



Is now the time to invest in Kazakhstan?

November 2022



QAZAQSTANNYŇ SYTQY
SAÝDA PALATASY

CHAMBER OF INTERNATIONAL
COMMERCE OF KAZAKHSTAN

Stats

More than

\$380 billion

invested in Kazakhstan over the past 31 years – **70%** of the total international investment flow into the Central Asian region

\$7.58 billion

foreign direct investment in Kazakhstan in the second quarter of 2022

\$20.51 billion

EU imports from Kazakhstan in 2021, according to the United Nations COMTRADE database

More than

1,400

companies from 64 countries registered at the AIFC

\$179 billion*

(83,951,587.90 KZT Million)
Gross National Product in Kazakhstan in 2021

* based on the exchange rate of USD1/ KZT468 as at 26 October 2022

Executive Summary

Now is the Time to Invest in Kazakhstan

Leading global investors and businesses view Kazakhstan as increasingly investable – as it spreads its wings economically at the same time as entering a new phase of its political development. While opportunities continue to abound in the country's renowned oil, gas and minerals sectors, there is also a growing service economy, along with innovative science and technology-based start-ups and an expanding role as a regional centre for aviation, education and financial services. While facing similar headwinds to many countries globally – chiefly inflation – the

economy is tipped for strong growth and has a young, well-educated population. Since independence 31 years ago, international investors have injected more than \$380 billion into the economy – 70 per cent of the total investment flow into the Central Asian region in that time. Constitutional changes are set to entrench the stability that has marked the history of independent Kazakhstan, and a diversifying economy underpinned by a robust legal system is opening new doors for investors and companies who are targeting the country.

An opportunity of scale

The scale of Kazakhstan may surprise those investors beginning to take an interest in the opportunities afforded by the Eurasian land mass. At 2.7 million square kilometres, it sits 9th in the world rankings, making it slightly less than four times the size of Texas ⁽¹⁾. The country has a small but highly-educated and motivated population of 19.4 million.

Kazakhstan borders China, Russia, Kyrgyzstan, Turkmenistan and Uzbekistan, sitting at the crossroads of Eurasia, a fact reflected in the range of ethnic groups and languages contained within its borders. Meanwhile, the country's economy stands at a rather different sort of crossroads. Since gaining independence from the Soviet Union 31 years ago, Kazakhstan has

become best-known economically for its huge reserves of minerals and hydrocarbons, including uranium, copper, zinc, oil and gas – and these remain critical to the Kazakh economy. And with a large agricultural sector this abundance of natural resources – and their current high prices – underpin the economy.

However, Kazakhstan is not complacent, and government-backed initiatives are under way to diversify the economy into sectors such as transport, pharmaceuticals, telecommunications, petrochemicals and even higher education, as part of what has been called **“an economy based on brainpower”** by Shigeo Katsu, President of Nazarbayev University.

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The reform programme is capturing the attention of investors, with the trajectory for attracting inward investment looking more positive.

Chris Weafer, Chief Executive Officer,
Macro-Advisory



KAZAKHSTAN

(1) <https://www.britannica.com/place/Kazakhstan>

Views of global investors



An exciting investment opportunity considering Kazakhstan's economic stability, abundant natural resources, strong commodity market fundamentals and the political and economic reforms by President Tokayev

