**Building Corporate Strategies in Kazakhstan: Local Meets Multinational**

## I. Introduction: Defining a Market Identity of the State

As a new member of the array of nations in competition for global standing, the Eurasian state of Kazakhstan is faced with often incompatible aims. It must achieve economic openness to outside forces, crucial to its growth as a small nation, without compromising fragile internal autonomy. It aims to create an attractive locus for external investment while forging a viable, self-supporting domestic economic base from within. Kazakhstan and its leadership are quickly learning a lesson long known to its potential commercial clients: the necessity of creating brand image. In order to attract international corporations/business interests, the government seeks to insure a stable investment climate while simultaneously promoting widespread competition. Yet such marketing image is inconsistent, since the maintenance of a stable economic environment is often at odds with one that encourages a cacophony of competing interests.

In presenting itself to international agencies and governments, Kazakhstan's leadership identifies the state as a neo-liberal, open economy in comparison to more repressive regimes (such as Uzbekistan and Turkmenistan) to the south. Reform measures that increasingly assure the dominance of a laissez-faire economy are applauded by the IMF and the World Bank.[1] However, the principle of stability, valued by large foreign corporations as well as the central government itself, sometimes sanctions quasi-authoritarian intervention in business practices and democratic movements that are considered disruptive to the status quo. Kazakhstan's future depends on a sufficient, yet diversified, flow of international investment to boost technology transfer and build GDP. At the same time its citizens and government seek to be independent of external forces, whether corporate or diplomatic, that impinge too closely on their domestic sphere.

## II. Balancing East and West : Diversifying the Corporate Portfolio

One of Kazakhstan's strongest selling points has been its key location at the cusp of Europe and Asia, with European Russia and the Caspian on its western flank and China at its eastern border. State governance has also attempted to profit from both East and

1) See World Bank (1996), From Plan to Market , for discussion of restructuring in the ex-Soviet state.

West as a form of diplomatic and commercial risk management. The Nazarbaev government has parlayed the importance of Kazakhstan as a regional axis for foreign trade and investment by virtue of this unique position. Boasting a population both Asian and European -- not only Russian and Kazakh but also a diverse mix of other nationalities from German to Jewish, Ukrainian to Uzbek -- the new state has been continually valorized by Nazarbaev as the prototype of unity within diversity. This diverse labor force was presented as a paradigm for the diversification of multinational interests in commerce and governance.

Unlike its neighbors to the south (Uzbekistan, Kyrgyzstan), Kazakhstan has so far not been threatened by the rumblings of Islamic fundamentalism. Nor has it, like Kyrgyzstan, become a welfare state dependent on foreign agencies. Rather, its internal wealth of oil, gas and minerals provide it with a basis for sustainable development driven from within. But as Nigeria, Saudi Arabia and other petro-states and single-sector economies attest, dependence on a rich natural resource base does not lead inevitably to a balanced, yet diversified economy and social structure. As one or more multinationals seek to exploit the resource base of the developing or transitional economy, overall domestic growth may be lopsided or even destabilized. Key segments of the population, whether ethnic, tribal or social class, will resent the intrusion and imbalances caused by dominant foreign interests, as the fortunes of the global economy in general and the foreign corporation in particular wax and wane. When internal dissension grows, internal diversity does not result in stable economic diversification.

In order to neutralize excessive interests of one powerful state or multinational, President Nazarbaev and foreign minister Tokaev initiated in 1997 a “multivectoral” strategy of diversifying interests emanating from a variety of corporations and states. This policy attempted to reverse long term, endemic imbalances of a former trade, energy and transport system dependent upon the Russian empire. When the Soviet Union collapsed, it had left in its wake a series of infrastructural linkages that had made Kazakhstan singularly beholden to Russia. Not only was eastern Kazakhstan, its most populous area, supplied by Russian Siberian pipelines, it was cut off from its own oil supplies in the western part of the region. The Caspian Sea pipelines, as well as the oil wealth in western Kazakhstan, were designed to lead directly to Russia. Upon the collapse of the Soviet Union, the American oil company Chevron, which had previously been conducting transactions with the Soviet government, negotiated with the new Central

Asian state in 1993 for a production sharing agreement that would put it in charge of a great proportion of Kazakhstan's oil wealth.

With Chevron the key multinational investing in the newly minted state, both the public and its government representatives soon feared that the American multinational would be in a privileged position to wield favorable terms at the expense of the smaller state, in a manner that Russian had enjoyed for decades and even centuries. Kazakhstan's government sought to correct these potential political and commercial imbalances by selecting from a broad range of investors that would neutralize the dominant role of the major US oil corporation. It managed to attract draw in a range of European multinationals -- British Gas, Elf Acquitaine (later TotalFinaElf, Royal Dutch Shell, Agip of Italy, BP Amoco -- in addition to other American oil companies that would offset the preeminence of Chevron: Mobil, Texaco, Exxon and Phillips. In addition Kazakhstan also courted, and was sought by, major Asian corporations: Sumitomo, Mitsubishi, Mitsui, Itochu, Marubeni and INPEX of Japan; Daewoo and Samsung of Korea; and Central Asian Petroleum, affiliated with Indonesia's Sedtco Group, among others. [2]

By establishing the high profile "deal of a century" with China, Kazakhstan landed a coup in fall 1997 that would finally establish it as more than an mere adjunct of Russia: a pipeline that would span half a continent, linking the interior of Kazakhstan to China and the Pacific. American policy-makers took note, and perhaps not coincidentally, shortly thereafter in November 1997 the State Dept. hosted Nazarbaev in a signing of a joint oil pipeline treaty with major US oil-and-gas companies.

