in the previous section between Frontier, the central and the regional government. "This is why it is important to have someone who is local," he continued. "If you need something, some permits, just send it to the local person and compare how quickly it is done."[452]

When such misunderstandings occur, this Kazakh Frontier manager explained to me, "one option is fighting with the person who is [interpreting] the regulation," bringing in lawyers, for instance, as is the Western approach, but this is less necessary with a strong Kazakh management team. Instead, there is "the other way," which is to "sit with the person," talk out the problem and determine a way forward to fix it. "That person is easier to talk with," the manager continued, "if [you're] Kazakh." In fact an even more successful

[450] (2011) 'Frontier Mining Ltd receives approval for completion of acquisition of Coville Intercorp Ltd's 50 percent interest', *International Resource News*, Apr. 11.
[451] (2009) *Annual Report* (Frontier Mining), p. 5.
[452] Source-1 (2011)

practice exercised by Frontier is to sit down with the local inspectors before hand – to address potential misunderstandings before they occur – in order to "come to a good agreement," the manager explained, "so if you do it this way, you will not have questions with him tomorrow."

The 2011 appointment of Yerbulat Tastanov as Head of Government Relations at Frontier demonstrates well the type of local profile capable of ironing out any so-called misunderstandings. Tastanov's career in mining stretches back to the 1960s when he was a researcher and eventually the Dean of the School of Metallurgy at the prestigious Kazakh Polytechnic Institute. With independence he held key posts at various state aluminum operations in the country that would in due course be packed together into ENRC, one of Kazakhstan's largest mining companies with strong elite-level connections to Nazarbayev[453] and in which the Kazakh government owns a sizeable stake.[454] Under a contemporary system of government that does not promote specialization among regulators – or as one Kazakh mining consultant put it less eloquently, "because they are idiots"[455] – an individual like Tastanov, whose background and experience commands a level of respect and authority, is seemingly just the profile to ensure inspectors and Frontier interpret the sector's various laws in the same way.

Out from under AIM's shadow

The appointment of Erlan Sagadiev also represents – along with the firm's subsequent decision to bring on a Kazakh banker named Yerlan Aliyev in 2010 – Frontier's revised financial strategy of moving away from London's AIM and Western investors as the

[453] Isaacs (2011)
[454] See http://www.frontiermining.com/company/directors.html; see also O'Donovan, B. (2011) 'Frontier Mining appoints Tastanov as government relations director', *Metal Bulletin Daily Alerts*, Apr. 15.
[455] Source-52 (2011)

primary sources of capital. Instead, under Sagadiev and Aliyev, Frontier would move toward Kazakh and Russian sources of financial support that would simultaneously co-opt additional locally-based stakeholders into having a stake in the firm's success while loosening the Western-imposed operating constraints that would have come with funding from an internationally recognized bank.

Sagadiev brought to Frontier not only his competence as a manager and his strong elite connections to the ruling regime, but further his association with Zere Group JSC, a Kazakh-based holding company focused on entrepreneurial activity in oil, gas, mining and education that he controlled.[456] In 2009 Zere Group provided a USD 10 million loan to Frontier at a time "critical to reinvigorating the financial health of the Company."[457] It would repeat the USD 10 million loan facility in 2010 and today is a major shareholder in Frontier (though Zere Group is now known as New Technology LLP). Aliyev's appointment as a non-executive director likely opened the door to Russian financing, specifically from Sberbank from which Frontier received a USD 29 million loan in early 2012.[458] Aliyev had previously worked in high positions for a variety of Kazakh and Russian banks operating in Kazakhstan.[459]

Together these moves made the firm less accountable to the patience and risk tolerance of the firm's Western shareholders – a challenge that previous CEO Brian Savage was unable to balance against the frustrating operating environment of Kazakhstan as described earlier. These moves also lifted significantly Frontier's need to respond to larger

[456] (2009) 'Frontier Mining Ltd Directorate Change', *London Stock Exchange Aggregated Regulatory News Service*, Feb. 9.
[457] (2009) *Annual Report* (Frontier Mining).
[458] (2012) 'Frontier Mining agrees US$29 mln financing for expansion of Benkala copper mine', *Proactive Investors*, Jan 12.
[459] See http://www.frontiermining.com/company/directors.html

operating constraints expectant of the international banking community, namely the Equator Principles, which are social and environmental requirements agreed upon by the world's largest investment banks for investment in projects with capital costs of USD 10 million or more.[460] In 2010, Frontier acknowledged that its Benkala site was not Equator Principles compliant but that it planned on making the necessary changes in the near future.[461] Then in early 2011, the firm announced that a team would be put together to determine exactly how Benkala could become compliant,[462] a step lauded by corporate social responsibility advocates as reaffirming the strength of the Equator Principles association with the banking sector, as Frontier was in need of additional funding. The blog at Eco-Coach, for instance, connected Frontier's announcement to the firm's desire to receive financing from the British bank HSBC, an Equator Principles member.[463] However, the project went nowhere and to this day, the Benkala site remains non-compliant.[464] Why? Because it became an unnecessary expense in light of the fact that the firm's financing now comes predominately from private Kazakh sources (such as Zere Group) or non-participatory banks such as Russia's Sberbank. See Table 6.1 for a timeline of the "Kazakhization" of Frontier.

Table 6.1: The "Kazakhization" of Frontier

Year	Event	Interpretation

[460] See "Equator Principles," at http://www.equator-principles.com/index.php/about-ep/about-ep
[461] Source-76, via e-email (2010), 20 Sep.; also Conway, J. E. (2010) "New political risks arise with next generation of metals mining in Kazakhstan," *Central Asia – Caucasus Institute Analyst*, Nov. 9.
[462] (2011) 'Frontier Mining Ltd Commencement of ESIA', *London Stock Exchange Aggregated Regulatory News Service*, Jan. 17.
[463] (2011) 'The Equator Principles & Sustainability', Eco-Coach blog, Jan. 28. Available at: http://www.eco-coach.com/blog/2011/01/28/the-equator-principles-sustainability/ (last accessed on 18-10-2012).
[464] Source-76, via e-mail (2012), Oct. 17

Late 1990s	Brian Savage discovers high concentrations of gold and copper in areas previously thought to be contaminated with radiations, creates Frontier Mining	Typical way for mining junior to start
2004	Frontier Mining goes public on London's AIM	Exposes Frontier to the UK regulatory constraints and shareholder expectations
2005	Failure to receive local permits causes significant operational delays	Indicates constraining force of local government
2008	Savage admits that operational delays are "not technical in nature"	Underscores constraining force of local government
2009	Savage steps aside as CEO, replaced by Kazakh Erlan Sagadiev	First indication of "Kazakhization" of the company
2009	Sagadiev's Zere Group provides USD 10 million loan to Frontier at critical time	Indicates shifting of reliance on international investors to domestic investors
2010	Frontier acknowledges that Benkala site is not compliant with "Equator Principles" (necessary to receive international financing), but that the company plans to meet the necessary requirements in the near future	Indicates that the company still maintains a possible interest in international financing
2010	Yerlan Aliyev appointed as non-executive director	Further indication of "Kazakhization" of the company
2011	Benkala site remains not complaint with "Equator Principles"	Indicates less focus on international financing
2011	Yerbulat Tastanov named as head of government relations	Further indication of "Kazakhization" of the company
2012	Frontier receives USD 29 million loan from Sberbank with strong Kazakh presence, a Russian bank that does not adhere to Equator Principles	Indicates further focus on domestic financing

Implications for the PBM

How to interpret Frontier's "Kazakhization" within the framework of the PBM? How to unfold Frontier's experience against the domestic political economy of a country in transition? Perhaps it is telling that Frontier's presence in Kazakhstan, compared to our first two cases, dates the farthest away from the country's Soviet past and also appears to most closely follow what the institutional distance scholarship – focused on "domestic legitimacy" – would expect: that in becoming "more Kazakh," Frontier has increased its prospects for success. In this final section we analyze this argument, first through the lens of the PBM and then from the perspective of the country's transition from a command to a market economy.

Harmonizing constraints

If we think back to Frontier's challenges with production back in 2005, there were four areas of friction: non-specialist inspectors; the rapidly changing legislative environment; the informal patronage incentives for finding a firm in non-compliance; and the production demands of the AIM and Western shareholders. Now we will re-approach the situation to see how the firm's operating constraints changed with the Kazakhization of the management team.

Whereas in the past the combination of poorly trained inspectors and a swiftly shifting legal system led to confusion and alternate interpretations of a given law (what we can term "constraint ambiguity"), with an individual as experienced in mining in Kazakhstan as Yerbulat Tastanov and with a strategy of co-opting inspectors ahead of inspections to agree in advance on the law's interpretation, opportunities for misunderstanding decrease substantially. And because Tastanov is of course Kazakh, he does not bring with him an inherent foreignness (i.e. distrust) as other researchers have reported[465] (e.g. Rodriguez, as discussed in the last chapter), closing the gap on the Frontier's earlier legitimacy deficit.

Furthermore, while in the past such areas of legal ambiguity may have been viewed by the inspector as an opportunity to solicit fines or bribes and thus reward superiors – participating as expected in the country's informal patronage network that extends from the

[465] Rodriguez (2010)

local level up into Astana – in Frontier’s case, under Sagadiev, this incentive is removed completely as Sagadiev himself is connected to top level elites within the country and thus interference in his operations would have a potentially adverse effect on the local level inspector. In PBM lexicon, whereas previously the local inspector held as a proximate goal the satisfaction of his or her patron – as patronage satisfaction is a resource the inspector can mobilize to achieve his or her own ultimate goals – under Frontier’s revised status the firm itself fits into this patron-client network and at a very high level, and therefore satisfying the firm’s needs becomes a component of the inspector’s expectations as a client. In other words, to some extent Frontier itself becomes the patron.

Finally, because Frontier now relies largely on Kazakh sources of financial support, the same sort of pressure to produce at all costs – at the expense, for instance, of the “small things” – is substantially relieved. Furthermore, the firm can ignore international standards in social and environmental practices with little repercussions. So, for instance, whereas Cameco was deeply concerned with how and where its social contributions would be spent and was unwilling to “cut checks” – behaviors influenced by internal corporate philosophical and external regulatory structures – Frontier chooses to “not deal with the details, [instead] simply sending the money to the funds,”[466] as described to me by a manager within Frontier, such as in the firm’s USD 1.5 m liability to the Astana Fund or the USD 1.6 m payment to the Nazarbayev Education Fund,[467] along with various small projects for local *akimats*.[468]

[466] Source-1 (2011)
[467] (2010) *Annual Report* (Frontier Mining); (2011) *Annual Report* (Frontier Mining).
[468] These were described to me by Source-1 (2011) but are not detailed in any of the company’s annual reports

All said, however, the firm is not completely immune from the negative aspects of the Kazakh business environment with its new Kazakh team. For instance, despite the fact that the firm's acquisition of Coville was approved by the government, the process took much longer than expected – close to a year in length from beginning to end. Why? Because during the review of the transaction, President Nazarbayev instituted major changes within the central government. Specifically, Tau-Ken Samruk was created within the country's sovereign wealth fund, Samruk-Kazyna, to handle the state's interest in all mining ventures (outside of oil, gas and uranium). Essentially, over 2010 Frontier brought the Coville deal through the various government processes to obtain the appropriate ministerial approvals, upon which the case was referred to the Inter-Ministerial Committee for final review. Though Tau-Ken Samruk was founded in early 2009, the state enterprise seemingly had yet to fully develop until late into 2010, and therefore at the last moment Frontier was required to step back in the process, seek Tau-Ken Samruk's approval, and then refer the case again to the Inter-Ministerial Committee (notably, when I was in Kazakhstan in 2011, many managers and consultants within the mining industry were still unsure of Tau-Ken's exact role and how it would develop).

Furthermore, it is worth pointing out that although much of Frontier's success via eased operating constraints is attributable to Sagadiev's relationship with the country's elites, the difference here between his case and the previously discussed cases of, for instance, Bulat Abilov or Mukhtar Dzhakishev, is that Sagadiev is connected to the "right" elites, that is, his father who is connected to President Nazarbayev. Recall, however, that at one time both Abilov and Dzhakishev shared connections with Nazarbayev – connections that quickly turned sour and resulted in negative repercussions for the firms associated with these individuals. No doubt Frontier runs the same risks. If, for instance, Kazakhstan's next president does not share the same positive relations with the Sagadiev family, Frontier's status could be put in jeopardy to a greater degree than had the firm decided not to involve itself in elite-level politics.

Taken together, however, Frontier as it exists today compared to Frontier during the early years appears to largely validate the main propositions of scholarship on institutional distance and the institution-based school of strategic management, with a few qualifications. While it is true that the Kazakhization of the firm helped bridge the structural distances between the firm and its stakeholders – from focusing on the "small things" to removing the incentive for opportunistic graft or over judicious fining – constraint or institutional uncertainty can nevertheless exist and can regardless of the firm's foreign or domestic status, complicate the firm's ability to be successful. As the Coville process indicates, the constant changes within the formal institutions of the country increase uncertainty which leads to operational challenges for foreign and domestic firms alike.

