

AN OVERVIEW OF CIDB MISSION REPORT

Last February 2014, YBhg. Dato' Sri Ir. Dr. Judin Abdul Karim, Chief Executive of CIDB Malaysia and Madam Zainora Zainal, General Manager, International Division of CIDB Malaysia have made a working visit to Almaty and Astana, Kazakhstan. The visit was in respond to His Excellency Daniyar Sarekenov, Ambassador of Kazakhstan's courtesy visit to Malaysia in September 2013, which aimed to strengthen bilateral relationships between both countries and discuss collaboration opportunities in the construction sector in Kazakhstan.

During the visit, CIDB was informed that the Kazakhstan government is looking forward to acquire specialists and technologies from Malaysia for the implementation of mass affordable housing based on Industrialized Building System (IBS) for their *Kazakhstan Affordable Housing Program*. Malaysian construction companies were also invited to participate in various infrastructure development projects such as hotels, roads, public transports and basic amenities to cater for the ASTANA EXPO 2017. CIDB Malaysia through its subsidiary, CIDB Holdings Sdn Bhd (CIDBH), was also appointed as a training provider for the *Malaysian Technical Cooperation Programme* or MTCP, in which CIDBH will be offering intensive trainings in the construction sector to Kazakhstan's government officials.

Several other huge infrastructure opportunities were also discussed in various meetings throughout the visit, which has resulted in invitation to Malaysian companies through CIDB to participate in the operation and maintenance of the Astana - Atbassar Expressway (326 km) & Shymkent – Kyzylorda Expressway (448 km). The CIDB delegation also made a follow-up discussion on the invitation by Hon. President of Kazakhstan to the Government of Malaysia in 2012 to develop an iconic hotel with Malaysian architecture, a proposed development of a new airport in Astana and Malaysia's participation in the construction of wind power plants in Kazakhstan.

CIDB has also been requested to explore the proposed G4 New Town Development Project in Kazakhstan which aims to create four new towns stretching across a 79km long corridor between Almaty to Lake Kapchagay. The project is estimated to value at US\$45.3 billion (RM158.4 billion) and will span a period of 15 years.

KAZAKHSTAN AT A GLANCE

Kazakhstan is located in Central Asia and northwest of China. It is the world's largest landlocked country by land area and the ninth largest country in the world. Its territory of 2,727,300 square kilometers borders with Russia, China, Kyrgyzstan, Uzbekistan, and Turkmenistan. In July 2014, the nation's population was estimated at 17,948,816 million people. The current President of Kazakhstan, Nursultan Nazarbayev, has been leader of the country since it declared independence in 1991, following the dissolution of the Soviet Union.



The capital, Astana is the focus of residential and non-residential construction activity in the country. In 2012, Astana was chosen by the International Exhibitions Bureau (BIE) as the venue to host ASTANA EXPO 2017 which is expected to boost the construction industry in Kazakhstan. To cater for the expo and to help Kazakhstan realize its aim of becoming a tourist destination, 38 hotels will be built in Astana by 2017.

Infrastructure projects in Kazakhstan are driven mainly by the government, which is also heavily involved in the revival of Kazakhstan's banking system. Labor issues are a consistent problem in Kazakhstan but generally, the labor market is conducive. Access to electricity, while far from nationwide, is stable in major cities. As for natural hazards, there are risks of earthquakes in the south of the country and mudslides around Almaty.

Kazakhstan is also rich with natural resources and has major deposits of petroleum, natural gas, coal, iron ore, manganese, chrome ore, nickel, cobalt, copper, molybdenum, lead, zinc, bauxite, gold and uranium. It is the largest Central Asian producer of hydrocarbons, with onshore and offshore reserves and is also the world's leading uranium miner. Driven by these natural resources, the energy and utilities sector in Kazakhstan is booming as investment flows in to develop the country's energy infrastructure.

SWOT ANALYSIS

Strengths

- The Kazakh government has ambitious plans in the infrastructure and residential and non-residential sectors, and is willing to pump money into the economy in an attempt to get economic diversification projects moving.
- Large hydrocarbons reserves should bolster government spending on infrastructure over the long-term.
- Kazakhstan can exploit its position between China, and its demand for resources, and Russia, with its plentiful commodities and European consumer demand.

