

## Kazakhstan: Twenty Years Young

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On the banks of the Esil River, Astana, the capital of Kazakhstan, blossoms at an unprecedented rate, as does the rest of the country. This was evident by the new, shiny buildings, freshly paved

roads and the traffic that were nowhere to be found just a little over a year ago.

In twenty years of independence from the Soviet Union, Kazakhstan has hailed the interethnic harmony, implanted institutional reforms and has become the largest economy in Central Asia. It has grown from a GDP per capita of \$700 in 1994 to the current \$13,200. Despite this, politically nothing has changed; Nursultan Nazarbayev has taken over the helm of this steppe nation since 1991. Unlike its Kyrgyz and Tajik neighbors, Kazakhstan has remained stable and not experienced the revolution of the former and civil war of the latter. The dynamics of the urban population in Kazakhstan are shaped by the increased birth rate and migration from rural areas towards large metropolitan cities. The demographic changes and an increased disposable income lay the foundation for more business opportunities.



Source: CIA World Factbook

Five years passed since our last research trip to Kazakhstan (although I personally have visited my family there often). This year the trip took us to Aktobe, Almaty and Astana; it seemed a good time for research in the country due to last year's 7.5% growth in its economy and policy reforms. According to the IMF, Kazakhstan's economy is expected to recover by 2014 up to 2011 levels (of 7.5%), despite this year's forecasted decrease to 6.1%. A reason for the 2012 decline is the slowdown of the worldwide oil consumption, which has an immediate and direct effect on the nation's GDP. Diversification of the economy remains one of Kazakhstan's priorities and long-term goals. The country's National Export and Investment agency, under the Ministry of Industry and New Technologies, shared numerous ongoing projects in various sectors ranging from tourism to consumer goods. These projects are aimed at developing alternative income streams to boost the overall economy.

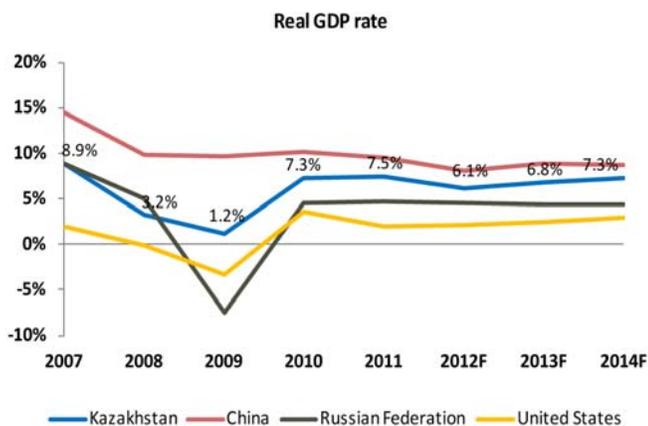
In order to make foreign investment attractive, the government has put forth measures that provide corporative tax exemptions, among other benefits, to investors doing business in the Special Economic Zones. The number of participants in the nine SEZs has increased threefold since 2010. This year, Kazakhstan is among the top twenty most attractive countries for foreign investment. The FDI inflow in 2012 is expected to pass the \$20 billion mark. It's noteworthy to mention that the country ranks in the top ten worldwide in the Investor Protection Index, according to the World Bank.



Astana's Construction Boom

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Source: Visor Capital, Frontier Market Asset Management, LLC



Source: Kazakhstan Stock Exchange

Another milestone in Kazakhstan's economy is the Customs Union that was launched with the Russian Federation and Belarus in January 2010. The CU harmonized the import tariffs of the three countries. As a result, Kazakhstan's trade volume with both Russia and Belarus has witnessed an increase of almost 80% between January 2010 and 2011. At the same time, Chinese economic presence and influence in Kazakhstan has increased noticeably. Bilateral trade volume rose to \$25 billion in 2011. In addition, China has made a number of loans with low interest rates in exchange for a share in oil assets as a repayment. Today, Chinese companies control a little less than a third of Kazakhstan's oil production and participate in several joint ventures.

Kazakhstan Stock Index, with a market capitalization of \$36 billion as of October 2010, is 66% off its peak of July 2007. Both the banking and commodity sectors, which account for the major part of the KASE, were negatively affected in the midst of the global economic crisis. The former borrowed heavily in the international capital markets and the latter was impacted by slumping oil prices. However, the government responded by creating in 2008 the National Welfare Fund "Samruk-Kazyna" aimed at softening external effects and ensuring a future growth. The valuation multiples of the companies we visited ranged between three- and twelve-times price to earnings ratio. We are on the lookout for the best stocks and believe that Kazakhstan's growth and continuous reforms are a good recipe for a long-term rewarding investment.

Kazakhstan has witnessed a change bigger than that of its neighboring former Soviet Republics, beginning from the architecture of the capital, Astana, and finishing with the country's eagerness to welcome foreign investments and international recognition.

A Look at Kazakhstan:					
<b>GDP Growth 2012:</b>	6.1%	<b>People/ km<sup>2</sup>:</b>	6.5	<b>Life Expectancy:</b>	69.6
<b>GDP Growth 2011:</b>	7.5%	<b>% Literate:</b>	99.5%	<b>% Urban:</b>	59%
<b>Inflation:</b>	8.4%	<b>% Under the age of 15:</b>	21.6%	<b>GDP/Cap (PPP):</b>	\$13,200
<b>Population (mil):</b>	17.52	<b>% Over 65:</b>	7.4%	<b>% Unemployed:</b>	5.4%
Source: CIA World Factbook, July 2012					
Kazakhstan, landlocked strategically between Europe and Asia, is the ninth largest country in the world. In 2010 it chaired the Organization for Security and Cooperation in Europe (OSCE); becoming the first post-Soviet country to do so. The chairmanship strengthened the image of the country in the eyes of the world and its success paved the way to chair yet another multinational organization, the Organization of Islamic Cooperation (IOC) in 2011.					

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