Further, Frontier's strategy of sitting down with inspectors ahead of time to come to an agreement on a law's interpretation is not in itself a result of the firm's Kazakhization (though it is certainly aided by the fact that the conversation exists between Kazakhs, and therefore does not maintain the same inherent distrust potentially attributable to a foreigner). Just as Frontier's Western managers actively chose to avoid the "small things," Frontier's Kazakh management opted to speak in advance with inspectors to iron out the "small things." Both cases highlight the significance of the firm's agency, the difference being that the Kazakh managers clearly took the local regulatory environment more seriously. This brings us back to a comment made by one Western lawyer with significant experience in the country referenced in Chapter One: that Western investors often mistake "risky" investment environments as ones in which they can take shortcuts. In other words, the institutional distances between the firm and the host country may actually be closer than expected – i.e. on simple concepts like ensuring you have a permit for cyanide use – but the foreign firm misperceives the country, because of its frontier or "risky" status, as being the kind of place where such details can be glossed over. In this sense, the "distance" in the concept of institutional distance may be to some degree more about perceived distance than actual distance.

Formal vs. Informal Networks in Transition

Perhaps the most interesting theme to arise from Frontier's case is the unintended consequence of Astana-driven reforms on local governance – specifically, the observation that in rushing to draft and enact legislation more aligned with international norms, the central government promotes unintentionally a degree of confusion and uncertainty at local levels of government that in fact increase a firm's operational risk exposure. Paradoxically, in successfully improving its position within the World Bank's Ease of Doing Business rankings, Kazakhstan actually creates a business environment locally that makes doing business more difficult. As this trend regards formal governance, it is important to recognize that the increased uncertainty is potentially temporary – that while the changes may be rapid, thus making it difficult for local inspectors and regulators to keep up, at some point the legislative reforms should stabilize.

However, as we have seen, the legal ambiguity at the local level is only partly attributed to changes in formal governance. The problem is also largely due to the constant rotation of government officials from the central down to the local level, along with the impetus to remain loyal within the country's informal network of patron-client relationships. The former strategy ensures a lack of specialization, leading to poorly-informed inspectors and regulators; the latter behavior incentivizes inspectors and regulators to seek out opportunities to solicit brides or impose fines. So while agents in Astana are actively trying to reshape the country's formal structural influences on individuals (or firms) operating in Kazakhstan with laudable intentions, these same agents continue to reify the country's legacy informal structural influences. The impression is one in which the informal structural components of the business environment bleed through whenever there is formal institutional uncertainty, intentionally or unintentionally – uncertainty about a particular law, for instance, or uncertainty regarding whether a particular individual can be trusted to maintain a position of power for a lengthy period of time. This is exactly what Gül Berna Özcan describes, for instance, in both Kazakhstan and Kyrgyzstan, where informal networks "provide a degree of stability" for small and medium sized businesses or entrepreneurs faced with high uncertainty in legal and institutional structures – in other words, these networks can actually be enabling.[469] This dynamic, which the Frontier case (as a hyper-sensitive mining junior) has clearly underscored in Kazakhstan in a way much more visible than previously observed in the situation of either ArcelorMittal and Cameco, is a point we will return to the penultimate chapter.

[469] Özcan, G.B. (2008) 'Surviving uncertainty through exchange and patronage networks: a business case from Kyrgyzstan', in Aidis, R. and Welter, F., *Innovation and Entrepreneurship: Successful start-ups and businesses in Emerging Economies* (Edward Elgar), pp. 69-88; see also Özcan, G.B. (2008) 'Overcoming barriers: business consulting and lobbying in Kazakhstan', p. 48-68 in Aidis, R. and Welter, F. (eds) *Innovation and Entrepreneurship: Successful Start-ups and Businesses in Emerging Economies* (Cheltenham: Edward Elgar Publishing Ltd).

Conclusion

Frontier Mining is not the largest steel manufacturer in the world, or one of the largest publically traded global uranium multinationals; Frontier is a mining junior that employs very few individuals and produces a product that in itself does not contribute to any of Kazakhstan's larger strategic initiatives. Taken together, Frontier allows us to process-trace "success" and the interaction of our independent variables under a very different set of conditions. At the very least, this case in itself highlights how even within a given sector – mining outside of oil and gas – there are a variety of sub-sectors, each with its own set of unique technical, non-technical and financial challenges. Frontier's hyper-sensitivity, in this sense, has teased out the clear uncertainty that exists at the local level in institutions, both formal and informal, and what we see is in many ways what the institutional distance literature would expect – an increasing domestication of the firm that parallels the company's rebound to success. That said, let us not forget that once again, the firm's own agency plays a large role in this success (and in the firm's previous challenges), and specifically, the idea of how paying attention to the "small things" is less about whatever actual "distances" may exist between the regulatory environment in Kazakhstan and Frontier's historical association with American management and continued association with London's AIM, but rather more about the firm's perception of that distance: a perception that sees the country as one in which the firm can take regulatory shortcuts. Further, the company's goal for overcoming the formal institutional uncertainty is not completely pinned to simply swapping out impatient Americans with Kazakhs. While clearly elite associations in this instance are an asset (though over the long term, a questionable asset given the uncertainty that equally exists within elite-level politics), communication – just as we saw with ArcelorMittal and Cameco – plays a significant role. It is not just that Yerbolat Tastanov is a local, it is that he is a local with deep knowledge of the sector and the willingness to sit down with local inspectors and ensure both he and his stakeholders identify and interpret the firm's operating constraints in the same way. This is, in many respects, no different than Cameco flying out Kazakhs to Canada and the US, or ArcelorMittal's CEO sitting down with Nazarbayev to discuss the privatization of Karmet, or ArcelorMittal's meetings with Kazakh stakeholders to explain the impact of the financial crisis on the global supply and demand of steel: communication breeds understanding, and in doing so, reduces uncertainty. We now turn to the penultimate chapter to explore further these similarities and difference between our three mining firms.

Chapter Seven: Political Risk and the Political Bargaining Model

Introduction

In this penultimate chapter, we now consider our three cases not as individual studies but as a between-cases design, looking to draw parallels and distinctions among the different pathways that have led these firms to be seemingly successful in the "risky" country of Kazakhstan. As we noted from the outset, by holding our dependent variable constant – "success" – we have allowed for the possibility of equifinality, or the idea that alternate pathways can lead to the same ultimate outcome. This chapter will now proceed by examining these alternate pathways in the context of our larger research objectives: first, to assess the PBM as a response to the ontological and epistemological dilemmas recounted within traditional political risk analysis that prevent us from accounting for successful firms in so-called risky countries; then, to explore the agent-structure implications of our case studies, and how existing understandings of the role of agents and structures and their consequent interaction can better inform our understanding of firm success.

The PBM as a response to traditional political risk analysis

The first major barrier to accounting for a firm's ability to be successful in a given location, we proposed, is the existing scholarship's ontological embrace of the host country as the unit of analysis. Even a cursory reading of the highly practically-oriented research within CSR makes clear that the concept of the "host country" is a myth – there is no single, unified country that a firm interacts with, but rather a series of stakeholders from the local to the national and even international level that are more sensibly understood as those individuals or groups that can affect a firm's ability to operate in a given location. Epistemologically, we proposed that typical political risk analysis misleadingly approaches the concept of risk and risky behavior through the host country, which, putting aside for a moment the ontological argument against such a focus, equally remains problematic because such an approach strips from the firm its own agency while overstating the agency of the host country – when a political event occurs that threatens the firm's existence, such as the decision to expropriate the firm's operations, the blame rests with the host country with little deference to the corresponding behaviors of the firm. Here we turned to the extant scholarly debate on the role of agents and structures to propose that the firm, like its stakeholders, both shapes and is shaped by the multiple structures within which it operates.

Taken together, these ontological and epistemological barriers are captured neatly within the political risk index – the standard product of political risk research – and consequently we argued that a more appropriate framework for understanding political risk would be to focus in on the relationships a firm builds and manages (and mismanages) with its stakeholders, understanding the unit of the "relationship" as one that would allow us the epistemological freedom to investigate the role of both agency and structure within the context of our three deviant cases within the mining industry in Kazakhstan – firms operating successfully in a country in which we would expect them to fail. Conveniently, Eden et al.'s PBM provides just such a framework for studying firm-stakeholder relations, understanding each relationship (or bargain) formed between a given firm and a stakeholder as a function of the intersection of the goals of each actor, the resources each actor can mobilize to achieve those goals, and the constraints under which each actor must operate while it leverages those resources. In doing so, the PBM brings together two existing schools within IB study – resource- and institution-based theories on strategic management – which dovetail neatly with our interest in the interactions of agents and structures. The resource-based school, as will be recalled, focuses on a firm's active management style in responding to local uncertainty, while the institution-based school sees conformity to the institutional environment as a "survival value" for the foreign firm and argues for following local rules and norms.

Resource complementarities

Eden et al. propose within their PBM that actors with complementary resources – the "I have what you need, you have what I need" philosophy – will lead to positive, cooperative relations as both actors can leverage one another to achieve their own respective goals. Broadly speaking, this expectation is realized across the three cases presented within this thesis. Just as Vernon observed many decades ago in his own research, here within the mining sector in Kazakhstan resource complementarities are based largely on an exchange of capital and technology (on the part of the mining firm) in return for access to the mineral deposit, affordable labor, the necessary permits and licenses and noninterference in the firm's operations, with each complementary resource (and here is where we depart from Vernon and embrace instead Eden et al.'s updated bargain) with its own corresponding stakeholder, such as the central government (or a specific ministry), labor unions, the regional government (*akimat*) and its governor (*akim*), and the local community, from Temirtau to Taikonor to Kurchatov. In return, each of these stakeholders draws resources from the firm to achieve its own goals, ranging from budget revenue to employment to funding for local social projects and even maintenance of informal power networks. In ArcelorMittal's and Cameco's cases, we can add to this web of corresponding relationships the fact that both of these mining firms add value beyond what we would traditionally expect from primary-resource oriented multinationals – steel from Temirtau is used in cars manufactured in East Kazakhstan and pipes for the oil industry on the Caspian coast, while uranium from Inkai allows the country to retain its place as the leading producer of uranium worldwide and one day may be further processed into UF_6 via a conversion plant based on Cameco technology. In both cases, these firms complement the Kazakh central government's larger strategic objectives on industrial diversification, not simply revenue drawn from primary resource exports.

Now we can enhance the existing understanding of resource complementarities within the PBM framework (and the greater resource-based school of strategic management) by drawing from our cases a few important modifications to our largely confirmed Agent/Resource Proposition: that achieving and maintaining resource complementarities with stakeholders is an active, dynamic process, wherein wide latitude exists for both the firm and the stakeholder to achieve (or mishandle) such potentially cooperative relations; second, that while valuation of the opposing stakeholder's resources, as Eden et al. predict, is important (resource valuation), resource self-valuation is equally critical as the two are interrelated; and third, that high resource complementarities in the absence of institutional similarities can actually challenge the firm's ability to maintain cooperative relations with relevant stakeholders.

Recall, for instance, that ArcelorMittal's CEO Lakshmi Mittal explicitly discussed with President Nazarbayev the priority resource deficits within Kazakhstan that the firm should address with its own resources, allowing the firm to realize those activities that were non-negotiable and those open to further debate. Unlike in the cases of First Alpine and US Steel, ArcelorMittal knew that to be successful the firm first had to settle wage arrears and debts while maintaining employment, in advance of activities aimed at increasing production (which would normally be the firm's primary objective); at the same time, the firm was able to renegotiate its initial role with regard to Karmet's several non-core business activities, shifting the burden from ownership and management to only financing (unlike in US Steel's case, for instance, in which the firm assumed full ownership and management of all non-core activities). It is equally the case that when the equilibrium in resource complementarities between ArcelorMittal and the labor unions collapsed during the early 2000s steel boom, it was not because Kazakhstan was a "risky country" but because ArcelorMittal had actively ignored labor union requests for increased wages and increased investments in healthy and safety. When these demands were met (along with the added pressure by other stakeholders with an interest in seeing productivity return), the bargain between the two actors returned from conflictual to cooperative.

In Cameco's case, the firm made the unusual decision in the early 1990s to satisfy Kazakhstan's inability to successfully market uranium despite the fact that this choice was not at the time perceived to be in the firm's short term interests; later this "pay it forward" strategy would result in a highly favorable JV structure as the firm established a production presence in the country. That said, currently Cameco finds Kazatomprom stalling on the firm's request to increase production, again, not because Kazakhstan is a risky country, but because Cameco had earlier agreed to provide Kazatomprom with the technology to construct a conversion plant and yet had equally been stalling to satisfy this promise. And early challenges for Frontier Mining were similarly due not to Kazakhstan's so-called risky business environment but rather because the firm's managers actively chose to avoid the "small things" (e.g. in permitting), which led to production delays. When the firm brought in new management that placed greater concern on the permitting and regulatory process, the mining junior's ability to operate successfully increased dramatically.

