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Kazakhstan beckons our entrepreneurs

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PRIME Minister Datuk Seri Dr Mahathir Mohamad chose summer for his trip to Kazakhstan last year; in winter it probably would have been difficult to motivate the 300 business people who came with him to initiate contacts with their Kazakhstani counterparts.

Temperatures can fall to -30 degrees Celsius in Kazakhstan, which is far from any open sea and is as high in latitude as Canada. Yet Kazakhstan offers many opportunities for Malaysian entrepreneurs. It has among the world's largest oil and mineral reserves, has a whole new capital to build, and is privatising its blue-chip companies.

And in summer the capital Almaty is a very pleasant city, with long avenues lined with old Russian-style buildings, oak trees and open-terrace restaurants!

Kazakhstan became an independent country in 1991, after being colonised for over 200 years by Russia. Of all the Central Asian countries, it is probably the one with the most Russian influence: 37 per cent of the population is Russian and the language is mainly Russian. However, there have been many efforts to revive the Kazak language and culture and in the government most senior officials are now Kazak.

The political system has shown a lot of stability, with most powers with President Nursultan Nazarbayev, who was elected in 1991 and whose term was extended in 1995 by referendum to the year 2000.

After independence Kazakhstan went through a few years of traumatic transition. From one day to the other it had to learn how to rely on itself: during Soviet times it provided the rest of the union with wheat and natural resources in exchange for manufactured goods.

Inflation soared to 1,256 per cent in 1994 and the GDP halved between 1991 and 1995. However, much progress has been realised in the past two years. Since the creation in 1993 of a national currency, the tenge, inflation came down to 28 per cent in 1996 and it is expected to come down further to 17 per cent this year.

The GDP started to grow again last year, albeit slowly at 0.3 per cent. The tenge has also appreciated in real terms against the US dollar. This has created a much more stable environment for investment. Also the government has appointed a few young policymakers who are determined reformers and who realise the importance of foreign investment.

They include the 34-year-old governor of the central bank who took control of inflation and launched a successful local T-bill market, and the 37-year-old chairman of the securities commission, in charge of setting up a new stock exchange and listing the major companies. They bring a soft guarantee that behind all the bureaucracy, privatisation and economic reform will happen.

Kazakhstan's other important asset is its workforce, which is technically well educated (the literacy rate is 97 per cent) and cheap (an average salary is RM300 a month). Two problems which should be overcome with time are the language barrier - English is not widely spoken yet - and the fact that most people have very little understanding of marketing and finance as a consequence of operating in a recently-planned economy.

There are several areas in which Malaysians entrepreneurs are interested. One is oil: Petronas was in Almaty at the end of February to study opportunities.

Kazakhstan's potential reserves of over 100 billion barrels place it in

the same league as Iraq (100 billion barrels reserves) and Kuwait (95 billion barrels). However, these reserves would have to be confirmed with expensive prospecting work.

Another large area of investment is in privatisation: Kaztelecom is being offered for tender again after last year's failed attempt with Deutsche Telecom (Deutsche Telecom said it wanted a monopoly guarantee). Some Malaysian companies are reportedly bidding for it.

Tenaga Nasional is involved with a 1,900mw coal-fuelled power plant in the northern city of Semipalatinsk. However, for all utilities a stumbling block is the price charged to customers as they used to be heavily subsidised. All local phone calls are free, and electricity is being sold at 2.6 US cents a unit, below production cost.

Kazakhstan plans to privatise massively this year, in a fashion similar to that of Hungary. It desperately needs foreign capital after inflation wiped out most of the country's savings, and it has no qualms about letting foreign investment in. As a consequence most assets are going cheaply. The national blue chips for sale include two oil refineries, some of the largest oil fields, banks and real estate.

A large project which may generate a lot of business for Malaysian construction companies is the country's new administrative capital Akmola. It is to be built around an existing city located in the centre of the country. Architect Goh Hock Guan has designed a conceptual plan for the new city. Its principle is similar to that of Putra Jaya, where only the government offices will move and the business capital will remain Almaty. Its 300,000-strong population is expected to double by the year 2005.

Since Akmola is in the centre of the wheat belt, it has the potential of becoming a regional commodity trading centre like Chicago.

Almaty presents good investment opportunities in real estate: the current average yield is 20 per cent in US dollar terms. Already a few Malaysians have invested in the property market in Almaty. Another area of development is tourism. The Tianshan range of mountains goes as high as 7,000 metres and offers good skiing in winter and trekking in summer.

Chimbulak, the ski station, is only half an hour away from Almaty and used to be a trendy holiday destination for Muscovites. Unfortunately flights to and from Kazakhstan are tricky as one has to transit in Tashkent and overnight there, but Singapore Airlines and Malaysia Airlines have both discussed the possibility of flying directly to Almaty. There would be no Asian competition, and would put skiable mountains within seven hours' flight for Malaysians.

Soon Malaysian companies may have at their disposal an instrument to invest more easily in Kazakhstan. A few investors including Tan Sri Azmi Wan Hamzah were so impressed by Nazarbayev's commitment to market economy that they are preparing a US\$500 million Kazakhstan investment fund to be launched in the next few months.

Kazakhstan has recognised the critical role which Malaysia can play in bringing capital and expertise, and has opened its first Southeast Asian embassy, in Kuala Lumpur.

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