

Gold of Chukotka and Foreign Investments: Institutional Approach

Nikolay Ivanovich Kulik and Anastasiya Alekseevna Yarzutkina

North-East Interdisciplinary Scientific Research Institute Named After N.A. Shilo of
Far East Branch of the Russian Academy of Sciences (NEISRI FEB RAS) Magadan, Russia

Abstract: The article is an empiric investigation, where the foreign investment in gold mining on Chukotka is represented through the system of rules and restrictions, established by people, structuring political, economic and social interaction. The article consists of two parts: the first part includes the description of the history of the foreign investment in gold search and mining on Chukotka and the historical analysis of institutional environment by the example of the concrete company - North-East Siberian Association, working on Chukotski Peninsula in the beginning of XX century. The second part deals with the study of modern foreign investments in Chukotka gold industry. The analysis of formation of the institutes in terms of investment interactions is carried out by the example of the concrete activity in the Chukotka District of the Canadian Company Kinross Gold Corporation in the beginning of XXI century.

Key words: Foreign investments • Gold industry • Chukotski Peninsula • Institutional economy • History of investment activity

INTRODUCTION

Stable gold value for many years makes this resource a facility, providing the economy with new territories of its location and new prospects for development. However, the period from gold discovery to the notable useful effect from its mining, can be both long and short. The investments play a significant part in this process.

Chukotka is the most North-East and remote Russian region with the population of only about 50 thous. people. However, Chukotka has a great mineral-resource potential, based on gold. The interest of foreign investors to Chukotski gold arose since before it was found there. However, only in hundred years a foreign company could officially acquire a right on development of the largest gold deposits on Chukotka.

We present an empiric investigation, where the foreign investment in gold mining on Chukotka will be shown through the system of rules and restrictions, established by people, structuring political, economic and social interaction.

Procedure: The authors of this investigation are the representatives of different sciences - economy and

historical anthropology. It determined its interdisciplinary and allowed to view the problem of foreign investments to regional Russian economy from different angles.

The investment can have a wider meaning than just a financial operation on capital injection. The investment is an economic process, which presupposes different interactions. Different level of investment determines various sets of interaction subjects. At foreign investment it can be different governments, municipality and company management, having a recipe for investment, investor and citizens of the invested territory. In the process of interaction there emerge transaction expenses, to minimize which the instituted are developed. Institutional bases of social-economic development of the society, the theory of transaction expenses and bases of formation of institutional environment were actively studied by such researches, as D.C. North [1], G.M. Hodgson [2, 3], O.E. Williamson [4, 5], J.R. Commons [6], R.H. Coase [7, 8].

The discussion of the problem of institutes determination in economy began in 1898 by T. Veblen - in several years before the first gold field was found on Chukotka and it is still continues. The most understandable for us is a notion of institutes, formulated

by a representative of the newest institutional theory Douglass C. North. As per his interpretation, institutes are the "game rules" in society or human-created restriction frames, organizing interpersonal relations. The institutes consist of informal restrictions (traditions, customs, social conventions), formal rules (laws, administrative acts) and enforcement mechanisms, providing following the rules (courts, police) [1].

Alongside with that, we share the opinion of John R. Searle, who considers, that the institutional theory is in "childhood" and a researcher is to have a personal opinion on the topic of institutes. The institutional ontology is subjective; it must always be examined from the first person point of view. Institutional facts only exist from the point of view of the participants [9, p. 22].

In the process of empiric investigation of economic phenomena, the notion of institutes expands and frequently goes beyond the notion, which was specified in the introduction. That is why we did not put the limits in study of phenomena, which are defined as "the institute" and acted free in the theoretical area of institutionalism.

A stated institutional approach is a procedure, developed and used by neoinstitutionalists. Its essence is in simultaneous combination of theoretical work, historical analysis and the analysis of situation in a specific context [1, 10, 11]. Our investigation consists of two parts: historical part includes the description of the entering of foreign investments to Chukotka and the analysis of institutional environment by the example of the concrete company - North-East Siberian Association. The next part deals with the study of institutional environment of modern foreign investments in Chukotka gold industry. The analysis of institutes formation in terms of investment interactions is carried out by the example of the concrete activity in the Chukotka District of the Canadian Company Kinross Gold Corporation.

In addition, in the process of investigation we used an experimental approach, i.e. the direct contact with the studied subject, institutes and participants of institutional interactions. Such contact was achieved by the study of different documents, including the texts with formal rules, the texts, reflecting the positions and viewpoints and information, obtained directly from the authors [6, 12].

Thus, the informational basis of the article involves standard regulations, official data of Federal Government Statistical Service; Strategy of social-economic development of the Chukotka Autonomous District up to 2020; Chukotka Government reports about social-economic development of the region from 2001 to 2011;

materials of executive authorities of the Chukotka District, extractive industry companies; data, published in scientific articles and periodical press, official correspondence and also the materials, obtained by the authors during the interviews with Chukotka habitants, official bodies, representatives of gold-mining companies and prospectors' artel. A historical part of the article is written based on the documents, stored in Russian and USA archives.

Early XX Century - the History of Foreign Investments in Gold Mining on Chukotka:

The interest of foreigners to Chukotka, as an investment attractive region, arose in the middle of the XIX century [13 and others]. "Gold rush" on Alaska made the foreign investors to pay attention to Chukotka, as a potentially gold-bearing region. American businessmen, in hope to find Chukotski gold, overwhelmed a Russian delegate in Washington and Russian government with requests to start the mining of gold and other mineral resources in Chukotski Peninsula [14, p. 178-179]. Similar rally among foreigners, both large capital proprietors and simple gold miners, caused concern of Russian government about the danger of spontaneous intrusion of foreigners to the peninsula. A policy of the Russian government in the end of XIX - early XX century in relation to the foreign mining business in Far East, being a constituent of total economic policy, was complex and contradictive. In whole, as per evaluation of Russian historians, although the government restrained the activity of foreign capital by some frames, it did not prevent its penetration to Far East mining [15, p. 95].

