

Doing Business in Kazakhstan: Opportunities, Challenges, and Suggestions

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ABSTRACT

Since Kazakhstan gained its independence from the Soviet Union in 1991, investment in and trade with Kazakhstan has received growing attention from all over the world. This paper analyzes the opportunities and challenges faced by foreign firms in Kazakhstan and suggests proactive strategies that will help multinationals succeed in this attractive emerging market. In addition to the continuous economic reforms in Kazakhstan, there are numerous promising business opportunities available in the country along with risks and challenges. A phased entry strategy is recommended, ideally employing joint ventures, for multinational firms that would like to expand into the Kazakh market.

INTRODUCTION

Since Kazakhstan gained its independence from the Soviet Union in 1991, investment in and trade with Kazakhstan has received growing attention from all over the world. Following the independence, Kazakhstan entered a transition period which has been marked by economic restructuring efforts and supporting reform initiatives in various aspects of the business environment. Many experts believe that the increasing foreign direct investment with technology and the accelerated development of foreign trade will speed up the economic transition in the country. The Kazakh government aims to attract further foreign direct investment to the country in the immediate future. With the assistance of foreign businesses, Kazakhstan intends to import the latest technology and products as well as the management know-how so as to improve its economic condition and infrastructure.

Kazakhstan possesses a tremendous economic potential, and the impressive economic growth rate already demonstrated in the recent years is expected to be even higher in the future. Nevertheless, despite the potential returns, there are also various risks associated with entering into the Kazakh market. Thus, the purpose of this paper is to analyze the opportunities and challenges awaiting foreign firms in Kazakhstan and to recommend proactive strategies that will help multinationals succeed in this attractive emerging market.

ENVIRONMENTAL ANALYSIS OF KAZAKHSTAN

Since most Western companies have no business experience in Kazakhstan, a close analysis and assessment of Kazakhstan's business environment and conditions are required to assist those companies establish their presence in this country. Through this analysis, Western companies can minimize their business risks and maximize their future returns in this highly promising market. In order to provide a thorough analysis, there are several environmental factors to be examined, including the geographical, economic, socio-political, legal, and cultural environment in the country. This environmental analysis will certainly aid multinational companies that would like to take advantage of the numerous business opportunities available in Kazakhstan.

Geographical Environment

Situated in the heart of Central Asia, Kazakhstan is the ninth largest country in the world, stretching over a vast territory in Eurasia. It is bordered on the north by Russia, on the south by Turkmenistan, Uzbekistan, and Kyrgyzstan, on the west by the landlocked Caspian Sea, and on the east by China. Astana is the capital of the country since 1997. Kazakhstan has a harshly continental climate and its diverse landscape consists of steppes, deserts, and forests along

with various rivers and lakes (Oleynik, 2002). Furthermore, Kazakhstan possesses a rich selection of mineral reserves as well as numerous oil and gas fields (Oleynik, 2002). When compared with its land mass, the country has a relatively small population of approximately 15 million people. The population reflects a mosaic of different ethnic groups including Kazakhs, Russians, Ukrainians, Germans, Uzbeks, and many other nationalities. Although Kazakh is the state language, Russian is still the official language of the country and is widely used in the business arena, state institutions, and administrative bodies (Terterov, 2004). Kazakhstan's strategic location in Eurasia has significant implications on the country's economy, politics, and culture which collectively create a favorable business environment for multinational companies.

Economic Environment

After Kazakhstan became independent from the former Soviet Union in 1991, it has undergone a significant economic transition period. The focal point of this period was the replacement of the country's centrally planned economy with a free-market economy. In order to adopt this new economic perspective, numerous economic reforms and policies were implemented. Kazakhstan underwent a series of economic restructuring efforts marked by price liberalization and the privatization of state-owned enterprises (Griffin, 1999).

