

COUNTRY PROFILE: Kazakhstan

OVERVIEW

Business in Kazakhstan is often focused on the oil and gas sector, which has been responsible for the country's strong economic expansion over the last decade. Kazakhstan, however, is also developing into the most important market in Central Asia and is uniquely positioned to serve as an economic and trade leader in the region. Though often overshadowed by the business press received by neighboring BRIC countries Russia and China, Kazakhstan is developing as the trade and investment gateway for Central Asia and has the potential to play an important role as a transit route between China and Europe. Kazakhstan is also actively seeking ways to use its new mineral wealth to diversify its economy. These efforts, combined with a growing middle class, are providing trade and investment prospects for U.S. firms seeking new opportunities in one of the most dynamic of the "emerging" emerging markets. Like other former Soviet Republics, Kazakhstan is still going through the long process of developing a transparent and effective business culture that is attractive to foreign investment. Though the government of Kazakhstan publicly supports economic reform, changes are slow and commerce is plagued by a bureaucracy that is unable to initiate needed change. New laws and regulations that should improve the business environment are often incorrectly implemented at the local level. Foreign investors, as well as local firms, complain about burdensome regulations that often reflect a way of doing business that is reminiscent of the Soviet Union. Challenges remain in addressing problems related to the country's competitiveness and economic diversification, its over-reliance on the oil sector, continued corruption, need for increased rule of law, and concentration of political power.

ECONOMIC AND TRADE HIGHLIGHTS

Kazakhstan's economic growth has slowed over the last two years, and it will be several years before they can regain the annual 9-10% growth levels experienced from 2000-2006. The country was impacted by the global liquidity crises as early as August 2007, and as a result final GDP growth in 2007 was 8.5%. The continued downturn in worldwide markets further impacted Kazakhstan's growth in 2008, as GDP increased by only 3.2%. According to one World Bank economist, much of this growth took place in the first half of 2008, and there was no growth in the last six months. Additionally, it is hypothesized that if the oil rich region of Western Kazakhstan is taken out of the equation, GDP would have been flat or negative for the nation as a whole. GDP is projected to grow by just 2% in 2009.

Over the past decade, Kazakhstan has made some progress in transforming its economy to create a more transparent, less regulated and more market-driven business environment. Nonetheless, this progress continues to be progressively undermined by continued developments that have caused increased concern for U.S. investors and their government alike. Firms that have experience in Russia, the Ukraine and other post-Soviet economies will be familiar with some of these challenges.

Demand in this developing market goes beyond the few best prospect sectors that this report is able to cover (see Chapter 4 of our Country Commercial Guide). Kazakhstan's strategic aspiration is to become a modern, diversified economy with a high value-added and high-tech component, well integrated in to the global economy, and they are cognizant of the need for foreign expertise to accomplish this. Like other former Soviet republics, Kazakhstan's infrastructure is underdeveloped, especially roads, transportation, and telecommunications. Likewise, areas such as health and environment need an infusion of investment to reach European standards. There is no question that the global economic crisis will impact Kazakhstan's goal of attracting FDI outside the oil and gas sector, the pace at which it repairs its crumbling infrastructure, and the appetite for consumer products that its growing middle class has demonstrated. However, firms that seize this moment to explore the country's many business opportunities may be rewarded in the long term.

ECONOMIC INDICATORS

Population: 15.5 million GDP: \$175.8 billion Exports: \$71.97 billion Imports: \$38.45 billion

[Source: U.S. Department of Commerce, Country Commercial Guide: Kazakhstan, February 2011]

[Source: Central Intelligence Agency, The World Factbook: Kazakhstan, April 2011]

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