

KAZAKHSTAN

Central Asia's leading market

Regionally, Kazakhstan holds several firsts in various aspects. It is the largest former Soviet republic in size; it is the first to assume the chairmanship of the Organization for Security and Cooperation in Europe (OSCE); and it is home to the most sophisticated financial market in Central Asia and the entire post-Soviet region. Kazakhstan was also the first among the Commonwealth of Independent States (CIS) to pay off its debt to the International Monetary Fund (IMF), which it did seven years ahead of schedule to boot.

Moreover, the country is the most economically dynamic nation in the region, with 85% of the economy controlled by the private sector and the highest foreign direct investment (FDI) per capita within the CIS. Since independence, Kazakhstan has attracted well over \$80 billion in FDI.

In short, Kazakhstan is quite the regional power, and its importance continues to rise as the government expedites economic reforms in line with international standards and assumes a greater international leadership role.

Europe looks to Kazakhstan for its wealth of natural resources and the Far East sees it as a logical and safe passageway for transporting goods across the Eurasian landmass. The United States – the first country to recognize Kazakhstan's independence at the end of 1991 – holds close political and economic relationship, with bilateral trade with the Central Asian nation surpassing \$45 billion in 2008. Transparency, regulation and



Grand new buildings in Astana, capital of Kazakhstan since 1997, reflect the republic's dynamic economic growth since gaining its independence 20 years ago

excessive government expenditure are some of the issues the Kazakhstani government is currently addressing to improve the business environment and attract more investment. However, improvements in business freedom, property rights and labor freedom have already been noted by the international community: the Heritage Foundation's *2011 Index of Economic Freedom*, Kazakhstan is ranked as the 78th freest economy, hav-

ing previously been placed at 83rd in 2009.

The World Bank also observes progress. In the organization's *2011 Ease of Doing Business Report*, Kazakhstan ranks 59th, a significant jump up from 70th place two years ago.

According to Frank Pannier, CEO and director general of ArcelorMittal Kazakhstan, there are a number of things that make Kazakhstan attractive to foreign investors.

He says: "During a time of economic crisis, the political leadership of the country has proved to be extremely flexible in terms of stimulating economic growth by adapting the legislation to the needs of the business community through methods such as changes in the tax code, reductions in corporate income tax and more flexibility in the investment code, etc."

Although the economy did not remain immune to the ef-

fects of the recent global economic downturn – due in part to its strong reliance on oil and an over extended banking sector – the outlook for GDP growth is positive for the coming years, after an exceptional comeback in 2010. Growth hit 7% in 2010 after a dip down to just 1.2% in 2009, and the Economist Intelligence Unit predicts expansion of 6.7% in 2011, a figure that could gradually decrease through 2015 to land at 5.4%.

President Nazarbayev, in power since before independence and who enjoys a genuine level of popular support, is intent on diversifying the economy, raising national competitiveness, and continuing to bring about an improved standard of living for the republic's citizens.

As Kazakhstan celebrates its 20th anniversary of independence this year, the country has much to celebrate and a great deal to look forward to.

A wealth of natural resources on tap

There are numerous factors behind Kazakhstan's remarkable transformation over the past 20 years since independence, and the country's natural resource wealth is undoubtedly one of them. Although the government aims to diversify away from extractive industries, companies in this field – such as ArcelorMittal – will remain key economic drivers for years to come

With proven oil reserves of around 40 billion barrels and gas supplies that could last as long as 75 years into the future, Kazakhstan has the potential to become one of the top five oil and gas producers in the world in the coming decades.

President Nazarbayev recently stated that his country strives to develop a "transparent and predictable" energy policy in the next 15 years, as his country becomes a "reliable international partner that con-

tributes to global energy security." The foundation of this strategy is the proposed Trans-Caspian pipeline to carry Kazakhstani energy directly to European markets. Another projected infrastructure development, coined the New Silk Road, could connect the Far East with Europe traversing Kazakhstan.

A great deal of materials will be required for these projects, though this is another one of Kazakhstan's strengths. Possessing nearly every element of the periodic table, Kazakhstan's mining and metals industry is the second most important resource-based sector.

Globally, the country ranks fourth for copper, zinc and manganese reserves and produces 8% of the world's iron. Kazakhstan has the world's seventh largest reserves of cobalt, tenth largest reserves of bauxite, 20% of the planet's uranium and one-third of its chromium. Indeed, so robust is the mining industry (its total value is in the ballpark of \$23 billion) that it weathered the global economic re-

cession relatively well, and prospects are good for the next few years.

One company that President Nazarbayev has cited as being particularly successful in helping diversify the economy and collaborating with the government is ArcelorMittal.

ArcelorMittal, the world's leading steel company, has been present in Kazakhstan for 50 years. Originally having entered to invest in coalmines, the company's directors were then invited to meet with the country's President to provide their expertise on how to turn around the state-owned steel plant. Ultimately, ArcelorMittal acquired the plant and soon after, several coalmines and power plants. Since then, the company has not stopped growing.

"I would say that ArcelorMittal Kazakhstan is now one of the most competent steel plants in the world in terms of costs. As far as quality is concerned, we met the demands of the electricity markets, and in particular, the construction industry, which is the primary customer segment we serve," comments Frank Pannier, CEO and director general of ArcelorMittal Kazakhstan.

Today, ArcelorMittal's production capacity stands at 4 mil-

lion tons, yet a \$1 billion investment plan for the next five years aims to add a further 2 million tons.

Mr. Pannier points out that one of the company's goals is to reduce its dependency on exports outside the Commonwealth of Independent States (CIS) region. "When I arrived here 15 years ago, the Kazakh economy was almost non-existent, but today our sales office is responsible for one-third of the volume which we are selling throughout the CIS, which is a very strong indicator that growth of the economy is definitely occurring," he says.

He adds that upcoming regional and international pro-

jects, such as the New Silk Road, will present positive opportunities for ArcelorMittal, as the new railroad will require steel.

Apart from serving the country as a major source of employment (more than 45,000 people work for the company in Kazakhstan), ArcelorMittal is also a keen supporter of corporate social responsibility (CSR) projects and environmental protection. The company spends approximately \$50 million per year exclusively on CSR initiatives. "Here it is understood that the government cannot meet all the needs of society, so businesses move in to bridge the gap in order to contribute and to develop a so-

cial environment that is positive for the people and for the development needs of the business," explains Mr. Pannier.

The company sponsors sporting activities, establishes shelters and dormitories for homeless people, children's centers, among other activities.

As for caring for Kazakhstan's land and water, ArcelorMittal has actively cut emissions by 40% over the past decade and a half. The company has also commissioned environmental due diligence by U.S. company Environ, which is now the basis for the steel company's Environmental Action Plan for the next three to five years.



ArcelorMittal is targeting sales of 6 million tons of steel by 2015

PHOTO: Stephen Hird

ArcelorMittal

Safe Sustainable Steel sums up everything we are trying to achieve at ArcelorMittal.

This is why we are planning to invest up to 1 billion USD into upgrading our steel, coal and iron ore assets in Kazakhstan to make our operations safer, more efficient and environmentally friendly.

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