Kazakhstan is one of the major exporters of oil, natural gas, and minerals in the world. Oil and metal exports together account for more than 70% of the total Kazakh export earnings and they represent the main engine of the country's impressive economic growth in the recent years (Oleynik, 2002; Terterov, 2004). Kazakh economy heavily depends on oil exports and this overdependence results in an unstable economic environment especially due to frequently fluctuating oil prices in international markets. Therefore, one of the key policy objectives for the Kazakh government is to employ an economic diversification initiative that will encourage investment in other industries and promote a well-balanced economic growth in every sector (Jedrzejczak & Rodriguez, 2003). Kazakhstan has also embraced economic policies aiming to stimulate its economy by promoting free trade practices, supporting small and medium-sized businesses, encouraging foreign direct investment, and increasing R&D in non-oil industries as well as in technology-based sectors, in addition to modernizing its energy industry (Jedrzejczak & Rodriguez, 2003).

Kazakh economy has demonstrated a remarkable rate of growth in the recent years. This trend is likely to continue in the next decade as a result of the country's economic reforms and strategic development plans, which attract foreign direct investment to Kazakhstan. Furthermore, the abundance of valuable natural resources along with the prospects from oil reveals a bright outlook for the future economic condition in Kazakhstan.

Political Environment

The economic restructuring efforts undertaken by Kazakhstan after its independence were also accompanied by various reforms in the political arena. Kazakhstan became a constitutional republic with a strong emphasis on the principles of national identity, political stability, and democracy. Unlike other Central Asian countries, Kazakhstan is now stable both politically and socially due to its unbelievable political leadership. The political leaders in Kazakhstan have been quite successful especially in sharing their vision with the people of Kazakhstan. Moreover, the emphasis on social and ethnic diversity by the political leadership in Kazakhstan has also contributed to the current political climate where numerous civil organizations and movements find representation. The country also adopted policies allowing political opposition and the right to assemble as well as promoting the freedom of civil institutions (Oleynik, 2002). The complementary changes in the political and social landscape further support the economic growth in this emerging market by providing a stable business environment for foreign investors.

Legal Environment

Kazakhstan's legal environment is much more advanced than those of the other former Soviet republics, including Russia. Yet, the Kazakh legal system still lags behind the Western standards in many areas. For instance, the standards governing disclosure, accounting, and transparency are very inadequate and some state institutions such as the judiciary and customs are very weak (Jedrzejczak & Rodriguez, 2003). Also, corruption such as bribery is still widely encountered in the business transactions. Also, even though Kazakhstan's legal system does provide some type of

protection of private and intellectual property, it is still not at the same level as we would expect in the Western legal systems (Terterov, 2004). Furthermore, the application of commercial laws is sometimes inconsistent, arbitrary, and slow. Disputes over the terms of contract enforcement are also quite common (Terterov, 2004). Although foreign investment is subject to various restrictions and barriers, the Kazakh government has demonstrated notable progress in this regard. These legal shortcomings are the natural characteristics of the old Soviet system which is still prevalent in Kazakhstan. Hence, Kazakhstan needs to restructure its legal system by fully adopting free market principles and regulations, which are necessary for its successful and smooth transition to a market economy.

Cultural Environment

The foundations of the unique Kazakh culture can be traced back to the country's rich history and significant geographical location in Eurasia. Throughout the history, Kazakh lands were at the center of the major trade routes such as the Silk Road and provided significant geopolitical value to many civilizations that settled in the area. Thus, the Kazakh culture evolved as a synthesis of a diverse group of ethnic and social influences in the region. The modern Kazakh culture carries elements from both the country's native Turkic identity and its Soviet legacy.

Above all, Kazakhstan is the only former Soviet Union republic where the indigenous ethnic group is not a majority of the population (Oleynik, 2002). This results in the country's current ethnic and cultural diversity. Unlike some other former Soviet Union republics, Kazakhstan has never faced any ethnic conflicts since its independence from the former Soviet Union in 1991. This is because Kazakh people have traditionally shown respect for the differences existing among the various ethnic groups living in the country. Thus, Kazakhstan presents a very stable market for foreign businesses as it offers a culturally welcoming environment. Also, foreign businesses operating in Kazakhstan can have the opportunity to serve a diverse market with unique characteristics.