Kazakhstan was increasingly attempting to position itself as an economy that could maneuver itself between East and West. As it looked beyond US and the West for investment as well as prototype, it turned to Asia. The East Asian developmental model, unlike Anglo-American laissez-faire capitalism, privileged the role of state interventionism. The East Asian NICs had vaulted to the forefront of world economic growth through strategies of export-led growth supplemented by import-substitution; Asian industrializing states prioritized the role of certain key sectors rather than letting the market alone decide the fates of key industries. Nazarbaev and his government analysts maintained that conditions of both the immature market economy and ethnic plurality

2) For privatizing its Mangestau oil fields, Kazakhstan elected to choose the Indonesian company from among four or five strategic investors, including American and European affiliates, since it offered better terms. (*Pipeline News* electronic journal, ed. Jennifer Delay, 19 May 1997.)

demanded some degree of state involvement.[3] Kazakhstan, the so-called "snow leopard," was positioned to join the ranks of the "Asian tigers."

However, by the late 1990s, the newly industrializing Asian economies began to unravel. Kazakhstan's plan to create a level playing field for a diverse group of investors from Asia as well as the west began to falter as well. Daewoo withdrew from a major telecom project, where it had been slated to become the strategic investor for the state telecom company Kaztelecom. The Indonesian Sedtco which had acquired 60 percent of the Mangestau oil field in western Kazakhstan, encountered difficulties in management, financing, and poor quality crude.[4]

Responding to the difficulties in East and Southeast Asian economies, international agencies such as the IMF and World Bank began to critique the government interventionism favored by the Asian NICs as an impediment to growth. Several years earlier, state interventionism had been hailed as facilitating export-led growth and contributing to orderly social organization and equitable growth. In the aftermath of the Asian crisis, however, the model was condemned as short-circuiting profit and stymying competition. Moreover, the closed corridors between business and government associated with the Asian developmental model were seen as a burden to efficiency rather than a boon to free and fair competition. In its place, the laissez-faire, neo-liberal growth paradigm became privileged as the prevalent model for state as well as corporate growth. Kazakhstan, positioned between both the "Asian contagion" and the Russian financial crisis was also perceived by international corporations, particularly portfolio investors, as a doubly risk-laden environment.

Moreover, some of the chief advantages that led to vitality in the East Asian new industrializing states were not available in Kazakhstan. In fact, the comparative advantages of Kazakhstan were virtually at odds with those of the Eurasian state. While East Asian economies could boast large labor forces, Kazakhstan's non-intensive pool of

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3) Interview conducted in Almaty (Kazakhstan) in 1993 with a political scientist acting in an advisory role to the Presidential office in Kazakhstan in 1992-3: "We are not ready for an open regime…it is necessary that we build a presidential rather than parliamentary state, even if this means a quasi-authoritarian rule, because we are simply not in a position [at this time] to steer towards free competition on our own. The state is simply too diversified, in terms of ethnic and regional composition."

4) Japanese investors (Itochu, along with other unspecified parties) and ODA learned a difficult lesson by lending to the rehabilitation of the state Karaganda steel works. Unbeknownst to their Japanese partners, the Kazakhstan government secretly privatized the steel works, in a move according to one USAID lawyer was illegal asset stripping. These negated the terms of the loans that the Japanese government had The Anglo-Indian venture that acquired it, Ispat, now oversees an operation in steel export that has become highly lucrative. (Interviews with Marubeni representative (Tokyo 1999), Itochu representative (Almaty 2000) and USAID attorney (Almaty 1999).

human labor was growing steadily smaller with out-migration and attrition (from 17 million to 14.5 million in a decade). Pacific Rim countries could avail themselves of a vast network of trading ports and water routes in relatively close proximity. Kazakhstan was hobbled by its land-locked position, save for the Caspian Sea. Light manufacturing and easily transportable goods (textiles, electronic goods) produced by East Asian countries further facilitated transport. Kazakhstan's former comparative advantage lay rather in its capital-intensive industry, as a military-industrial extension of the Soviet state. But such heavy industrial capital for both intermediate and finished goods had lost markets and distribution chains in the breakup of the Soviet Union. Moreover, formerly important domestic industries as agricultural machinery suffered from a number of related impediments. Subject to heavy depreciation and requiring vast outlays of investment, they were also low value-added products in a world where the market increasingly privileged higher valued-added goods.[5]

Kazakhstan and China shared planned economies and a Soviet-style infrastructure where state owned enterprises proliferated in both the manufacturing and agrarian sectors. Yet the commune system of China, unlike those of the Soviet Union, was underlain by dense networks of agricultural and village enterprises that later formed the groundwork for township-village enterprises. The concentrically nested interlinkages of rural villages, market towns and commercial centers in southeastern coastal China were situated to avail themselves of international trade when Chinese markets opened.[6] In Russia and its protectorates, however, urban centers were established as the nodes along routes of inland military expansion. They functioned as isolated administrative centers that connected vast distances and acted as protective entities, rather than more fluid, bustling commercial zones.[7] Kazakhstan's largest city and former capital (Almaty) was the end of a long line of 19th century Russian military expansion posts from Siberia into Central Asia.

Thus Kazakhstan's periodic attempts to boost investment and draw in corporate interests by recreating itself as a latter-day example of the Asian miracle have not succeeded to the degree hoped. In the late 1990s the hollow invocation of Kazakhstan as

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5) World Bank encountered problems in its attempt to rehabilitate the Pavlodar Tractor Factory in northeastern Kazakhstan (pers. comm., consultant for EBRD, USAID and World Bank projects, later head of GIMV Post-Privatization Fund). While initially attractive to foreign investment, the factory was ultimately turned down as a viable project by strategic investors such as John Deere, which ultimately decided that reinvestment and transport was not worthwhile (ibid.).
6) See Sachs and Woo (1993) for comparison of Soviet satellite states and China; see Skinner (1964-65), (1988), and Zweig (1995) for discussions of collectives and village-township enterprises.
7) SeeTilly (1990) for comparisons of commercial Italian city-states and the Russian coercive state.

