

Carnegie Council Privatization Project

Privatization and Investment Opportunities in Kazakhstan



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Ambassador Jack Matlock and His Excellency Zhanisek S. Karibzhanov

Ambassador Jack Matlock

Why is there such interest in Kazakhstan? It seems to me that Kazakhstan, of all the larger successor states of the Soviet Union, has been able to maintain, under extremely difficult conditions, a reasonable balance of stability and openness and has developed a determination to move forward in opening up the economy and privatizing in a reasonable fashion. Although they have some very serious potential ethnic problems—it is a country where ethnic Kazakhs make up about 44 percent of the population, ethnic Russians 35 percent or 36 percent, and

natural resources. It is a relatively large country. I think you could put Texas in it three times and have a little left over, which, by European standards, and even by Asian standards, is not a small country. It has a tragic history—the Kazakhs were almost wiped out during Stalin's collectivization and the purges of the 1930s. Many of them emigrated; over a million fled to China at that time simply to survive. One of the policies of the government now is to encourage Kazakhs to come home if they wish, and I think there has been a move in that direction. Furthermore, they are a people who were, originally and into the twentieth century, essentially nomadic. They raised livestock, and when Khrushchev decided to open up the steppes to the north of Kazakhstan, bringing in non-Kazakhs for the most part, this took away what they considered their access to the lands and turned them into marginal lands for grain production. The Kazakhs look at this as a clear case of what today we would call "ethnic cleansing," although it was done somewhat less brutally

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there are many other nationalities, some of them moved there under the Stalinist regime against their will—and even though the lion's share of the top political positions are now held by Kazakhs, the government has followed a nondiscriminatory policy and I think that's absolutely essential for the future of the country. It is not a pure democracy; the last elections, quite frankly, left quite a bit to be desired in many respects. But on the other hand, it's not a closed society either. Opposition is allowed. President Nazarbayev does not arrest those in the political opposition, he allows them to operate. The press, although not awfully strong from a journalistic point of view, is relatively free and not under excessive government supervision, and I think Kazakhstan in that respect offers a very sharp contrast to the situation to the south, particularly in a country like Uzbekistan.

Another thing Kazakhstan has going for it are enormous

than Stalin's collectivization, which literally starved to death almost a third of the population.

These are tragic memories. It is a tragic heritage, and it is one which inevitably puts tension on ethnic relations. But it seems to me President Nazarbayev has handled this about as well as it could have been handled. It doesn't mean there will not be problems in the future, but I think that if the political leadership shows the degree of foresight it has shown up to now in not allowing these ethnic enmities to rise to the surface and become the basis for violence, that can give us some optimism. I asked President Nazarbayev when he was here in New York two years ago, just after the Soviet Union broke up, what convinced him that he had no alternative but to join the Commonwealth of Independent States. It was well known to those of us who knew the situation before that he was one of the strongest proponents of retain-

ing a Soviet Union in the form of a voluntary federation, and he was a very close supporter of Gorbachev. He was actually invited by the leaders of Russia, Belarus, and Ukraine to come to that famous meeting near Brest when the three decided to abolish the Soviet Union, and he refused to attend. But as soon as they did what they did, he said he immediately saw that he could not allow the Soviet Union to break into a Slavic federation and leave Islamic-Turkic countries on the other side. He said among other things this would not only have been tragic for the area, "it would have split my country right down the middle," because he has almost as many Slavs as he has Kazakhs. That was the reason he decided, since the Soviet Union could no longer be saved, to join the new group, and he called a meeting of the other leaders in Central Asia and they asked to join the Commonwealth of Independent States as members from the beginning, *ab initio*. In other words, these states wanted the same status as the others and they were granted that in a subsequent meeting just before the Soviet Union formally collapsed.

I wanted to recount a bit of that history because I think that's important to understand as we look at the economic prospects today. Yes, Kazakhstan is a large country; it has enormous resources; it has a population which is literate, and in many ways well-trained; yet, its resources have been squandered, and it is the heir to tremendously exploitative methods of economic development which have ravaged the environment in many places. For example, there was open-pit mining without any attempt to rehabilitate the land; the country borders on the Aral Sea, which is in danger of disappearing; they have severe pollution in the Caspian; and they also have a dangerously polluting chemical industry. All this means that much of the industry they have is going to have

to be rebuilt, and they will need the same sort of retraining that is necessary in the other successor states of the former Soviet Union before people really know how to operate in a market economy.