The fact that the equilibrium in resource complementarities between actors is not static but rather dynamic is clear in the ever-shifting valuation and self-valuation of each actor's resources. There is little doubt, for instance, that ArcelorMittal benefited from the failures of previous Karmet privatization attempts. Recall the observation at the time of Zhannat Ertlesova, the then deputy economics minister: by the time of the ArcelorMittal deal a considerable "change in the psychology" of the Kazakh people had occurred as it regarded social services – an increased appreciation that everything comes at a cost despite what may have been considered to be free in the past.[470] In other words, key Kazakh stakeholders had, by the time ArcelorMittal expressed interest in Karmet, lowered their own self-valuation of the enterprise and its responsibilities. It is equally the case that during the steel boom of the 2000s period the labor unions shifted their own self-valuation of their worth to the firm as miners and metallurgists. Recall the human interest piece on the assistant steel worker at Karmet who was happy just to have a job and a steady paycheck back when ArcelorMittal arrived in 1995, but by 2004 felt undervalued by the firm.[471] In Cameco's case, the firm valued its ability to market uranium at a level much higher than as perceived by Kazatomprom, with the fact that the firm could draw on a resource base with diversified country risk (Kazakhstan, Australia, United States and Canada) being of little significance to Kazatomprom and thus frustrating the two actors' ability to maintain resource complementarities. Whereas Eden et al. focus on the concept of resource valuation – how one actor assesses the opposing actor's resources – what our cases make clear is that

[470] Thoenes (1996)
[471] (2005) 'Kazakh TV reports problems at Indian steel magnate's plant, SOURCE: Channel 31 TV, Almaty, in Russian 1500 gmt 14 Feb 05', *BBC Monitoring Central Asia Unit*, Feb. 14. Retrieved by Nexis.

resource valuation is as much about how an actor self-values his or her own resources in achieving resource complementarities. This has significant implications for the influencing role of agents and structures, to be discussed in the following section.

But perhaps the most interesting adjustment to the existing understanding of resource complementarities within the PBM comes from the ways in which resources interact with constraints – what, on a larger level, can be understood as the interactions between the resource-based and institution-based theories of strategic management. This is most apparent in Cameco's challenges with the *akim* of South Kazakhstan, in which there appeared to be strong resource complementarities in that Cameco needed to spend a given sum on social responsibility and powerful incentives existed for that sum to be spent in coordination with the *akim*. Due to the firm's institutional constraints (e.g. the Foreign Corrupt Practices Act – the FCPA), however, Cameco backed away from a deal with the *akim* and as such increased the firm's exposure to operational risks. What this incident highlights is the idea that in the absence of institutional constraint similarity – i.e. an equal appreciation between actors on constraints such as the FCPA – resource complementarities are not guarantors of reduced political uncertainty, and in fact it likely means an increase in political uncertainty. Why? Because resource complementarities indicate that opposing stakeholders hold resources deemed valuable to each other in achieving their respective goals, and if one actor refuses to engage in this potentially cooperative relationship (e.g. Cameco refusing to deposit cash into the *akim*'s alleged front company) then by default the opposing actor can equally withdraw its resource from the bargain (e.g. the governor stalling on permit approval). Under such conditions, political uncertainty is high as opposing stakeholders can be expected to mobilize alternate resources to achieve their respective goals (e.g. a hypothetical snap inspection at the Inkai production facility that shuts the operation down for a day).

Constraints

Eden et al. argue that as the firm and its corresponding stakeholders mobilize their resources and the resources of each other to achieve their respective goals, each actor nevertheless operates under a series of constraints. Here our understanding of constraints is informed by the rich literature on institutional distance, defined as “the difference or similarity between the regulatory, cognitive, and normative institutional environments of the home and the host countries of an MNE,” with the expectation that the greater the institutional distance, the “more difficult it will be for the MNE to understand the host environment.” Under the institution-based school of strategic management, institutionally distant firms are encouraged to bridge this divide by adapting their own organizational practices to host country requirements.[472]

Among our cases, these expectations are most clearly realized within Frontier Mining and the “Kazakhization” of its management over time. Recall that Frontier was founded by Brian Savage, an American, but by 2008 he was forced to admit that the production delays in Kazakhstan “were not technical in nature” and that the development proved to be a “more challenging project than anticipated.” From that moment on, Frontier would increasingly transform the top management of the firm from foreign to Kazakh, with individuals such as Erlan Sagadiev, whose father has a close association with President Nazarbayev, Yerbulat Tastanov, an individual who held key posts within the mining sector

[472] Kostova, T and Zaheer, S. (1999) ‘Organizational legitimacy under conditions of complexity: the case of the multinational enterprise’, *Academy of Management Review*, 24(1), p. 64-81. (P. 68).

both before and after independence, and the Kazakh banker Yerlan Aliyev, who along with Sagadiev was able to shift the firm's focus on raising capital from London to Kazakhstan.

Whereas Frontier's experience in many ways follows exactly the path Eden et al. anticipated and which on a larger level one would expect from a reading of the scholarship on institutional distance, the experiences of ArcelorMittal and Cameco deviate from this path significantly and provide powerful evidence for a reconsideration of the conditions under which adapting to host country norms would be understood as a successful political risk management strategy. Clearly in some respects these firms absolutely respond to the domestic institutions in the way in which they operate – ArcelorMittal's heavy role in a series of non-core business activities in Temirtau is an obvious response to Karmet's Soviet legacy as a territorial-production complex. And in Cameco's case, the fact that the firm is reluctant to participate in the South Kazakhstan *akim*'s informal elite maintenance activities shows how refusing to become "domestic" can in some ways complicate the firm's ability to be successful.

However, recall that in the privatization of Karmet under the First Alpine JV and in the relationship between a Cameco peer, Uranium One, and Kazatomprom, establishing close relations with Kazakh elites – becoming more "domestic" – actually increased the firm's exposure to political risks within the country. In the First Alpine JV, Bulat Abilov was an early contender for power at a time when President Nazarbayev was actively consolidating his authority over the country; equally Uranium One's close association with Moukhtar Dzhakishev would become a major liability when Dzhakishev was arrested for corrupt practices in a move largely interpreted as a politically motivated step by Nazarbayev to limit an increasingly powerful and popular threat to his leadership.

Further, remember that both ArcelorMittal and Cameco were invited to establish operations in Kazakhstan specifically because of their foreign status. Both Karmet and Kazatomprom were in desperate need of foreign investment and technology in order to restart their respective operations. And beyond the practical challenges, the fact that these firms decided to invest heavily in the country had a significant reputational effect for Kazakhstan in its attempts to draw FDI into the country. As previously noted, today ArcelorMittal and Cameco are explicitly and actively held up by the Kazakh government as examples of success stories in the country as a strategy for convincing other multinationals that they too can be successful in Kazakhstan. In this sense, while in some respects Kazakh stakeholders may expect these firms to become more “domestic” in that they should absorb, for instance, the legacy role of the Soviet era territorial-production complex and its associated non-core business activities in their daily operations, on other levels it is the very fact that these firms are “international” that contribute to their success.

Stakeholders

While Eden et al. recommend in their description of the PBM to incorporate the existing research within CSR on stakeholder management, they provide little guidance on how they expect the various web of bargains between the firm and its corresponding stakeholders to manifest itself in practice. What is clear across our cases is not only the less sensational observation that surely there exist various stakeholders within a given country, each with their own unique goals, resources and constraints, but more importantly, that even within the Kazakh government there exist real differences among stakeholders and their corresponding interests. In other words, not only is the host country a myth, but the idea of a single Kazakh government is also clearly challenged in our cases.

Frontier's hypersensitivity to various risks, rooted in the fact that the firm is small and its viability is constantly challenged by even the smallest production delays, teases out most clearly the opposing stakeholder dynamics between the ministries in Astana and the local level inspectors within the *oblast*s. We also see in Cameco's case a similar interaction between Cameco, its JV partner Kazatomprom, and the *akimat* of South Kazakhstan. In both cases, the local stakeholders' attempts to satisfy informal elites complicates the firms' ability to remain successful, wherein success is not only in the interest of the profitability-based motives of the firms but also in the interest of the central government (i.e. through budget revenue) and in Cameco's case, the fact that Kazatomprom maintains a 40-percent stake in the JV. The regional *akimats*, Kazatomprom and the various ministries all ultimately answer to President Nazarbayev, and yet often their interactions with the firms in our cases run contrary to the interests of one another. As such, the PBM should be modified to deconstruct stakeholder goals into proximate and ultimate objectives, a clear contribution of this thesis to the existing understanding of stakeholder theory. For instance, in the case of the regional *akim* of South Kazakhstan, while he maintains a series of proximate goals that include local elite maintenance and FDI attraction, ultimately his objective could be understood as to maintain socio-economic stability in his area of responsibility (if this is to erode, I would suggest, he is likely to be relieved of his responsibilities as *akim*). The challenge for the *akim* then becomes reconciling these proximate goals in a way that does not frustrate his ultimate objective. If, for instance, he focuses too heavily on elite maintenance at the cost of pushing Cameco out of South Kazakhstan (and thus pushing out the millions of dollars the firm contributes both locally and nationally through social spending, permits and licenses, and budget revenue), the *akim* will have clearly failed in maintaining his ultimate objectives.

Besides operationalizing the concept of the stakeholder within Eden et. al's PBM, this thesis also provides unique insight into how the foreign firm identifies and attributes agency to stakeholders. The very fact that we have defined a "stakeholder" within this thesis as a group or individual with the capacity to impact the firm's ability to operate is telling: here we are saying, from a political risk perspective, that agency is synonymous with impact. The corollary is that those groups or individuals that cannot impact the firm are stripped of their agency. Take, for instance, the local environmental NGOs that surround ArcelorMittal in Temirtau. They are engaged by the ArcelorMittal staff not because of their ability to affect KARMET, but rather because ArcelorMittal's shareholders expect ArcelorMittal to engage local environmental NGOs in the name of corporate social responsibility.[473] In other words, the stakeholder here of interest to ArcelorMittal is the shareholder and his or her associated ethics, not the local NGO. Frontier's consideration of compliance with the Equator Principles is similar. The company's interest in compliance was not about meeting environmentally responsible behavior but rather about attracting international financing which happened to have as a requirement certain environmental standards. Once Frontier determined a path forward that allowed the company to operate outside of such a constraint (i.e. by seeking financing from banks and/or investors that were not signees to the Equator Principles), the impetus for environmental responsibility collapsed.

The same is true for the Ministry of Environmental Protection, and why it has largely been avoided as a "stakeholder" in this thesis. Staffers within the ministry admit

[473] Source-24 (2011), Feb. 15.

that they maintain, from the perspective of improving the environment, very little power. As they describe, the ministry is used as a tool by the central government to extract additional rents from the foreign firm in the name of "environmental fines" – as a resource the central government can mobilize to achieve some other unrelated proximate goal. This is underscored by the fact that environmental fines are not cycled back in the Ministry of Environmental Protection to rehabilitate the contaminated areas or improve environmental conditions more generally. Rather, these fines go back into the central government where they are controlled by the prime minister.[474]

The risk is in the relationship

What can we say, thus far, about the PBM as a framework for political risk analysis? It seems to be the case that the ideal condition for the firm – that is, the circumstances under which the firm is least exposed to political risks – is one in which high resource complementarities exist between the firm and its stakeholders within a system of shared institutional constraints. We can add to this the observation that the existence of resource complementarities is fragile, ever changing and must be constantly maintained. Further, that the institutional "symmetry" need not necessarily require those constraints of the firm to adapt to those of the stakeholder of interest, an important modification to our Structure/Constraints proposition; in some cases it can be the opposite, or a combination thereof, and as such this symmetry (or isomorphism, to use Eden et al.'s term) is better conceptualized as existing on a spectrum, wherein increasing symmetry increases the likelihood that resource complementarities can be realized under a cooperative bargain (and thus with decreased exposure to political risk) while decreasing symmetry increases the

[474] Source-48 and Source -49 (2011), Mar. 10.

likelihood that resource complementarities will be achieved (if at all) through conflictual, power-based behavior (and thus with the firm's increased exposure to political risk). Finally, because we have clearly demonstrated that the firm must enter into relationships with a series of different actors within a given country, often with goals that run contrary to one another, with resources of varied interest to the firm, and even at times under systems of varying institutional constraints, a firm's exposure to political risks seems best assessed by the quality of its relationships with these stakeholders, not by the country in which they happen to reside (an affirmation of our Stakeholder proposition).

