Institutional influences on national tourism-related foreign direct investment (TFDI) policies and programmes: Kyrgyzstan, Central Asia

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FTourism-related foreign direct investment in a transitional economy: the evolutionary path of the Pinara-Bishkek Hotel, Kyrgyzstan

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Introduction

This chapter critically examines tourism-related foreign direct investment (TFDI) in the context of Kyrgyzstan, Central Asia through an evolutionary lens. The chapter focuses on the case example of the Pinara-Bishkek Hotel, one of the first foreign hotels to be established in the republic following the dissolution of the USSR in 1991. It is intended that this chapter will provide insights into the way in which a TFDI develops and evolves over time acknowledging the dynamic nature and complexity of this type of investment. Secondary data has been collected from a range of publicly available online sources and qualitative document analysis is applied to enable process tracing. The evolutionary path of a TFDI in Kyrgyzstan is explored and consideration is given to how this might inform wider understanding of sustainable tourism development, particularly in a post-Soviet Central Asia context.

Within the context of national development strategies, foreign direct investment (FDI) has received considerable attention from policymakers and academics. Policies and programmes relating to FDI require decision-making and the involvement and cooperation of a range of formal (and informal) institutions. This is particularly noted in respect to TFDI - see for example, Dwyer's (2014) consideration of power and influence between TFDI 'players'. His analysis draws attention to the directional tendencies of globalisation, economic interdependence and the multidimensional process involved in increased global connectivity and global consciousness that combines society, economy, and culture. The relevance to sustainability – viewed traditionally as *“an economic phenomenon associated with the development of the global market”* (Parliamentary Assembly, 2003:1) - is clear.

With respect to globalisation, the potential of FDI to facilitate host country integration into international tourism networks, increasing tourist flows and income from tourism-related activities has been noted by Endo (2006). Perić and Niksic Radić (2011:263) argue:

> *Developing countries, if they wish to promote sustainable development in the context of tourism, should be extremely cautious in attracting FDI in this sector. It is necessary to attract sustainable FDI*.

Research on FDI and TFDI has often overlooked or neglected the random or fortuitous nature of political, economic and social outcomes. It has also failed to appreciate the challenges faced by transitional economies with limited development options, fragile geo-political ties (Elhawary *et al*, 2010) and the influence of the past.

According to the Organisation for Economic Co-operation and Development (OECD, undated:7):

> *Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise.*

It is interesting to explore the evolution of TFDI in a transitional economy and the potential implications for sustainable tourism development.

Literature Review

Much of the research that exists on TFDI focuses on quantitative measurement studies. It adopts a structured approach, often directed along the guidelines of financial policy 'headlines' and is focused on investment impacts. Drope *et al*'s (2014) exploration of the political economy of foreign direct investment, for example, identifies three key impact themes: tax reforms; trade agreements; industry regulation. However, there is merit in returning to Dwyer's (2014) ideas and exploring the socio-cultural and power aspects of TFDI beyond the obvious economic relevance (Long, 1997; Lucke & Eichler, 2016; Donaldson & Forssman, 2020). There is also value in considering the institutional and historical context of TFDI and the boundaries of time and space that influence the trajectory of development when examining the sustainability implications of TFDI at a national level.

<u>The institutional and cultural context of TFDI</u>

Institutional and cultural characteristics have been recognised to be influential factors in quantitative analyses of TFDI. There have been some interesting propositions made about the relationships between investor country and host country culture with respect to 'cultural proximity'. Lucke and Eisler (2016:935), for example, have claimed that:

> *institutional and cultural distance is important and that FDI has a predominantly regional aspect. FDI to developing countries is positively affected by better institutions in the host country, while foreign investors prefer to invest in developed countries that are more corrupt and politically unstable compared to home. The results indicate that foreign investors prefer to invest in countries with less diverse societies than their own.*

The work of Lucke and Eisler (2016) draws attention to the agency of foreign investors. Less attention has been paid to both host government and investor actors. Moreover, quantitative analyses seeking to produce generalizations have dominated academic discourse on TFDI. Qualitative studies offer an opportunity to gain a richer picture of TFDI relations. Those studies have, however, to date, tended to concentrate on societal impacts, often focusing on resident perceptions and experiences. They have also tended to provide 'snapshot' pictures rather than exploring lasting interests.

There is scope to learn from policy and planning analyses of tourism relationships and changes over time. In their analysis of tourism institutions, Mellon and Bramwell (2018:42) *argue that "a fuller understanding of tourism processes should include analysis of historical influences, legacies and the sequencing of change".* They bring together the theories of Historical Institutionalism (linked to Institutional Theory and Evolutionary Economic Geography) and Cultural Political Economy to understand institutional change via a process tracing methodology. Evolution may also be seen to hold relevance to achieving deeper insights into TFDI within the context of national-level development.

One of the most common approaches to examining evolution in the context of tourism studies and destination development is Evolutionary Economic Geography (EEG) (Brouder & Eriksson, 2013). Brouder and Eriksson (2016:385) argue that, *"Tourism scholars who engage with EEG will discover fertile ground for inquiry by addressing the roles of enterprise, networks, and the state in shaping regional evolution"*. Boschma and Martin (2010) outline three major theoretical frameworks for EEG: Generalized Darwinism – drawing on concepts from modern evolutionary biology; Complexity Theory – concerning aspects of 'far-from-equilibrium' adaptive systems; Path Dependence Theory – based on the role of contingency and self-reinforcing (autocatalytic) dynamics (Ma, 2013). EEG draws attention to 'bounded rationality' and 'routines' (Simon, 1955) in the exploration of the behaviours of organizations. This approach may offer a means of gaining insights into both host government investment economy and foreign investor behaviours and actions over a sustained time-period. As Brouder and Eriksson (2016:384) acknowledge, *"understanding how the economy evolves enhances our ability to question the nature of that evolution with, for example, growth-oriented models often challenged as unsustainable in tourism (Butler, 1999)"*.