A detailed analysis of the Kazakh culture should be integral to crafting sound business strategies for multinational companies that plan to enter into this highly promising market. Perhaps, one of the most critical elements of the Kazakh business culture is building and maintaining personal relationships and networks (Terterov, 2004). For Kazakh business people, establishing trust and strong bonds with the business partners is very important in any level of business. Such intangible aspects of business are considered more valuable than the actual contracts. For this reason, in contrast to the Western business etiquette, negotiations tend to continue for a longer period of time until close relationships are built with the other parties. Besides, the Kazakh society reflects the characteristics of a vertical culture (Terterov, 2004). In the business context, this means that Kazakh companies tend to follow a centralized approach of management. Understanding the Kazakh culture is necessary for multinational businesses to avoid costly mistakes and achieve success in this unfamiliar market environment.

ASSESSMENT OF KAZAKHSTAN'S BUSINESS CONDITIONS

Before foreign firms can take advantage of the attractive business opportunities available in Kazakhstan, they need to overcome the various difficulties existing in the country. These challenges, which primarily stem from the old Soviet regime, are expected to weaken as Kazakhstan makes further progress in its transition to a market economy. The purpose of this section is to examine the business conditions in Kazakhstan and to identify the major challenges encountered by the foreign companies operating in the country.

Transition Economy with Lagging Systems

Even though the Kazakh government has embarked on numerous reforms to adopt a free market economy, there are still some problems and challenges regarding the current economic system in the areas of deregulation, privatization, and the legal environment. Kazakhstan successfully implemented deregulation initiatives in some industries such as the finance and banking sector, but further changes are necessary to eliminate the old rules and restrictions that apply to foreign direct investment especially in construction, energy, and mining sectors.

Kazakhstan also needs to speed up its privatization efforts since the Kazakh government still exerts significant control on the majority of the large enterprises mainly in the heavy industries. There is an immediate need to upgrade

the big, old, and inefficient facilities inherited from the former Soviet times in these industries. Modernization of these outdated systems can be better accomplished through a more aggressive privatization process as the Kazakh government tries to attract more foreign direct investment which will bring the state-of-the-art technology and management systems to Kazakhstan.

In order to attract more foreign investment to the country, it is of utmost importance for Kazakhstan to establish a new legal system, which would support the principles of free market economy. Contract enforcement is one of the areas that demand improvement in the current legal system. In Kazakhstan, the interpretation of business contracts and regulations does not comply with the Western standards fully and may even be controversial at times. Moreover, intellectual property protection is not always guaranteed as the laws governing the field are usually incomprehensive or absent. Finally, there are legal difficulties in the form of logistics, tariffs, and customs barriers. These include high tariff rates and repeat customs inspection procedures concerning the acceptance of imports into the country (Spechler, 2003). These legal obstacles need to be removed in order to create a favorable business environment for foreign investors.

Low Productivity and Poor Quality

Kazakh manufacturers face difficulties in the areas of productivity and quality control. Because the old Soviet style of management rewarded maximizing output rather than profit, Kazakh employees are generally motivated to produce more output without attention to efficiency. Employees may still prefer to follow this management approach, as it guarantees job security with no personal responsibility while providing incentives based only on quantity of output. Such a system tends to encourage Kazakh employees to ignore quality at the expense of quantity, resulting in substandard products.

The productivity and quality problems also stem from the old production facilities left from the Soviet times. Such state-owned plants still utilize outdated systems and equipment which are extremely obsolete to achieve optimal production levels. Since the inefficient equipment takes long lead times in production, factories exhibit low rates of productivity and do not usually operate at full capacity. In addition, due to the lack of modern manufacturing technology, the quality of output is very poor and not comparable to Western standards. Unfortunately, Kazakhstan does not have ample resources to upgrade its production facilities. Therefore, foreign investors may need to make large investments to replace the old plants and equipment in overcoming the persistent productivity and quality problems.

Weak Transportation and Telecommunications Systems

Perhaps, one of the biggest challenges of doing business in Kazakhstan is the country's poor physical infrastructure. The lack of adequate infrastructure reveals itself as underdeveloped transportation and telecommunications networks in the country. Majority of the Kazakh population lives in ten large cities which are dispersed all over the country's vast territory. Although these cities are linked by roads and railroad lines, the transportation networks are not well developed and maintained. The country lacks a modern highway system and the railroad networks, which carry the majority of Kazakhstan's freight traffic, are not highly organized and reliable (Oleynik, 2002; Spechler, 2003). Likewise, the telecommunications services are also inefficient to support the rapid economic growth experienced by the country over the recent years. Kazakhstan still uses the outdated telecommunications equipment left from the Soviet era and the coverage of the telecommunications services is very limited. Hence, there is a significant need for widespread internet and mobile phone services as well as other digital communications systems in the country.