Trust and distrust, agents and structures

While on a practical level the PBM seems to be an apt framework for assessing a firm's political risk exposure in a given country, clearly the key independent variables of the PBM – the resources and constraints that both afford and frustrate the firm's ability to achieve its goals – stem from larger considerations within the social sciences on the interaction of agents and structures. Agents and structures, we argue in Wendt's vein, are co-determined, mutually constituted entities that both influence and are influenced by one another, and in our setting of the foreign mining firm entering the former Soviet republic of Kazakhstan we see this over and again. The implications here for political risk management eclipse smaller, more tactical arguments on, for instance, the role of resource complementarities or institutional distance: here, the larger point is that the successful foreign firm exercises the ability to adapt to its operating environment while recognizing and leveraging its capacity to influence and alter this environment.

One of the more interesting and, admittedly, less expected ways in which the interaction of agents and structures manifested itself across our cases is in the concept of trust. This is clearly an area for further research, as the literature on trust is highly developed, but nevertheless here were can make a series of narrow observations on the seeming role of trust in our own cases. In Cameco's experience the significance of trust was most obvious, as we argued that the firm's "pay it forward" strategy early on, which came at Cameco's short-term expense and without any established promises going forward, could only be described as a gesture aimed at inculcating trust with relevant stakeholders within Kazakhstan that notably paid off later on in the Inkai JV. From there, Cameco's at times trying relationship with JV partner Kazatomprom and also with the regional *akim* of South Kazakhstan seemed most accurately described as a function of trust. When Cameco requested permission to increase production, for instance, only to be stonewalled by the Kazakh government, it seemed that the impetus for the government's behavior was the fact that it no longer trusted Cameco to fulfill an earlier promise to construct a UF_6 conversion facility in the country. In this sense, characterizing the bargain between Cameco and its stakeholders as either cooperative or conflictual often seemed to be a function of whether or not the opposing stakeholder trusted Cameco – and the reverse, as Cameco equally felt that the trust had been broken when the new subsoil law changed the terms under which the firm operated, despite earlier promises to the contrary.

As Charles E. Stevens highlights in his reading of Vernon's *Sovereignty At Bay*, Vernon argues at times that there is an inherent distrust on the part of the host country when a foreign firm decides to enter into and invest in the country, and it is here where we begin to see how agents and structures play a role in a firm's ability to be successful and how success seems premised to some degree on trust. The distrust attributed to the firm, as Stevens points out, is due to its foreignness, but we should admit further that the firm is equally distrustful of the host country. Vernon did, after all, describe the entry event as one in which the firm takes the "plunge into the dark and chilly waters of a less-developed country," hardly promoting an image of trust and trustworthiness.[475] What seems clear, however, is that in both cases it is the foreignness or otherness of the stakeholder that elicits an initial impression of distrust, not the stakeholder itself. In this sense, this feeling of initial distrust is premised on the social context in which the firm (or the Kazakh stakeholder) exists – perhaps the exploitative, capitalist mining multinational or the risky, former Soviet republic. "The capacities and even existence of human agents," as Alexander Wendt describes, "are in some way necessarily related to a social structural context – that they are inseparable from human sociality." After all, how else could a stakeholder or a firm form an opinion on an opposing actor in advance of interacting with that actor unless that opinion was somehow premised on the larger structural context in which the actor exists?

But must the waters be so chilly? Eden et al. seem to think so:

> Since the HC [host country] will lack familiarity or is likely to have stereotypical views about the MNE, the government will treat the MNE as an outsider, that is, as a firm without legitimate status in the host country. Legitimacy can be achieved if the MNE becomes isomorphic with the institutional environment in the host country; however, it takes time and commitment by the MNE to build a reputation and become recognized as an insider by the host country.[476]

And yet despite this stereotypical outsider baggage – what Eden et al. refer to as the "liability of foreignness" – in one swift action, Cameco was able to completely reorient the Kazakh government's perception of the foreign firm by offering its expertise in marketing long-term uranium contracts. That active choice opened the firm up to future success and

[475] Vernon (1971)
[476] Eden et al. (2004), p. 9.

critically, not because Cameco became more "domestic" as Eden et al. recommend above but because it became more trustworthy. This is a key departure from Eden et al.'s understanding of foreignness and one of the key contributions of this thesis to our existing appreciation of a foreign firm's success in a given country. The firm need not necessarily run away from the structural context in which it exists and toward the structural context in which the stakeholder is embedded – though this is one possible strategy – but rather cultivate with the opposing stakeholder, through reinforcing behavior, a context in which each actor trusts one another. This new context – what we could term a "society" in the broadest sense of the word in that it is a system characterized by a series of social relationships among the firm and its stakeholders – is one in which the risks of adverse political action are significantly reduced, and hence here we have a strong indication as to why some firms are successful in countries in which we would expect them to fail: trust.

While in hindsight the fact that trust became our point of focus within Cameco's case study should not be overly surprising – Cameco is, after all, the only case in which the firm is structured locally through a joint venture, and the extant scholarship on international business and trust is almost wholly relegated to research on JVs – clearly trust serves as a compelling unit of interest for understanding the mutual constitution and co-determination of agents and structures in all of our cases. As the discourse from Vernon and Eden et al. make clear, initial expectations of distrust are influenced by larger structural connotations on foreign or otherness, and in fact the argument that firms must become domestic in order to decrease their political risk exposure (i.e. overcoming the "liability of foreignness") is equally influenced by the structural implication that because you are "one of us," you must somehow be more trustworthy. And yet what Cameco's single act shows us is that these strong, structurally-rooted preconceptions of foreign firms as distrustful can be altered almost immediately with the act – the agency – of the agent. In this section we now dig deeper into the significance of Cameco's act (and acts) while drawing in equally compelling examples on the interaction of agents and structures with one another in the cases of ArcelorMittal and Frontier Mining, as each of these firms' attempts to build and maintain (and at times mismanage) an environment of trust with corresponding stakeholders.

Trust through reciprocity

How to understand Cameco's decision to help Kazakhstan market uranium? Or ArcelorMittal's simple yet critical decision to pay the USD 50 million in wage arrears and public and private debts up front while others would not? Peter Aykens writes that "when trust is conceptualized as a socially derived context of interaction…such that it shapes how actors embedded in it perceive their own environment…behavior is cast in an entirely different light."[477] So what do we know about the mining sector and how trust may play a role? For one, as described in Chapter Three on the differences between mining and other sectors, even within the extractive industries mining is exceptionally socially and environmentally disruptive. We also know that mining is a long-term process that requires a substantial investment up front in terms of capital costs that is only realized if the firm can ensure its presence in a given location for a long period of time. And finally, we know that in Kazakhstan mining was the anchor of socio-economic development in the country for the decades leading up to the country's independence and equally so it was the case that the

[477] Aykens, P. (2005) '(Mis)trusting authorities: a social theory of currency crises', Review *of International Political Economy*, 12(2), pp. 310-33 (p. 329)

sector's deterioration post-independence was largely responsible for the dire socio-economic conditions facing the country in the early 1990s.

Enter now, within this context, ArcelorMittal, on the heels of two failed privatization attempts of the metallurgical enterprise known as Karmet that directly employed tens of thousands of Kazakhs and indirectly supported a city of over one hundred thousand in a country of only 15 million people. Whereas both First Alpine and US Steel failed to live up to their initial agreements, ArcelorMittal paid immediately and within a month offered to buy the enterprise outright. Earlier we noted that this act underscored the power of agency – that ArcelorMittal decided to act when others would not – but now it seems more appropriate to recognize, in a wider context, this act in a slightly "different light," to borrow from Aykens: as a first step in cultivating a context of trust with a series of stakeholders that would remain critical to ArcelorMittal's success for decades to come. How to characterize this first step, then, of ArcelorMittal, along with Cameco's own unique initial action? As one of commitment – commitment not in the first instance to what would be expected, that is, the pursuit of the firms' own narrow goals of profitability, but rather commitment to the tangential goals of the firms' stakeholders. "The requirements for investment in trustbuilding are greater in the formative period of a relationship," as Anoop Madhok writes in his studies on international joint ventures, "in order to absorb the initially higher costs of creating commitment."[478] This step, or what others have described as the "leap of faith,"[479] seems aimed at establishing a vital norm within this new context of

[478] Madhok, A. (1995) 'Revisiting Multinational Firms' Tolerance for Joint Ventures: A Trust-Based Approach', *Journal of International Business Studies*, 26(1), pp. 117-137 (p. 127).
[479] Shapiro, J.M., Ozanne, J.L. and Saatcioglu, B. (2008) 'An interpretative examination of the development of cultural sensitivity in international business', *Journal of International Business Studies*, 39(1), pp. 71-87 (p. 84)

interaction between the foreign firm and its local stakeholders from which both ArcelorMittal and Cameco would ultimately benefit: reciprocity.

Reciprocity is a norm that has “a powerful influence,” as Naresh Khatri, Eric W.K. Tsang and Thomas M. Begley explain, in that it nurtures “sentiments of gratitude and rectitude”[480] – equal parts appreciation and obligation. In some instances this chain of reciprocity may seem obvious and ordered – think, for instance, of Cameco and its back and forth with the Kazakh government, KATEP and later Kazatomprom: Cameco provides assistance in marketing, the Kazakh government offers a favorable JV deal, Cameco signs a memorandum of understanding to provide the technology for conversion, and then when the firm requests permission to increase production, the consent is delayed, forcing the firm’s management to admit later that their “ability to double annual uranium production at Inkai will be closely tied to the success of the uranium conversion project.”[481] But the pattern of exchange can also be less rigid, as in ArcelorMittal’s experience. Take, for example, the initial apathy and disinterest on the part of both the regional and central governments with regard to the tragic and repeated deaths of dozens of coal miners in the 2000s period. While the miners were striking for increased wages and better safety conditions, the regional *akim* was praising the firm for its social contributions in the form of discounted coal to local towns, new ambulances, training for Kazakh Olympic athletes and the construction of a local football stadium. Only when the strikes began to threaten seriously the larger goals of the regional *akim* and the central government did both actors feel compelled to intervene, and even then it was under amicable, not confrontational,

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[480]Khatri, N., Tsang, E.W.K., and Begley, T.M. (2006) 'Cronyism: A Cross-Cultural Analysis', *Journal of International Business Studies*, 37(1), pp. 61-75 (p. 62) See also Gouldner, A.W. (1960) 'The norm of reciprocity: a preliminary statement', American Sociological Review 25(April), pp. 161-178.
[481] (2012) '2011 Management's discussion and analysis', *Cameco* (based on information known by 8-Feb-2012), p. 81.

conditions. Such reciprocating behavior in the context of trustworthiness has been described as the social “glue” that “facilitates the continuation of the relationship during intermittent periods of inequity.”[482]

Trust through forbearance

Closely associated with the concept of reciprocity as a foundation for trust-building is the notion of forbearance, or the decision to refrain from opportunistic behavior.[483] John Harriss, in his own investigations into the Indian business environment, notes that there is little need for trust when formal institutions, backed by laws, lead to a predictable set of behaviors, but in instances in which there is a lack of confidence in rule of law and the strength of formal institutions, there is an increased need for trust to ensure the firm will be able to operate with minimal government interference.[484] As is most clear in Frontier’s case, building trusted relationships with local level inspectors and regulators is key amidst an ever-changing legal environment ripe with uncertainty in interpretation and enforcement. Here, individuals such as Yerbulat Tastanov build trust with local stakeholders in order to ensure that “if you do it this way, you will not have questions” with the inspector later on.[485] Alternately, Cameco struggles in its ability to build trust on the local level, particularly in its relationship with the regional *akimat*, and thus remains highly exposed to opportunistic behavior: remember the Inkai JV’s concern that the *akim* is well

[482] Madhok (1995), p. 121.
[483] Forbearance as a component of trust is detailed in Parkhe, A. (1993) '"Messy" Research, Methodological Predispositions, and Theory Development in International Joint Ventures', *The Academy of Management Review*, 18(2), pp. 227-268.
[484] Harriss, J. (2003) "Widening the Radius of Trust': Ethnographic Explorations of Trust and Indian Business', *The Journal of the Royal Anthropological Institute*, 9(4), pp. 755-773.
[485] Source-1 (2011)

aware of the fact that a snap inspection or a withheld permit that would shut down the production facility would cost close to USD 500,000 a day.[486]

But the need to build trust in order to protect oneself from opportunistic behavior is not limited to the firm – local stakeholders are equally cognizant (and concerned) with their vulnerability to opportunistic behavior on the part of the foreign firm (stemming from the initial distrust as described by Vernon and Eden et al.). One way to dampen such sentiments is through the "going local" approach as adopted by Frontier Mining and as expected by the scholarship on institutional distance. This strategy clearly rests on an understanding of the structural influence on the way an agent will be perceived – described by one Frontier manager as "the other way," in which everything is easier "if [you're] Kazakh," that is, more trustworthy. Of course, as we demonstrated earlier, the structural power of going local can be quickly reversed if those local agents turn to be a threat to the status quo. Nevertheless, Frontier's strategy appears to be working – the fact that it was able to pursue and purchase Coville's 50-percent stake in the Benkala development, despite the Kazakh government's pre-emptive right to ownership, is a tremendous act of forbearance on the part of the government, rarely seen, for instance, in the oil sector.