Pike *et al* (2016:127) purport that Geographical Political Economy (GPE) is a useful approach to political-economic and evolutionary thinking and *"contingency and particularity generated by agency and context can be handled through the techniques of 'following the path' and 'deep contextualisation".* They advocate consideration of how and why *"specific paths unfold in particular ways over time and space"* (Pike *et al*, 2016:131) and this requires consideration of cultural aspects of institutional context recognising the existence of beliefs, values, and practices surrounding agency in decision-making.

Development paths and challenges faced by transitional economies

EEG, Historical Institutionalism and GPE are concerned with development paths. Brouder and Eriksson (2013:378) note that:

> *path dependence is the term used to reflect the inertial trajectory of a region as a result of long-term processes, a state which will only be altered by either major intervention, some external shock, or the embedding of new seeds of structural change in the hope that they will germinate and grow in the long-term (Neffke & Svensson Henning, 2010).*

Debates on the ability of places to change path dependence have raised question marks over the influence of historical processes on the development of alternative paths (Henning et al, 2013) and the constraints that affect agency and the ability to break with path trajectories. As Brouder and Eriksson (2016:379) identify, there is a need for wider understanding, not least in terms of *how* tourism development is *"introduced to regions which were previously reliant on different sectors, e.g., resource-based economies in peripheral regions"* as is the case with Kyrgyzstan.

The concept of 'inclusive sustainable development' and, arguably, sustainable tourism development is dependent on a global policy environment that is "*conducive to cross-border investment"* (UNCTAD, 2019:6). This environment is challenged by differing levels of development between countries and a need for external assistance has been acknowledged (Edwards et al, 1999; Mitlin *et al*, 2007). Slocum and Backman (2011:281) have argued that, *"good governance is a prerequisite in achieving sustainability objectives*". In relation to this Nørgaard (2000) has identified the significance of external interventions in the democratic reform of post-communist countries, noting 'the virtuous and vicious circles of emerging institutions'.

The role that conflict and contestation (Mahoney & Thelan, 2009; Conran & Thelen, 2016) play in macro-level TFDI agreements at national level has been acknowledged. There are certainly specific challenges to globalization faced by developing and transitional economies and value can be attributed to the interventions of external actors. Werner's (2003) exploration of tourism development in Central Asia highlights the importance of tourism mediators in the face of a lack of well-developed tourist infrastructure and acknowledges their role in *"cultivating a positive image of Central Asia as a new tourist destination, developing tourist accommodations, and lobbying government institutions to support and regulate tourism"* (Werner, 2003:141).

In terms of 'developing tourist accommodations' comprehensive research by the United Nations Conference on Trade and Development (UNCTAD, 2004) highlights that hotels and restaurants dominate TFDI activities in both developed and developing countries. A heavy focus on the accommodation sector in TFDI has been noted (Endo, 2006; Barrowclough, 2007; UNCTAD, 2010) and the employment of tourism as a political tool (Henderson, 2003; 2011) has also been noted in this context (Khoshnevis *et al*, 2017).

One reason for dominance of the accommodation sector in TFDI in developing and transition countries relates to FDI development strategy advice from international organizations (Perić & Radić, 2011) and international production factors relating to ownership advantages, location advantages and internalization advantages (Dunning & Mcqueen, 1981).

TFDI decisions and investment opportunities

The issue of who is in the host economy space in terms of influencing development decisions, linked to investment opportunities, certainly warrants attention. Development decisions are not solely determined by national governments.

As Endo (2006) and Perić and Radić (2011) acknowledge, determinants of TFDI do not differ from those of other industries and include:

> *cultural/historical/geographical distance, political and/or economic risks, level of economic development, socio-economic environments, privatization of the industry, liberalization of FDI regime, taxation, investment incentives, availability and quality of hard and soft infrastructures and corporate strategies or company-specific factors* (Endo, 2006:601).

Political regimes have been noted to be influential in the attraction of TFDI and the specific nature of TFDI relationships. From a host country perspective, Khoshnevis *et al* (2017) acknowledge the presence of hope and fear surrounding TFDI and its offerings versus its potential economic, cultural, community and environmental impacts.

Much research relating to FDI and TFDI is grounded in political economy. Revisiting Britton's (1982) seminal work on the political economy of tourism is useful in relation to the tourism aspect of TFDI. Conceptualising international tourism as *'a product of metropolitan capitalist enterprise'* (Britton, 1982:331) it is important to reflect on the low level of control that a nation has in a global system. The destination area as an attractor has sustained attention in the tourism literature (Plog, 1974; Butler, 1980; Hu & Ritchie, 1993; Hu & Wall, 2005; Crouch, 2011; Andrades & Dimanche, 2017; Nazmfar *et al*, 2019). Inevitably, TFDI is driven by investors' perceived potential for tourism revenues to be generated within the destination area.

Conversion of tourism promotion activities to investment and visitation can be difficult in lesser-known tourist destinations. Fauzel *et al* (2017:1044) acknowledge the potential contribution that one foreign investor in tourism can make to the overall TFDI in a country: *"foreign tourism companies also often act as catalysts for the injection of fresh capital in the host country and help in attracting foreign tour operators and* *tourists".* Baidoo (2018) has also emphasised the potential for foreign tourist arrivals to increase FDI inflows due to a discovery of investment opportunities during visitation. The destination experiences of initial inward investors and inbound visitors, particularly in the context of Central Asia (Lee *et al*, 2012) characterised by lesser-known tourist destinations, appears to offer reputation-building benefits to assist wider national economic growth. Looking at perceptions of Turkish investors on the tourism market in Central Asia, including Kyrgyzstan, Kantarci (2007:828) noted the importance of developing *"country-specific investment strategies and incentives to attract more foreign investment in tourism industries".* He suggested that *"the officials of* …[Central Asian] *countries could use currently active companies in their respective countries to encourage them to team up with other companies to further attract more investment capital"* (Kantarci, 2007:827). This may be an important strategy given Copeland's (1991) caution that excessive trust and a high risk to the host community may result from too much FDI.