Consequently, the existing transportation and telecommunications systems are not capable of serving the needs of the population effectively and demand immediate action. As a result, foreign firms operating in Kazakhstan should anticipate lengthy delays in the interflow of goods and materials within their supply-chain and distribution networks. They may also face difficulties in communicating with their suppliers, distributors, and customers located in different parts of the country.

Underdevelopment of Human Resources

Even though the majority of the Kazakh employees are highly educated and skilled, they lack the understanding and knowledge of market economy fundamentals. This is because many of the newly privatized companies are currently

led by the managers of the previously state-owned enterprises. As a result, these managers continue to apply the old socialist ideas to their business strategies. In order to adopt the new economic system completely, middle- and upper-level managers need intensive training on the underlying principles of market economy. Changes in the deep-rooted socialist mindset of the Kazakh employees will occur gradually over a period of time. To accomplish this transition, foreign companies in Kazakhstan can initially employ their own personnel along with the Kazakh workforce. Foreign personnel can especially be useful in the areas of training, supervising, planning, and controlling. Through such an arrangement, foreign personnel can transfer their business approach and know-how to the Kazakh employees who, in turn, can abandon the old Soviet principles of doing business more easily.

Shortage of Raw Materials and Suppliers' Inabilities

One of the challenges of doing business in Kazakhstan is the suppliers' inability in delivering quality materials and parts. Kazakh suppliers are most often unable to provide high quality products to their customers for several reasons. First, the old factories and equipment utilized for the production processes are so obsolete that they yield outputs of poor quality. Second, there is a need for qualified technical personnel who are experienced and knowledgeable in quality management concepts. Most middle- and upper-level managers in Kazakhstan are still not familiar with the implications of quality issues on their business performance. In addition to the quality problems, Kazakh suppliers also encounter difficulties in satisfying the demand from their customers. The outdated production facilities in the country operate so inefficiently that their productivity levels are quite low with virtually no extra stock on hand. Above all, poor logistics management controls in many Kazakh businesses cause delays in the transportation of raw materials and components throughout the country. As a result, Kazakh suppliers often fail to fulfill their customers' orders and customers face repeated shortages of materials and goods from their suppliers. These quality and quantity problems can only be solved by the replacement of the old factories with modern facilities and equipment.

Lack of Commercial Technology

During the Soviet ruling period in Kazakhstan, majority of investments have been made in the military-related heavy industries. Thus, the country has abundant production facilities mainly for manufacturing heavy machinery and equipment. Because of the historical emphasis placed on the heavy industries, the light industries currently account for less than 5% of the industrial output in the country (Oleynik, 2002). In particular, consumer goods and services industries are quite underdeveloped and need significant investments for improvement. Kazakhstan needs to adopt the latest technological developments especially in the commercial area in order to enhance its economy. Also, the country lacks the basic knowledge to commercialize its well-developed heavy industry technology for offering consumer products and services. This is one of the reasons why the Kazakh economy still heavily depends on energy and military-based industries. With the development of commercial technology, Kazakhstan can attain a well-diversified economy and secure a healthy balance between its light and heavy industries.

Socialist Ideology and Bureaucracy

Although Kazakhstan implemented sound economic, political, and social reforms to become a market economy, the old Soviet socialist ideology still prevails in some aspects of the business arena. For instance, despite the privatization of the previously state-owned enterprises in various industries, majority of such businesses are still subject to strict government controls. Also, the organizational cultures observed in many Kazakh businesses reflect the country's past socialist mindset. Most companies utilize formal and rigid organizational structures with clearly defined lines of authority. The top management is responsible for decision making and thus information flows usually occur through vertical channels of communication (Terterov, 2004). The existence of such hierarchical organizations fosters bureaucracy, a chronic problem widely encountered in Kazakhstan as well as in other former Soviet Union republics. Bureaucracy leads to slow decision making and inefficient operations in these enterprises, creating difficulties for foreign businesses established in the country.