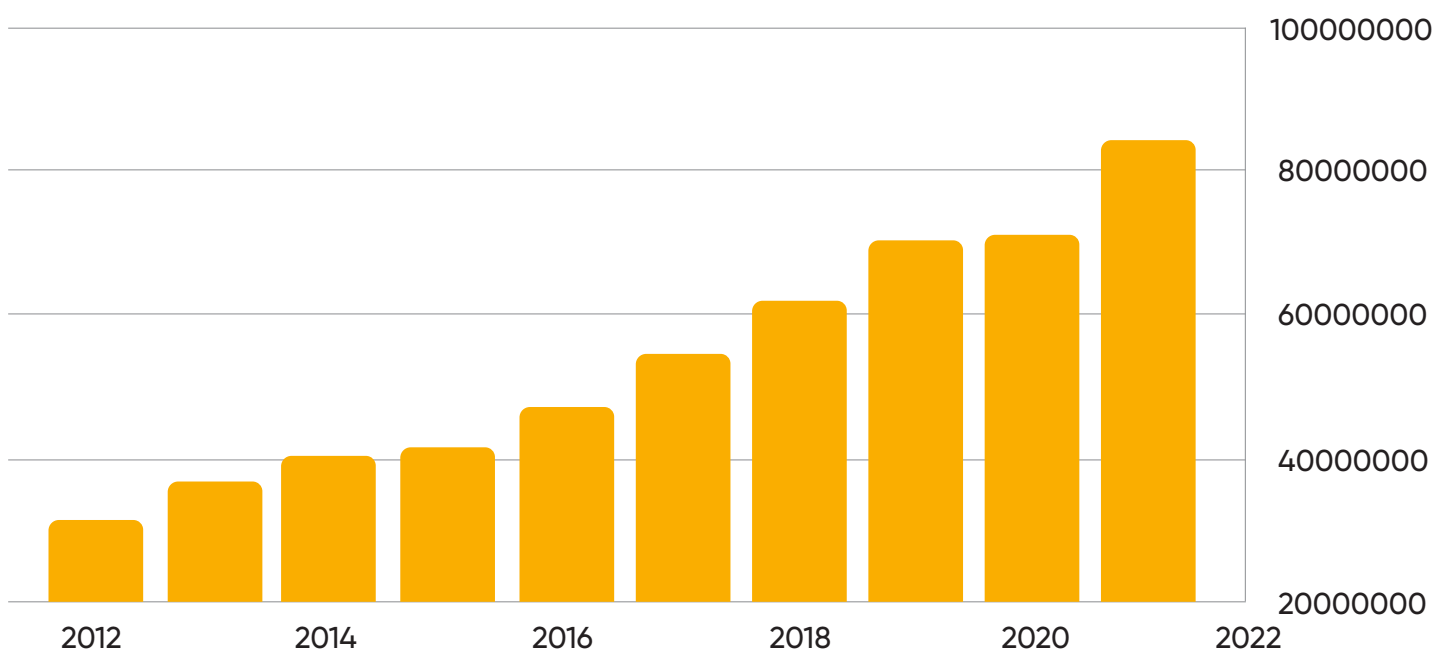
Marius Dan, Franklin Templeton



It is a country with enormous potential driven by international trade. Its unique geographical position makes it extremely well placed to take full advantage of the rise of China / Asian trade but also the rapidly growing European demand for the vital commodities Kazakhstan produces.

Roland Nash, VPE Capital

Gross National Product in Kazakhstan increased to 83951587.90 KZT Million in 2021 from 70649033.20 KZT Million in 2020. Source: Agency of the Republic of Kazakhstan on Statistics





Changing times

Kazakh authorities have deliberately sought to create a culture which enables businesses to thrive, with such activism deemed necessary to shake off the legacy of caution from the Soviet years. The promotion of entrepreneurship is perhaps at its most visible with the government agency QazInnovations (motto: “Cool to be Innovator.”), which provides grants and other support for those with workable new ideas.

But while the economy is at a turning point between a resource rich emerging market and one increasingly committed to innovation, services and science-based activities, so is Kazakhstan embarking on a new era politically. The first three decades after independence were dominated by the presidency of Nursultan Nazarbayev, who stepped down in 2019. His successor Kassym-Zhomart Tokayev has described this as a **“super-presidency”**, and is planning to scale it back and give the parliament a more meaningful role. ⁽²⁾

Similarly, it is likely that Nazarbayev’s bold approach to blockages and bottlenecks in the economy and wider society will transform into a more conventional way of doing things. Dissatisfied, for example, with the country’s higher education system, the President set up a brand-new university (of which more later) and staffed it with top academics from around the world. Chafing at the inhibiting effect of Soviet-legacy legislation on economic growth, Tokayev established a large financial services centre and declared that English, not Kazakh, law would hold sway.