More interesting, however, are the methods through which ArcelorMittal and Cameco worked to reduce local stakeholder anxiety about foreign firm opportunism. Recall, for instance, ArcelorMittal's initial experience during the financial crisis in which it argued to Kazakh government officials that Karmet's current levels of production and employment were together unsustainable given the drop in steel demand. Initially the stakeholder response was one of suspicion – "ArcelorMittal annually sells up to 110 million

[486] Source-54 (2011)

ton of steel on the world market," one deputy prime minister argued at the time, asking why it was not "possible to sell our five million tons?" ArcelorMittal's response? Not hard talk, nor power politics, but rather a detailed presentation on how various future global scenarios on steel demand would specifically impact Karmet's ability to remain financially sustainable. In other words, the firm as an agent actively worked to reorient its stakeholders' preconceived understandings of supply and demand in the context of Karmet. Recall from Chapter Three that for much of Kazakhstan's history with mining, production at all costs had been the predominating objective, the structural legacy of which is clear in the statement of the deputy prime minister above, but that the conception of supply and demand was then reshaped by ArcelorMittal, addressing and overcoming concerns from its local stakeholders that the firm might be using the financial crisis as an excuse for opportunistic layoffs and limiting production. Cameco implemented a similar strategy in overcoming concerns about high up front capital costs on rubberizing equipment and later on its plans to increase production (though this latter objective remains in progress) – here, going so far as to fly Kazakh officials out to other mine sites in the United States and Canada to address fears that the firm was acting opportunistically in Kazakhstan.

The strategy in both instances is deeply rooted in the understanding that these firms, as agents, can impart an impression on their corresponding stakeholders that will in turn transform these actors' dominating structural influences, whether it be the decades of operating under a command economy or the fact that capital in the country had traditionally been "difficult or expensive to get"[487] (and thus health and safety incidents were often managed not through preventative measures but as operational issues).

[487] Source-13 (2011)

Conclusion

Resource complementarties and constraints, agents and structures – clearly through the framework of the PBM we have been able to approach the concept of "political risk" in a way that allows us the ontological and epistemological freedom to understand why some firms are successful in seemingly "risky" countries. As we have observed, an actor's ability to maintain resource complementarities, or the fact that local structural constraints need not be so inflexible as to push the firm to wholly accept the local environment as given, together paints a picture of political risk management and success (or failure) that is much more dynamic and fluid than captured in the traditional political risk index. This management (or maintenance) of a web of relationships by a variety of stakeholders relies on concepts such as trust, reinforced by social acts such as reciprocity or forbearance. We now turn to our ultimate chapter, the conclusion, to consider this interaction within the greater context of the intersection of the the international political economy and the domestic political economy of a country in transition.

Conclusion: Where the international meets the domestic: everyday political risk

Introduction

So what happens, exactly, when the multinational enterprise, representative of the internationalized structures of the world market economy, enters into the domestic political economy of a country in transition? On a practical level, the foreign firm views the new country as an opportunity to further its own goals, and thus looks to establish resource complementarities with those stakeholders in the country that can impact the firm's ability to achieve such goals. Limiting the firm's capacity to realize its interests are the structural constraints it both brings with it and takes upon itself as a condition of entering into this new country. And despite the fact that, as in Kazakhstan's case, the central government may be actively seeking these foreign firms to come operate within its territory, the central government is not the only actor capable of impacting the firm's ability to operate in the country, and in fact even within the central government there may be forces at work with their own proximate goals that at times run contradictory to the FDI-seeking behavior that brought the firm into the country in the first place. Further complicating the situation is that many of these stakeholders will treat the incoming multinational with an inherent distrust, fueled by the social structures in which these stakeholders have operated for decades – structures that, in Kazakhstan's case, had until recently been largely untouched and uninfluenced by the internationalized structure that the multinational is assumed to represent.

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A funny thing happened a week or two after I left chilly Ust-Kamenogorsk, the city in eastern Kazakhstan in which my heated interview with the local *akim* had led to a series of threats to leave quickly or risk arrest by the Kazakh equivalent of the KGB: Erbolat, the owner of the small business that had helped facilitate for me a series of meetings in the area – the same small business owner that called me that one night to cancel our contract and to warn me to leave – sent me an email with an interesting reminder. We had been in touch in the days following the incident, mainly because I wanted to make sure he and his staff members were okay. He noted that there was no article on us in the local newspaper, a good thing, despite the lengthy interview I had completed with the paper's reporter in the waiting room of the *akim*'s office (before meeting with the *akim*, of course) and her place alongside the *akim* during my own interview. Erbolat mentioned that his office had received a series of calls from the local government after that night, but that otherwise the situation seemed to have settled.

And he reminded me that if possible, a formal recommendation would be appreciated.

A recommendation?

Yes, back when this local entrepreneur and I first touched base late one night in a coffee shop in downtown Ust-Kamenogorsk, working out the details of our arrangement, he had raised the prospect of me writing a recommendation for his business at the conclusion of our contract that he could then include in his promotional materials – to give his start-up a bit of legitimacy with the foreign investors and businesses he intended to target. Of course at the time I had agreed without hesitation, but I had assumed that following his experience with me and the accompanying government harassment that came with it, he would have wanted to keep his distance. I was wrong, apparently, and I went on to write him the recommendation as promised.

The more I think about it, the more I conceptualize Erbolat and his small business as sitting right at that point where the international meets the domestic, and not in some sort of static sense, but rather the opposite – the dynamism of a situation that is always in flux, always changing. On the one hand, he looks outward, to the community of foreign firms, some of which are multinational enterprises, and their accompanying investors, where he is eager to win over these stakeholders as clients, eager to encourage their investment in East Kazakhstan. On the other hand, he looks to the domestic, where he must navigate the shifting structures and various agents of a city that has been mining raw materials for centuries and during the Soviet era was one of Kazakhstan's secret cities, completely isolated from the rest of the world in the name of national security. Now Glencore is there, one of the largest mining multinationals in the world, and if Cameco follows through on its promise, it too will have a presence in Ust-Kamenogorsk under the auspices of a new conversion facility. And remember, when Nazarbayev praised the use of Kazakh steel in the first Kazakh car built by Skoda, he was doing so from the Skoda plant in Ust-Kamenogorsk.

A few months later, after I had returned to St Andrews and sent Erbolat the recommendation, he emailed me again to let me know, with enthusiasm, that he had recently quit his day job in order to focus fully on his small business. He had decided to become, unbeknownst to him, the full-time facilitator to that nodal point where the international meets the domestic.

*   *   *

In this concluding chapter, we look beyond Kazakhstan and set our cases within the larger context of the study of IPE and IR and the potential research lines that can be spun out of this narrowly defined thesis. Thus far we have been concerned with determining the pathways through which three small examples of the international market economy incarnate have found success in Kazakhstan, pathways understood through the PBM framework yet rooted in an appreciation of the role of agents and structures and the interaction between the two, as captured in the propositions above. We focused in on successful cases – what in Kazakhstan we considered "deviant" cases – to explore the question that binds this thesis together, the question that traditional political risk analysis has largely ignored: why are some firms successful in politically risky countries? We began with ArcelorMittal, the largest publically traded steel manufacturer in the world, with operations in 60 countries, many of which are as risky as or riskier than Kazakhstan (according to political risk advisory firms), with a presence in the country that dates back to 1995, manifested mainly in the operation of legacy Soviet mines and facilities while employing tens of thousands of Kazakh workers. We then turned to Cameco, a firm whose role in the country dates back even further, establishing a marketing agreement with the Kazakh government in the wake of independence before moving into production, though, unlike ArcelorMittal, the firm's international exposure remains relegated to only four countries with Kazakhstan clearly the outlier, and with a much smaller local footprint. And finally Frontier Mining, the smallest of the three firms, which stands as a mining junior amongst the well-established international brands of ArcelorMittal and Cameco, with operations almost entirely limited to Kazakhstan yet nevertheless a publically traded company listed on the London Stock Exchange's AIM. These firms also separate themselves, of course, by their products – from steel to uranium to gold and copper.

If there is one observation above all others to draw from these alternating pathways, it is that in none of these cases did we observe the firm bending wholly to the new environment and its stakeholders, nor that the stakeholders and their legacy environment were swayed to assimilate wholly to the multinational enterprises and the international market economy, a clear challenge to our structure/constraints proposition and the larger scholarly work on institutional distance and the institution-based school of strategic management. Instead, it seems that we find our actors operating in a new environment altogether – one that they both created and are a product of, and continually reshape and maintain. Forget building a *krisha*, or political roof – instead, the process is one of building a *doma*, a new home altogether, a house that serves as the "nodal point," as Sally calls it, between the international and the domestic. And because we focused entirely on seemingly successful firms operating within this new realm, and because we defined success as a situation under which the firm and its stakeholders are all able to work toward their own ultimate goals to a self-satisfactory degree, we can add that this nodal point represents not only the intersection of these two realms but a situation in which the actors within this new realm have managed to establish together the minimum conditions for co-existence – that this house was seemingly built collectively.

It is through this observation of co-existence – or "order" – that we can now fold the experiences of our cases into larger IR theory, a discipline that has always maintained as a core focus how international orders are established, maintained and often times, lost,[488]

[488] See, for instance, Rengger (2000) and Dunne, T., Kurki, M. and Smith, S. (2007) *International Relations Theories: Discipline and Diversity* (New York: Oxford University Press).

though as William Walker appropriately points out, too often the concept of "order" is left as inadequately defined, or its definition is simply taken as "given":[489]

> That a concern over order has lain at the heart of international politics in modern times is not in doubt. But what meaning should the word 'order' carry? For understandable reasons, most International Relations theorists have shied away from a definition. Instead, they agree that international order means many things, that its meaning is shaped by actors' beliefs, interests and positions, that it is formed through an historically contingent combination of factors (structural, normative and instrumental), and that the presence of order is manifested by an ability to solve problems and manage change without upheaval.

In this particular thesis, we would be doing a disservice to the richness of our case studies to characterize the form of order captured in our home-like "nodal point" as one of plain economic order, or alternately, security. The implications of, for instance, the largest steel manufacturing company in the world negotiating with a local governor in a remote city in a remote country on heating and hot water, or macadam for local roads, or negotiating with a local labor union over issues such as bar soap and the quality of threading on working gloves, seem deeper than state-based "economic orders" between the so-called North and the South or between the developed and the developing. At the same time it would seem inaccurate and even cynical to minimize the interests of the central government, with President Nazarbayev at the top, as proximately concerned with domestic security solely as a prerequisite for short-term personal self-enrichment, though at times it may seem this way.

Together, this is why we have embraced a broader understanding of order as one to be synonymous with co-existence, or the ability for alternating stakeholders to pursue their

[489] Walker, W. (2004) 'Concepts of international order: the antidote to enmity', *The Adelphi Papers*, 44(370), pp. 9-19.

own respective goals to a self-satisfactory degree. Vernon's *Sovereignty At Bay* paints for us a very clear picture of how an established order on resource complementarities between a foreign firm and the country in which it operates can be obsolescing, based on a fleeting balance of power that ultimately (and deterministically) shifts in favor of the host country, leading to expropriation. But we have found that when the host country is deconstructed into a series of actors, each with its own goals, resources and constraints, that co-existence need not be so short-lived. This is not to say it is easily maintained, nor is it to say that at times an actor will not exercise its resources in a manner that seems more conflictual than cooperative, nor is it to say even that at any (and every) given point in time a particular stakeholder can be said to be in a self-satisfactory position with respect to its own particularly goals, but it does appear nevertheless to indicate the possibility of an order that is not obsolescing but rather more appropriately characterized as sustainable.

What then, as international political economists, can we learn from this particular nodal point of order? In this short concluding chapter, we set our investigation within the context of contemporary IR and IPE theory and look to draw parallels between existing understandings of actors and systems and our own interaction of agents and structures in Kazakhstan. Vernon, as will be recalled from Chapter Two, had very clear ideas on how a sustainable order could be established among the firm and the country in which it operates: through some sort of hegemonic global government, which he hypothesized as a "world corporation" that did not exist, he lamented. In the absence of such a trumping power, he remained wedded to the determinism of the bargain – that the balance of power between the multinational and the host government would ultimately shift in the government's favor; that is to say, that the firm's bargaining power would obsolesce. But as we have seen, this need not necessarily be the case, and in fact our stakeholder proposition, which seems largely confirmed throughout this thesis, itself questions Vernon's whole understanding of "multinational-host country relations," as we have argued that, from the perspective of the foreign firm, there is no host country at all.