a latter-day champion of the "Asian state model" became little more than a thinly disguised justification of heavy-handed, arbitrary state interventionism, from the secret buy-out of independent media channels to the physical harassment of the President's political opponents. In fact, the example of the strong Asian state often harkened back to the retrograde Orientalist notion of Asian despotism described by the Western philosophies of Hegel and Marx: a timeless empire lost to the annals of progress and presided over by a godlike ruler.[8]

**III. Local Business Interests and Domestic Corporate Groups**

With the difficulty of positioning itself between the West and Asia and the unpredictability of the currents of international capital flow, and Kazakhstan's government and business leaders turned within to establish local corporate groups rather than depending solely on external commercial ventures. By the late 1990s, the Kazakhstani public as well as members of its government had become profoundly disillusioned with foreign investment and international advisors.[9] "Democracy," many felt, was little more than a guise to boost corporate earnings and line private coffers.

As foreign corporations became increasingly emblematic of intrusion and dependence in the late 1990s, local businesses and national corporations were valorized as a means to reclaim national identity and support viable growth from within. In the late 1990s, the local economic climate was dominated by several major businesses and holding companies. In 1998-2001, the most prominent commercial groups included Astana Holdings, the Kazkommerts Group, Eurasia Bank, Butya and the Rahat Group, among others. Some of them, such as Butya, had gained high visibility soon after the collapse of the Soviet Union. This commercial group drew its moniker from the childhood diminutive of entrepreneur Bolat Abilov, reputedly a relative of Nazarbaev's through his wife. In the early 1990s, Butya quickly gained access to European luxury car dealerships, retail goods stores and other ventures. In the late 1990s, Butya was primarily identified as the joint venture partner with Ramstore, the Turkish supermarket which had partnerships

8) The Hegelian-inspired "Asiatic mode of production' never fit easily into Marx's and Engels' notion of the "ladder of civilization" as a teleology of progress. Further, the role of the nomad as a force that either detracted from or propelled civilization was problematic for Marxist/Leninist theory because notions of fixed and landed property did not encompass moveable property and flux of the nomadic modus operandi characteristic of the Mongol-Turkic world, of which the Kazakhs were part.
9) See USIA surveys for Kazakhstani views on foreign investment and (1995, 1997, 1998) and Wedel (1998) for disillusionment with foreign aid in Russia and Eastern Europe.

in Russia. Other ventures, such as Kramdsbank (which also was affiliated with several ventures including publishing companies) became bankrupt by the mid-1990s.

In the late 1990s, one of the major developments in the private banking sector and commercial ventures in general was the creation of integrated financial groups, which consisted of holding structures centered around a bank or another company.[10] However, the center for different groups varied. For instance, Kazkommerts Group has been centered around a bank. TuranAlem Bank is part of the general structure of Astana Holdings (ibid.), which had investments and affiliates in real estate, commercial vehicle companies (Astana Motors), and food processing industries. The Eurasia Bank group was associated with the metallurgical industry as well as banking: it was one of the few groups that had preferential access to metals trade with Russia. The Rahat Group was linked to diverse holdings, from **a** monopoly in the sugar-refining industry, liquor production and distribution, a wide array of media interests, several television stations, and oil interests among other affiliations.

One rationale behind the trend for integration of diverse industries, according to a domestic analyst, included tightening competition for scarce domestic capital (ibid.). The era of large proceeds from privatization had ended, being reevaluated as a compromise of national interests; moreover, with lower commodity prices in the late 1990s and the twin impact of the Asian and Russian crises, strategic foreign investors were unwilling to pay the premiums for market entry they might have earlier. Stronger integration of commercial industries could provide greater impetus to the local economy. Integrated banks and industries would allow access to capital that banks could lend only on an overpriced and short-term basis (ibid.).

Moreover, domestic commercial enterprises sought to improve their competitive positions by strengthening financial affiliates, including insurance companies, brokerage houses, pension funds and pension asset management companies. Pension funds had become one of the largest sources of domestic capital, since all registered employees were required to invest 10% of their salaries in the government accumulation fund as well as a choice of private pension funds. Thus, a solid core of integrated companies, engaged in diverse industries to strengthen competitive advantage, would bolster the national economy. In addition, some political strategists

10) Dushimova (1999).

advocated the creation of powerful national companies, both state-run and private, that could compete with foreign multinationals on their own turf.[11]

In some cases, affiliations of these commercial-financial groups were publicly recognized and documented, and information disclosure was a priority. In the late 1990s, the Kazkommerts Group was affiliated Kazkommerts Bank, the most prominent securities house, pension funds, and other industries including the Chimkent Oil Refinery (ShNOS), jointly operated and owned with the Canadian oil company Hurricane Oil), and the airline industry.[12] Kazkommerts Bank itself gained a solid reputation in both domestic and international banking circles. It successfully attracted several syndicated loans and issued several series of eurobonds. In the late 1990s and early 2000s, the financial institution received recognition from *Euromoney* and *Global Finance*,[13] lauded for being one of the small core of domestic banks in Eastern Europe and the CIS that met internationally recognized standards in capital adequacy, asset quality, professionalism in personnel, accounting systems, and information disclosure.