PROMISING BUSINESS AREAS IN KAZAKHSTAN

Like other emerging markets, entry into Kazakhstan poses inevitable risks for foreign investors. Yet, for companies willing to take these initial risks, the long-term returns will more than offset the costs incurred. The impressive economic growth along with the tremendous restructuring efforts in the recent years makes Kazakhstan a profitable investment destination. Kazakhstan, as a newly developing transition economy, needs to establish its national industries and modernize its existing sectors. There are many areas that need improvements before a successful transition can be accomplished. Therefore, those challenges rising from the country's old economic system could create an excellent business environment for foreign firms. The following sectors are promising business areas for foreign companies that would like to expand into the Kazakh market. These sectors also represent local industries which need immediate investment for a better economy in Kazakhstan.

Construction

Construction has been one of the most promising business areas for foreign firms entering Kazakhstan because of the country's inadequate physical infrastructure. Kazakhstan especially needs a modern national transportation network that will connect its major economic centers. Furthermore, Kazakhstan's geographical remoteness from the world markets represents a hurdle for the country to develop into a key economic power in the region. Thus, one of the objectives of the Kazakh government is to make the former capital, Almaty, the economic and financial center of Central Asia in the near future. In order to attain this objective, Almaty should be linked not only to the Kazakh oil fields in the Caspian Sea region but also to the other major cities in the neighboring countries. Therefore, construction projects which aim to build modern highways and railroads will become integral to Kazakhstan's immediate development. Besides, construction of pipelines that would carry Kazakh oil to world markets has also emerged as another business opportunity for foreign firms (Spechler, 2003).

Construction Materials and Equipment

Since the number of construction projects to be undertaken in Kazakhstan is expected to increase dramatically in the near future, the demand for construction materials is also likely to grow rapidly. Hence, another business prospect for foreign firms is to supply materials to the construction companies building the country's infrastructure. As mentioned before, road and railroad conditions in Kazakhstan are quite poor. The main reason for that is the lack or shortage of construction materials to upgrade the existing transportation networks. Likewise, there is a serious shortage of road maintenance equipment and spare parts while the limited supply on hand consists of outmoded Soviet tools (Oleynik, 2002). Above all, Kazakhstan needs to modernize its production facilities that were inherited from the Soviet era. A large supply of construction materials will also be needed to replace these obsolete manufacturing plants with high-technology facilities at Western standards. Along with the modernization process, these facilities will need to be equipped with the state-of-the-art machinery and systems. Foreign companies can meet this demand by providing the new production facilities with the latest technological innovations.

Telecommunications Services

Kazakhstan's underdeveloped telecommunications industry presents numerous opportunities for foreign businesses. Kazakhstan's vast land mass and widely dispersed population have historically caused difficulties in the provision of telecommunications services (Terterov, 2004). Yet, these conditions may also mean untapped market opportunities for foreign investors. In particular, Kazakhstan needs significant improvements in its fixed line and wireless telephone services as well as in internet related services. Although the number of fixed line subscribers is incredibly low, existing service providers are not able to sustain further expansion with the current technology (Oleynik, 2002). The geographical coverage of the wireless telephone and internet services is also restricted to urban centers. Hence, foreign companies can capture large market shares by offering such services in the areas of the country where telecommunications services are very poor or virtually nonexistent.

Moreover, Kazakhstan does not produce but import majority of its telecommunications equipment, including television, radio, and other electronic devices. Nevertheless, the equipment currently in use is outdated and lags far behind the world standards. Foreign manufacturers of telecommunications devices can be successful in Kazakhstan where a substantial growth of wireless services and data transmission is expected to take place.