In this chapter we begin by exploring the interaction of order and stakeholder agency in the context of our cases and IR and IPE theory. This thesis appears to confirm two very powerful observations: first, that the study of the multinational enterprise's interaction with the domestic economy of a country in transition is a research area primed for the study of politics and international relations; second, that the contemporary fields of IR and IPE have little to say, at the moment, on this interaction. Why is that the case? And where can we go from here?

Here we address Vernon's conception of the "world corporation" as the hegemonic force over the foreign firm and the "host country" and juxtapose the notion of the "host country" against our own understanding of stakeholder agency – actors that may be either sub- or supra-national, and how the seeming necessity of the foreign firm to engage such stakeholders and not host countries affirms what has been recently coined as the agency of the "everyday actor."[490] If ever there was an intellectual home for the study of the MNE and political risk analysis outside of IB, the growing field of Everyday International Political Economy seems to be the place. Finally, we move beyond Kazakhstan and look to mining across the globe, identifying those areas within this thesis in which the theories and

[490] Hobson, J.M. and Seabrooke, L. (2006) "The Case for an Everyday Political Economy," Working paper no. 26, International Center for Business and Politics, Copenhagen Business School, p. 4. See also Hobson, J.M. and Seabrooke, L. (eds) (2007) *The Everyday Politics of the World Economy* (Cambridge: Cambridge University Press).

concepts thus far developed may contribute to the study in other countries of arguably the most socially, environmentally and politically disruptive sector in the world.

Stakeholder agency and the maintenance of order

There is a PDF on my computer desktop with the file name, "Read this article in case of emergency." It is a short commentary published in 2010 in *International Studies Quarterly* and authored by Benjamin J. Cohen, with a title in the form of a question: *Are IPE Journals Becoming Boring?* The question, which Cohen notes justly as a "serious one," resonates loudly with this thesis. How does the highly qualitative study of a few cases within the mining sector in a post-Soviet state "fit" into a field that has taken "an unfortunate turn" toward "formal scientific method, a hard science model resembling nothing so much as the epistemology of neoclassical economics with its well-known penchant for formal modeling and higher mathematics"? A turn that has "tended to shrink the horizons of scholarship"?[491]

And then, if we look to larger international relations, we can equally say with concern that we continue to live in a field of study that remains largely wedded to the dichotomy and parsimony of conceptualizing the relationships between *states* as power-based, conflictual and placed within a system of self-help, or process-oriented, cooperative and facilitated through institutions.[492] I recall participating, for instance, in a doctoral workshop in Washington, DC funded by the US-based Social Science Research Council in which one of the panelists questioned, with complete seriousness, whether this thesis was

[491] Cohen, B.J. (2010) 'Are IPE Journals Becoming Boring?', *International Studies Quarterly*, 54, pp. 887-891.
[492] See, for instance, Baldwin, D. (1993) *Neorealism and Neoliberalism: the Contemporary Debate* (New York: Columbia University Press).

actually about "international relations." The nods of the other panelists confirmed that he was not the only one challenged at "fitting" my research into the greater discipline.

So where does the privatization of the Karaganda Metallurgical Enterprise in Temirtau fit into either of these two disciplines? How does Cameco's seemingly broken promise to build a nuclear conversion facility in Ust-Kamenogorsk fit into these fields of study? Where is the value added to IPE or IR in knowing that Frontier Mining's appointment of Yerbulat Tastanov as "head of government relations" alleviated the local permitting tensions that prevented the London-listed company from producing gold and copper at profitable margins?

From the very beginning, this thesis made two very important decisions, decisions made knowing full well that they would immediately separate this thesis and any potential findings from *status quo* work in both IPE and IR: that this would be a *small-n* study of deviant cases, a study that would explore through semi-structured interviews those data points on an otherwise tight regression of "institutional distance" that refused to cluster with the pack; and that those cases would take not as the unit of interest the "state" or the "host country," but rather the relationships formed between the foreign firm and the various stakeholders that impact the firm's ability to operate in a given location.

So is this thesis condemned to be an isolated series of case studies with little value beyond Kazakhstan and the mining sector, and thus relegated to "regional studies?" Or is this thesis part of a growing body of research that responds to Cohen's question? That responds to our contemporary (and limited) understanding of IPE and IR?

As noted at the beginning of this thesis, the development of the MNE over the last several years has been mainly within the field of IB (international business studies), not

IPE, despite initial calls for the latter. Razeen Sally's argument back in the 1990s that the MNE should serve as the nodal point of interface between the international and the domestic, a theme we have developed across this thesis, fell on largely deaf ears within IPE since its publication. And Lorraine Eden´s call for "bringing the firm back" into IPE was equally disregarded within the field. But the MNE is not alone – it is not the only unit of interest over the years to be ignored by traditional IPE. Leonard Seabrooke and John Hobson observe that traditional IPE researchers mistakenly seem to believe that "the study of the world economy can be gleaned by examining the actions of 10 percent of the world at most, while the other 90 percent are but power-takers whose actions are inconsequential for the making of the world economy." They label this 10-percent as "the elite suppliers of order," a group that includes the US hegemonic state, international institutions and state elites.[493]

Hobson and Seabrooke go on to summarize the main point of what is now commonly referred to as "everyday IPE" – that the 90-percent that traditional IPE ignores actually have significantly more agency than they are given credit for, an observation this thesis seems to affirm over and again. This is of course a key point and one that we will return to in a moment and in detail, but first I want to touch on this wonderful phrase of "the elite suppliers of order," for we have repeatedly characterized our own nodal point of intersection between the international and the domestic as one of order, or co-existence, and yet our stakeholders are not those that traditional IPE would consider as "the elite." Hobson and Seabrooke are arguing here that the field is overly focused on a single question and on a global scale: "who governs and how is order regulated?" They are referring mainly to international institutions and associated regulations, but the mistake they make is to claim

[493] Hobson, J.M. and Seabrooke, L. (2006), p. 12.

that everyday IPE should abandon this focus on order and instead turn to the stakeholder agency of the "other" 90-percent. As we have shown in this thesis, order and stakeholder agency are intimately tied to one another, and thus need not (and should not) be considered as "one or the other": the MNE that successfully maintains order in the politically risky country does so because it recognizes both its own agency and the agency of its stakeholders, and the reverse is also true – woe is the MNE that fails to recognize its own agency or the ability of a local *akim* in a remote village to cause problems. In the mid 1990s, ArcelorMittal actively worked to find resource complementarities with the Kazakh central government, the local Termirtau government, and the Karmet workers. Alternately, the Karmet workers later found the capacity to band together, go on strike and affect production levels, gaining an 80-percent raise in a two year period. Cameco took a chance and offered to help KATEP with uranium marketing back in the early 1990s; equally the foreign firm has actively slowed plans for building a uranium conversion facility and decided not to pay cash into the local *akim*'s budget, two choices negatively affecting the company's ability to maintain order. And Frontier initially decided to take "short cuts" instead of taking the time to go through the formal and informal processes of the regulatory and permitting system in local East Kazakhstan, whereas later in the company's history, individuals like Yerbulat Tastanov would actively sit down with local stakeholders to work out a compromise.

And while the order maintained between Yerbulat and the local inspector is surely not on the scale of traditional IPE or IR, this is not to say that the findings are not relevant – that those concerned with the 10-percent cannot learn from the 90-percent. A central proposition of this thesis – and one that appears to have been reaffirmed time and again across our studies – is that the firm plays a critical and capable role in establishing and maintaining a sense of order among its various stakeholders, as do the stakeholders with the firm. This seems to connect directly into the classical realist argument that the balance of power requires constant maintenance and is subject to "considerable diplomatic and political skill," and notably, that this maintenance is aided by a "degree of shared normative assumptions."[494] In Richard Ned Lebow's interpretation of classical realism through the works of Thucydides and Hans Morgenthau, for instance, he submits that the success of the balance of power during the largely peaceful eighteenth and nineteenth centuries was "less a function of the distribution of capabilities than it was of the existence and strength of international society." The fortitude of this international society, according to Lebow, "ultimately rested on the strength of the community," a community defined by a sense of justice.[495]

The parallels here are worth exploring between the conceptions of community and justice, as Lebow interprets them, and our own observation, respectively, that the firm and its stakeholders construct and develop a new set of structures within which these actors operate, and that at times this "third way" appears to be enhanced by the feeling of trust. To Hans Morgenthau, the main function of justice is to "keep aspirations for power within socially tolerable bounds,"[496] and Lebow adds that a shared sense of justice not only "provides the conceptual scaffolding on which actors can intelligently construct interests," specifically referencing the concept of self-restraint, but further, determines how actors "understand and respond" to one another. These points fit neatly with our previously discussed understanding of trust as represented through forbearance and reciprocity. Justice

[494] Rengger (2000), p. 44
[495] Lebow in Dunne, Kurki & Smith (2007), p. 58
[496] Morgenthau, H.J. (1985) *Politics Among Nations* (Sixth Edition) (New York: McGraw-Hill), pp. 243-4.

and trust here serve the same purpose: to maintain the necessary conditions of co-existence, reinforced through acts like self-restraint (i.e. what we call forbearance) and how actors understand and respond to one another (i.e. what we call reciprocity), but whereas the classical realists simply provide the observation that in times of order there appears to be a community, relatively balanced in power, which encourages and influences responsible (or "tolerable") behavior, in our case studies, because they begin in advance of such a community, we add value in that we describe the process of how such a community develops, is challenged and yet maintained over the years.

"Order" in this sense is happening on a smaller scale, everyday.

So then how does this sense of community, small as it may be, develop among our stakeholders within the existing theorizing on international relations? A community that inculcates trust as a method for maintaining a sense of order among its members? Here we can draw on liberal approaches toward order – toward co-existence – which begin by addressing the interests of the state "from a bottom-up perspective,"[497] in the words of Diana Panke and Thomas Risse. For us, liberalism's concern with the preferences of actors is critical because proponents of the theory argue at length over the importance of communication – only with "high quality information"[498] on opposing actors, so goes the argument, can an actor assess whether or not those actors' interests are reconcilable or irreconcilable with the actor's own interests. The expectation follows that under situations of high quality information, conflict is less likely and cooperative behavior ensues as actors realize that more often than not, opposing interests are in fact reconcilable. International organizations facilitate this reconciliation, so goes the argument.

[497] Panke, D. and Risse, T. in Dunne, Kurki and Smith (2007), p. 94
[498] Martin, L.L. in Dunne, Kurki and Smith (2007), p. 111

We can now start to see how information plays a critical role in revealing (and reassuring) opposing stakeholders of each others' interests, allowing for more often than not cooperative behavior. In Kazakhstan there is no shortage of publically available and promoted state policies and five year plans, all of which ultimately lead into the state's "2030 plan," the central government's dominating socio-economic development strategy initially outlined by President Nazarbayev back in 1997 (and recounted in this thesis in Chapter Three). For doubters of the seriousness of the 2030 plan, in my own personal experience in the government's various ministries and regional *akimats*, the plan is regularly referenced, particularly the "State Programme on Forced Industrial and Innovative Development for 2010-2014," which itself is a five year plan set within the larger 2030 plan. In fact in Kazakhstan's *Investor's Guide*, for instance, the section on "Priority sectors of economy" for investment explicitly connects the country's FDI priorities with the "industrialization map" of the Forced Industrial and Innovative Development plan stated above.[499] Similar investment attraction guides exist for each *oblast*, customized for the region but nested within the larger objectives of the 2030 plan. As they regard the firm, these plans set out very clearly the formal interests of the central government. They allow a multinational like ArcelorMittal to realize the strategic value in ensuring the company's steel is used to manufacture cars in East Kazakhstan or metal pipes on the Caspian coast; and they allow a firm like Cameco to realize the significance (and consequences if ignored) of the country's goals in becoming the leading producer of uranium worldwide and to complete the nuclear fuel cycle.