In a personal interview, the chief researcher of the banks' affiliated securities house made it a point to stress openness and accountability: "Particularly in the aftermath of the Asian and Russian financial crises, we realize that international counterparts such as investment banks and strategic investors are reluctant to engage in business, much less seek out portfolio investment. But we want to be there when there is a turnaround in the global economy, and good information disclosure is the place to begin."[14]

In terms of other domestic business affiliations, some commercial groups preferred to conduct less transparent transactions. The metals trading company Eurasia Bank Group gained management contracts with Kazakhstan's government in the mid-1990s under terms unknown to all but those behind closed doors. Opaque company subsidiaries or affiliates, some of which were linked to Russia and registered in Britain, were accused of enriching private coffers while depleting domestic productivity.[15] In a more recent case (2000-1), gradual consolidation of the independent media by the Rahat group gained

11) Karin (2000).
12) Not all of the affiliations of the Kazkommerts Group were broadly publicized, however. Much of this information was gained by interviews in Kazakhstan (1999-2001).
13) *Global Finance* "Best Emerging Market Banks: Annual Survey" (May 2001); *Euromoney* Awards for Excellence (July 2001).
14) Interview in Almaty (2000) with Madina Dushimova, Chief Analyst, Kazkommerts Securities. Consequently most large international banks such as Citibank and ABN Amro dealt mostly with trade finance, interview, Maqzhan Auezov, ABN Amro bank, Almaty 1999.

attention and sparked underground controversy. The commercial monopoly, closely linked to government-owned media, was known by rumor but seldom discussed openly because the nature of the private affiliation. Rahat Aliev, the conglomerate's head, was son-in-law of Nazarbaev and also chief of the tax police, and later of the government security bureau (the national successor to the KGB). In the latter capacity, government sanction issued an open ticket for Aliev's minions to harass less powerful companies and block media channels that failed to tow the government line.[16] Tax "audits" (conducted during ad hoc visits), confiscations and closings and (last but not least) physical threats were among the tactics used. Thus private business was conditioned by its degree of access to the main spheres of government power, directly or indirectly President Nazarbaev himself. Independent entrants, not to mention small businesses (despite the government's injunction to support small and medium enterprises), found it very difficult to enter into, much less compete in such a stultifying environment.

## IV. Consumer-Good Multinationals Seek Market Entry and Expansion

While large multinationals were surrounded by controversy, they were sometimes viewed, by default if not by preference, to be the more disinterested parties in the larger sphere of commercial competition.[17] Partly because of its own ambivalence towards foreign investment, Kazakhstan's government periodically gave mixed signals to corporations seeking to globalize or diversify market entry. The President advocated an investment-friendly forums for open critique, in particular the Foreign Investors' Council, where investors could air their complaints in periodic meetings. Working groups paired US commercial partners with representatives of government ministries to solve problems in taxation, labor quotas and sub-surface land use. An "image enhancement" task force proposed changes to Kazakhstan's "self-presentation" via media geared to foreign audiences.[18] At the same time, however, Kazakhstan's development process and business

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15) "Warring factions" of Transworld Group and Kazakhstan Mineral Resources each cast aspersions on the other through veiled threats in the local press and attacks that appeared on at least one occasion in the international press (*Global Finance*) (Eitzen 1999).
16) Interview, Inter-fax News Agency (Almaty 2000), as well as other reports from independent press.
17) Interviews conducted in Kazakhstan (1999-2001), comparing opinions on foreign aid and investment among those who had access to the benefits of reform (jobs with foreign agencies) and those who did not.
18) EBRD's Kazakhstan Investment Profile 2001, p. 12; see also interviews with European consulting company engaged in promoting and coordinating activities of the Foreign Investors' Council and "image enhancement" measures, including a weekly English news program designed, in part, for the foreign

climate continued to draw critique from international organizations such as the IMF and EBRD for continued use of opaque business practices, changing licensing agreements, and complicated taxation procedures.[19]

Consumer-good multinationals found the new market of Kazakhstan relatively less constraining than many foreign corporations investing in natural resources. Because they were less subject to the constraints and controversy of licensing arrangements, production-sharing agreements and exploration rights, multinationals dealing in retail products were relatively free to conduct trade or establish business ventures in Kazakhstan's developing market. Large international consumer-good firms did not provide an intrinsic public good, like technology transfer, that would build up country infrastructure. At the same time they avoided charges of asset-stripping that would compromise national worth. Because multinationals that sold consumer goods were less subject to the constraints, obligations and uncertainty of FDI, they had easier market entry and exit than companies that set up long-term extractive interests. Consequently foreign consumer-good corporations such as Unilever, Bristol-Myers, Colgate-Palmolive, Procter and Gamble, L'Oreal, Coca-Cola, Johnson and Johnson, Nabisco, RJ Reynolds and others were able to establish a presence in Kazakhstan without the degree of controversy attached to the oil and gas behemoths.

Since consumer goods were rare in the Soviet era, foreign companies that produced household products, prepackaged foods, cosmetics, sanitary goods, personal care items, and pet food were all quickly welcomed. Soviet manufacturing had concentrated its productive needs on the heavy industrial sector, at the expense of light manufacturing, and consumer goods purchased from the West functioned as both second-tier "luxury goods" and, increasingly, as utilitarian items among the growing middle class. Thus they quickly became indispensable, and the companies that produced them vied for presence on supermarket shelves. Moreover, new supermarkets gave these products higher marketability and visibility than had the smaller shops and kiosks of the early post-Soviet era.

As foreign products grew more plentiful, however, consumer-good multinationals found themselves competing against one another, finding it necessary to market their products more aggressively or imaginatively. Coca-Cola was at an initial disadvantage in Kazakhstan, since Pepsi had had exclusive rights for distribution and sale in the Soviet

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community. Kazakhstan's government hired an American consultancy to "spin-doctor" its Presidential elections.

19) EBRD Kazakhstan Investment Profile 2001, pp. 7, 9-10.