However, the government was distressed about possible vast gold deposits on Chukotka. This region was the most remote in imperial Russia. It was poorly populated and did not have the regular service with the central areas of the country. If the gold was found there, Russian authorities were unable to prevent hundreds of gold miners from Alaska to cross the strait. The panic warmed by the rumor, which got the official confirmation, about "the intent of hundreds and thousands of Americans to cross the Bering Strait as soon as possible and to start the search of [gold]" [16, p. 1-2].

The reason of the rush in relation to Chukotski gold on the part from Americans was the information, spread in the beginning of 1900 in American press, that there are richer gold placer deposits on Siberian shore, than in Klondike and Nome and Russian government is going to organize an auction on lend lease of gold fields to private individuals. In March of 1900 a Ministry of Agriculture

and Government Property received the requests of some Lewis, lived in Klondike and A.Terlene, an agent of American Traffic Department "Northern Pacific Railway Ñĩmðàno", who were interested in the transportability of people and cargo to Chukotski Peninsula from Alaska through Bering Strait. Among the numerous petitions of foreigners, there was an appeal to the Russian government of the authorized representative of American syndicate of owners of gold-industrial enterprisers on Alaska K.Podgorsky. Board of Directors of American enterprise asked to lease him the whole coast of Chukotski Peninsula up to the mouth of Anadyr River, where they intended to start the mining of gold and other mineral resources. For the purpose of this enterprise American gold industry entrepreneurs planned to establish a joint stock company, undertaking a commitment to deliver the mined gold to the Russian government and pay all taxes [14, p. 178-179].

As a result, Russian authorities decided to close Chukotski Peninsula for private mining and gold mining. An exclusive right on development and extraction of minerals on Chukotski Peninsula was given to a fabricant and landowner, a colonel Vladimir M.Vonlyarlyarsky. This right is a concession under the contract with the Ministry of Agriculture and Government Property dated on the 30th of April in 1900; it was given for five years with the obligation to take upon himself an exploration of that territories and all the difficulties, connected with that [17, p. 141-143; 18, p. 36 and others].

In the opinion of the mining engineer I.Korzukhin, at that time Russian government in gold mining was committed to a principle of implantation and support of large gold mining, despite the example of gold finding in Nome, made by almost poor prospectors and gold miners [19, p. 65].

A concession of Vonlyarlyarsky was financially supported by "East-Siberian Syndicate", created by him in London, jointly with a big financier F.Bekker, supported by the English Firm Armstrong and American Bank of Morgan the Elder [20, p. 9]. Vonlyarlyarsky was a Board Chairman of this English company, F.Bekker had 30% of syndicate stocks [14, p. 178]. A syndicate capital was 100 thous. pounds sterling. The first expedition on gold exploration on Chukotka was organized on the issued stock of the syndicate, at the cost of 30 thous. pounds sterling [21, p. 130].

Creation of syndicates - joint stock financial companies, established abroad, for searching and study of capital investment objects and for further organization of new joint stock enterprises with general duties was a typical phenomenon. Foreign capital holders treated

Russian projects with care, searched for more profitable objects for capital investment and acceptable ways of penetration to Russian economy [15, p. 100].

As per the correspondence, stored in the Russian State Historical Archive, a Director of Mining Department expressed displeasure to Vonlyarlyarsky with contribution of foreign capital in his concession on Chukotka: "so much foreign capital was invested to your enterprise, that it ever got a foreign name; the prevalence of this capital, undoubtedly, afforded ground to foreign investors to consider the whole enterprise their own... when selecting the foreign capitalists, You acted, apparently, with insufficient caution... You are a party to an undertaking in a inappreciable part as compared to the capitals of other partners and also Russian capital does not prevail in the whole enterprise, in consequence of which You can hardly be treated as the one, who fulfilled the primary promises" (November, 1900) [21, p. 4-5].

In the opinion of Tomas Owen, after the concession was received, Vonlyarlyarsky faced four main tasks: to attract the investment capital, to set a communication line between St. Petersburg and Chukotski Peninsula, to provide the control over exploration men and laborers and to support the assurance of Russian government, that there is gold on Chukotka [22, p. 56].

A colonel coped with the part of these tasks, however, for two years from concession receipt his attempts to organize a well-coordinated work on the peninsula failed [16, 23]. A disagreement of Vonlyarlyarsky and Bekker about the creation of the joint stock company for further financial support of gold mining on Chukotka resulted in the problems with English investors [21, p. 130].

In this period Vonlyarlyarsky got acquainted with American businessman John Rosene, worked in Seattle and Nome, who was interested in branching out to Chukotski Peninsula [18, p. 36]. Vonlyarlyarsky saw in Rosene a skilled manager, who was able to organize a process of exploration and mining of mineral resources with the least financial losses [18, p. 36]. Later he wrote: "We could not loose time: political horizon at Far East became more and more anxious, that is why we had to hurry up to interest in Chukotski enterprise the Americans, people of action, who wanted only to work and not to deal with politics" [18, p. 37].

An American businessman Rosene bought the shares of Bekker and other English investors in "East-Siberian Syndicate" [21, p. 144]. As per his initiative, in 1902 a new company was created - North-East Siberian Association, which immediately acquired the concession rights of Vonlyarlyarsky [18, p. 39].

The rules of Implementation Force, established by Russian Emperor on June 22, 1902, determined the capital stock of the assembly - 3 mln. rubles (1 543 800 \$), divided by 12 thous. shares 250 rubles each (128,65 \$); 6,1 thous. shares belonged to foreigners. Russian shareholders were represented by V.M. Vonlyarlyarsky (3,6 thous.), D.P. Valtsov (1 thous.), duke N.S. Dolgorukiy (300), grand duke Nikolay Nikolaevich (100), the other 90 shares belonged to 17 less well-to-do Russian partners of the enterprise [21, p. 186]. Among the 5 members of association board were the Englishmen I. Baddeley and F. Medkherst [14, p. 180]. Primarily Rosene agreed to buy between 2 thous. and 4 thous. shares (between 1/6 and 1/3 of total amount of shares) and only in a year - in summer of 1903, after being appointed as a managing director, Rosene's company bought 60 percent of shares of North-East Siberian Association, of nominal value equal to 926 280\$ [22, p. 61].