Cultural distance and risk reduction strategies have been acknowledged in relation to international tourism visitor flows (Litvin *et al*, 2004; Ahn & McKercher, 2015) as well as TFDI inward investment decisions (Sanford & Dong, 2000; Quer *et al*, 2007; Deng *et al*, 2019). These link to cognitive and behavioural issues in finance (Dincer *et al*, 2016) and the importance of considering both structure and agency when considering the impacts of tourism investment flows on tourism development (Bianchi, 2003; Meyer, 2013).

The institutional-historical context of Kyrgyzstan

Located in Central Asia (Figure 1), Kyrgyzstan is a land-locked, lower middle-income transition economy (Brück & Esenaliev, 2018).

{INSERT Figure 1}

The country gained independence from the USSR in 1991 alongside neighbouring CIS countries, Kazakhstan, Tajikistan and Uzbekistan. Geographically, the country is distinctive from other parts of Central Asia due to its size, topography and approach to democratic reform. Ranked as one of the poorest Central Asian countries, the country has an area of 198,500 km2 (76,641 mi2) and with an estimated 6.5 million population in 2019 (The World Bank 2020b) it is one of the world's most sparsely populated countries. The traditional nomadic culture of the Kyrgyz has shifted towards settlement and it has been reported that 35.6**%** of the population now reside in urban areas, namely Bishkek in the north and Osh in the south (Worldometer, 2021).

Over 90% of the land area in Kyrgyzstan is mountainous and the scenery has repeatedly prompted the accolade 'the Switzerland of Central Asia'. However, lack of ease of accessibility, under-developed infrastructure together with ongoing political and economic instability, ethnic tensions, threat of religious extremism and volatile borders restrict international tourism growth (Palmer, 2014).

The country's capital city Bishkek (formerly named *Pishpek* and *Frunze*) was formally established as the country's political and administrative centre in 1936 during the final stages of the national delimitation (*razmezhevanie*) in the Soviet Union. It holds economic significance and is second to Lake Issyk-Kul (*Ysyk-Köl*) in terms of tourism importance. Bishkek, located ten miles from the border with Kazakhstan and 25km (16 miles) south south-west of Manas International Airport is home to the country's only international hotels and two Western-style supermarkets. The city may be identified as the locus of international trade in Kyrgyzstan.

<u>Kyrgyzstan's trading context</u>

Allayarov *et al* (2018:95) have claimed:

> *Kyrgyzstan, being a less developed economy, even by Central Asia standards, can only achieve its goals of reducing poverty and becoming more developed by increasing its overall trade with the rest of the world.*

In terms of wider economic dependence, the country has been consistently reliant on gold mining since independence from the USSR, the removal of Soviet subsidies and the transition to a market economy. The country's reliance on Kumtor, a Canadian-owned gold mine accounting for approximately 8% of GDP (with worker remittances equating to approximately 28% of GDP in 2019) (The World Bank, 2020b) has been well-documented, not without controversy (European Commission, 2003; Satke, 2015; The Guardian, 2016; McGee, 2020). In 2013 it was reported that the Kyrgyz President in power, Almazbek Atambayev, was considering nationalising the economically vital Kumtor mine following a long-running dispute between joint venture partners, the Canadian based company Centerra and the Kyrgyz government, over mine ownership (BBC News, 2013).

Prior to 1991, under the central planning decisions of the USSR, Kyrgyzstan's production specializations included the raising of sheep and production of wool, the cultivation of low quality grades of cotton, and the production of electrical energy in hydroelectric plants and of certain components for the defense industry (Dabrowski *et al*, 1995). Thompson and Foster (2003:171-172) have documented that:

> *Prior to the disintegration of the Soviet Union, Kyrgyzstan was already among the poorest of the Soviet regions with a gross national product per capita of US$1550 in 1991 compared with US$2470 in Kazakhstan (Anderson, 1999). The creation of the new Kyrgyz Republic, combined with the state of emergency declared in 1990 as a result of fighting on the Kyrgyz–Uzbek border, led to the onset of economic crisis in Kyrgyzstan. The level of inflation jumped from 200% in 1991 to 900% in 1992 (Anderson, 1999). As economic reform progressed and external investment and assistance increased, tourism was identified as an important industry sector and potential means of attracting revenue from the developed world.*

Selm and Wagener (1993) report that Kyrgyzstan's share of foreign trade (i.e., trade with areas outside the republic's borders) represented 46% of GDP in 1988, comprised of 40% trade with other USSR republics and 6% trade with countries outside of the USSR. Hence, the country was heavily dependent on post-colonial trade relationships.

Examining post-colonial trade between Russia and the former Soviet republics, Mazhikeyev and Edwards (2020:1) have reported that improvements in the global economy and international economic ties have contributed to "*sharp recoveries in GDP levels for both Russia and many of the Central Asian Countries".* However, Kyrgyzstan's loss of foreign markets during initial economic reform has been noted (Abazov, 1999; Dana, 2000) and it must be acknowledged that the country remains challenged by political instability. Indeed, Verdier (cited in Burgess, 2017) noted that Kyrgyzstan has had more than twenty presidents/prime ministers in twenty-five years and two revolutions. At the time of writing, in 2021, the latest Prime Minister, Sadyr Japarov, was appointed as head of government in Kyrgyzstan in November 2020, following a contentious parliamentary election (Putz, 2020).