Union (some post-Soviet retail businesses continued carry Pepsi products exclusively). Coca-Cola had grappled with its own marketing image dilemma in how to “go global” by “thinking local.” In post-Soviet Eurasia, it engaged a solution that managed to assert universal brand appeal even as it tapped a diverse audience. It expanded its product line, gaining an edge over Pepsi by adding orange and lemon-flavored “Fanta” beverages but also green-apple, a flavor found in market surveys to appeal to the residents of the “place of apples.”[20]

Coca-Cola managed to solve the problem of creating a “universal language” while going local in several ways. Language usage in the Eurasian republic was an especially sensitive issue: while Russian was the language most often utilized in urban areas, the Turkic Kazakh language was increasingly the “politically correct” choice.[21] Thus use of Russian could brand the foreign firm as buying into a colonialist predisposition. The use of branding image, then, could evoke more suggestively without the sometimes divisive issue of language. The nostalgic icon of a 1950s Santa Claus drinking Coke appealed to post-Soviets as well as American consumers: Lenin had coopted the pre-Christian icons of the Christmas tree and “Grandfather Frost” (*Dede Moroza* in Russian, *Qara Baba* in Kazakh, the close cousin of St. Nick) in endearing new Soviet citizens to the New Year Holiday. The Soviet Union collapsed, but its secular New Year holidays was retained with all its celebratory trappings. The commercial and sacred holiday expanded to nearly a month, augmented by Western Christmas, Russian Orthodox Christmas, and Old Russian New Year in mid-January.

In one television commercial, Coca-Cola simultaneously targeted ethnic Kazakh, Russian and other local audiences in Kazakhstan while cutting costs. While most television commercials are aired in Russian as the language of inter-ethnic communication,[22] many companies were increasingly faced with pressure to advertise consumer goods in Kazakh as well as Russian.[23] Coca-Cola carefully avoided the language problem by choosing universal body language: showing a woman’s half-

20) Procter and Gamble (interview, Almaty 1999) found from their marketing surveys that “green apple” detergents and shampoos sold especially well. “Place of apples” was the Kazakh translation of Almaty; ethnic Russians know the city as “father of apples” (a Russified distortion of the Kazakh name.)
21) Most urban Kazakhs know Russian better than their own native tongue, but Kazakh is increasingly required for government jobs, if not commercial ones.
22) Phillip Morris was one company that made the possibly strategic choice to air commercials primarily in Kazakh, since most rural tobacco growers were of Kazakh ethnicity. The commercials appealed to images of the rehabilitation of agricultural productivity and rural growth.
23) Consumer goods sold in Kazakhstan are now all required by law to be labeled in both Russian and Kazakh.

puckered lips and the word “Coke” after a significant pause. The viewer could subscribe individualized interpretations, since much was left to the imagination, except for gender: language, ethnicity, and event.

The use of spectacle and entertainment to market products was the means by which one giant multinational, Procter and Gamble, attempted to edge out the competition. In early 2000, P & G had fumbled its marketing share in East Asia; now it was attempting to gain consumers in Central Asia by gaining an audience. P & G edged more aggressively into the transition marketplace by sponsoring events and thus presenting its products in a more high-profile, contextualized way. Branding image was not connected to a single product or even an entire array of goods, but an entire setting, a kinesthetic experience, something contemporary service industry is adept at creating. The consumer goods firm P & G tapped into this approach readily, since it was selling products on a variety of fronts, from deodorant to detergent, from Pringles (potato chips) to Pampers (diapers). P & G took over the wide ampitheatre-like, multi-storied center stage Ramstore, the sprawling Kazakh-Turkish mall. The ice-skating rink with vaulted banners in the center of the mall held featured emcees presiding over contest for prizes, a big band orchestration, and the introduction of Miss Kazakhstan to promote its products and an invitation to join the P & G “family” through club affiliation.

Other multinationals involved in retail trading tried out a variety of other tactics to engage consumers. Toyota capitalized on the fact that “exotic” luxury cars had already saturated the market. Its service station Tokyo Zhetisu was written up as a detailed info-mercial in a local newspaper and internet news-zine, where careful attention to detail was favored over high gloss hype. Toyota’s serviceability and professionalism was outlined, along with details for servicing options from repair to monitoring. In the advertising essay in the Kazakhstan *Globe* Newspaper (October 2001), “Is Toyota Problematic?” the readers were assured by Sergei Smirnov that quite the opposite was the case, as follows:

> Surely, there are many different service centers in Kazakhstan. But why do people prefer Toyota Zhetysu? The answer is very simple: it offers Japanese cars adapted to our region. Japanese obligation and meticulousness are well-known in [our] country. Before starting shipments to this or that country, the company Toyota Motor Corporation carefully studies consumers’ climatic and road conditions and even the quality of local trade marks of gasoline. Kazakhstan did not become an exception in this regard.[24]

24) Smirnov (2001).

Another foreign company profited in quite another way its close identification with the market, so much so that an American brand could for all practical purposes masquerade as a local Kazakhstani brand. This enhanced its market value at a time when consumers were weary of the domination of foreign goods in the local marketplace. In point of fact, the company president of Food Master, a dairy-products company, continued to be an ethnic Kazakh and had devised many of the main marketing schemes. But the largest proportion of shares had, in fact, reverted to American majority ownership (nearly 90 percent) when the strategic shareholders were dissatisfied with company profits.[25] According to the CFO, "It's to our advantage that the public thinks we are a domestic company. It helps marketing, and it also prevents the tax police from harassing us" (ibid.).

If foreign multinationals did have an unfair advantage in the marketplace for retail goods, they nevertheless set the stage for a certain degree of competition among new local entrants, who filled in the niches left by larger corporations. Food Master company helped to set in place a supply chain so that local farmers, who often lacked distribution outlets, could deliver their milk to be sterilized and weighed at milk stations. Although Food Master continued to dominate the market in its guise as a "local company," other domestic consumer good companies rushed to provide their own variants of milk products as well as fruit juices. In fact, when the predominantly American company attempted to expand its line of juice products, it was forced to limit its offerings because of the strong competition (ibid.) by several local firms (RG, Randy, and others) which had quickly diversified their offerings into nearly 30 varieties of juices.