Weaknesses

- The country depends on Russian routes for its oil exports and is looking for alternatives.
- The tightening of credit has affected the residential construction industry, leaving contractors struggling to meet the demands of their contracts.
- Many of the country's roads date from the Soviet era and are in serious need of improvement or wholesale reconstruction.
- A lack of institutional capacity and checks leads to corruption in the tendering process.

Opportunities

- As the country looks to other export markets for its hydrocarbons, especially China, pipeline infrastructure is going to be in demand.
- The dangerous condition of the country's roads, and to lesser degree railways, has prompted an unprecedented transport infrastructure spending program.
- The Central Asia Regional Economic Cooperation (CAREC) plan for improvements to transport across Central Asia gives Kazakhstan a significant share in projects covering road, rail, sea and air transport.
- New oil field exploration projects could yield massive infrastructure investment.
- The country also aims to develop nuclear power generation capacity.

Threats

- A massive devaluation in the tenge in early 2014 has led to subdued activity in the construction sector, as inflation ticks up due to higher prices for imports. Long-term political stability in the country is not guaranteed.

- There have been notable instances of strikes by construction workers, who cite unfair pay and working conditions as a major grievance.
- The failure to bring the Kashagan field online is costing huge sums of money to investors and damaging Kazakhstan's image.

INDUSTRY FORECASTS

Construction And Infrastructure Industry Forecast Data (2014-2017)				
	2014	2015	2016	2017
Construction industry value, RM billion	51.7	57	63.6	72
Construction Industry value, % of GDP	6.2	6.2	6.2	6.2
Total capital investment, RM billion	179	201	227	260
Total capital investment, % of GDP	21.56	21.74	22.02	22.43
Construction sector employment, '000	755.6	822.0	919.4	1,033.4
Construction industry employees as % of total labor force	6.76	7.33	8.17	9.14
Cement production (including imported clinker), tons	7,203,734	7,600,525	8,055,404	8,576,303
Cement consumption, tons	10,391,788	11,310,501	12,326,483	13,450,609

Despite strong demand for Kazakhstan's natural resources which has been driving the economy and subsequently providing good opportunities in infrastructure, the construction industry as a whole remains small and mainly attributed to a sluggish economy and major devaluation in the Kazakh tenge. The 19% devaluation of the Kazakh tenge last February 2014 continues to affect Kazakhstan's economy and raises downside risks to the construction sector. To make matters worse, there have also been rumors that further currency devaluation is approaching.

Residential will be the sector hardest hit by the recent currency devaluation. Developers are expected to hold off on projects until a more stable economic climate prevails. Nonetheless, it is important to note that for the past few years, there has been an increasing demand for real estate and prices of houses in Kazakhstan has grown 600% in the last 12 years. Also, on the plus side, it was announced that US\$273 million (RM955 million) of a US\$1 billion (RM3.5 billion) government investment package will be invested in related infrastructure, while a further US\$280 million (RM979.4 million) is to be given to local authorities to invest in the construction of public housing.

Astana as the main political, population and commercial hub of Kazakhstan will be the major focus for developers looking to exploit the nation's growing economy. Another major city, Almaty and the region around it will also be receiving major investment in the form of rail links and trade zones of which some are already under construction. The Caspian Sea region, which houses Kazakhstan's major oil fields, will also garner investments.

Construction output across Kazakhstan has increased markedly over the past decade, with previously undeveloped regions now producing major shares of the country's total construction output. In January 2014, President Nazarbayev has named the cities Astana, Almaty, Shimkent and Aktobe as the future urban centers of Kazakhstan. In Shimket, an action plan to build new administrative buildings and a business center has been approved and 3.63km² of land has been allocated for construction.

The government also plans to develop the US\$10 billion (RM35 billion) G4 golden city project in the city of Almaty. The mixed use development features the construction of a recreational and education center, business centers, residential apartment buildings, an entertainment zone, a scientific zone, amusement parks, roads and cultural facilities centers. The project which is expected to begin in Q2 of 2017 will also include sport complexes and an engineering networks service facilities center.