Current events perhaps distract from the efforts of the country to develop positive international attention and integrate into the world market since independence (Guttman, 1999). It is notable that Kyrgyzstan was amongst the first former Soviet republics to implement economic reforms and transition towards a market-based economy (Price, 2018). It was also the first of the CIS countries to commit to programmes of international cooperation, joining UNESCO in 1992, the World Tourism Organization in 1993 and the World Trade Organization in 1998. A wide range of inter-regional tourism events have been hosted by the country and there is evidence of collaboration in tourism initiatives with countries from within and outside of Asia. Attempts at international engagement are apparent. As noted by Thompson and Foster (2003:177):

> *By early 1993, only 2 years after gaining independence from the Soviet Union, it was reported that Kyrgyzstan had been recognized by 120 nations and had established diplomatic relations with 61 of them (The Library of Congress, 1996).*

One of the key national development policy objectives introduced by President Askar Akayev, in office from 1990 until the 2005 Tulip Revolution (Olcott, 2005), focused on stimulating foreign investment to promote economic reform (Thompson & Foster, 2003). It is interesting to note that between 1997 and 2000 foreign investment worth approximately US$368 million was attracted to Kyrgyzstan; 43% of this was shared between banking, farming, trade, tourism and services (Interfax, 2000). Post-Soviet independence, Spector (2008:164) has acknowledged that the country continued to operate through a highly centralised regime, describing *“a system in which the president holds significant formal political power and control over economic assets”* and businesses were able to *“receive preferential customs or tax treatment…not via legislation, but by gaining access to top customs or tax officials who can informally arrange deals”*. Mateeva (2010) has argued that there are few signs of stabilisation in the political trajectory of the state.

<u>Kyrgyzstan’s tourism context</u>

Despite continual changes in political leadership and periods of instability, tourism has been continually identified as a national development priority. There have been seven national government tourism development strategies during independence but reductions in state budgets for tourism have affected policy implementation (Palmer, 2014).

Most recently, tourism has been included in the government strategy until 2040 as a top four priority sector of the economy (Fingar, 2018) and travel and tourism accounts for approximately 3.8% of GDP, showing a tendency to fluctuate but, overall, decrease between 2000 and 2019 (Knoema, 2020).

Tourism in Kyrgyzstan pre-dates Soviet rule and post-communist independence. There are many historical accounts of travels across Central Asia, heavily influenced by the Silk Road network of trading routes running between Rome in Italy and China before the Ottoman Empire boycotted trade with China.

In terms of modern tourism, the conditions under Soviet rule (1917-1991) have received academic attention. Werner (2003) has documented the development of tourism in Central Asia, noting the strict control of foreign tourists during the Soviet period, particularly those from capitalist countries. She has also identified a dearth of hotels designated for foreign tourists and the restrictions on Western tourist stays in

Bishkek beyond one night due to the presence of Soviet military facilities. This highly regulated approach placed the state as a key tourism actor, operating the foreign tourism agency “Intourist” that operated tour packages and hotel management. The command economy provided little or no space for the influence of other tourism actors. Initial transition to a market economy saw a gradual, conservative move towards privatisation, favouring alliances with ‘known’ countries in line with Lucke and Eisler’s (2016) observations about familiarity and cultural proximity but also reflecting internal disintegration within the USSR.

Indeed, examining the Issyk-Kul region, Kyrgyzstan’s most lucrative tourist destination in terms of all tourism income, Palmer (2009:186) has noted:

> *Post-Soviet privatisation of the economy has resulted in many resort accommodation establishments being bought by persons linked to the former body or organisation to which the establishments previously belonged (during the Soviet era). This has resulted in establishments belonging to organisations based in a particular post-Soviet republic being acquired by entities within that republic (Nusorov, 2001 as cited in Allen, 2006). For example, three of the largest north shore resort accommodation establishments - the Karaganda, Hotel Kazakhstan and the Royal Beach - are now owned and operated by corporations based in Kazakhstan.*

Zhukov (2001) observes that, outside of the tourism sphere, foreign firms, largely firms located in the Commonwealth of Independent States (CIS), have purchased Kyrgyz state facilities considered to be ‘non-essential’. To date, the main tourism investment has come from Russia (59.7% of FDI in Kyrgyz tourism).

The observations of Koenker (2003) and Gorsuch and Koenker (2006) highlight the importance of Soviet era tourism as an integral part of socialist ideology and acknowledge mass domestic tourism as a deliberate strategy (Koenker (2003). Sustainability was not an immediate consideration. Reporting in 2003, based on first-hand experience of the destination, Thompson and Foster (2003:172) commented:

> *Accommodation facilities in Bishkek dating from the Soviet era, and the sanitoria on the northern shore of Lake Ysyk-Köl, are badly designed and constructed and environmentally unsympathetic to their surroundings, while other areas remain entirely undeveloped”.*

However, a desire by the Kyrgyz Government to privatise existing tourism resources and encourage the development of new products and services to stimulate tourism growth has been apparent and there have been clear efforts to encourage both foreign investment and indigenous entrepreneurship within the process of transferring ownership from the state to the private sector in the tourism industry.

Turdumamketov (2014) has argued that a positive balance of international tourism in Kyrgyzstan may be identified as one of few ‘effective’ forms of international economic activity. Baxtishodovich *et al* (2017) have identified the important interest and potential of unique cultural, historical, archaeological, and natural attractions to attract international tourists. However, Claytor (cited in Jasek, 2005) has argued that foreign tourist businesses are challenged by bureaucracy, high taxes, bad roads, and a cumbersome visa process, impacting on the country's ability to develop as an international tourist destination.

FDI and TFDI in Kyrgyzstan

The trajectory of development in Kyrgyzstan has been heavily impacted on by the emergence and shift in political governance structures and institutions. Institutional influence, over time, may be identified as a key variable affecting the formulation and implementation of policy. This includes TFDI policy, primarily the concern of central government, aligned to broader fiscal planning.