Last but not least, local service industries from restaurants to gourmet food chains quickly gained popularity with local customers. Whether or not such industries received help or special consideration or help from government patrons,[26] many local establishments grew to vie in popularity with the large-scale shopping mall. Shop-cafes such as "Semei" featured free samples and seasonal specials (including clerks dressed as Santa Claus and Snow Maiden). In stores such as the gourmet food chain "Dastarkhan," expanded service hours, an outdoor skating rink for children, local homemade delicacies served hot (lamb *plov*) or cold (fermented camel's milk) were packaged and "served with a smile." Local Kazakh restaurants repackaged homely traditional dishes as exotica, while

25) Interview with American CFO of Food Master (Almaty, 2001).
26) According to interview (Almaty 1999) with executive from small-and-medium enterprise consultancy funded by USAID and helping with small business advice: "I don't know how many people come here with money that they've gotten through government connections. But if I'd keep all those people who've gotten their money from dubious sources out of our offices, it would be a fair number."

nomadic song, dance and costume provided an alternative to other theme restaurants featuring fishtanks with live pirhanas or "Latin" floor shows. Even magnate Rahat Aliev, whose business conglomerate could often rely on government connections for allocation of capital, was sometimes forced to get in on the act by airing television commercials for the "Sugar Center" monopoly, relentlessly plugging raffle prizes of trips to Paris, Egypt, and Thailand.

**V. Uneasy Encounters: Extractive Multinationals and Local Communities**

While consumer goods enjoy public appeal and satisfy basic necessities, the economy continues to be largely driven by foreign direct investment in several primary sectors: oil, gas and minerals. Local retail goods and services are increasingly able to fill in the niches, and sometimes directly compete with, consumer-good firms from abroad. Still, investors in the natural resource sectors continue to be those upon which the national economy depends. Not surprisingly, these are also the interests that attract the most controversy. In 2000, 50 percent of FDI was from the US, primarily in the oil and gas sector. The percentage of US investment had decreased to 30 percent in the following year.[27] But top-heavy investment in the primary products sector, the unpredictability of cash flows relating to the volatility of oil prices, and the changing needs of the world energy market prices made sustainable development a sometimes precarious proposition for Kazakhstan.

Only the largest companies were willing to take on the long term risks identified with these sectors, particularly in a transition economy.[28] At the same time their large budgets, often surpassing the national GDPs of the countries they entered, increased the stakes, the influence and also the amount of capital they commanded. This was particularly the case with the creation of mega-mergers, with the joining of Exxon and Mobil in 1999 surpassing previous industry giants such as Shell in size.

The merging of Chevron and Texaco in 2001 meant that important interests in the Caspian could be consolidated. Such linkages enabled corporations to deal better with increased costs and advanced competition. While the giant BP Amoco left Kazakhstan to concentrate on other emerging market regions, ChevronTexaco held major stakes in Kazakhstan's largest onshore oil field (the Tengizchevron joint-venture), the

27) IMF Country Report, 2001; see also Saudabayev (2001).
28) Interview with Atyrau businessman (Atyrau 2000) about USAID program matching a range of US businesses with companies in Kstan, "most were not interested in any sector beyond oil or gas."

Karachaganak gas fields in northwestern Kazakhstan and the Caspian Pipeline Consortium. ExxonMobil, meanwhile, had acquired stakes in three major oil concessions in Kazakhstan. In addition to the Tengiz field and the Caspian Pipeline Consortium, it gained partial ownership of the new Kashagan oil fields in the northern quadrant of the Caspian. These offshore Caspian reserves, with percentages also held by Phillips (US), Anglo-Dutch Shell, British Gas, Inpex (Japan), TotalFinaElf (France) and Agip (Italy), have purportedly been the most significant oil discovery since the Alaskan Prudoe Bay, more than thirty years ago.[29]

As extractive multinationals grew in size, they also were obligated by production-sharing agreements and licensing arrangements to take on country rehabilitation projects. Oil companies were perceived to have secured very beneficial contract terms and were thus expected to reap great rewards, at the same time distributing some of the proceeds and benefits to the home country. As pressures to downsize the welfare state and state bureaucracies mounted globally, the indebted Soviet successor states were in a particularly poor position to take over financing and management of regional and community rehabilitation and infrastructure. By default, private corporations as well as international organizations were expected to help make up the shortfall.

Multinational corporations investing in the former Soviet Union found themselves face-to-face with a formidable legacy of crumbling ex-company towns as well as high expectations. For all its ills,[30] the Soviet era had set in place well-integrated community infrastructures that also provided cradle-to-grave security. State collectives and industrial centers provided kindergartens, schools and hospitals; flour mills and bakeries, clubhouses and cafes. Conversely, the new encounter between foreign multinational and local community, however, carried with it a fundamental incompatibility: the goal of the corporation was to maximize profit, while the role of the community was to increase social welfare. Even international organizations such as European Bank for Reconstruction and Development, like corporations, were under increasing pressure to increase efficiency by engaging in social projects that would maximize the rate of return at

29) Robinson (2001).

30) Soviets had invested heavily in social services and had succeeded in raising the standard of living throughout much of Eurasia, increasing life expectancy and literacy. By the same token, forced collectivization and imposed agrarianism displaced and eroded much of the remaining indigenous network of economic production and social welfare. Stalinist collectivization was blamed for one-third to one-half of indigenous (ethnic Kazakh) population loss. (In the post-Soviet era, this Kazakh population loss has since reversed, with out-migration particularly among ethnic Russians and Germans, and in-migration of Kazakhs from neighboring and nearby diaspora states (including Uzbekistan, Mongolia and Iran).

a predetermined percentage rate.[31] Still, oil companies and other sprawling multinationals in the extractive industry in particular were under increasing international scrutiny to take on environmental and social responsibilities as part of their overall business strategies.