Information on opposing interests is also facilitated at the central government level through the working groups co-led by the American Chamber of Commerce or the Foreign

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[499] *Investor's Guide* (Astana: Republic of Kazakhstan), p. 40-41

Investors' Council or the Association of Mining and Metallurgical Enterprises and a corresponding ministry or the parliament. As covered in Chapter Five, these working groups bring together foreign investors with key government policymakers to ensure legislation responds appropriately to the constraints of the foreign firm while remaining true to the intent of the Kazakh stakeholder. While the process is by no means always perfect, it is a process nevertheless that increases the transparency of opposing stakeholder interests and often results in their reconciliation. Take, for instance, the Foreign Investors' Council's Tax Working Group, chaired by Marat Kussainov, the Vice-Minister of Economic Development and Trade, and Zhanna Tamenova, a partner in Ernst & Young and the head of the firm's Kazakhstan-based Tax and Legal practice. The members of the group include a handful of directors and deputies within the Ministry of Finance and the Ministry of Economic Development and Trade along with most of the accountants and tax specialists within the foreign business community, from ConocoPhilips to PwC to HSBC to Baker & McKenzie to ArcelorMittal and Philip Morris, among several others. While the group can point to a series of practical successes – such as working together to decrease reporting period timelines from a monthly to a quarterly basis, or to limit property taxes to only "immovable property," – the structural value in these sorts of working groups is in the fact that ministry officials and their private sector counterparts are working together, forming relationships, and becoming more and more sensitized to each other's daily operating challenges and needs.[500]

On a regional level, along with each *akimat*'s own set of strategic plans (authored within the context of the central government's broader policies), the genius here is in the

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[500] (2013) 'Tax Working Group', *Foreign Investors' Council website*, www.fic.kz (last accessed on April 13, 2013).

process of the annual Memorandum on Social Cooperation. Here there exist strong financial incentives for both the foreign firm and the regional *akimat* to get together each year and formally discuss the *akimat*'s social development priorities for his area of responsibility and how the firm can contribute to those priorities. Even if the process falls apart, as it did for Cameco, at the very least neither the firm nor the *akimat* is under any illusion as to why the two stakeholders' interests are irreconcilable. At a very minimum, therefore, uncertainty is reduced, but generally speaking – as has been the case for ArcelorMittal and Frontier Mining, for instance – the process proceeds rather smoothly and provides an excellent, formal opportunity for the foreign firm to demonstrate its willingness to contribute to the goals of an important stakeholder (who, by the way, is extracting rents from the foreign firm that he then plans to spread to local stakeholders). Finally, whether it be Cameco flying Kazakh officials out to US and Canadian operating sites, or the regular signing of memorandums of understanding, or ArcelorMittal providing regional and central government officials with presentations on future scenarios for the supply and demand of steel, or Frontier Mining sitting down with local inspectors to ensure each individual is interpreting the confusing regulations in the same way, the overall aim remains the same: reconcile possible opposing interests or misinterpretations by increasing the exchange of information. And powerfully, the strategy behind these trips, PowerPoints and local sit-downs is premised on the belief that these local stakeholders maintain the capacity to influence and change the domestic structures that otherwise constrain the foreign firm. Everyday actor agency!

But there is an even more important finding here in the relationship between order and stakeholder agency, one both traditional IPE and everyday IPE researchers seem to miss. Vernon, as we have previously noted, believed very strongly that there were irreconcilable tensions between a multinational and the host country in which it operated – tensions that could only be managed if some sort of global government was created that could balance the interests of the firm against those of the nation state – that is, he believed that what was necessary was an elite supplier of order, perhaps the 1-percent of the 10-percent. But curiously, what we see in our community here is a system of co-existence that is not dominated by a single authority but rather a series of stakeholders that constantly act in ways to signal their own interests while equally communicating willingness to flex and create space for the self-interests of others. In many ways, the need for this self-created community is paradoxically tied to the absence of a truly dominate authority, a hegemonic force. Whereas Vernon grieved the fact that a higher-order supranational authority "may seem plausible [one day], but not at the present,"[501] today's successful foreign firms (and their corresponding stakeholders) seem to have stopped waiting for such an authority, to have equally recognized the lack of a consistent country-based authority, and instead have begun to develop within the countries in which they operate an extra-legal system founded not on one dominating force (national or international) but rather on the idea that the mutual pursuit of self-interests among a variety of stakeholders is actually quite feasible under conditions of trust, but that this trust must be regularly managed and maintained. What in the 1960s and 70s seemed to be anarchy, today seems more aligned with the idea that so-called anarchy is what multinationals and their corresponding stakeholders "make of it," to borrow from Wendt[502] and to underscore the significance of the firm's and the stakeholders' agency in "keeping the house" together. In our cases, the absence of a

[501] Vernon (1971), p. 272
[502] Wendt, A. (1992) 'Anarchy is what states make of it: the social construction of power politics', *International Organization*, 46(2), pp. 391-425.

hegemonic force (be it in Kazakhstan proper or on an international scale) does not push our stakeholders to adopt an overly power-oriented, short-sided pursuit of self-interest, but rather to recognize that in order to realize ultimate goals over a long period of time, proximate goals – and the resources and constraints within which they exist – need be adapted to make space for the interests of others, and those interests cannot be generalized at the level of the host country. In other words, the 90-percent need not rely on the 10-percent for order, or to put it even more bluntly, the 10-percent are not necessarily the "elite suppliers of order" that we make them out to be. Rather, just as everyday IPE makes the claim that everyday actors in the international political economy have more agency than we tend to grant them, it seems that these everyday actors play an even greater role in maintaining order than has previously been assumed.

So why are some firms successful in politically risky countries? The answer to this question, which we have started to reveal in our three cases, appears to be one aptly suited for further exploration within everyday IPE. While critics of everyday IPE have pointed out that the discipline lacks a unified "research agenda" (in the way that traditional IPE focuses on broad, international economic orders), Hobson and Seabrooke propose that researchers of everyday IPE think more in terms of "puzzle-sets" that are "intellectually flexible and more able to capture real world changes."[503] What better a puzzle than the successful firm in the risky country? Not only does it bring into play the MNE as a unit of interest (a unit that traditional IPE continues to ignore), but through the PBM, which calls for conceptualizing bargains as between the MNE and a series of stakeholders (not a single host country) and specifically presents such bargains as a composite of the resources and constraints each actor maintains and faces as it attempts to achieve its own proximate and

[503] Hobson, J.M. and Seabrooke, L. (2006), p. 5.

ultimate goals, we have an established framework suited fittingly for everyday IPE's larger focus on everyday actor agency.

Beyond Kazakhstan: mining and political risk research

At the tail end of my field research in Kazakhstan, I met with the Canadian commercial attaché in country over a steak and a beer at the popular Line Brew in Astana. Months before, he had introduced me to the senior management team running Cameco's Inkai JV, but at this dinner we were here to talk about larger projects. Canada is a mining powerhouse (a high percentage of mining companies are listed on the Toronto Stock Exchange) with regular investor interest in mineral rich Kazakhstan. But as the attaché explained to me, no one had really taken the time to travel around the country, visit the different mine sites, talk with the locals and the local government, and try and understand why the successful companies were successful and why the unsuccessful companies have such a hard time in the country. He asked me if I would be interested in putting together a monograph for the embassy on "lessons learned" that could then be distributed to prospective investors back in Canada, and knowing that I had also spent significant time in the mining villages of neighboring Kyrgyzstan, he further asked if I would be willing to write not just on Kazakhstan but on the larger Central Asian investment environment for mining outside of oil and gas.

The resulting report, *Political Risk Management and Mining in Kazakhstan*, with an annex covering Kyrgyzstan and Tajikistan, quickly circulated around the mining community and with appreciated praise, but for me it confirmed something even more important: that the politics of mining were an undercovered topic. Severely undercovered. This suspicion would be further validated over the next several months as the editors of the policy journal *Foreign Affairs* asked me to apply the Kazakh and Kyrgyz experience to mining in Afghanistan, which in turn led the think tank Good Governance Africa to ask me to apply the Afghan experience to mining in the Democratic Republic of Congo, Botswana and Zambia. These publications, paired with the numerous private reports I was at the time providing for strategic advisory firms in London and increasingly on topics I knew admittedly less and less about, led me to take a step back, catch my breath, and think more deeply about why there is such interest in mining and why it pairs so neatly with both academic and practical research into political risk, political risk analysis and political risk management.

First, as I have said before, mining by its very nature is exceptionally disruptive in both a social and environmental sense. Mining also tends to be highly regulated by governments, meaning that the "keys to the kingdom" are at least partially controlled by government officials with a level of oversight and regulatory activity that a multinational focused on manufacturing, for instance, or implementing a set of restaurant chains, simply does not face. I think back to a meeting I had with a high level executive in the Kazakh copper miner Kazakhmys, just days after Human Rights Watch released a report on the company's alleged bribery of Kazakh government officials all the way up to President Nazarbayev himself. There is no way, this man said to me at the time, that a mining multinational can be successful in a country like Kazakhstan without being extremely close to the government. No way.[504] And thus while human rights activists and good governance advocates saw the report as particularly damning, to mining analysts it was in many ways a validation of what they had believed (and hoped) all along. Clearly, the combination of a socially and environmentally disruptive enterprise that requires a close association with

[504] Source-5, Feb. 10.

local governments serves as a rich area for the study of the intersection of business and politics, for the study of political risk.

But there is more to it than that.

One of the most in-depth case studies to implement Vernon's obsolescing bargaining model directly after the publication of *Sovereignty At Bay* was by one of Vernon's pupils, Theodore Moran. Moran wrote a book with a simple title but packed with detail: *Multinational Corporations and the Politics of Dependence: Copper in Chile*. It was the book version of his doctoral thesis, and it applied the bargaining model to the nationalization of the copper mining sector in Chile in the early 1970s. The difference between Moran's study then and political risk today is that the days of large scale nationalizations or expropriations are all but over. Sure, there are still examples, still outliers, but the concern facing the majority of mining companies operating in risky countries nowadays is not that the government will expropriate the mine or the greater sector, but rather that the central government, the local government, local and international activists and a variety of other stakeholders will bleed the mining operation slowly through a pay-to-play bureaucracy, internal or external fraud, snap inspections, new taxes, liberal interpretations of an amorphous law, and various other largely politically motivated acts that may not make it into the headlines of the *Wall Street Journal* but nevertheless impact severely the foreign firm's ability to be successful in a given country.

Vernon's bargain, as did Moran's application of the bargain, focused on "multinational-host country relations," where both Vernon and Moran understood the host country to be largely synonymous with the country's national elites. While noting that "there are many different ways in which to describe the sources of tension generated" by a foreign firm entering into a given country, Vernon wrote, viewing the tensions as rooted in the implications of the firm's existence to the country's elites "proves especially illuminating."[505] Not today. Through what is likely a combination of increased access to information, vastly improved ethical standards set by corporate board members representing better informed shareholders, and the idea that the majority of national governments of emerging and frontier market countries are proactively seeking out potential foreign investors and know full well that a high profile case of expropriation is sure to scare investors away, or that the local knowledge simply does not exist to develop the mine, we no longer talk about "multinational-host country relations" and assume that the "host country" and the nation's elites can be treated as one and the same.

Political risk analysis today, as it exists in a practical sense in advisory firms like EurasiaGroup or Control Risks or the hundreds of boutiques like GPW that have sprung up over the last several years are not investing millions and millions of dollars in teams of analysts capable of predicting nationalizations by dictators; rather, they are investing in analysts with strong in-country experience that speak the local language and understand the everyday actor agencies of the local *akim*, the labor union boss and the customs official at the border. These analysts are tracking individuals like Bulat Abilov, the local Kazakh who paired up with the First Alpine JV and later went on to be an opposition leader, or Vladimir Nemchiov, the assistant steel worker interviewed on television about his change in perspective on Karmet over the years, or the head of the coal miners union who made a trip out to London to meet Mr. Mittal and was left standing at the door. These analysts are following Kazatomprom's reaction to Cameco's delay tactics, they want to know how the trip went when Cameco flew out some local officials to their Canadian operations, and they

[505] Vernon (1971), p. 193.

are modeling the likely scenarios facing Cameco following its decision to snub the local *akim* on social programming. These analysts are keenly interested in knowing more about Frontier CEO Erlan Sagadiev's connections to local elites, Yerbolat Tastanov's progress in negotiating with regulators and inspectors, and Yerlan Aliyev's access to Russian financing. And finally, when these political risk analysts cannot find the information they need, they rely on individuals like my friend Erbolat, for whom I wrote a recommendation, running his small business there in East Kazakhstan, as source of intelligence.

These various actors represent the 90-percent of IPE, not the 10-percent. And political risk analysis today is focused on the everyday, because the risk is in the everyday relationships formed between the firm and its stakeholders.

Conclusion

How to describe the successful foreign firm in the so-called risky country? When this foreign firm enters into a given country, it does so (as do all firms) on the presumption that it will be allowed to pursue its interests to a self-satisfying degree; equally, the central government of the country, or perhaps the regime, allows the firm to enter on the same presumption but for its own interests. At that moment, however, the successful firm separates itself from others in that it actively begins to construct a community within which it and the central government, along with a series of additional stakeholders, will regularly promote and participate in acts that reassure the corresponding stakeholders of that initial entry condition: that the actors together will maintain the necessary conditions for co-existence. Acts like reciprocity and forbearance reinforce confidence in the strength of the community, as do information acts which work to reduce uncertainty and the possible misinterpretation that a given stakeholder has deviated from the community's norms.