The reason I am relatively optimistic, though, is that I think President Nazarbayev's government is committed to doing just that. He has avoided rushing into reform the way the Russians tried and perhaps that will turn out to be wise. It's awfully hard to say now what works best. Clearly there is no way to make the transition without pain, and it remains to be seen whether rationing the changes, in the hope that you have less political stress, will work or not. But I do believe that the current political leadership understands that they really have nowhere to go *but* toward the market and that the future of their people depends upon that. And in that sense I think we are looking at a situation which has some hope.

Questions and Answers

Q What are Kazakhstan's relations with Russia like?

A On the whole they have been less tension-filled than Ukrainian relations with Russia or those of Latvia or Estonia. On the other hand, they have not been without tension. I think that the Kazakh political leadership and President Nazarbayev in particular understand very well that they do not have the luxury of conducting an anti-Russian policy (even if their emotions sometimes might push them in that direction). Their geographic position and their historical ties, as well as the ethnic composition of their country, do not permit that. That having been said, however, what are the main concerns? There has been and still is a question of dual citizenship. Russia has been demanding that Kazakhstan accept the concept of dual citizenship; that you could have people who hold citizenship of both Kazakhstan and Russia. That has been unacceptable to the Kazakh government. They have said, "Look, everyone should have a choice, and we are willing to say that anybody who lived in the former Soviet Union can come here and claim citizenship of Kazakhstan, if they want to do so. Anybody who is here who wants to go to Russia or Ukraine or to another successor state and claim the citizenship there is free to do so as well. However, we cannot allow dual loyalties. A citizen of Kazakhstan must be a citizen of Kazakhstan." That is the very firm position of the government of Kazakhstan. I'm not sure President Yeltsin has given up on his demands for dual citizenship, so that will remain an issue between them. There have also been



Ambassador Matlock speaking at the Privatization Project seminar.

issues regarding the sort of ethnic organizations that might be permitted. Although Kazakhstan has been pretty liberal in registering organizations of most social or even political natures, they have balked at registering some organizations. These are of Russian ethnicity and mainly in northern Kazakhstan and they look at these organizations as potential threats to their territory and integrity. I suspect that the right thing to do is to register them, and my guess is that if they can get at least some assurances that they will operate within the laws of Kazakhstan, eventually the government will relent. I personally think the government shouldn't prevent organizations of that sort unless they are overtly and directly subversive.

In the economic sphere of course there are always a lot of problems, particularly when you have a highly integrated economy which has broken up and there are attempts from both sides to derive unilateral advantages. There have been problems over payments, with both sides accusing the other. For example, there are parts of Kazakhstan that are dependent on energy from Russia, there are parts of Russia that are dependent on energy from Kazakhstan, and there were times when there was an overall balance but the Russians weren't paying in

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one area and the Kazakhs couldn't pay the Russians in the other area, so they started turning off energy supplies to one another. I think those sort of misunderstandings, part of which came from a breakdown of the old system of distribution, are probably going to be worked out. In general, Kazakhstan is not as much at the mercy of Russia for energy as is, say, Ukraine. In Ukraine it's a very big issue because they have to import a large amount of their energy and most of it has to come from Russia, and when they go up to world market prices and the payments are not made, obviously there are going to be difficulties.

Kazakhstan did not hold out on the nuclear question, which was one of the most sensitive and one that Ukraine gave both the United States and Russia a problem with for a while. From the very beginning Kazakhstan said they had no desire to be a nuclear power, and

that they would send the missiles they had to Russia for dismantling—they wanted them dismantled and not simply moved. In that sense, they have followed a very responsible policy from the very beginning.

Q It seems that there's a class of forty-year-old Kazakhs who were educated in Moscow as Soviet men and who broke loose from the Kazakh identity to some degree but can't go home again. That person now seems inclined to make a compromise, not a switch. He's looking for the best of communism and the best of capitalism; he hasn't quite figured out that Sweden doesn't work. What I can't understand is whether that person, who is the best educated they've got right now, is going to be in the managerial class for the next twenty years or if someone else is going to supplant him, someone educated in the United States, in Germany, or wherever.

