

NEWSLETTER

 ENGLISH VERSION



INTERNATIONAL

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TARGET MARKET CENTRAL ASIA



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"CLOSER COLLABORATION IS NECESSARY AMONG THE FIVE STATES OF THE REGION"

How many German companies are represented in Central Asia? And how many of them have production facilities there?

The first mention of the term "Central Asia" gives the impression that a single region is being talked about. Although it is correct geographically, political and economic development of the five Central Asian countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – differed dramatically after the breakup of the Soviet Union. This could not but affect the business of German companies operating in each of these countries.

Represented in one form or another in richly endowed Kazakhstan are about 350 German companies. Uzbekistan and Turkmenistan have each established economic relations with about 40 German companies. As far as Tajikistan and Kyrgyzstan are concerned, there are only some 10 German companies there carrying on some type of business.

Most of the German companies are involved in exports to the above countries. Germany has heavily invested in Kazakhstan: worthy of mention here are the manufacture of construction materials and farm machinery, petrochemical industry, the wholesale and retail business. In Uzbekistan, it concerns the manufacture of trucks, farm machinery and construction materials as well as metalworking.

How attractive is Central Asia as a production location?

All the five countries have a strong interest in foreign investment, specifically, in having foreign production facilities located on their territory. The key problem here is that such investments in one of those countries will not pay back unless manufactured products are guaranteed to be supplied to the other markets region-wide. Except for Uzbekistan with its 30 million people, the other states (Kazakhstan's population is 17 million and that of Kyrgyzstan, Tajikistan and Turkmenistan is from 5 to 7 million) are too small to be regarded as full-value sales markets. It is this circumstance that should be taken into account in any investment decision making. Besides, it should be always kept in mind that companies may face the problem of hiring personnel with desired skills. The companies intending to launch production in Central Asia should take care of training the specialists they need.

How is the development of the countries under review affected by their integration in the Eurasian Economic Union?

To date, only Kazakhstan and Kyrgyzstan are members of the Eurasian Economic Union. Theoretically, the Eurasian Economic Union that originated from the Customs Union among Belarus, Kazakhstan and the Russian Federation opens for Kazakh and Kyrgyz producers a much vaster sales market than their own relatively small national markets. Thus, their products can be exported to Belarus and Russia almost on the same terms on which they are sold domestically.

On the other hand, the same is true for Belarusian and, primarily, for Russian suppliers that can import their products into Central Asia absolutely on the same terms. This fact exerts a strong pressure on national producers in Kazakhstan and Kyrgyzstan because, primarily due to the current weak rouble, Russian goods are



Jörg Hetsch

Head of the Representative Office of German Economy for Central Asia, Chairman of the Board of the Union of German Economy in the Republic of Kazakhstan

sometimes cheaper than similar goods of domestic manufacture. In this situation, it's worth taking a pause to see how long the necessary consolidation and market clearing process is going to take.

Which industries may find the Central Asian republics of special interest?

Because agriculture plays a crucial role in all the five countries, it will be easy for farm equipment manufacturers to find local partners potentially interested in buying their products. It concerns the entire range of equipment – from conventional farm machinery and spare parts to farm produce storage and processing equipment (for example, for cotton, vegetables or fruit grown in all the five countries).

There is also a demand here for equipment designed to improve energy efficiency and for renewable energy technologies slowly gaining in popularity. What is generally true is that any product made in Germany is traditionally very popular here. This applies both to German vehicles, conventional machine building products, construction machinery and to farm machinery, pharmaceuticals and medical equipment.

What do you believe are the most serious problems/impediments that hinder the region's robust economic growth?

As said earlier, this region so far exists rather in the geographical sense. In our opinion, there is a need to ensure closer collaboration among the five states being reviewed, create a single Central Asian (in the true sense of the word) market and overcome political differences between individual countries.

"MONGOLIA: THE UPGRADING NEED IS IMMENSE"

How many German and, generally, European companies are currently represented in Mongolia's market?

It's hard to give any specific numbers. There is no foreign trade chamber in Ulan Bator, only the German-Mongolian Entrepreneurs Association that comprises around 80 companies. The companies represented here include, for example, DB Schenker and Commerzbank. Joint booths and local exhibitions present about 50 participants. Besides, part of the companies operate in Mongolia through their Chinese offshoots. Since 2011, the bilateral trade between Germany and Mongolia has amounted to about 150 million euros a year.



Dr. h.c. Peter Schaller

What kind of activities do foreign companies pursue in Mongolia? Do they attempt to launch production here?

Mongolia is an important supplier of resources and that's its main advantage. These are primarily copper, gold and coal reserves. Mongolia is one of the mineral-richest countries in the world, having all the elements of the Periodic Table. That's why mining companies and mining equipment suppliers are so active in that country. The situation is very similar to that with the Russian economy: one party has resources, the other one has equipment and the keywords are "processing" and "dressing".