Market Alert Report: Kazakhstan



In terms of industry risks however, Kazakhstan performs poorly and share last place with Ukraine - as per the BMI report. The rating was largely attributed the relatively obscure tendering process, lack of competition and corruption issues in the private sector, as well as in tax administration. Kazakhstan also scored poorly in the transparency aspect of the processes of competing for projects. Corruption remains a significant problem in Kazakhstan, amid the government's effort to impose tighter regulation.

Tax policy has also seen a series of changes thus fueling fears of arbitrary regulation and retroactive taxing. But above all, policy continuity is perhaps the greatest threat for Kazakhstan. There have been concerns of a potential succession crisis in the future should President Nazarbayev pass away without a named presidential heir.

MAJOR PROJECTS

Project Name	Value (RM mil)	Size	Unit	Timeframe Start	Timeframe End	Status
G4 Golden city Project, Almaty	35,000	16,690,000	m ²	2017	2032	At planning stage
Recreating the silk route	8,745	510	km	2009	2020	Project finance closure (World Bank approved loan)
CAREC Corridor 2 Investment Programme	4,204	790	km	2010	2017	Project finance closure (ADB US\$800 million (RM2,795 million) approved)
Shymkent-Uzbek Border Road Upgrade Project	688.4	62	km	-	-	Project finance closure (January 2013 – EBRD loan approved)
Kazakh-Azeri pipeline	10,511	-	-	-	-	Feasibility studies/EIA under way
Beineu-Bozoi-Akbulak gas pipeline	-	30	km	2012	2015	Announced (start delayed from Q4 2013)
Central Asia Centre pipeline expansion	-	-	-	2012	-	Delayed
Yeskene-Kuryk oil pipeline	8,745	770	km	-	-	At planning stage (in partnership talks)
Kurchatov experimental nuclear plant	1,752	50	MW	2010	2018	At planning stage
Gres - I power plant renovation	-	4000	MW	-	-	Feasibility studies/EIA under way (NTPC doing due diligence)
Upgrade Moinak transmission lines	-	220	kV	-	-	In tender/Tender launched (bids sought)
Nuclear power plant, Aktau	-	300	MW	2010	2020	Feasibility studies/EIA under way
Hydropower plants (various)	4,613	32.5	MW	2011	2021	Announced
Kambarata-1 hydropower plant	5,941	2000	MW	2013	2021	At planning stage
Taraz solar PV plant	244	24	MW	2013	-	Announced (November 2012)
Shokpar wind power plant	-	400	MW	2013	-	Announced
Zhanat wind power plant	-	200	MW	2013	-	Announced
Kyzylorda solar PV plant	324	50	MW	2013	-	Announced (May 2013)
Akmola wind power plant	-	45	MW	2013	-	Project finance closure (May 2013 – loan)

Shymkent water facility	-	-	-	-	-	agreed by EDB) Project finance closure (EBRD approves US\$8 million (RM27.95 million) loan)
Irrigation project - technical assistance - Stage 2 - Makhtaaral, South Kazakhstan Oblast	-	-	-	-	-	Feasibility studies/EIA under way
Water and wastewater system rehabilitation project, Aktau	59.3	-	-	-	-	Project finance closure (EBRD loan approved)
Khorgos-Eastern Gates Free Economic Zone and Aktau Port	3,500	-	-	2017	-	At planning stage (February 2013 – Management cooperation agreement signed)

INFRASTRUCTURE AND CONSTRUCTION PLAYERS

KazMunayGas (KMG) was established in 1991, as the state-owned oil and gas company of Kazakhstan. KMG is also one of the largest investors in Kazakhstan's infrastructure and is the vehicle through which the government holds a 50% (or more) interest in projects that require its participation. Currently, KMG is working on the development of infrastructure for the export of oil and gas from Kazakhstan to other markets. KMG is also to construct a greenfield port on the Caspian Sea coast in partnership with South Korea's Hyundai. This company has the capital needed for major infrastructure developments.

For further details, please contact:

International Division
CIDB Malaysia
Level 33, Menara Dato' Onn
Putra World Trade Centre (PWTC)
No. 45, Jalan Tun Ismail
50480 Kuala Lumpur

Email: international@cidb.gov.my
Tel: +603 4047 7028 Fax: +603 4047 7030