Real activity of the company on Chukotski Peninsula was executed from 1902 to 1910. Later, the rights on gold exploration and mining were acquired by different Russian entrepreneurs, however, it was ineffective. The majority of gold fields were found during the Soviet time at the expense of state funds. Gold mining in the Soviet period was primarily organized by the trust "Soyuzzoloto", then, from 1931 to 1957, by the state trust "Dalstroy" and then by different state enterprises and plants.

Interactions and Institutional Environment (By the Example of North-East Siberian Association): In 1913 it was published a brochure of V.M. Vonlyarlyarsky about the expeditions to Chukotski Peninsula and finding of a new gold field near the mouth of the river Anadyr [18]. The content of the brochure looks like a number of justifications of the activity of North-East Siberian Association and the replies to accusations of society and some placeholders towards the company. It seems to be strange, taking into consideration, that the company from the first years of its activity on Chukotski Peninsula, suffered losses due to unsuccessful search of gold, saving state funds and despaired to return capital investment and expenditures for organization of work in severe conditions of economically undeveloped region.

North-East Siberian Association was a joint venture with predominance of foreign capital. Accordingly, the foreign investors counted on the company management. Chief investor of the company, American Rosene was appointed as an executive director and became an exception, as only Russian nationals of non-Judaic confession could occupy this post. It was decided to

make the appropriate amendments to the company Charter; it was done on the 3d of July in 1903, after Rosene in 1902 showed the successes in organization of work on Chukotski Peninsula, but faced the difficulties, when attempting to control spending and actions of Russian mining engineers as he had no "administrative authority"[18, p. 42].

Besides the financially expressed investments, Rosene invested in gold mining organizational culture, methods of work and spirit of Americans. It turned out to be one of the reasons why the company was cold-shouldered by Russian authorities.

A career rise of John Rosene (1861-1918), former emigrant from Norway, was in those years, when Nome was seized by the "Gold Rush". He was not involved in gold search himself, but successfully sold the goods and services to gold diggers. In 1898 together with the group of investors he founded Northwestern Commercial Co, providing transport services to gold miners, wishing to get to Nome gold fields. Besides, his company was in trade and fishing. In a whole, Rosene was a chairman or an executive director in five companies [24]. K.N. Tulchinsky called the Rosene's companies a trust, "a large commercial and industrial syndicate", where the North-East Siberian Association was just a service company [20, p. 13].

After establishing his rights in the company, Rosene started a quick search for gold miners and exploration men, willing to go to Chukotka. Besides, Rosene tried to employ people, able to do business in St. Petersburg, with Russian investors and at the same time, to establish relations between American prospectors and Russian geologists and mining engineers on Chukotka [25].

Rosene understood, that hardness and unfavorable weather conditions of Chukotka multiply intensify the risk that the found on the peninsula mineral resources would not pay for the means, spent on their mining, that is why it was necessary to have the additional variants for profit making. The purposes of North-East Siberian Association allowed to use the resources of Chukotski Peninsula in several ways. As per the company Charter, approved on July 22, 1902, the North-East Siberian Association had a purpose: "1) exploration and production of mineral resources on Chukotski Peninsula and the adjoined islands (based on the Contract, drawn on the 17th of April in 1900 by Vonlyarlyarsky with the Ministry of Agriculture and Government Property)...; 2) production of: a) different sea and river water trades in Bering and Kamchatka Seas and Ice Ocean, with their bays, straits and rivers on the Continent of East Asia of Russian

properties, b) bird and animal trades, 30 canning and usage of various products of the abovementioned trades, selling these products and goods and other things" [18, p. 43].

Rosene considered a monopoly of the company as a mean to maximize the profit by means of different opportunities and constantly worked hard over diversification of the company [22, p. 68]. Besides the organization of three enterprises on Alaska, included to the provision of North-East Siberian Association, Rosene tried to arrange the sale of whale oil in Russia and Japan and export of deer to Alaska [26].

Finally, step by step Rosene becomes less and less interested in geologic exploration and mining. In March of 1903 Rosene employs John Hammond, an American mining engineer, to evaluate the gold field sizes [27]. As per Hammond evaluation, there was so little gold, that its mining would not pay for the expenditures for mine construction [28]. By autumn of 1903 Rosene, irritated by unsuccessful results of exploration, suggested to pay attention to the trade, fishery and coal mining [29]. In 1905 K. Tulchinsky wrote: "... the activity of the association at the present time is concentrated almost only on trading operations and John Rosene and the syndicate under his control consistently deviate from all serious expenditures on gold searching and exploration" [20, p. 6].

In the beginning of XX century Russian authority on Chukotski Peninsula was represented by a district chief and a small troop of cowboys. The possibilities of real rule over the territory were limited. An East-Siberian Governor General D.G. Anuchin wrote "... the local authority there is belittled and does not have the right weight in the eyes of foreigners" [30, p. 31-32]. The issues, concerned the arrangement of activity of North-East Siberian Association, were decided upon the applications either through Priamursky Governor General, who was located in Khabarovsk, or through Department officers in St. Petersburg. Taking into consideration that there were no telegraph communication and reliable transport routs with Chukotski Peninsula, the communication between the company and public authorities was impeded. The interaction was carried out through the executive board of North-East Siberian Association, located in St. Petersburg. Accordingly, public authorities had an idea of the company's operations from the applications about the permit to transport the groups of American gold miners and based on sometimes nonobjective conclusions of individuals, visited Chukotka at that period. Remote location of authority and difficulties in communication had an impact on adequate understanding of the

company's operations. In April of 1909 a member of executive board of the company admonished Rosene, that the Governor General at Far East insists on abolishment of the company's contract with the government, as "he finds Your way of business management on the peninsula impossible" [31].