The upgrading need in this area is immense and also covers the infrastructure and manufacturing equipment. German companies are just the perfect partners in the consulting and upgrading area. Thus, for instance, Deutsche Bahn provides consulting to the Trans-Mongolian Railway.

At present, however, there is hardly any German investment and the market mainly features suppliers of equipment for organising modern production. A reputable German company involved in the manufacture of construction materials once attempted to buy a Mongolian plant to launch its production there, but the attempt failed for some dubious reasons.

Most of German companies focus on China, while regarding Mongolia as a mere appendage to the Chinese market. Their idea is that any goods can be exported there from China.

Mongolia is indeed a small market with a population of 3 million. But what does "small" mean? Look at the Gulf countries. Their population is even smaller but consumption has reached unprecedented levels. With such fields, Mongolia may turn into the North Asian Dubai! Sometimes European businessmen are much too cautious in developing new markets.

How friendly are Mongolian laws and public authorities to investors? What can the country's leadership do to facilitate entry into the domestic market?

Public authorities' work is a stumbling block, the problem being not just the regulatory environment itself but application of the laws in practice. But most important of all is the following: Mongolia should decide what to do with its "fossil" riches. In so doing, it will have to answer a wide range of questions of principle, on which society has yet to achieve consensus. To what extent will the country be ready to allow foreign concerns, for example, such heavyweights as Rio Tinto, into its market and what role will the state play in the process? What shares of capital and profit will it receive? Or should everything be done independently?

Other questions concern business practice, for example, contractual discipline and business transparency. How will government contracts be distributed? How will decisions be made? The key problem in this case is corruption that is already being intensively debated in the country.

How do you see Mongolia's economic development in the future?

Mongolia's main problem is its dependence on resource prices. 80% of the state budget income depends on the export of resources, 90% of which is sold to China. It means that the Mongolian economy is strongly dependent on the Chinese market. By the way, the country has not explored most of its resources as yet, which means there is an enormous potential for development.

So the key objective is to reduce the dependence on raw materials! Mongolia should add value to its resources.

This is what the Made in Mongolia Programme is aimed at, but it's not that easy. This will require skilled staff, capital and energy. Foreign investors should bring money to the country and the Chinese are best at it.

The country's political system is stable after 25 years' reign of democracy. Despite some disproportions, the prospects are generally optimistic. One can make money in Mongolia. What it takes is using your brains and efforts.

Dr. h.c. Peter Schaller

started his work at the German Federal Foreign Office back in 1979. Over this time, he has filled various positions at German embassies in Brussels, Beijing and Havana, and was head of German missions in Pyongyang, Ashgabat, Praia (Cape Verde) and Kunduz (Afghanistan). From September 2008 to August 2011, Peter Schaller headed the Consulate General of Germany in St. Petersburg; from 2011 to 2013, he was German Ambassador to Mongolia.

SELECTION OF SENIOR STAFF IN CENTRAL ASIA

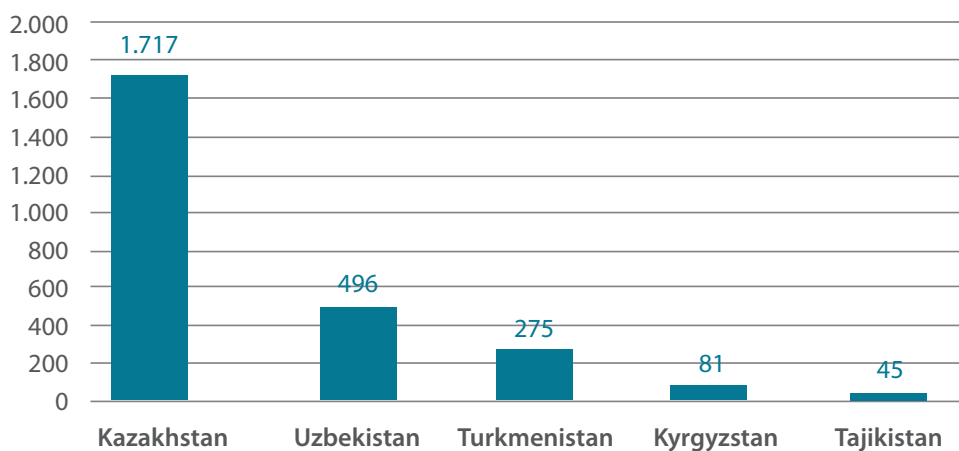
Mongolia and the Central Asian republics Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan are attractive sales markets for European companies operating in various industries.