The Organisation for Economic Co-operation and Development (OECD, 2017) has noted how the Central Asian republics started signing international investment agreements (IIAs), including BITs, right after they gained independence. The speed at which this materialised and the transitional nature of political and economic development impacted on the ability of the newly independent republics to provide sound investment climates. The OECD (2017) has noted that a common tactic of layering different investment provisions covering the same country relations has prompted the bringing of claims by private investors against host governments. Legal objections have been raised based on the realisation that some investors have secured more favourable treaties. FDI has not occurred without conflict and contestation.

Indeed, a report by Knottnerus and Satke (2017:3), focusing on the Kyrgyz Republic's experience with investment treaties and arbitration cases, stated that:

> *The Kyrgyz Republic currently faces investment claims in the proximity of 1 billion USD, arising out of investment dispute settlement cases. If these have to be paid out, this will have a serious impact on the public budget of a country where 32% of the population lives below the poverty line.*

Many analyses of Kyrgyzstan draw on the politico-economic history of the country and the trajectory of development in terms of why particular decisions were made rather than specifying why particular paths were *not* taken or how pathways were affected or interrupted due 'critical junctures' – *"situations of uncertainty in which decisions of important actors are causally decisive for the selection of one path of institutional development over other possible paths"* (Capoccia, 2016:95). In the words of Zappettini and Krzyżanowski (2019:382):

> *junctures are regarded as 'critical' because they set in motion path-dependent processes – in other words self-reinforcing trajectories – that become difficult*

to reverse as they eventually consolidate into one specific dominant institutional setup. At the same time, in a critical juncture, the contingent context in which choices are debated and made can also be seen as the result of institutional, cultural, and political trajectories which are reliant on antecedent conditions.

The sequencing of change and the idea of development *options* is pertinent when examining the Central Asian context. The region has endured a chequered past, characterised by periods of dictatorship. The economic shock of post-Soviet independence in 1991 still endures – *"The economic fallout of independence was significant. The economy collapsed with USSR, as almost all of its exports were for the Soviet Union"* (Burgess, 2017: online). However, the trajectory of economic development for Kyrgyzstan differs from its Commonwealth of Independent States (CIS) neighbours. Recent data on balance of payments for Kyrgyzstan (World Bank, 2020a) indicates a negative overall trade balance (-11.2) in 2019 in contrast to Kazakhstan (-3.6), Tajikistan (-2.3) and Uzbekistan (-5.8).

Since the break-up of the Soviet Union, Russia, China and the USA have been noted to be in competition for political and military influence in Central Asia. Kyrgyzstan remains notably dependent on Russia approaching thirty years since Soviet independence. It has been identified to be 'Russia's most loyal ally in Central Asia' (Mikovich, 2020). Overall, international trading links are low. Yet, an economic relationship between Kyrgyzstan and Turkey, albeit asymmetric, has also been observed (Yüceer, 2014) and Turkey has been described as a key partner of Kyrgyzstan (Murzaeva, 2014).

Vela (2011) has explored an increase in Turkish trade in Kyrgyzstan post-independence and has noted that cultural bonds and historical ties appear to underpin the developments. These appear to facilitate the building of trust and create aversion to the reported risks. The historical ties between Kyrgyzstan and Turkey are interesting, reflecting, at least to some extent pre-communist heritage and perceptions of cultural proximity. As a modern-day host destination for TFDI questions may be raised over the desire for Turkish tourism companies to pursue outward investment in Kyrgyzstan. Jenish (2017:22), for example, remarks that, *"Kyrgyzstan pales in comparison with Turkey, a major rival in attracting Russian and Kazakh tourists in the 'Sun, Sand and Sea' vacation market".*

It is perhaps notable that one of the first bilateral investment treaties established post-Soviet independence was between Turkey-Kyrgyz Republic (dated 28th April, 1992 - ICSID, 2020). This treaty was signed at the same time as BITs between Kyrgyzstan's Central Asian neighbours: Turkey-Kazakhstan; Turkey-Tajikistan; Turkey-Uzbekistan. Wheeler (2013:1) has acknowledged that *"the Central Asian states maintain a special place in Turkish foreign policy given ethno-linguistic Turkic ties".* By 2018 Invest China (2018) was reporting Kyrgyzstan to have bilateral investment treaties with the the USA, Armenia, Azerbaijan, Belarus, China, Finland, France, Georgia, Germany, India, Indonesia, Iran, Kazakhstan, the Republic of Korea, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Sweden, Switzerland, Tajikistan, Turkey, the UK, Ukraine, and Uzbekistan. The country's open-ness to FDI is noted although its investment climate is described as characterised by 'considerable risk' (Invest China, 2018). Notably, the country ratified its membership of the International Center for the Settlement of Investment Disputes (ICSID) in 1997 and joined the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1997.

Kyrgyzstan has relied heavily on technical assistance and civil society-building support from NGOs since the early 1990s. By the early 2000s, the country had become noted for having the highest NGO density in Central Asia (Garbutt & Heap, 2002). In 2020, Kakeev (cited in Imanaliyeva, 2020:1) stated that *"According to the government, there are 26,000 NGOs in Kyrgyzstan".* Satke (2017) has noted that their presence is not without contention arguing that Kyrgyzstan's dependence on foreign aid brings risks to the country's social-economic development.

Research approach

Following on from the review of literature and research context, two research questions were identified, relating to gaining a deeper understanding of TFDI in Kyrgyzstan:

- Are there key influences that have affected the path of a TFDI over time in Kyrgyzstan, Central Asia?

- How might exploring an evolutionary approach to analyse the path of a TFDI over time inform wider understanding of tourism development?

Taking a qualitative approach will enable a more critical insight to be gained into TFDI in the context of Central Asia, a region that has an interesting and eclectic development past. The approach will allow for the temporal dimension to be acknowledged, pertinent to the situation of Kyrgyzstan as a designated 'economy in transition' (Brück & Esenaliev, 2018).