Food Processing

Kazakhstan imports majority of the food items from other countries and virtually has no food processing industry of its own. There is a lack of fresh food products in the country and the imports are usually of poor quality (Terterov, 2004). Due to the lack of a food processing industry, excess amount of food imports cannot be utilized for other purposes and frequently gets wasted. Therefore, Kazakhstan desperately needs the assistance of foreign businesses in developing this vital economic sector. The development of this sector will allow Kazakhstan to utilize its agricultural resources more effectively. Even though the southern part of the country is very fertile and favorable for growing crops, current agricultural activity in this region remains below capacity. Thus, with the necessary infrastructure support in the form of food processing plants, high-tech equipment, and well-trained personnel, these agricultural lands can contribute significantly to the country's booming economy. The development of the food processing sector will also help Kazakhstan process its own agricultural products as well as its excess imports. Subsequently, this will prevent any waste by creating industries in food by-products and increase the variety of food items available in Kazakhstan. As a result, food processing is a potential business opportunity for foreign companies entering the Kazakh market.

Packaging and Warehousing

Packaging and warehousing is another rewarding business area closely related to the food processing prospects present in Kazakhstan. The packaging industry in Kazakhstan is quite underdeveloped as most of the consumer products are not properly packaged. That is, the types of packaging used for consumer products do not serve their purpose of storing the items safely. This problem causes loss of value for customers since food products spoil too quickly and other products suffer damage easily. Hence, the Kazakh packaging industry definitely needs rapid advancement. With the bright prospects in the food processing sector, the need for modern packaging facilities is bigger than ever. In addition to the processed foods, consumer and industrial products also need to be packaged appropriately before they are shipped to warehouses and other distribution centers. Warehousing services are also required to ensure an adequate supply of consumer products in the country. This is especially important to prevent shortages of food and other daily consumer products. Such shortages are often experienced in the geographically isolated regions of the country. Therefore, Kazakhstan needs additional storage facilities and well-organized distribution networks to serve the needs of its dispersed population.

Consumer Products

Kazakhstan faces a chronic scarcity of daily necessities and basic consumer goods such as clothing, personal-care products, electronics, and household appliances. The country does not have its own consumer products manufacturing industry and therefore imports these items from other countries (Oleynik, 2002). Hence, Kazakhstan endeavors to attract more foreign investment to develop a strong consumer products industry. For this reason, Kazakhstan is one of the most promising markets for the sale of a broad array of consumer product categories. Currently, the Chinese-made clothing, footwear, and appliances dominate the Kazakh market (Spechler, 2003). Nonetheless, the market is far from being saturated as the demand for consumer goods far exceeds the supply and many consumer goods are still unavailable. Because Kazakh consumers do not yet have many consumer product alternatives to choose from, an early entry into this sector by foreign businesses would strengthen their potential to capture a loyal clientele and gain a sizeable market share. Kazakhstan needs to develop its own consumer products industry with local manufacturing facilities in order to reduce its dependence on foreign imports.

Energy Industry

Kazakhstan is ranked as the 12th nation in the world in terms of proven reserves of oil and condensate (Terterov, 2004). Thus, the energy sector promises a highly profitable business opportunity in Kazakhstan as a result of the country's significant oil and natural gas reserves located in the Caspian region. Experts estimate that there are still additional oil and gas deposits under the Caspian Sea that are yet to be exploited. Large scale exploration projects are currently underway to discover these potential energy resources. Therefore, it is difficult to determine the actual scale of oil and gas reserves in Kazakhstan where new fields start operations every year (Terterov, 2004).

Oil industry is the most rapidly developing sector in Kazakhstan and the vital contributor to the country's fast economic growth (Terterov, 2004). In the oil industry, foreign businesses can take advantage of the abundant resources through not only oil production but also oil transportation and exploitation projects. Besides, foreign enterprises can play a critical role in equipping the production facilities with the latest technology to increase the oil production. Moreover, the Kazakh government is planning to enhance the gas industry in the country by expanding the capacity of the current gas pipelines, constructing new pipelines and gas processing facilities, and developing the gas-based power generation industry (Terterov, 2004). These long-term objectives can only be achieved with the support of foreign investment in the gas industry. Therefore, Kazakhstan presents enormous opportunities for foreign companies that would like to operate in the energy-based industries.