Christian Tegethoff

Managing Director,
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German Exports to Central Asia (2014, M Euros)



Source: Delegation of the German
Economy for Central Asia

In richly endowed states, such as Kazakhstan and Mongolia, the demand is primary for mining and other equipment, while Uzbekistan, for example, is an active consumer of farm machinery. The companies having business ties with Central Asia and Mongolia are, almost without exception, involved in product sales and customer services. Location of fully operational production is rare for the region.

Often, foreign companies choose not to go beyond just managing the sales processes in the Central Asian Region from their office in Moscow. In this case, work with local dealers and end users is assigned to a Russian Area Sales Manager who collaborates with Central Asia in exactly the same manner as with any of the nine federal districts of Russia, that is, a standard sales region.

It is possible, however, that in this case the region's potential is not being harnessed to its full extent. Indeed, in recent years some companies, primarily suppliers of capital goods, have opened their representative offices in those countries (for instance, in Kazakhstan) for closer cooperation with dealers and end users of their products. In so doing, the overwhelming majority of companies choose to set up their headquarters in Almaty where all the key players of the Kazakh economy are represented. Besides, it is easy to get from here to the capitals of the neighbouring republics - Kyrgyzstan and Uzbekistan.

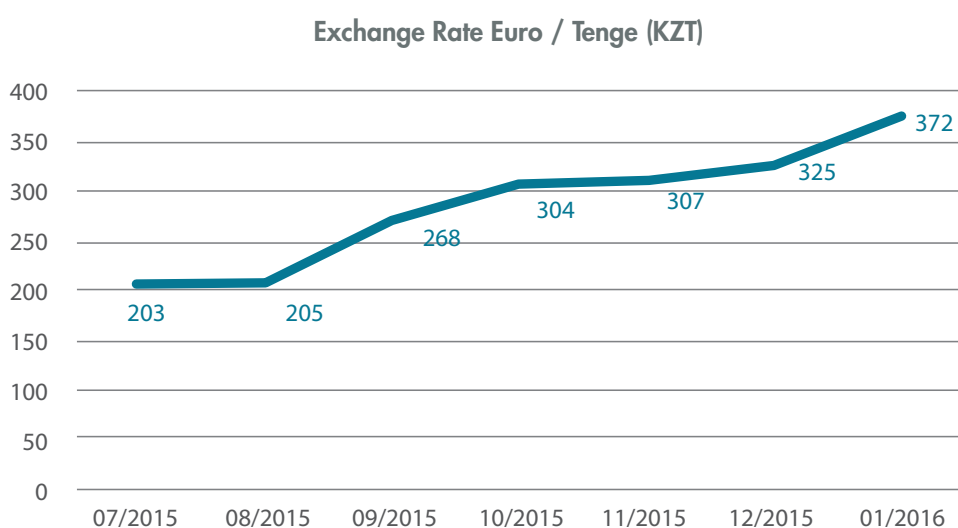
But is a representative office in Almaty enough or should it be opened in each of the Central Asian republics? Giving a general answer to this question is not so easy, be-

cause it largely depends on the potential of those markets for specific goods. Mining equipment suppliers may find useful to have representative offices in Kazakhstan and Mongolia, while Uzbekistan's market is likely to be of more interest to manufacturers of tractors and seeding machinery. In any case, such companies will benefit from closeness to customers and will gain a competitive advantage over businesses that arrange sales and services from Moscow.

Favourable conditions for arranging sales in the region's countries

Central Asia provides excellent conditions for hiring skilled sales personnel. At least Kazakhstan has now a vast number of managers with work experience at Western companies. They have language knowledge and cross-cultural communication skills to succeed as employees at international companies.

The salary costs in the region were favourably affected by a drop in the tenge exchange rate: while in July 2015 a salary of 1.000.000 tenge was equivalent to 4.930 euros, in January 2016 this amount decreased to 2.688 euros.



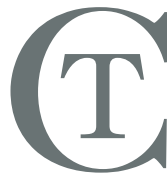
Source: European Central Bank

Another advantage is that in the context of the tough economic situation and declined activity of foreign companies in the Russian market, Russian executives, too, are more open to move to Central Asian countries. As compared to many Russian regions, Almaty and Astana are considered to be attractive places to live.

The integration of Kazakhstan and Kyrgyzstan in the Eurasian Economic Union is helping to substantially cut the number of bureaucratic hurdles to hiring Russian employees in these countries. Such barriers have long posed significant challenges to foreign companies.

Companies intending to launch their production in Central Asia cannot normally do without foreign specialists. Because the local range of technical specialists in most of fields is extremely limited, a company has to engage outside personnel in production processes, at least for the startup period.

Alongside Russian-speaking specialists, Chinese specialists are worth considering. These can be either found in a company's own Chinese plants or be specifically recruited in China's industrial centres. Central Asia is considered as an exciting opportunity by many Chinese executives.



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