In accordance with the terms of its production-sharing agreement signed with Kazakhstan's government, Chevron launched projects to revitalize the western desert communities and install community revitalization and social rehabilitation projects where it was making inroads: building health clinics, a bakery, housing for flood victims, a boiler plant, bridge rehabilitation, and refurbishment of Atyrau University through the five-year, $50 million Atyrau Bonus Plan and Egelik ("Benefit") Program.[32] Meanwhile, other large multinationals that made large scale inroads in Kazakhstan, such as Procter and Gamble and Nabisco, sponsored community gatherings and celebratory events. The Chevron-sponsored "100 Years of Oil" gala in western Kazakhstan in 1999 recalled Soviet-era spectacles,[33] but with a decidedly different twist: corporate sponsorship. Procter and Gamble's "Fairy" brand detergent sponsored Central Asian New Year (*Nauruz*) festivities,[34] while both local corporate groups and large multinationals helped to finance the celebration for the rehabilitation of the medieval Muslim city of Turkestan.

Still, the question of how to upgrade corporate profitability while coordinating social obligation programs remained a difficult task for most corporations grappling with an uncertain global economy in the early 2000s. In 2001, ChevronTexaco and other oil companies recorded large earnings losses. One firm, Samsung of Korea, arose from the ranks of the struggling Asian conglomerates to combine corporate profitability with social rehabilitation projects in Kazakhstan. If the some Asian corporations, such as the Korean *chaebol*, were critiqued for soft budgetary problems and unwieldy conglomerates, Samsung managed to simultaneously expand its heavy industrial capacity in Kazakhstan, while enjoying profitability in its electronic sector.[35] While Daewoo was not able to carry

31) Interview (Almaty, 1999) with chief consultant of GIMV Post-Privatization Fund (a joint venture with EBRD, TACIS and private Belgian company): "We can only afford to make investments in those infrastructure projects that bring back a certain rate of return. That rate I can't reveal."
32) ChevronTexaco Kazakhstan Fact Sheet (company website); Interview with local Chevron PR Representative (Almaty, 2001).
33) For Soviet-era ceremonials as a means of social engineering and orchestration, see Binns (1979-80) and Lane(1981).
34) See P & G Central Asia website (archives): www.pg-ca.com.
35) According to *Global Finance* (Sept. 2001), Samsung was one of the few tech companies whose share prices had risen by 11% whose "fundamentals justify investor confidence." Diversification had paid off: display technology, mobile phone handsets and semiconductors (p. 36).

through on its commitment to act as a strategic investor in Kazakhstan, Samsung managed to parlay its diverse conglomerate base into profitability, while managing to transform and rehabilitate the community and social infrastructure of the Soviet-era copper mining industry towns.

Samsung had been criticized by a local securities house[36] for unclear ownership rights and non-preferential treatment to minority shareholders in the late 1990s. It also periodically came under fire in Kazakhstan for its gradual consolidation of smelting, copper refining, and utilities industries into a single monopoly. Still, in the early 2000s, the Kazakhmys complex, a joint venture with holdings by Samsung (32.4%) and the Kazakh government (25%) achieved profitability while simultaneously engaging in support for social services, including kindergartens, schools, hospitals, as well as other infrastructure projects. Its employment policy attempted to avoid large cuts in the labor force, but to reform it from within by utilizing peer group counseling and negotiation,[37] a practice also used in microfinance teams to raise morale and increase earning power as a community. Through circuits of supporting industries (smelters, mines, heating and power plants, industrial railways and refineries) it increased efficiency in production, raising 2001 output to 418,400 tons from 394,700 despite a general downturn in world prices for metal.[38]

Still, the difficulty of assessing the success of social rehabilitation and infrastructure projects, as well as the fine line between corporate "gift giving" and social obligation, continues to be problematic for corporations. The initial terms of Chevron's PSA were fulfilled, but it continues to seek out new projects to fulfill this renewable obligation. Other forms of payments see even less ascertainable ends. According to a representative of the offshore Caspian consortium (formerly OKIOC) of oil companies: "It is common practice [for oil companies] to give five percent bonuses to governments up front. But we have no further say on how these funds are being used or where they go."[39]

36) According to analyst Dushimova of Kazkommerts Securities (interview in Almaty, 2000), Samsung barred minority shareholders (other international investors) from entering the annual Kazakhmys shareholders' meeting. She also said that at that time, the company was unable to get a precisely clear answer (in terms of percentages) of Samsung's stake in Kazakhmys. Figures published subsequently, however, seem to indicate precise figures for Samsung's shareholdings in the Kazakh-Korean joint-venture.
37) Interview with chief representative of Samsung Heavy Industries in Kazakhstan.
38) Reuters (RFE/L Reports, 15 Jan. 2002, Vol. 2, No. 2) In Jan.-Aug. 2001, Kazakhmys produced 273,000 tons of refined copper, beating the output of 2000 by nearly 80,000 tons. (U.S. Dept. of Commerce Business Information for the Newly Independent States (BISNIS), Kazakhstan Economic and Energy Update, Sept. 3-14, 2001.
39) Interview with representative of the offshore Caspian consortium (OKIOC), Almaty (1999).

Since summer 2000, the case of unclear transfer of $60 million dollars has been under investigation by the FBI and European judicial authorities. The suspicious movement of Swiss bank account funds from public government to private pockets was linked to a system of kickbacks engineered by American businessman James Giffen of Mercator Corporation, who brokered deals between the ExxonMobil, Phillips and other oil companies and the Kazakhstan government. When the news broke over Russian television, Kazakh air signals were jammed due to "technical difficulties," while the public found out about such apparently illegal transactions involving Nazarbaev himself over foreign websites.