Mining Industry

Kazakhstan possesses a rich selection of mineral resources such as gold, copper, silver, uranium, coal, iron ore, and other ferrous and non-ferrous metals (Oleynik, 2002). During the Soviet times, Kazakhstan used to be the mineral resource center of the country, serving the mineral commodity needs of the Soviet Union. Under the Soviet rule, a partial investigation regarding the capacity of mineral deposits was conducted in the country. However, the Kazakh mining industry needs to undergo further analysis and a thorough investigation before Kazakhstan's natural resource potential can be predicted accurately. It is estimated that Kazakhstan possesses large amounts of mineral deposits that are yet to be exploited (Oleynik, 2002). Foreign businesses can have many opportunities in the Kazakh mining industry. For instance, since mineral extracting processes are highly costly and require large investments, foreign companies can undertake or sponsor such initiatives. In addition, the country has numerous outdated mining facilities that are now closed due to the lack of modern technology, qualified personnel, and capital in the country to operate them. As part of the Kazakh government's comprehensive mining reform program, many mining and metallurgical facilities have been privatized (Terterov, 2004). With the foreign investment support, Kazakhstan can continue to modernize the existing mining facilities and train the technical workforce needed in the industry. Foreign direct investment is therefore crucial to revitalize Kazakhstan's old mining industry.

Chemical and Petrochemical Industry

As a country with vast oil reserves and chemical raw material deposits, Kazakhstan needs to establish its petrochemical industry. Currently, there are three old refineries in Kazakhstan but additional facilities need to be built if the petrochemical industry is to be developed (Terterov, 2004). Kazakhstan should also diversify its petrochemical industry beyond crude oil production. Production of petroleum- and chemical-based products, such as medicine, textiles, plastics, paints, fertilizers, fuels, and PVC will not only decrease the dependence of the industry on oil exports but also contribute to the growth of a wide range of related industries. Such growth will also bring more employment opportunities for the Kazakh people. Kazakhstan definitely needs foreign direct investment to develop its petrochemical industry. High transportation costs and inefficient production facilities have traditionally made it difficult for the domestic petrochemical companies to stay in business. With the necessary foreign direct investment, the domestic companies can utilize the state-of-the-art technology and enhance their production capacities. The Kazakh government also encourages foreign direct investment in order to support the tremendous growth potential in the industry.

Finance and Banking

Kazakhstan has a more advanced financial and banking system compared to the other former Soviet republics (Jedrzejczak & Rodriguez, 2003). After its independence from the Soviet Union, the Kazakh government adopted a restructuring initiative of the state-controlled financial and banking system. Under this initiative, many financial and economic reforms have been introduced, tightening the banking and credit laws, privatizing the banks, liberalizing the price policies, and ending the granting of credits to state-owned institutions (Oleynik, 2002). As a result of these improvements, a favorable financial sector and a sound banking system were established. The country's stable financial and banking industry supports the Kazakh government's plan to make Almaty the financial hub of Central Asia, including Russia.

Despite the success of the commercial banking system, the secondary financial institutions in Kazakhstan still need significant improvements. The capital markets in Kazakhstan are still in the process of development and the national stock exchange (KASE) is not yet developed to the Western standards (Terterov, 2004). In addition, investment banking services are very limited and the national insurance sector is not fully established (Terterov, 2004). Therefore, there is a need to provide comprehensive investment banking and insurance services in the country. With the enormous prospects in the construction and modernization of facilities in many industries, there will be a much higher demand for capital to undertake these projects. An increased number of credit extending institutions will then be necessary to help finance these costly infrastructure projects. Several foreign financial companies have already partnered with domestic financial institutions to share their experience and provide funds to sustain these ventures. In addition, Kazakhstan lacks qualified personnel to work in the banking and financial services industry. Hence, more educational institutions need to be opened in order to train the future workforce for this critical sector.

SUGGESTED STRATEGIES

Kazakhstan is a country undergoing significant transition in many aspects of life. Abandoning the Soviet socialist system and switching to a free market economy continue to bring considerable changes to the country. The new policies and regulations adopted since independence along with the numerous business opportunities available in the country have made Kazakhstan a favorable destination for foreign investors. However, as is the case with every transition economy, there are also many risks associated with investing in Kazakhstan. Therefore, crafting sound business strategies is critical for foreign companies to achieve success in this emerging market.