The company had three offices directly on Chukotski Peninsula; they were specially build to accommodate Rosene's assistants, geologist specialists, annually arriving to carry out the exploration works and Russian cowboys, who had to fulfill the police functions. Chukotski and Eskimo settlements were located along the whole coast of Chukotski Peninsula.

Local population - Chukchi and Eskimo - perceived all Europeans as tradesmen. Employees of the company faced the initiative of indigenous inhabitants to make an exchange, offering furs and other trade products instead of manufactured goods and products, meant for gold miners. The results of the trade activity of indigenous inhabitants were also valuable and opened the possibilities for branching out.

Tomas Owen, referring to the memoirs of Rosene, published in the article Lucile McDonald writes, that Rosene claimed that the company spent "\$50,000 annually for the good of the natives," built houses for them and sold them over \$2 million in goods, including rifles, boats, sewing machines and even gramophones. He noted that, when visiting Siberia, "I would be surrounded by Eskimos [*sic*] who would insist on singing 'Oh, Mr. Rosene,' and kissing my hands and my face and my clothing as signs of the utmost affection and appreciation for all that we had done" [22, p. 70-71].

Alongside with that, some sources testify that, besides the necessary products and essential goods, Chukchi and Eskimo were supplied with alcohol drinks, which destroyed them. In Russian press there appeared had more and more articles, criticizing the activity of North-East Siberian Company and describing the facts of making Chukchi drunk, setting the public opinion against the company.

Staying indifferent to gold and to the fact, that the foreigners get and export precious metals from Chukotski Peninsula, Chukchi and Eskimo tried to establish their own interaction rules with the foreigners through the trade and getting the benefit, relevant to their values. Alcohol and tobacco also took their place in aboriginals' value hierarchy.

Rosene turned out to be in a difficult situation, when, on the one hand, he had to make the company's operations profitable; on the other hand there were many

conditions, adherence of which prevent from profit maximization. Rosene's papers with reports are filled with messages about difficulties, which he faced, trying to control over such multilingual international company, distributed over the vast territory. However, the obstructions were not only of organizational character. It was important for the Russian bureaucracy that there were no unfortunate incidents, connected with the company, which would be made public abroad and leak out to high governmental authorities. These cases, for instance, incompetence of the ship Manauense captain [22, p. 76], belonged to the company, seemed to be insignificant for Americans, caused in Russian authorities the dissatisfaction by the company. At that, Rosene, doing his best to create a profitable company, did not feel the mentality of the Russian bureaucracy and was unable to keep a positive image of North-East Siberian Association and to create an impression about the use of foreign investments for the development of Russian "province".

In 1904 VonIarlyarsky concession was prolonged for another 5 years. Despite the fact that gold was found in 1906 and also the successful trade and different directions of activity, used by the company (fishery, hunting, transportation etc.) to get the additional profit, the financial state of North-East Siberian Association became worse. By the end of 1906 the losses of the company reached \$345 598 [22, p. 62]. During several years the executive board of the company was looking for the financial group for the purpose of new issue of shares. There were held the negotiations with the representatives of Anglo-French group a deputy of the French Parliament F. Delonkel, with American gold industry entrepreneur Ya. Lindsberg. However, they were unsuccessful [15, p. 105]. In 1909 the government decided not to renew an agreement with North-East Siberian Association, expired in 1910. In that year Rosene stopped all geological exploration on Chukotski Peninsula and closed all offices-factories [32, p. 215]. Real activity of the company, as the historian mention, stopped. In 1910 Rosene left the society and took out his capital. Henceforth, almost for hundred years, foreign capital did not have an access to Chukotski gold.

Early XXI Century - Renewal of Foreign Investments in Gold of Chukotka: After the final establishment of Soviet government in Russia and the shift to administrative-command economical governance in the end of 1920, combined with implementation of slogans about strengthening of class struggle while advancing to

socialism, resulted in full extrusion of foreign capital from the economy of Soviet state. Up to the end of 80s of the XX century there was no legislative regulations of foreign investments [33]. Gold industry of Chukotka at that period was fully provided by the state, as it was mentioned above.

The shift of Russia to market economy and integration of the country to international economic relations changed a policy in respect of the foreign investments to the economy of the country. A fundamental document, regulating the activity of foreign investors in Russia, became a law of RSFSR dated July 4, 1991 No.1545-1 "About Foreign Investments in RSFSR", adoption of which promoted the creation of legal conditions for the activity of foreign investors in Russia.

In 90s of the XX century, when the shift to capitalism and free market started in Russia, but the social-economic situation was still instable, gold industry on Chukotka had the chaotic processes. For the period from 1992 to 2001 total level of gold mining in the Chukotka Autonomous District reduced from 15 tons up to 5 tons a year. State enterprises (three large mining plants) endured transformation to joint stock companies. Great material resources, saved during planned economy in Soviet time, were lost. Besides, a mineral-resource base of stream gold was reduced to a shadow. In the period of market reforms, a leading industry of Chukotka specialization suffered hard times. Gold mining stopped to be high yielding and in competition with the other Russian regions, Chukotka lost due to high production costs [34, p. 257]. Chukotka economy turned out to be unprepared to exploitation of gold fields. Due to instable political and economic situation in the country and Chukotski region, there were no foreign investments to gold industry in that period.

The situation began to change in 2001, when Roman Abramovich became a Governor of the Chukotka District. He stayed at this place up to 2008 and after voluntary separation he was chosen a chairman of the State Duma of the Chukotka District. Roman Abramovich occupies this place till present. In top list of the richest Europeans according to Forbes magazine Roman Abramovich took the fifth place in 2008. The journalists estimated his wealth at \$23,5 bln.