A There are certainly those people who were educated in Russia, but there are also those, such as Nazarbayev, whose education was partly in Kazakhstan and partly in Ukraine. It is true that most of the managerial and technical elite, except for those who were agricultural managers in rural areas, don't speak Kazakh as well as they once did, and they're more comfortable in Russian, but that has happened in a lot of countries. Not many Irishmen can speak Gaelic any more, but that doesn't make them any less Irish in their feeling. I think that ten years from now we will see, not only in Kazakhstan but also in Russia and Ukraine, a new group of managers who received training abroad, and they will be very important in their countries

in the near future because much of their training will be relevant to the problems their countries face. What the exact mix will be is impossible to say at this point, as it partly depends upon how generous we and the Europeans are in funding scholarships and so on. I think that of all the things the outside world can do, training is one of the most important; maybe *the* most important. These changes aren't going to occur overnight and an attempt to push them too fast can bring great difficulties; there are some things outsiders simply cannot do. We cannot define their culture for them, what it should be in the future; but what we can do is share with them our experience in dealing in a market economy and in an open society, in the hopes that those skills will be useful and can be applicable. I think in the long run this will pay off.

Q How much of a legal structure is in place that reflects modern Western commercial law and perhaps even accounting standards such as joint venture law?

A In Russia, laws are being put in place, but I think that they are still in the beginning stages of being translated into administrative practice. I think more has to be done on some of the laws; the Russians have gone further in adjusting them to their needs than they had in bringing about their implementation. That's very important because Russian laws have not (except the land law) been bad for the last two years, and yet the administrators still have not learned to administer or enforce them in an appropriate manner.

Kazakhstan has the same problem but it's not quite as extreme. One of the things they will have to do is see that these laws not only get refined but also that they begin to be put into practice, and that's going to take a while. Appropriate accounting rules are one of the most important of these laws, and one of the most neglected in terms of people looking at them. This is true in the entire Soviet Union—what went for bookkeeping and accounting had no relevance to a market economy. In state enterprises it really was tantamount to keeping up in a Rube Goldberg system with how many subsidies the state owed you. Essentially what you did with your accounting was occasionally present a bill to the state bank which would make sure that you had enough money to pay your suppliers, which supplied you not because you paid them but because the planning agency told them to. Just to develop the concepts you need in order to have a meaningful bottom line is

going to be a mammoth task, because those enterprises have no meaningful bottom lines—even if you look at the books, they don't *mean* anything. People who think they mean something can make serious mistakes.

Minister Zhanisek S. Karibzhanov

There is no turning back from the reforms which we are conducting at present. The whole course of human civilization convinces us of that, and public opinion confirms us in this as well. We recently had a survey conducted with the help of USAID, and 64 percent of the population supports the economic reforms which are taking place. This heartens us greatly because one of the main tasks which we faced when undertaking economic reforms was to change public opinion and to change the psychology which was formed in our country over a period of more than 70 years. It was a psychology which did not recognize private property; a psychology which hoped for total equality. You are well aware of what the situation was like.

Kazakhstan is located in the very center of the Eurasian land mass, and without exaggeration it is one of the richest countries not only in the region but in the entire world. Just as an example, 40 percent of all the chrome deposits in the world are located in Kazakhstan. We have large supplies of gas and oil, and of other forms of energy, such as coal. We have very many sites of precious metals and the republic also grows a lot of agricultural products. We were always a grain exporter in the past, and hope to remain so in the future. Our government possesses the resources for rapid development. In this new world, where there is no longer confrontation between East and West, Kazakhstan is one of the stable regions of the former Soviet Union and we hope that it will remain so because this is the main requirement for the success of the reforms which we are conducting.

Speaking of economic reforms, I would like to say that the basis of all the reforms is the privatization process. Though of course I would not—even though I'm involved with privatization—say it's the sole issue at hand, I don't need to tell you how important this is for a country which in the past was an example of government monopolies. In March of last year, with a special decree, President Nazarbayev confirmed the privatization process. This is a very broad program which plans for the rapid privatization of government property, and the main goal of the program is to provide for the transition from a planned economy to a market economy based on private property. We've been working on this program for more than a year already, and I'd like to describe very briefly for you the results which we have obtained. I



At the Privatization Project seminar on privatization in Kazakhstan are (from left to right) the minister's interpreter, Minister Karibzhanov, Gloria Gilbert Stoga, and Ambassador Matlock.

would also like to point out those areas where American business could help us realize this program; we are talking about mutually beneficial cooperation here. The program has four parts to it, and it will be easier for me to describe them one after the other.

"I would like to point out that this [mass privatization] is meant to consolidate our society since property is being distributed without regard to one's ethnic origin, religion, or political affiliation."