Finally, the constraints as established within this community within which each stakeholder, including the firm, pursues its own ultimate and proximate goals, are not wholly isomorphic with the constraints of the domestic political economy of the stakeholders nor the international political economy of the firm; rather, the community is a reconciliation of the constraints of each of these realms – a reconciliation that itself is an active process of shaping and reshaping that is also facilitated by information, by transparency. As these alternating constraints approach reconciliation, stakeholder behavior tends to be more cooperative as the conditions for co-existence within the community improve; it equally follows that challenges to reconciliation may prompt conflict among stakeholders and result in power-oriented behaviors aimed at reestablishing a sense of perceived justice or trust within the community. The successful firm recognizes its role as agent and reagent at every step along the way in maintaining order within this community – this nodal point that stands at the intersection of the international market economy and the domestic political economy of, in our case, a former Soviet state with a deep and rich history in traditional mining.

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Appendix: Methodology and semi-structured interview source details

The primary sources that inform the three cases within this thesis are as follows: company documents from the mining firms of interest, government documents from a variety of ministries within the Republic of Kazakhstan and the provincial (*oblast*) governments; archival research of primary source reporting as well as secondary source analyses of Kazakhstan in Russian during the Soviet Union and in English from before the Soviet Union; a series of semi-structured interviews conducted in Kazakhstan over the course of 2011 with representatives from several mining multinationals, government officials, local NGOs, and the consultants, accountants, auditors, lawyers, trade union representatives, and foreign government trade officials associated with the mining industry (totaling 77 interviews ranging from 1 to 2 hours in length); and finally site visits to the various cities, towns and villages associated with the metals mining sector. Follow up visits to London and Almaty occurred throughout 2012 and early 2013.

All subjects interviewed were guaranteed anonymity. Interviews were recorded in all instances, unless the subject specifically requested that the interview not be recorded or the interview happened by chance and recording equipment was not available. In limited instances, an individual may have said something during the interview and then asked not to be specifically quoted because it would allow the individual to be identified even if the quote remained anonymous; such requests were always honored. Subjects were selected for interviews based on their access, perspective and, of course, willingness to speak. Subjects often would recommend other individuals to interview and would facilitate the introduction. In interacting with local government officials, which generally seemed the most suspicious and most difficult to agree to an interview, I often presented myself as a researcher interested in understanding broader investment opportunities in the town or *oblast* of interest outside of oil and gas (that is to say, I would not present myself as solely focused on mining opportunities). This proved to be a more successful strategy in gaining interviews, as local *akimats* seemed keen to promote a variety of investment opportunities and not a single sector. I always presented myself as a doctoral candidate affiliated with the University of St Andrews in Scotland.

All interviews are described in the table below with the date and location of the interview, along with a description of the interviewee at a level of detail sufficient to allow the reader to appreciate the individual's access to information and his or her perspective (and possible biases), but not too detailed to allow the individual to be identified.

The cases that this thesis is based upon – ArcelorMittal, Cameco and Frontier Mining – were selected for a combination of reasons. First and foremost, as our interest is in seemingly successful foreign firms, initial research was conducted to identify those mining firms that have been present in Kazakhstan for a lengthy period of time. These firms were then filtered by the diversity of conditions they represented, with the forethought that this would allow us to draw out any possible similarities and/or differences between cases. Practically speaking and in the interest of full disclosure, the cases were then limited by those mining firms that provided the necessary level of access to staff members and internal documents. Both Glencore and Kazakhmys, for instance, were initially considered as possible cases but had to be dropped during my field research because of either lack of cooperation or evidence of a clear intent to limit access. And further, some initially proposed cases were dropped simply due to space limitations. Both ENRC and Uranium One, for instance, were very cooperative, along with a series of smaller mining firms such as Sunkar Resources, but incorporating these firms into the thesis itself with the level of detail desired quickly became impossible.

The information cut-off date for this thesis is December 2011.

Source Number	Source Description	Interview Date	Location	Recorded?
1	Director of finance for mining junior in Kazakhstan	February 17, 2011	Almaty	Yes
2	Partner (lawyer) with firsthand experience in Kazakh law as applied to foreign firms	February 15, 2011	Almaty	Yes
3	Director (audit) with firsthand experience auditing / advising mining firms in Kazakhstan	February 17, 2011	Almaty	No: by request
4	Partner (audit) with firsthand experience auditing / advising mining firms in Kazakhstan	February 15, 2011	Almaty	Yes
5	Executive (communications) for a leading mining multinational in Kazakhstan	February 10, 2011	London	No: by request
6	Partner (consultant) with firsthand experience consulting for mining firms in Kazakhstan; former tax collector in Kazakhstan	February 18, 2011	Almaty	Yes
7	Deputy Head of Regional *Akimat* for East Kazakhstan Oblast	February 22, 2011	Ust Kamenogorsk	No: by request
8	Head Specialist for Foreign Relations of East Kazakhstan Oblast	February 25, 2011	Ust Kamenogorsk	No: by request
9	Managing director for vodka manufacturing company in East Kazakhstan Oblast	February 23, 2011	Ust Kamenogorsk	Yes
10	Head of office (East Kazakhstan government) on environmental protection	February 22, 2011	Ust Kamenogorsk	No: did not have recorder on hand (chance interview)
11	Engineer (electricity distribution) for power company in East Kazakhstan	February 23, 2011	Ust Kamenogorsk	Yes
12	Head of the Division on Foreign Direct Investments, Committee on Investment, Ministry of Industry and New Technology	March 10, 2011	Astana	Yes
13	Managing director (mining) for leading mining multinational in Kazakhstan	March 7, 2011	Astana	Yes
14	Counselor (commercial) for foreign embassy in Kazakhstan with strong mining interests	March 7, 2011	Astana	Yes

15	Manager (advisory/ engineering) with firsthand experience consulting for mining firms in Kazakhstan; former tax collector in Kazakhstan	February 14, 2011	Almaty	Yes
16	Associate (investments) with firsthand experience advising clients on investments in Kazakh mining sector	February 15, 2011	Almaty	Yes
17	Professor (business) at leading university in Almaty	February 15, 2011	Almaty	Yes
18	Manager (audit) with firsthand experience auditing / advising mining firms in Kazakhstan	February 17, 2011	Almaty	No: by request
19	Vice president (investments) with firsthand experience advising clients on investments in Kazakh mining sector	February 15, 2011	Almaty	Yes
20	Manager (advisory/ engineering) with firsthand experience consulting for mining firms in Kazakhstan; former tax collector in Kazakhstan	February 16, 2011	Almaty	Yes
21	Director (advisory/ engineering) with firsthand experience consulting for mining firms in Kazakhstan; former tax collector in Kazakhstan	February 16, 2011	Almaty	Yes
22	Executive director for leading foreign investor advocacy group in Kazakhstan	February 16, 2011	Almaty	Yes
23	Executive (social responsibility) for leading mining multinational in Kazakhstan	February 15, 2011	Almaty	Yes
24	Manager (social responsibility) for leading mining multinational in Kazakhstan	February 15, 2011	Almaty	Yes
25	Manager (NGO) for corporate governance advocacy in Kazakhstan	February 18, 2011	Almaty	Yes
26	Director for leading foreign investor advocacy group in Kazakhstan	March 2, 2011	Astana	Yes
27	Manager (communications) for leading mining multinational in Kazakhstan	March 2, 2011	Astana	Yes
28	Managing director (investments) for sovereign wealth fund of Kazakh Republic	March 3, 2011	Astana	Yes
29	Associate (accounting) for global consultancy operating in Kazakhstan	March 3, 2011	Astana	Yes
30	Associate (legal) for global consultancy operating in Kazakhstan	March 3, 2011	Astana	Yes
31	Associate (consultant) for global consultancy operating in Kazakhstan	March 3, 2011	Astana	No: by request
32	Consultant for IGOs in Kazakhstan with mining sector focus	March 7, 2011	Astana	Yes
33	Economic officer (diplomacy) for foreign embassy in Kazakhstan with strong mining interests	March 3, 2011	Astana	No
34	Manager (consultancy) for foreign consultancy under contract with Kazakh government	multiple, informal	Astana	No: did not have recorder on hand (chance

				interview)
35	President and owner of local translation service	multiple, informal	Ust Kamenogorsk	No: did not have recorder on hand (chance interview)
36	Employee of local translation service	multiple, informal	Ust Kamenogorsk	No: did not have recorder on hand (chance interview)
37	Part of an informal focus group; 20something Kazakh female from East Kazakhstan	February 22, 2011	Ust Kamenogorsk	No: did not have recorder on hand (chance interview)
38	Part of an informal focus group; 20something Kazakh female from East Kazakhstan	February 22, 2011	Ust Kamenogorsk	No: did not have recorder on hand (chance interview)
39	Part of an informal focus group; 20something Kazakh female from East Kazakhstan	February 22, 2011	Ust Kamenogorsk	No: did not have recorder on hand (chance interview)
40	Foreign relations coordinator for East Kazakhstan oblast	February 25, 2011	Ust Kamenogorsk	No: by request
41	Head of private-public partnership programs for East Kazakhstan oblast	February 24, 2011	Ust Kamenogorsk	No: by request
42	*Akim* of Ust-Kamenogorsk	February 24, 2011	Ust Kamenogorsk	Yes
43	Press Secretary of Ust-Kamenogork *akimat*	February 24, 2011	Ust Kamenogorsk	Yes
44	Assistant to *Akim* of Ust-Kamenogorsk *akimat*	February 24, 2011	Ust Kamenogorsk	Yes
45	Deputy *Akim* of Ust-Kamenogorsk *akimat*	February 24, 2011	Ust Kamenogorsk	Yes
46	Chief Engineer of Electricity distribution company in East Kazakhstan oblast	February 23, 2011	Ust Kamenogorsk	Yes
47	Associate for leading mining advocacy group	March 9, 2011	Astana	Yes

48	Head of Office, Sustainable Development, Ministry of Environmental Protection	March 10, 2011	Astana	Yes
49	Assistant to Head of Office, Sustainable Development, Ministry of Environmental Protection	March 10, 2011	Astana	Yes
50	Assistant to Manager, Ministry on Labor and Social Protection	March 11, 2011	Astana	No: malfunction
51	Chief executive officer for mining junior operating in Kazakhstan	March 15, 2011	Almaty	Yes
52	Managing director of mining consultancy serving foreign and domestic mining firms in Kazakhstan	March 15, 2011	Almaty	Yes
53	Manager, Marketing and Business Development, international consultancy with operations in Kazakhstan; member of working group with Kazakh government	March 15, 2011	Almaty	Yes
54	General director, uranium mining multinational JV in Kazakhstan	March 17, 2011	Almaty	No: by request
55	Senior manager, uranium mining multinational JV in Kazakhstan	March 16, 2011	Almaty	Yes
56	Resident country director, political freedom NGO with Kazakh office	March 16, 2011	Almaty	Yes
57	Director at KaznexInvest	March 18, 2011	Almaty	Yes
58	Leading specialist at KaznexInvest	March 18, 2011	Almaty	Yes
59	Manager at KaznexInvest	March 18, 2011	Almaty	Yes
60	Operations director of mining consultancy serving foreign and domestic mining firms in Kazakhstan	March 16, 2011	Almaty	Yes
61	Manager, Karaganda Chamber of Commerce	March 24, 2011	Karaganda	Yes
62	Program manager at local university	March 24, 2011	Karaganda	No: did not have recorder on hand (chance interview)
63	Manager for social manager, leading mining multinational with significant operations in Kazakhstan	March 25, 2011	Temirtau	Yes
64	Head of child center, leading mining multinational with significant operations in Kazakhstan	March 25, 2011	Temirtau	Yes
65	Head of medical care, leading mining multinational with significant operations in Kazakhstan	March 25, 2011	Temirtau	Yes
66	Head of sports programming, leading mining multinational with significant operations in Kazakhstan	March 25, 2011	Temirtau	Yes
67	Head of sanatorium, leading mining multinational with significant operations in Kazakhstan	March 25, 2011	Temirtau	Yes

68	Director for Social Matters, leading mining multinational with significant operations in Kazakhstan	March 25, 2011	Temirtau	Yes
69	CEO for small domestic manufacturing company in Kazakhstan	March 28, 2011	Karaganda	Yes
70	Manager, Ministry on Labor and Social Protection	March 11, 2011	Astana	No: malfunction
71	Analyst for investment firm focused on mining sector in former Soviet states	April 7, 2011	Astana	No: did not have recorder on hand (chance interview)
72	Managing director for international mining adivsory firm	April 16, 2012	London	No: did not have recorder on hand (chance interview)
73	Vice president on Social Issues, leading mining multinational with significant operations in Kazakhstan	April 5, 2011	Rudny	Yes
74	Analyst for investment firm focused on mining sector in former Soviet states	April 7, 2011	Astana	No: did not have recorder on hand (chance interview)
75	Partner for investment firm focused on mining sector in former Soviet states	April 7, 2011	Astana	No: did not have recorder on hand (chance interview)
76	Chief financial officer for mining junior with operations in Kazakhstan	October, 17, 2010; Septemb er 20, 2012	email	email
77	Financial analyst for mining junior operating in Kazakhstan	March 15, 2011	Almaty	Yes