His policy was a new one for the Russian state government. When the Russian magnate came into power, means for development appeared in the backward region. Being a businessman, Roman Abramovich introduced business-technologies to regional management. He and his team of top-managers, who came to work on Chukotka, perceived this region as a great enterprise in default,

which was required to be brought out from the crisis and to give rise to development. Chukotka government developed a complex of strategic crisis response measures, implementation of which allowed during the first five years to bring out the region from the financial and economic crisis and to stabilize the social situation. Despite the positive trends of Chukotka development, the state of the region was not stable enough. Short-time attraction of large taxpayers and significant investment inflows to the region allowed to solve only the most urgent problems.

To create the basis for future development, in 2005 Chukotka government analyzed the current situation, evaluated possible development trends for a long-term prospects and developed a project of Development Strategy of the Chukotka Autonomous District for a period up to 2020. As follows from the analysis of international practices of Northern Territories development, unique peculiarities and competitive advantages of Chukotka, three main alternatives of regional strategic development were formulated. A pessimistic variant suggested reducing the level of economic activity in the region. As per this variant, it was not planned to invest to infrastructure and geological exploration, state funds were sent for transportation of nearly half of population. An optimistic alternative presupposed to increase the level of economic activity in the region; it meant a significant grow of investments to geological survey and infrastructure for accelerated and stable development of mining industry, all-round use of unique natural, climatic and geographical peculiarities of the region. The last alternative mainly corresponded to all-Russian policy and turned out to be the most preferable in combination of economic and social criteria and expectations of the state and population and also it complied with the world tendencies in development of northern regions.

The selection of variant of intensive development of Chukotka economy determined a priority of such directions, as the development of mining industries, carrying out of geological exploration, aimed at more full and efficient reclamation of mineral resource base and also the development of branches of the relevant infrastructure. An important part in this process belonged to private investments. Minimum volume of capital needs for the period up to 2020 was evaluated at \$3,6 bln. at equal investment of governmental and private capital.

Organization of gold mining and new field development became one of the priorities of regional government. In these conditions, Chukotka government turned out to be interested both in foreign means and in

foreign methods of efficient gold mining on undeveloped territories.

The Volume of Foreign Investments and Their Effect:

In 2005 Russia was still a risk area for foreign investors. A comparative volume of foreign investments to Russian economy testifies about it. In 2005 it was more than thrice less than in 2011 and the investment to mining operations was more than 4,5 times less than the level of 2011.

For the comparatively short time period, from 2006, in conditions of constant competition among the constituents of the Russian Federation for the means of private investors, Chukotka government managed to attract foreign investments, sufficient for the Chukotka region to take the second place in gold mining in Russia in 2009.

Fixed capital expenditures of the enterprises of combined Russian and foreign properties became to arrive to Chukotka from 2005 and by 2006 they increased in 26 times and by 2007 - in 51 times. Maximum amount of capital expenditures of foreign investors was in 2009 (\$468,8 mln.). In 2010 total volume of foreign investments, arrived to nonfinancial economical sector of the Chukotka Autonomous District, was equal to \$25,5 mln., in 2011 - \$329,3 mln.

Total volume of foreign investments, arrived to the economy of the Chukotka Autonomous District, from 2005 was directed at precious metals extraction and only in 2011 a part of foreign investments - 12,7% was directed at real estate operation, rent and provision of services.

Countries-investors, providing their investing on the territory of the Chukotka Autonomous District, were Canada and Cyprus from 2009 to 2011.

The increase of annual investments to gold industry at the average of three hundred times had an impact on the main economic indicators of the regional industry. In particular, based on the branch "Mining operations" the number of employees increased from 2003 to 2011 more than twice, the average monthly salary increased by 4,6 times.

Formation of Rules (By the Example of the Company Kinross Gold Corporation): According to the strategy of intensification of Chukotka economic development, regional authorities distinguished two industrial-territorial clusters. Mining industry became a key industry of Chaun-Bilibinsky cluster. The largest Russian gold fields are located within the boundaries of this cluster: "Kupol" and "Mayskoe", "Karalveyem" and "Dvoynoe" are rich with ore deposits and also a lot of promising gold ore fields and centers.

Two from four largest deposits - "Kupol" and "Dvoynoe" - are invested and developed by a Canadian company Kinross Gold Corporation.

A deposit "Kupol" was found in 1996 by Anyujskaya geological-exploration expedition. However, the intense exploration works of this deposit have been started from 2003. In 2008, after large investments, the mine was placed into operation, a mining company was started and the first ingot of Dore gold was obtained. The following main facilities were promptly constructed on the "Kupol" deposit: a mine, a gold-processing plant, an office complex, a field camp, a diesel power station, a tailing dump, an air strip and a fuel and lubricant warehouse. The approximate deadline of the project completion is 2018. From June of 2008 to January 2011 60 t of gold and 621,7 t of silver were extracted on the "Kupol" deposit. Thanks to investment of the company, at year-end 2010 Chukotka took the second place in gold mining among the constituents of the Russian Federation.

"Dvoynoe" deposit is in developing stage. A predicted average productive capacity is 900 tons of ore per day. A predicted average gold content in the ore is 17-19 g/t. Ore processing from the "Dvoynoe" deposit will be carried out using the possibilities of the gold-processing plant at the "Kupol" deposit. Eventually, an average annual content of extraction can constitute 6-8 t of gold and 7-9 tons of silver. During the last three years Kinross Gold Corporation carries out an active geological exploration of new gold-ore deposits on the territory of Chukotka.

As per Russian legislation, to obtain a mineral license for "Kupol" and "Dvoynoe" deposits, in 2007 a closed joint-stock company "Chukotski Mining and Geological Company" was created. Primarily 25% of shares of this company belonged to the state and 75% to the Canadian company. Now the whole block of shares belongs to Kinross Gold Corporation.