The first stage of the program was to privatize the small business sector—retail trade, tourism, small scale agriculture, and so forth; we have more than five thousand potential sites, businesses, and plants for that type of privatization. During the first three months of this year we have already sold into private hands more than 800 of those enterprises. This part of the program, incidentally, provides for the participation of foreign investors or buyers. We have marked out approximately one hundred enterprises related to trade, hotels and tourism, and small industry which we would like to sell to foreign investors, and we would like to accomplish this in May and June of this year.

The second stage of privatization is what we call mass privatization. We have decided to give, without charge, part of the state property to the inhabitants of our republic, and I would like to note two aspects of this. First, I would like to point out that this is meant to consolidate our society since property is being distributed without regard to one's ethnic origin, religion, or political affiliation. Second, the shares of the privatized enterprises can be bought by investors, including foreign investors. We have almost completed setting up an infrastructure for the securities market to enable anyone who would like to purchase stock to be able to do so.

The third part of the privatization program, perhaps it is the one which may be of the most interest to you, is that we are selling off the largest state enterprises one by one; very large enterprises which employ more than five thousand persons each. These enterprises represent various sectors of the economy—oil and gas, mining, machine tools, and so forth. Some of them have great potential for investors such as chrome deposits and some other metals. One of the sites we have already privatized is our tobacco plant, which has been sold to Philip Morris, and we are also completing plans to sell the stock of two margarine processing plants, as well as a confectionery factory. In the midpart of May, around the twentieth, we are preparing to declare open a tender for 38 large enterprises, and we'll be offering anywhere from twenty-

five to sixty percent of the stock of these enterprises. I hope a lot of interest will be expressed in these enterprises because they have great potential for profit, and they involve hard currency. The legislation and other conditions which have been established are very favorable to international business.

According to our constitution, private property is inviolable and can only be taken away from the owner by court action, and legal guarantees have been provided for the activities of foreign investors. Our legislation provides for certain benefits for foreign investors and if any of the standards of our legislation contradict international law, then the provisions of international law will apply. This shows you the seriousness of our intent, not only to open the doors to international business but to permit them to carry out their business successfully both in our country and abroad. I'm sure that those American businessmen who intend or want to come to our country won't regret their decision and we will create all the necessary conditions for them not to regret their decision. Far from saying that everything we've done in privatization is wonderful, I will say there are some issues which we're still working on; we are solving those problems which face our economy and we will continue to decide these properly.

Questions and Answers

Q From your point of view, what role can foreign banks play in the privatization process?

A First of all, the international banks could act as a guarantor for the financial security for those companies which open their businesses in our country. In the privatization process we are facing issues of reorganizing and rebuilding a lot of the enterprises, and of course at this stage for



From left to right: an interpreter, Minister Karibzhanov, Gloria Gilbert Stoga, and Ambassador Matlock.

them it's very important to get the credits which might be obtained from international banks. By opening joint banks in Kazakhstan or opening branches of your own banks in Kazakhstan you would be helping us in the privatization process.

Ambassador Matlock: I think it's characteristic that Kazakhstan allowed the opening of foreign branch banking before Russia did.

fight organized crime which is producing results. Our approach is a preventive approach to try to nip the problems in the bud. Apart from these serious measures we need to speed up the privatization process so that property will pass into private hands, and when that happens, then the Mafia will be less of an issue, less of a danger. The more people that have property in their hands, the less that will be a problem.

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Q I was in Kazakhstan a few years ago with a delegation of physicians who wanted to help stop the testing of nuclear weapons. I would like to know what have you done to that land and how are you trying to make use of it. Will the land be privatized and how is that whole process working?

A The Semipalatinsk test site has a very large territory and this territory has been transformed into a lifeless area, a desert, and, of course, by ourselves we cannot combat all the ill effects of what was done for over forty years by the former Soviet Union. Nonetheless, we have a program to rehabilitate those territories and I know this problem doesn't concern Kazakhstan by itself. It's a worldwide problem and all nations must take part in this process. Also at Semipalatinsk we had a very unique military scientific research center and we are now trying to convert it to peaceful uses. The quality of the equipment and the scientific potential of the workers there is very high.

Q What is the Kazakh government doing to combat crime, particularly the Mafia? This phenomenon is frightening away foreign investors.

A I don't recall who said this, but the Mafia is eternal, and I would be untruthful if I were to tell you that no Mafia influence exists at all. We have a program in place to

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