The focus is on the evolutionary path of one TFDI case where a lasting interest *by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor* (OECD, undated:7) is recognised to be most apparent in Kyrgyzstan. The Pinara-Bishkek Hotel was one of the first foreign hotels to be established as a joint venture in the republic following the dissolution of the USSR in 1991. The researcher is familiar with the destination area from her visits to Kyrgyzstan in the mid- to late 1990s. This first-hand experience was deemed to hold value given the challenges of being able to locate a broad spectrum of case information from authenticated secondary sources in the context under investigation and UK academic ethics committee restrictions affecting the employment of mixed methods during the unprecedented events of 2020.

The research took place during the COVID-19 global pandemic. This restricted the researcher's ability to engage first-hand with research participants based outside of the UK in a secure environment. A decision was made to focus on secondary data analysis. Desk research was undertaken to identify and systematically collate secondary qualitative data from publicly available online sources, including academic articles/theses, news media and IDO/NGO reports. University ethics approval was granted.

Bennett and Elman's (2010) focus on process-tracing rooted in a realist epistemology was identified to be of interest and relevance. Furthermore, their earlier ideas (Bennett and Elman, 2006:250) were recognised to offer value to the research approach:

> *Within-case process tracing has also been identified as advantageous in addressing the complexity of path-dependent explanations and critical junctures – as for example with the development of political regime types – and their constituent elements of causal possibility, contingency, closure, and constraint*.

The data collected existed in the format of text. Adopting an evolutionary lens, key events in the TFDI case example alongside the institutional context were identified over a twenty-five period (1992-2017), through documentary analysis. Process tracing is used as a single case research method to make within-case inferences about the presence/absence of causal mechanisms as part of a theory-building approach, linked to the research questions presented in this chapter. These causal mechanisms are conceptualised to act as a system of interlocking parts that transmits causal forces between X and Y (Beach, 2016). In this study, the system of interest is referred to as 'institutional context'. Conceived as a system, it is made up of parts. These parts are viewed as 'entities' that engage in 'activities' and it is the activities or actions that may be recognised to be influential as 'producers of change', transmitting 'causal forces' or 'causal possibilities'.

Thus, causality is viewed as a dynamic, interactive influence of causes upon outcomes and a mechanism concerns agency by which an effect may be produced (Hernes, 1998).

'Institutional context' is defined in this study as *"a set of institutional characteristics such as rules, regulations, policies, cultural factors and so on"* (Ates, 2021:41). The case under consideration is the Pinara-Bishkek Hotel as an example of TFDI. 'Key events' are defined as notable or remarkable actions in the case example.

Figure 2 provides a visual summary of the findings to assist the discussion of ‘the evolutionary path of the Pinara-Bishkek Hotel TFDI’.

{ INSERT Figure 2 HERE}

The evolutionary path of the Pinara-Bishkek Hotel TFDI (target 1200 words)

Each of the key events highlighted in Figure 2 is now examined and discussed, in turn, with consideration paid to the 'surrounding' institutional context and reference to literature presented earlier in this chapter.

<u>1992 – Registration of the hotel as a Turkish joint venture</u>

The investment was established in Bishkek in 1992 through a joint venture between two Turkish entities, Sistem Mühendislik Insaat Sanayi ve Ticaret A.S. (SISTEM) and Ak-Keme (Jus Mundi, 2007). This followed on from the signing of a BIT between Turkey and Kyrgyzstan in 1992. The Turkish Government and the Kyrgyzstan Government as entities may be seen to have acted as 'producers of change' to produce a causal force that enabled the investment to be established. In terms of the wider institutional context changes in the regulatory context (instability and fragility within Kyrgyzstan – Mateeva, 2010), the policy context (market economy aspirations and a desire to forge international economic ties - Mazhikeyev and Edwards, 2020) and a legacy of Turkic-Kyrgyz cultural points of reference (Silk Road links during the Ottoman Empire and ethno-linguistic Turkic ties – Wheeler, 2013) may be recognised.

If we consider the assessment of the investment climate by the two Turkish companies, the potential for tourism development and the lack of facilities at an international standard (determinants of destination and investment attractiveness – Plog, 1974; Butler, 1980; Hu & Fe, 1993; Hu & Wall, 2005; Crouch, 2011; Andrades & Dimanche, 2017; Nazmfar *et al*, 2019; Kantarci, 2007) may also have influenced the perceived competitive environment and decision by the two Turkish investors to collaborate in an overseas hotel project. However, it is possible to view the establishment of the joint venture and the path taken at this stage – registration of the venture focused on the development of a hotel in Kyrgyzstan – as being enabled by institutional context as well as the actions of entities.

<u>1993 - Construction of the hotel</u>

The construction of the hotel was assisted by the provision of a US $75 million loan from Turkish Eximbank to the National Bank of Kyrgyzstan. This enabled a credit line of US $ 6 million to be provided from the National Bank of Kyrgyzstan to SISTEM and Ak-Keme for the hotel project and may be recognised to be an action intended to support the stimulation of economic development in the Kyrgyz economy in line with expense calculations in submitted feasibility studies provided by the Turkish hotel investors to the Kyrgyz Ministry of Economics and Finances, State Committee on Foreign Economical Affairs and the National Bank of Kyrgyzstan.

Here, we can note that the initial financing of the hotel development was fundamentally supported by a loan from public sector funds held by one state-owned national bank to another (Turkey to Kyrgyzstan). Construction of the hotel by the private investors was enabled through the two national banks and the two consecutives actions of providing a loan and providing a credit line. The influence of the state banks as entities and their actions on the path of the TFDI – enabling progress towards the build of the hotel - is apparent. The institutional context is perhaps less clear. The cultural context and historical ties between Turkey and Kyrgyzstan during a 'New Great Game' of geostrategy and resource-competition may explain the action (Vela, 2011).