This company is the major investor on the territory of Chukotka. Its share in the total volume of gold mining on the territory of the Chukotka Autonomous District is nearly 83%. A direct economic effect from the company's business for the Chukotka Autonomous District in 2009 was equal to \$221,1 mln. A volume of tax liabilities to the regional budget for the period of 2008-2010 was \$295,3 1 mln. In a whole, a project of the "Kupol" deposit exploration by Kinross Gold Corporation is the major investment in the Russian gold industry.

Kinross Gold Corporation is in the top ten of gold out companies in the world; it has sufficient financial, professional, engineering and technological capabilities

to execute the geological exploration works at a modern level, as well as its own corporate culture, implemented at its enterprises.

During the activity of Kinross Gold Corporation (from 2007) on the territory of Chukotka, there formed a social, economic and cultural interaction between the company, Government of Chukotka region and aboriginals. In the words of regional Vice-President of Kinross Gold Corporation Warwick Morley-Gapson, for six years the company managed to study the regional peculiarities, including the culture and traditions; it turned out to be useful for implementation of company's goals [35].

The efficient interaction of the company with regional government authorities and population is achieved in different ways. To work in chief, the company invites regional politicians, regional elite from indigenous inhabitants and respected people of Chukotka.

In 2009 the Company founded a "Fund of Social Development "Kupol". The information is transmitted that the Fund is one of the forms of corporate social responsibility before the region, participation of the enterprise in social economical development of the region and solution of problems of Chukotka habitants. A decision to organize a Fund was made after Public hearings, held at pre-project stages, the participants of which suggested different variants of the company's interaction with the local community. The main purpose of the Fund's activity is the promotion and support of sustainable social economic development in the Chukotka District, which is implemented through the financial backing of socially important projects. At that the Fund "Kupol" pays special attention to implementation of projects, connected with the support of indigenous minorities. Under the Agreement about cooperation of the Chukotski Mining and Geological Company and the Association of Indigenous Minorities of Chukotka, signed on the 3d of June in 2009, not less than the third of the Fund's budget is directed for these purposes.

Fund's business lines are discussed with the regional authorities and the community of the district. For instance, in 2011 at the joint meeting in the State Duma of the Chukotka District, the Fund got a recommendation to correct in future its social projects with the programs, developed by regional authorities. The representatives of Kinross Gold Corporation, present at this meeting, in reply to recommendations, expressed their interest and willingness to mutual effective work with regional authorities [36].

One more way of interaction of authority, foreign investor and local community of Chukotka is the organization of Russian-Canadian hockey match. The match is held on Chukotka from 2010 under the auspices of the Government of the Chukotka Autonomous District and with the support of Russian Hockey Federation. Constant foreign participant of the competition is a team "Samorodky Kinrossa", which is made up of Russian and foreign employees of the Canadian Kinross Gold Corporation, working on the mine "Kupol".

Regional authorities, supporting the company, lay account on getting the social benefits, besides the economic effect. For instance, the company management and the government of the Chukotka District have an agreement about the priority of Chukotka habitants in employment. The company executes gold mining all year round and practices a work on a rotational basis for the mine development. The workers are selected from different regions of Russia. There is a deficit of specialists of mining and geological sphere at the labor market of the Chukotka District. Middle and low-qualified labor force, represented at the labor market of the district not always meets high corporation requirements of the company. Accordingly, labor supply of the Chukotka District can not satisfy the demand of the company. If to count for the whole of the district, the number of employees, working on a rotational basis, exceeds 4,5 times the number of unemployed population of the Chukotka Autonomous District. Despite this fact, the company pays special attention to the employment of local manpower, including the indigenous minorities of the North. In 2011 from 1300 corporate employees (14% of total number of employees), 181 men were the habitants of the Chukotka District. Among them 3,5% are the representatives of native nationality. As per the data of the interview, which we held with some employees, working on a rotational basis, less strict requirements are applied to the aboriginals and there are more cases, when managers ignore their violation of corporate rules.

Besides the financial investments, the Canadian company also brought to the gold mining of Chukotka a new corporate culture, different from the rules, adopted in Russian mining and geological companies. For instance, according to inquiries of employees, provided in the Canadian company systematic coaching of workers, special approaches to labor safety, a system of bonuses and penalties in salary formation and other measures, are not always customary for the Russian employees and often evoke nonacceptance and misunderstanding.

Alongside with that, the company provided a stable operation of the "Kupol" mine and achieved an economic effect on Chukotka. The factors testify about the major achievements of the company in Russia namely in this region. The efficiency of the activity of foreign investor on Chukotka shows the visit in 2012 of Canadian legate, who in the meeting with the regional authorities mentioned, that on the positive example of Kinross Gold Corporation the Canadian government studies economic spheres, where it is possible to develop mutual cooperation between Chukotka and Canada. He also drew a parallel with the Canadian trading company "Hudson Bay", working on Chukotka in 20s of the XX century.

DISCUSSION

A comparison of two represented companies would contradict the historicism principle. Each of them developed in its own institutional sphere and in the process of activity of North-East Siberian Association (main share holder is an American entrepreneur John Rosene) and CJSC "Chukotski Mining and Geological Company" (main share holder is a Canadian Company Kinross Gold Corporation) it is impossible to exclude the growth of personalities and interpersonal relationships. For instance, the activity of North-East Siberian Association was negatively influenced by a conflict between a Board Chairman of the Company V.M. Vonlyarlyarsky and a Financial Minister (from 1892 to 1903) S.Yu. Vitte. A success of Kinross Gold Corporation investor on Chukotka is mainly determined by the impact and authority of the magnate Roman Abramovich.

The foreign investment shall be understood as not only the investment of capital. Outflow of production funds and the activity of foreign specialists in Russia shall be taken into consideration. A foreign investor brings its capital, management and engineering knowledge, corporative traditions and concept of profit earning and rationalization of production. They are not always naturally involved to the environment, where the investor carries on his business. Even insignificant, at first sight, public states of mind turn out to be important.

