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THE MAIN ASPECTS OF FOREIGN INVESTMENTS IN KAZAKHSTAN IN THE MODERN PERIOD

The article examines the questions of foreign investments in Kazakhstan. Particular attention is paid to the main criteria for investment, the pros and cons of the results of investments.

Keywords: foreign investments, direct investments, national companies.

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ҚАЗІРГІ ТАҢДАҒЫ ҚАЗАҚСТАНДАҒЫ ШЕТЕЛ ИНВЕСТИЦИЯЛАРЫНЫҢ НЕГІЗГІ АСПЕКТІЛЕРІ

Берілген мақала Қазақстандағы шетел инвестицияларының негізгі сұрақтарын қарастырады. Негізгі назар инвестициялардың негізгі ерекшеліктеріне, инвестициялық салымдарының плюстері мен минустарына баса назар аударылады.

Түйін сөздер: шетел инвестициялары, тура инвестициялар, ұлттық компаниялар.

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ГЛАВНЫЕ АСПЕКТЫ ИНОСТРАННЫХ ИНВЕСТИЦИЙ В КАЗАХСТАНЕ НА СОВРЕМЕННОМ ЭТАПЕ

Данная статья рассматривает вопросы иностранных инвестиций в Казахстане. Особое внимание уделяется основным критериям инвестиций, плюсы и минусы результатов инвестиционных вложений.

Ключевые слова: иностранные инвестиции, прямые инвестиции, национальные компании.

Regional conflicts, sanctions imposed on Russia and negative growth prospects have deterred foreigners from investing in the region. However, since gaining independence, Kazakhstan has adopted a series of reforms to liberalise its economy and facilitate foreign investment. The decade of 1999-2009 witnessed FDI multiplying ten-fold, which enabled to boost oil and gas production. Between 2005 and 2015, the country attracted USD 215 billion worth of FDI. Kazakhstan is widely considered to have the best investment climate in the region, and several international companies have established regional headquarters there. Overall, the government has incrementally improved the business climate for foreign investors and they plan to establish a national company, "Qazaq Invest," that would facilitate the activities of foreign investors in Kazakhstan. In 2018, Kazakhstan ranked 36th out of 189 in the Doing Business Report of the World Bank, same as the previous year.

Although Kazakhstan favours domestic investors over foreign investors, FDI keeps flowing in. According to data by UNCTAD, the inflow of direct investment in 2017 was USD 4.6 billion. The total stock of FDI stood at USD 147 billion (93.2% of GDP) at the end of 2017 (UNCTAD 2018 World Investment Report). The oil and mining sectors are still the most attractive for investors since they concentrate more than half of the FDI. During

the last decade, the country, known as the 'locomotive' of post-Soviet Central Asia, has tripled its oil production. However, FDI flows to the oil industry are in jeopardy as global oil prices fell sharply in 2015. In addition, FDI flows to the manufacturing sector are steadily increasing [1]. The country's main challenge remains to attract investment into sectors and activities other than natural resource extraction, which accounts for more than 70% of total FDI stock, as well as retain investors already present in the economy. The country plans to seek foreign companies to finance the Eurasia oil exploration project, estimated to cost USD 500 million [2]. The first round of negotiations with promising participants to the project (ENI, ROSNEFT, CNPC, SOCAR, NEOS Geosolutions as well as the Kazakh JSC NC KazMunayGas) was held in February 2017 in Astana.

What to consider if you invest in Kazakhstan:

Strong Points

The main assets of the country are:

-Kazakhstan's economy is primarily based on its large hydrocarbon resources and strong production capacity in this area.

-Located at the crossroads of Europe and Asia, the country has benefited from the huge investments made by China through its China's Belt and Road Initiative program to improve its transport infrastructure.

Country comparison for the protection of investors

	Kazakhstan	Eastern Europe & Central Asia	United States	Germany
Index of Transaction Transparency*	10.0	7.0	7.0	5.0
Index of Manager's Responsibility**	6.0	5.0	9.0	5.0
Index of Shareholders' Power***	9.0	6.0	4.0	8.0
Index of Investor Protection****	8.0	6.4	6.5	6.0

Source: *Doing Business - Latest available data.*

Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action. **** The Greater the Index, the Higher the Level of Investor Protection.

Foreign Direct Investment	2015	2016	2017
FDI Inward Flow (million USD)	3,860	8,097	4,634
FDI Stock (million USD)	133,752	143,089	147,064
Number of Greenfield Investments***	46	29	30
FDI Inwards (in % of GFCF****)	8.8	28.7	n/a
FDI Stock (in % of GDP)	65.2	97.0	n/a

Source: *UNCTAD - Latest available data.*

Note: * The UNCTAD Inward FDI Performance Index is Based on a Ratio of the Country's Share in Global FDI Inflows and its Share in Global GDP. ** The UNCTAD Inward FDI Potential Index is Based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy Use, R&D, Education, Country Risk. *** Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up. **** Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.

-The economic situation is relatively good and growing (3.9% in 2017) despite a financial sector affected by the financial crisis.

- Kazakhstan has strong economic potential, a skilled and abundant workforce and a quality banking system that is based on a large surplus of foreign exchange (more than 50 billion USD in October 2017, Euler Hermes 2018).

- Kazakhstan is the largest economy in Central Asia: the country accounts for more than half of the region's GDP (Business France, 2017).

Weak Points

Heavy constraints weaken Kazakhstan's economic potential and hinder the attraction of FDI: An economy highly dependent on commodity prices and Russian economic conditions

- Weak liberalisation of the economy: the strategy of the government in place is interventionist and protectionist

- An authoritarian political regime as a solution to chronic political instability in the region: a generally weak legal, legal and administrative framework, thus slowing down trade and allowing corruption to operate (Kazakhstan ranked 145th out of 180 according to Transparency International, 2016)

- The right to intellectual property is poorly protected

- Infrastructure below international standards

Government Measures to Motivate or Restrict FDI

Government policy has been encouraging foreign investment for nearly two decades (thanks to December 1994 and February 1997 laws) with measures such as reduction and even waiver of taxes for 5 years, a state subsidy, partial or total exemption from duties and taxes

on equipment, raw materials and other material necessary for investment [3].

A new law aimed at making significant improvements to the investment climate in Kazakhstan was passed by the government on 24 June 2014 and has applied since 1 January 2015. The law introduces preferential treatment for investors involved in "priority investment projects". In order to counteract the economy's great dependence on its hydrocarbon production, the state has put in place programmes to diversify the economy by encouraging all initiatives relating to industrialisation, innovation and new technologies. For example, in 2017, the country launched the "Kazakhstan National Technology Initiative" program, which by 2025 is supposed to accelerate technology renewal and create new digital-based industries in all sectors. At the same time, the state wants to liberalise the economy gradually, through the development of public-private partnerships, and thus seeks to minimise its participation in the national economy.

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