At this stage, the path to hotel construction may be acknowledged to be essentially caused by the availability of the finance (linked to the partnering of Turkey and Kyrgyzstan - Murzaeva, 2014) and the control given to a Kyrgyz state agency (operating through a highly centralised regime - Spector, 2008) to award the finance to the investor and directly manage the credit-debt financing process.

<u>1995-1998 – Ownership dispute</u>

The Pinara-Bishkek Hotel was opened in August 1995 (Structurae, undated). It gained significance in the 1990s as the location for international political meetings. In 1999, Indian newspaper "The Tribune" reported that the hotel had been the venue for a one-day political summit between Russian President Boris Yeltsin and Chinese leader Jiang Zemin focused on increasing stability along China's border with Russia and three Central Asian nations (The Tribune, 1999). However, the stability of the investment was threatened by conflict between the two Turkish investors.

Jus Mundi (2007) reports how, in December 1995, according to SISTEM, "Ak-Keme's armed men invaded the Hotel" and Ak-Keme informed SISTEM that it would no longer take responsibility for the safety of the lives of SISTEM's Turkish employees. A dispute between the two Turkish investors was apparent. It centred on the relative contributions of the two investors and culminated in the revoking of SISTEM's investment licence by the Kyrgyz government whilst Ak-Keme began to negotiate with alternative investors.

The original "Ak-Keme Pinara Joint Kyrgyz-Turkish Enterprise" was liquidated in 1998. SISTEM argued that the bankruptcy arose from Ak-Keme's failure to pay its debts, including debts to the Government of the Kyrgyz Republic, based on the loans from the Turkish Eximbank.

A new joint venture, "the Joint Kyrgyz Malaysian Venture" (JKMV), was created by Ak-Keme and a Malaysian investor ("Biznes Fokas Sdn. Bhd.") and ownership of the hotel was in dispute.

The actions of the Kyrgyz Government and the two Turkish investors, SISTEM and Ak-Keme, as entities may be seen to be a causal force in the outcome of the dispute – continued conflict - at this stage. Competing interpretations of the legal situation of the investment are apparent. The extent to which these reflect different levels of experience of foreign investment relations and the relative inexperience of Kyrgyzstan in working within the rules of an international treaty might be questioned.

Mateeva (2010) has identified Kyrgyzstan in crisis, suffering from protracted periods of instability and a fragile state. From the perspective of the investors, the appeal of investing in countries that are "*more corrupt and politically unstable compared to home* (Lucke & Eisler, 2016:935) as a means of acquiring power and influence (Dwyer, 2014) may hold relevance.

<u>2002 – 2005 – Single investor operation of the hotel</u>

SISTEM continued to operate the Pinara-Bishkek Hotel under a new registered enterprise, "Pinara Bishkek Ltd". SISTEM rejected the interpretation of the Kyrgyz Government, arguing that, despite revocation of its investment licence, many official documents recognised it as an investor. The investor occupied and operated the hotel from 1999 until 2005

This operation was not without difficulties. There were allegations from the Kyrgyz authorities that the construction of the hotel was defective and that it lacked the necessary licence. However, eventually in 2002 the Kyrgyz State Approval Committee officially approved the hotel for operation and the assets and debts of the original joint venture were formally transferred to SISTEM.

This action was however over-turned driven by a change in political climate in Kyrgyzstan (instability that culminated in the 2005 Tulip Revolution), shifting the attitude towards foreign investors. The Legislative Assembly of the Republic of Kyrgyzstan determined that hotel ownership should be transferred to a new company formed by Ak-Keme and a Malaysian investor, JKMV. SISTEM continued to ignore these decisions and in 2005, following an armed takeover of the hotel by men claiming to be the Public Prosecutor and the General and police acting on behalf of Ak-Keme, the Kyrgyz Acting President and Prime Minister became involved, requesting that the hotel be returned to SISTEM. However, the hotel was not returned.

SISTEM appealed to the Government of the Kyrgyz Republic outlining the dispute and recalling the terms of the Main Agreement and the dispute settlement provisions of the BIT and requesting that employees of the JKMV be removed from the hotel. But the response was that the dispute lay between Sistem and non-governmental people.

SISTEM referred the case to ICSID for dispute arbitration.

These events draw attention to the role that conflict and contestation (Mahoney & Thelan, 2009; Conran & Thelen, 2016) play in macro-level TFDI agreements at national level. Once again, the actions of the Kyrgyz Government and the two Turkish investors, SISTEM and Ak-Keme, as entities may be seen to be a causal force in the outcome of the dispute at this stage. Berdikulova and Soave (2020) note that the armed takeover of the hotel was possible because law enforcement in Kyrgyzstan was weakened during the 2005 revolution.

The agency and enacted power of one of the Turkish investors, SISTEM, in relation to continuing to pursue the development path of the hotel may be highlighted. Here, the work of Lucke and Eisler (2016) in relation to the agency of foreign investors may be seen to hold relevance alongside Dwyer's (2014) analysis of power and influence between TFDI 'players'.

<u>2007 – 2009 – Official recognition of hotel ownership</u>

The referral of the ownership dispute by SISTEM to the ICSID was prompted by the Kyrgyz Government's view that it was not part of the dispute 'between non-governmental people'.

The arbitration tribunal decision was, however, categoric that the dispute arose directly out of SISTEM's investment and identified the Kyrgyz Republic, represented by its Government, a party to the dispute in its failure in its duty to protect SISTEM's investment under the Turkey-Kyrgyzstan BIT and determined that the Kyrgyz Government's actions were *"tantamount to expropriation"* (Invest China, 2018:1). ICSID concluded that SISTEM's ownership of the hotel should be officially recognised and SISTEM should be provided with financial compensation from the Kyrgyz Government.