In opinion of Thomas Owen, unsuccessful activity of North-East Siberian Association was connected with negative public attitude of Russians against Americans, non-admission of American "rationality" by Russians and on the part of Americans - it was misunderstood of excessive paternalism of Russian authorities and bureaucratic approach of Russians to economic

opportunities. Besides, two main people of the company Vonlyarlyarsky and Rosene, in his opinion, had absolutely different approach to the business activity and organizational work, having impact on internal destabilization of the company [22, p. 70-71].

Furthermore, a reason of unsuccessful experience of foreign investment on Chukotka in the beginning of the XX century is the lack of align communications between the management and staff of the association. John Rosene was in Seattle, the main office of the company and the management authority were in St. Petersburg, at that the company's operations took place on Chukotski Peninsula. Except that, people, who were in charge of the decisions and company's operations, apart from thous. km of distance, were separated by a language barrier.

Another reason is the relation of Russian authority to Chukotka, as a colony and a desire to barrier the territory and the habitants from any foreign influences. In the opinion of the Russian scientist I.A. Shirokov, a status of Russian North-East, wherein it was legally constituted in the epoch of the XVII century, was not changed and represented a status of colony over a long period of time, including the Soviet period. Overcoming this status became possible only in modern time in conditions of establishing of Russian federalism, when Chukotka and other territories were declared as separate constituents of Russian Federation with delineation of power between central and regional authority [37]. These changes drastically changed the relationships with foreign investors.

From 2005 the main trend of social economic development for Chukotski region is the work on attracting the investments, including the foreign ones. To develop the economy of Chukotka and for growth of gross regional product, a significant income of investor funds is required for development of the richest resources if there is high economic effect from the invested funds. In order to increase the investment attractiveness of Chukotka, regional government concentrates the financial resources on creation of energetic and transport infrastructure (roads, bridges, power lines, substations and other) in mineral resource areas, advanced from the viewpoint of exploration. With that, according to the example of the activity of Kinross Gold Corporation on Chukotka, a foreign investor faces the informal institutes.

As per the political line of Chukotka ex-governor and chairman of the State Duma Roman Abramovich and his young team, being outside the clamps of the past in terms of the Soviet command and administration system, the

obstructions of entering the territory of the Chukotka District were minimized for foreign investors and the conditions for active work and development were created. A corruption factor was excluded and the documents review was accelerated.

It was also an unusual experience for this region. An active part of aboriginals, having no idea of how to react on the changes and ecological consequences of active gold mining on the native territory, had to ask their colleagues from other countries for the experience. There were considered different models of how the gold mining company should deport itself. However, this experience is individual and acquires, among the other things, serious legal knowledge on the part of active indigenous population and well-developed laws, protecting the rights of aboriginals. Without the one and the other, government agencies, together with the elite of indigenous people organized a discussion for codevelopment of rules, meeting the requirements of all participants of investment interaction.

At present more than 80 nationalities live in the district, 6 of them belong to indigenous minority of the North; in total aboriginals constitute 34% of total population of the district, the majority are Chukchi. An association of indigenous minorities of Chukotka got a separate agreement with CJSC "Chukotski Mining and Geological Company" (main investor is Kinross Gold Corporation), according to which not less than 1/3 of social bonuses, provided by the company, are reserved only for indigenous people.

Interactions in terms of each investment project are unique. Accordingly, the institutes, formed in terms of these interactions, are also unique. Formal rules, being more stable institutes, can make obstructions for the interaction. For instance, in Russian legislation there are the limitations for the companies, comprising foreign citizens, on participation in auctions for the right to use the resources for developing the mineral deposits on the territory of the district. Practice showed that, for instance, per 7 plots of 8, included to the list of plots, provided in 2010 for geological study, exploration and mining of hard-rock gold on the territory of the Chukotka District at the enterprises' own cost, the following limitations on participation in an auction are introduced: the participants of the auction can be legal bodies of the Russian Federation, being the business entities in accordance with the current legislation; works on the territories of resources shall be carried out only by Russian users of mineral resources without participation of foreign citizens.

Regional authorities try to interest still working on Chukotka investors in execution of geological exploration at their own cost. Foreign investors are ready to do it, however, both face with formal rules, which are impossible to exclude.

An obstruction for a foreign investor can be the absence of formal rules. For instance, at present in Russia there is no regulatory legal act, establishing legal mechanisms as alternative variants, at which the foreign investor - a license holder on geological study of the resources - in case of a deposit discovery, would gain a priority right on development of this deposit individually or with the assistance of the Russian partner in the economically feasible conditions. At present a foreign investor, taking upon himself a geological study of the resources on the territory of Russia, does not have guarantees, that in case of the deposit discovery, his labor would not be used by another company.

CONCLUSIONS

The participants of transactions are the foreign and joint companies, putting the investments to gold mining and its organization, regional authorities, federal government and citizens of the region. Each participant can impact on stability of agreements and efficiency of institute functioning. By the example of two companies, working with hundred year difference, we found out, that the company can form a set of actions behind the business frames, which are directed at the support of positive interaction with the authorities and population.

The authorities, depending on the nationwide policy, realized at that moment, positions and attitude of top government agencies and also based on economic demands, can assist or, on the contrary, put obstacles for entry and activity of the investment company on the territory, staying in terms of formal institutes. There exist a lot of informal opportunities for this.

Government bodies naturally serve to protect the interests of their country in any case. It often looks like an enmity to the foreign and, consequently, outwardly aggressive and consumer attitude to the foreign capital. Local habitants, considering the natural resources "their property", also initially treat the foreign investors as "occupants". Despite the obvious economic profit for the territory, foreign investments in Russian regions still raise fears. The question is in the following: if the foreign company, acting in the region, manages to take the "game

rules" of local authorities and the society and have an ability to form the rules itself to achieve the stable situation in the region.

ACKNOWLEDGEMENTS

Carrying out of this investigation was possible thanks to the work of authors in North-East Interdisciplinary Scientific Research Institute named after N.A. Shilo of FEB RAS and its subsidization of business trips. A substantial aid in collecting the historical material was lent by a Director of programs on cooperative development of the University of Alaska State (Anchorage) Andrew Crow, for what we express our deep gratitude.