Although Kazakhstan has managed to spread private ownership to many industries, there are still some sectors where the government or government-controlled companies are still dominant powers. This situation is expected to change in the near future since an increased number of foreign businesses is likely to enter the Kazakh market as a result of the recent privatization efforts undertaken by the government. Meanwhile, foreign companies operating in these industries need to target their marketing efforts at the government which imposes strict controls on the business activity. This means that building strong relationships with the government is integral to doing business in Kazakhstan. In order to implement large scale projects, foreign firms must develop long lasting relationships with the government, as these types of projects are usually subject to governmental approval.

Moreover, foreign firms should remember that doing business in Kazakhstan may not provide them with short-term profits due to the difficulties present in this transition economy. Foreign business initiatives may be hampered by the inadequate infrastructure, poor buying power, and the weak legal system prevailing in the country. Also, foreign investors must be ready to make large investments especially in the area of building infrastructure. As a result, foreign firms must be financially sound to forego profits at the initial stages of their entry to the Kazakh market. Multinational corporations have the means to survive in this and other emerging markets, as they can finance their entry expenses with the returns generated in other markets.

Foreign market entry strategies that can be employed in Kazakhstan include exporting, licensing, branch and subsidiary operations, and joint ventures. In the recent years, joint ventures have become quite widespread in many industries as part of the Kazakh government's efforts to encourage foreign investment in the country. Joint ventures have been very successful in supplying the domestic firms with the much needed capital, technological developments,

personnel, and know-how. For instance, foreign partners have brought their high level construction technology to build complex manufacturing facilities. They also have shared their experience and know-how and provided training to the Kazakh personnel.

Joint ventures have also proved advantageous for foreign firms operating in Kazakhstan. A unique characteristic of Kazakhstan is that the government possesses more financial resources to support its economic transition than the other former Soviet republics due to the hard cash receipts from oil and natural gas exports. Thus, the Kazakh government is willing to establish joint ventures with foreign investors and co-finance the development projects in the country. This helps foreign firms minimize their risks by limiting the capital exposure in the initial entry phase. Furthermore, it allows foreign investors to establish close relationships with the government and become familiar with the way of doing business in Kazakhstan.

Consequently, based on the current business environment surrounding the country, a phased strategy is recommended for foreign businesses that would like to enter the Kazakh market. This strategy suggests that multinational companies should initially follow a small scale entry strategy and then gradually strengthen their presence in Kazakhstan according to the business environment and opportunities encountered. Therefore, a phased entry strategy is ideal for foreign firms that would like to avoid costly mistakes and huge losses in an unfamiliar market environment.

CONCLUSION

In the recent years, Kazakhstan has emerged as a booming economy with an enviable record of economic growth. This impressive economic development demonstrates the country's success in its smooth transition to a market economy. The fundamental changes adopted in various aspects of the business environment have created favorable conditions for foreign companies that would like to enter into the Kazakh market. Yet, there remain inevitable challenges to doing business in this country stemming from its past political, economic, and social systems. Therefore, foreign companies planning to enter Kazakhstan need to assess these problems carefully and take them into consideration before formulating their ultimate business strategies. A thorough environmental analysis is essential to crafting proactive strategies in this market.

Above all, foreign investors should realize that most of the challenges present in Kazakhstan can eventually be resolved over time. There are numerous promising business areas in the country that desperately need foreign investment. The potential gains from these promising ventures are well worth taking the business risks that exist in the initial stages of the market entry. A phased entry strategy involving joint ventures with Kazakh businesses and government will not only limit the risks assumed but also help launch a strong foothold in this new market environment.

Consequently, Kazakhstan is an ideal investment destination for multinational companies looking for untapped business opportunities. Besides, Kazakhstan's significant geographical location along with its future growth prospects makes the country a potential regional power. Thus, Kazakhstan has become a strategic entry market for companies that would like to do business in Central Asia. As the economic transition continues, an increased number of foreign firms is expected to penetrate the Kazakh market. Hence, it is of utmost importance for multinational companies to reap the benefits in Kazakhstan before the competition intensifies in the near future.

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