The actions of ICSID as an entity concluded the ownership dispute relating to the TFDI in favour of SISTEM. The failure of the Kyrgyz Government to act in accordance with the BIT supports Spector's (2013) observations of conflicts over securing property in Kyrgyzstan and other post-Soviet contexts, reflecting authoritarian regimes. Reports that the Kyrgyz Government has failed to provide compensation to SISTEM (Invest China, 2018; U.S. Department of State, 2020) draw attention to resistance to international laws and the bypassing of legislation (Spector, 2013).

Indeed, despite the decision of the ICSID, by 2014 reports were circulating that the Kyrgyz courts had endorsed Ak-Keme's ownership of the hotel, ignoring SISTEM's ownership as determined by ICSID. It is difficult to trace this process but, looking at Trip Advisor reviews, by 2010 it is evident that the hotel had been re-named Ak Keme Hotel, Bishkek. SISTEM's involvement in the investment had terminated but the existence of the hotel as a TFDI had not ended.

<u>2017 – Transfer to state ownership</u>

In 2017, it was reported that, following a contended independent appraisal of the value of the hotel, ownership of the property had been transferred to the state (Levina, 2017). Mainstream media news reports acknowledge that 'seizure' of the hotel from the President of the hotel Mr. R. Sarymsakov, noted as the original representative of Ak-Keme, had created animosity between the investor and the Kyrgyz Government. The investor claimed that alternative suggestions about the future of the hotel were presented to the Kyrgyz Prime Minister. However, Kostenko (2017:1) has reported *that "police officers cordoned off the hotel complex on June 22 early in the morning. All the employees of the hotel were taken out of the building".*

The Ak-Keme Hotel remains listed at the original address of the Pinara-Bishkek Hotel and is advertised as open for bookings in 2021, indicating that it is still in operation as a 4 star, 170-room hotel.

The Kyrgyz Government as an entity may be recognised to have enacted a change in ownership of the hotel. The action may be seen to reflect authoritarian rule and is reminiscent of the former Soviet political regime of the country pre-independence.

Reflections on the evolutionary path of the Pinara-Bishkek Hotel TFDI

It may be identified that there are key influences that have affected the path of a TFDI over time in Kyrgyzstan, Central Asia. In particular, the relationship between the two Turkish investors who collaborated in the joint venture appears to be directly influential on the sequencing of change and the disruption of the development of the hotel as initially planned.

Additionally, the actions of the Kyrgyz Government that must be recognised to have impacted upon the selection of one development path over another. Its responses to the dispute between the two investors it as a key producer of change. The agency of the investors involved in the TFDI is however apparent and it is evident that there has been resistance to the causal forces transmitted by the Kyrgyz Government. SISTEM's refusal to cease operating the hotel is a clear example of this.

The continuation of the hotel as a TFDI despite a protracted period of conflict is interesting. Although the hotel continues to operate, 'closure' as a critical juncture may be recognised to have occurred when state ownership of the hotel ended its status as a TFDI. It is perhaps remarkable that 'closure' does not appear to have been a decision taken by the investors or an outcome prior to 2017.

The issue of sovereignty as a risk attached to the signing of investment treaties (Knottnerus & Satke, 2017) appears to be relevant to the Pinara-Bishkek Hotel TFDI example. Reversion to nationalisation may be observed to be a typical control strategy employed by the Kyrgyz state when foreign investor relations break-down. In 2013, it was reported that the Kyrgyz President in power, Almazbek Atambayev, was considering nationalising the economically vital Kumtor mine following a long-running dispute between joint venture partners, the Canadian based company Centerra and the Kyrgyz government, over mine ownership (BBC News, 2013).

Conclusions

The chapter set out to explore TFDI in the context of a transitional, post-Soviet economy through an evolutionary lens. It has demonstrated the scope to gain insights into both host government investment economy and foreign investor behaviours and actions over a sustained time-period. This is important in terms of being able to *"question the nature of that evolution with, for example, growth-oriented models often challenged as unsustainable in tourism"* (Brouder and Eriksson, 2016:384).

It is important to reflect on how the application of an evolutionary approach to explore the path of a TFDI over time might inform wider understanding of tourism development. From a host country perspective, Khoshnevis *et al* 's (2017) acknowledgement of the presence of hope and fear surrounding TFDI and its offerings is worthy of consideration. The relevance of contingency and risk associated with TFDI in Kyrgyzstan may be recognised through the case example of the Pinara-Bishkek Hotel, Kyrgyzstan. Issues of governance, political stability, and institutional capacities (Price, 2018) are highlighted as being highly influential for the development trajectory of a TFDI alongside collaboration and negotiation processes. This observation might inform wider understanding of tourism development by reinforcing Slocum and Backman's (2011) identification of the importance of 'good' governance in achieving sustainability objectives alongside relationship skills. This is particularly pertinent in the context of less developed and transitional economies where increasing trade with the rest of the world is seen to be a pre-requisite of achieving sustainability goals (Allayarov *et al*, 2018) yet the historical legacy of centralised, authoritarian regimes have restricted relationship-building capacity. In the case of Kyrgyzstan, the speed at which foreign investment has occurred post-independence has restricted the ability of the state to develop "*necessary policy space to harness investment to serve sustainable development"* Knottnerus and Satke (2017). This indicates that the introduction of FDI and TFDI in transitional economies does not solely depend on opportunities but requires capability analysis, foresight, and planning.

The value of exploring an evolutionary approach to investigating TFDI has been highlighted. It has assisted identification of issues pertinent to the lasting interest (OECD, undated) of a TFDI in Kyrgyzstan and it has provided a fuller understanding of tourism processes underpinning development (Mellon & Bramwell, 2018). The approach has facilitated consideration of both structure and agency in tourism investment.

However, the difficulty in tracing the process beyond the internationally-reported arbitration tribunal decision in 2009 highlights the limitations of relying solely on secondary data analysis and indicates the potential for further research to gain a deeper understanding of how and why *"specific paths unfold in particular ways over time and space"* (Pike *et al*, 2016:131).

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