REFERENCES

1. North, D.C., 1990. Institutions, Institutional Change and Economic Performance, Cambridge: Cambridge University Press.
2. Hodgson, G.M., 1993. Economics and Evolution. London: Polity Press.
3. Hodgson, G.M., 2004. The evolution of institutional economics: Agency, structure and Darwinism in American institutionalism. L.: Routledge.
4. Williamson, O.E., 1975. Markets and Hierarchies: Analysis and Antitrust Implications, New York: The Free Press.
5. Williamson, O.E., 1985. The economic institutions of capitalism: firms, markets, relational contracting. New York.
6. Commons, J.R., 1990. Institutional Economics. Its Place in Political Economy. New Brunswick: Transaction Publishers.
7. Coase, R.H., 1937. The Nature of the Firm. *Economica*, 11: 386-405.
8. Coase, R.H., 1988. The firm, the market and the law. Chicago and London.
9. Searle, J.R., 2005. What is an institution? *Journal of Institutional Economics*, 1: 1-22.
10. North, D.C., 1981. Structure and Change in Economic History. New York.
11. Hodgson, G.M., 2001. How economics forgot history: The problem of historical specificity in social science. L.: Routledge.
12. Stringer, E.T., 1999. Action Research. Thousand Oaks: Sage Publications.

13. Kennan, G., 2007. *Tent Life in Siberia: An Incredible Account of Siberian Adventure, Travel and Survival*. Skyhorse Publishing.
14. Alepko, A.V., 2001. *Foreign Capital and Business at Far East of Russia*. Khabarovsk.
15. Razumov, O.N., 1982. *Foreign Capital in Mining of Far East in the Period of Imperialism (1895-1917). From the History of Bourgeois Class in Russia*. Collection of Articles, Tomsk, Publisher of Tomsk University, pp: 94-108.
16. Bogdanovich, K.I., 1901. *Sketches about Chukotski Peninsula*, St. Petersburg, Suvorin Printing Office.
17. Ovodenko, S.D., 1916. *Mining on Chukotski Peninsula in 1900-1913*. Gold and Platinum, No. 9-10, pp: 141-143.
18. Vonlyarlyarsky, V.M., 1913. *Chukotski Peninsula in 1910-1912*. St. Petersburg.
19. Korzukhin, I., 1907. *Chukotski Peninsula*. Gold and Platinum, 4: 65-70.
20. Tulchinsky, K.N., 1906. *A Report on a Trip to Chukotski Peninsula*. St. Petersburg.
21. Russian State Historical Archive. Fund 37, list 44, file 1979, 1900-1912.
22. Owen, T.C., 2008. *Chukchi Gold: American Enterprise and Russian Xenophobia in the Northeast Siberia Company*. Pacific Historical Review, 77 (1): 49-85.
23. Ivanov, D., 1902. *A Forgotten Skirts. The Results of Two Expeditions to Chukotski Peninsula (1900-1901), equipped by V.M. Vonlyarlyarsky*. st. Petersburg.
24. Biographical note. John Rosene Papers, University of Washington Special Collections, Seattle Washington.
25. Rosen John. *Memoir*. Acc. #67-9. Box 1 of 1, Archives, University of Alaska Fairbanks, Alaska&Polar Regions Collection.
26. Letter from Kovalevsky to Rosene 15 March 1903, file 9, box 3; Letter from Compton and Schwabe to Rosene 11 March 1903, file 10, box 3; Letter from Board to Rosene 1 April 1903, file 11, box 3. John Rosene Papers, University of Washington Special Collections, Seattle Washington.
27. Letter from Rosene to Board 28 March 1903, file 10, box 3. John Rosene Papers, University of Washington Special Collections, Seattle Washington.
28. Letter from Rosene to Board 7 April 1903, file 10, box 3. John Rosene Papers, University of Washington Special Collections, Seattle Washington.
29. Letter from Rosene to Board 3 Nov 1903, file 26, box 3. John Rosene Papers, University of Washington Special Collections, Seattle Washington.
30. Anuchin, D.G., 1884. *Loyal Report of Governor-General of Eastern Siberia for 1879. A Collection of Major Official Documents on Governance of Eastern Siberia*. Irkutsk, 1(1): 31-32.
31. Letter from Kovan'ko to Rosene, 27 iarch / 9 april, 1909, file 37, box 3. John Rosene Papers, University of Washington Special Collections, Seattle Washington.
32. Hunt, W.R., 1975. *Arctic Passage. The Turbulent History of the Land and People of the Bering Sea 1697-1975*. New York.
33. Mironenko, A.A., 2009. *Administrative-Legal Regulation of Foreign Investments in Russian Federation*. Synopsis of thesis, Ph. D. in Economics, M.
34. *Chukotka: Natural Economic Sketch*, 1995. Edited by Kotov, A.N., Kononov, V.A. and others, Moscow, Publisher "Art-Litex".
35. Working meeting with the representatives of Canadian Corporation «Kinross Gold» took place in the cabinet of the Chukotka Autonomous District on the 16th of April, 2013. An official site of the Chukotka Autonomous District. Date Views 07.05.2013 http://chuk.dot.ru/press_center/news/7420/?sphrase_id=14599.
36. In the State Duma of the Chukotka Autonomous District a meeting of broad of trustees NPO "Fund Kupol" took place on 24th of October, 2011. An official site of the Duma of the Chukotka Autonomous District. Date Views 17.03.2013 <http://duma.piton.ru/modules/news/article.php?storyid=140>.
37. Shirokov, A.I., 2002. *To the Question about Conceptual Basis of Investigation of Dalstroï. Dikovskiy readings: Materials of scientific practical conference, devoted to 75th years as from the day of birth of corresponding member of the RAS N.N. Dikov*. Magadan: NEISRI FEB RAS, pp: 3-35.