**V.Conclusion: Coalitions Meet Competition**

In guiding the investment horizon, Kazakhstan has sent mixed messages to both international corporate partners and its own internal business climate. As it seeks to protect itself, this protection may be unevenly levied towards large corporate interests in the domestic sphere rather than to the population at large. Still, in part due to its lessened portfolio exposure to international capital flow compared with Russia, in part thanks to good fiscal and monetary policy measures installed by the Bank of Kazakhstan, and in part due to the increased price of oil, Kazakhstan's GDP jumped to a 9 percent increase in 2000 and 10 percent in the first half of 2001. This sudden increase in state wealth signaled that Kazakhstan policy was, for a time, less dependent on the mandates of foreign advisory bodies and requirements of aid. It also meant that key government officials in the ministries and the regions would better to be able to divide the spoils of oil rents among each other. A commonly rumored figure among Kazakhstan's population was that at least 20 percent of oil income was lost to these subrosa oil "leaks".

On the one hand Kazakhstan seeks to draw in wealthy foreign corporations, yet on the other hand both the public and some members of the government feel threatened when regulation of these interests invariably favors the well-endowed multinational. In the case of transfer pricing arrangements, oil companies buy up crude at below market prices, while earning large margins when the oil is transferred to related offshore subsidiaries in the course of refining, advertising and other measures designed to add a high margin of value. "Such non-transparent measures wouldn't be tolerated by our own government, but we can allow it when an American company engages in these practices abroad," commented one USAID official.[40]

Thus the cross-currents of internal protection and external invitation complicate the prospects for Kazakhstan's domestic economy, as well as the international corporations that seek to invest in such transitional states. A national oil fund, patterned on Norway's, has been set up as a repository for budgetary surplus to buffer against hard times. But the question of whether Kazakhstan can continue to diversify its markets beyond the oil-and-gas sector, with the earning power of both healthy Asian and Western corporations remains a pending one, based on the health of the Japanese economy and East Asian NICs, as well as the US economy. The degree to which Kazakhstan can broaden its resource base due to its own internal engines as well as external liberalizing forces remains.

In any case, as oil companies seek to carve out spheres of influence[41] and create coalitions that veer between competition and cooperation, they may occasionally stall the movements of key players to neutralize the rising power of corporations in their midst. In the case of the strategic importance of the chief operatorship of the north Caspian consortium (a position that will be likely to be of global importance in the coming years as the world searches for alternatives to OPEC), member multinationals lobbied to prevent ExxonMobil, world's now-dominant oil company, from becoming chief operator or "gatekeeper" of the north Caspian oil wealth, destined to come "on line" in 2004-5. [42]

At the same time, the domestic front remains suspicious of oil multinationals in its midst. In cooperation with UNDP, EBRD, Citibank and the U.S. government, Chevron has continued to implement programs in western Kazakhstan designed to develop social infrastructure and help small businesses.[43] Twenty-five percent of small business proposals have been funded, including projects to build Atyrau's first supermarket and

40) Personal Communication, Almaty 1999.
41) D'Aveni (2001) theorizes that the tactics of modern corporations can be compared to state and regional diplomacy.
42)According to a *Financial Times* article (Robinson 2001), the emergence of Agip in February 2001 as the new operator of the North Caspian consortium (formerly OKIOC, now Agip KCO) came after a "Kremlin-style 'dogfight under the carpet' between the conflicting egos of the nine-member consortium. The European members did not want ExxonMobile or another US company as operator. Nobody looked favourably on the operation being run by the French-runTotalElfFina" [perhaps because ElfAquitaine had been involved in wide-scale scandals in France, Germany and Eurasia, where French and German government leaders were involved.] Agip, part of the Italian ENI group, was quietly supported by Shell and emerged as the compromise candidate.

43) These projects include a business advisory service, SME loans and microcredit loans.

bowling alley; and approximately 2,000 microcredits have been awarded.[44] However, in 2001 Chevron came under fire for providing high-quality housing and commercial facilities that would be primarily accessible to expatriates instead of the population-at-large.[45] Suspicion remains that multinationals and Western advisory groups promote local businesses primarily to support their own mega-structure, thus utilizing "democracy building" projects for self-serving purposes. The degree to which foreign corporate investment will exacerbate economic and regional disparities remains unclear.

There is some indication, however, that a wider dispersal of wealth among a more diffuse elite has also meant signs of a growing willingness to challenge and even defy the non-transparent tactics of "the family": Nazarbaev's close relatives, in-laws and associates who have made windfall profits, controlled at least 80 percent of the media and held the purse strings of many important enterprises. In fall 2001, local business elite[46] banded together with opposition groups and dissenters on several occasions to protest the monopoly and strong arm tactics[47] of Rahat Aliev in the media, consumer good industry, and holdings in the energy sector. They were joined by thousands of the general public calling for better democracy. The President began to recognize the gravity of growing forces outside the powerful "family" interests that had lobbied for and attained inside access to key resources.[48] Thus in at least one case, domestic competition grew out of initially lop-sided access to the often opaque corridors of foreign investment and corporate interests. As Kazakhstan continues to work with internal interests as well as external investment, it will need to continue negotiating the rough and often uncharted terrain between competition, collusion and cooperation.

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44) See ChevronTexaco Kazakhstan fact sheet and website archives.
45) Personal communication, Chevron affiliate, summer 2001.
46) These elite, including Bolat Abilov of "Butya" fame, either left the government or were "sacked" so they could defy the government without conflict of interest.
47) Physical intimidation has been used to deal with Aliev's opponents. In the most recent case that finally resulted in Aliev's removal from power, powerful business interests complained to Nazarbaev that his son-in-law was using his position to blackmail them into giving up majority stakes in their own companies or face "inspections" by armed tax police (Robinson 2001.)
48) While Aliev was sacked and demoted by Nazarbaev (but later repromoted to the ranks of the President's special security forces), Timur Kulibaev, Nazarbaev's other son-in-law, was recently appointed to the position of vice-president of the new national "mega-merger" between Kazakhoil (the state oil company) and Kaztransoil (the state oil transport company). Formerly, Kulibaev was an executive at the head of the state oil transport company, so this suggests an enlarging of the power's of the President's son-in-law, or an enlarging of the President's aegis through his "more reliable" son-in-law.

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