



Orange Revolution acts as beacon to investors

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Standing between rows of transmission shafts on the expansive shop floor of a Ukrainian truck factory, Stefan Laxhuber, a German fund manager, watches intently as workers bolt the different pieces that make up a drive train on to big steel frames gliding slowly down the production line.

"Some of their processes are very modern, and some are not," observes Mr Laxhuber. He was one of about 20 western European fund managers who recently took an excursion into Ukraine's industrial hinterland guided by Concorde Capital, a local brokerage keen to encourage foreign investment.

They hope to be in the vanguard of a new wave of foreign investment in Ukraine, long one of the most overlooked markets of eastern Europe.

They are betting that Ukraine's new pro-western president, Viktor Yushchenko, will move quickly to implement the sweeping economic liberalisation he is promising. Concorde calls it "Investing Orange", after the Orange Revolution that helped to bring Mr Yushchenko to power.

The fund managers' first stop was AvtoKraz, a factory in Kremenchuk, central Ukraine, which makes super-heavy trucks that look as if they could have driven out of the 1970s. The company is growing quickly thanks to the recovering regional economy and a contract to supply 2,000 trucks to the Iraqi army.

Mr Laxhuber started buying Ukrainian equities in 2003, and since then they have doubled or tripled in value. "I'm looking to increase the Ukraine weight in my fund," he says.

Yesterday another group of more than 100 investors descended on Kiev for a conference organised by Renaissance Capital, a Russian investment bank that last year opened a branch office in Kiev. Some of the investors were due to fly out to the eastern city of Dnipropetrovsk to visit a rocket factory and a steel pipe mill.

Tomas Fiala, managing director of Dragon Capital, a Ukrainian brokerage, says he sees most foreign investment falling into two broad categories. Some investors want to produce goods for the domestic market, which is growing rapidly: gross domestic product rose 12 per cent last year. Others see Ukraine as a low-cost production base with easy access to the European Union market. European clothes makers and contract manufacturers are shifting production into Ukraine's western regions, just across the new EU border.

The task for Mr Yushchenko's new government will be to translate the curiosity shown by investors such as Mr Laxhuber into a sustained increase in inward investment.

Foreign direct investment (FDI) doubled from \$690m (€532m, £366m) in 2002 to \$1.4bn in 2003,

but remained flat in 2004.

The Economist Intelligence Unit forecasts FDI will reach \$1.9bn in 2005. But Mr Fiala predicts it will reach \$3bn. And he says it could be pushed higher by one or more big deals, such as an expected resale of Kryvorizhstal, the country's largest steel mill.

Production of mass commodities such as steel and chemical fertilisers is the lifeblood of Ukraine's economy, and these remain largely insider-dominated sectors. Close ties between the dominant business groups and the former government scared off potential investors and led producers in the European Union to demand protection from what they saw as unfair competition. As a result, Ukraine sells most of its exports to other emerging markets, especially Russia, China and the Middle East.

Mr Yushchenko hopes his democratic credentials will help to pry back open the doors to EU markets. He says he is determined to shift the economic base from commodities to higher-value-added products.

But many Ukrainian companies are ill prepared to break into western markets. AvtoKraz, for example, sells its old-fashioned trucks mainly to developing countries, where budgets are small and roads are bad.

Concorde is hoping to persuade AvtoKraz's owners to sell a stake of 25 per cent plus one share, which would give the minority owner a veto over major company decisions. Such a deal, worth up to \$25m, would not change AvtoKraz's world Mr Fiala says the company would need an investment of at least \$200m to compete against the big freight truck makers. But it would be a first step.

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