Tokayev has implicitly ruled out such sweeping gestures in the future. Speaking on March 17 2022, he declared: **“We are talking about the final transition from a super-presidential form of government to a presidential republic with a strong parliament. Such a system will provide an optimal balance of institutions of power**

and contribute to the country’s sustainable development. Today, literally everything in our country revolves around the president, and this doesn’t seem right.”

Protests in January 2022 over rising prices strengthened Tokayev’s position, allowing him to propose these changes to the country’s governance. According to the US International Trade Administration: **“Following the unrest, President Tokayev promised a new democratic order, organising the first referendum in 27 years, to approve constitutional changes aimed at limiting presidential powers in favour of the parliament and implementing significant decentralisation. Another important development was Tokayev’s push for the repatriation of offshore illegally acquired assets and redemption of about \$473 million back into the country.”** ⁽³⁾

Corruption remains a concern in Kazakhstan, and has been highlighted by, among others, the International Monetary Fund (IMF). To counteract this the President has ruled out family relations of the head of state from holding senior office: **“For the closest relatives of the president, a legislative ban will be introduced on holding positions of political civil servants and leaders in the quasi-public sector.”**

He added that he wished to see increased political competition and a fully-fledged multi-party system.

The IMF welcomed this: **“Recent reform announcements are an opportunity to accelerate the fight against corruption. Important steps for political modernisation, judicial reform, and increasing the role of the civil society and media were announced by the President earlier this year. The authorities’ anti-corruption strategy needs to be supported by further legal and institutional reforms.”** ⁽⁴⁾

⁽²⁾ Kazakhstan Reform Programme

⁽³⁾ US International Trade Administration
[Kazakhstan - Market Overview \(trade.gov\)](https://www.trade.gov/kazakhstan-market-overview)

⁽⁴⁾ IMF concluding statement of the 2022 Article IV Mission, October 10 2022
[Kazakhstan: Staff Concluding Statement of the 2022 Article IV Mission \(imf.org\)](https://www.imf.org/en/News/Articles/2022/10/10/220922kazakhstan-staff-concluding-statement-of-the-2022-article-iv-mission)

Welcomed also by global investors

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Despite being ahead of regional peers, it has posed challenges for foreign investors at times to realise Kazakhstan's full potential. Foreign investors must contend with local players, who are often better versed in the intricacies and boast the right contacts, not to mention the perception that favouritism pervades. However, it is very exciting to see the new President determined to continue developing the right policies and mechanisms which will ensure the country's status as an open and friendly destination for international investors - removing the impediments we faced previously.

Roland Nash, VPE Capital

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The investment climate for Kazakhstan is improving and we look forward to higher levels of primary and secondary market activity over the medium and longer term, as a result

Ayuna Nechaeva, Head of Europe, the London Stock Exchange

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Some of the historic challenges include lack of debt and liquidity of capital markets, which with the right incentives in place could be addressed and become transformational for the country

Marius Dan, Franklin Templeton

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The macroeconomic fundamentals and the recently announced reforms have definitely put the country on the right track and created a strong basis for investing in Kazakhstan. We are very positive on the proposed reforms but need to see them implemented and maintained for years to come

Michel Danechi, Vedra Partners

In its recent report The Economist Intelligence Unit commented:

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In the short term, economic policy will be focused on ensuring macroeconomic stability, controlling inflation and improving living standards.

Well positioned

But while Kazakh economics and politics are undergoing important changes, the country's achievements since independence must not be underestimated. A territory previously known, if at all, for being the place from which the USSR launched its space rockets has become a key figure in the region, not least in foreign relations and disarmament. Its "omni-directional diplomacy" seeks to maintain stability in the area through constructive and friendly relations with its neighbours, with Kazakhstan as "an oasis of stability surrounded by big players", in the words of one of the country's most senior academics.

The country's profile on the world stage has been underpinned in recent months by meetings between President Tokayev and world leaders including China's President Xi Jinping and Pope Francis, as well as his address to the United Nations.

Political stability has attracted billions of dollars of foreign investment since 1991, and the 2019 World Bank's ease of doing business index ⁽⁵⁾ ranked Kazakhstan in 25th place, ahead of Luxembourg (72), Italy (58), Japan (30), Switzerland (36) and France (33).



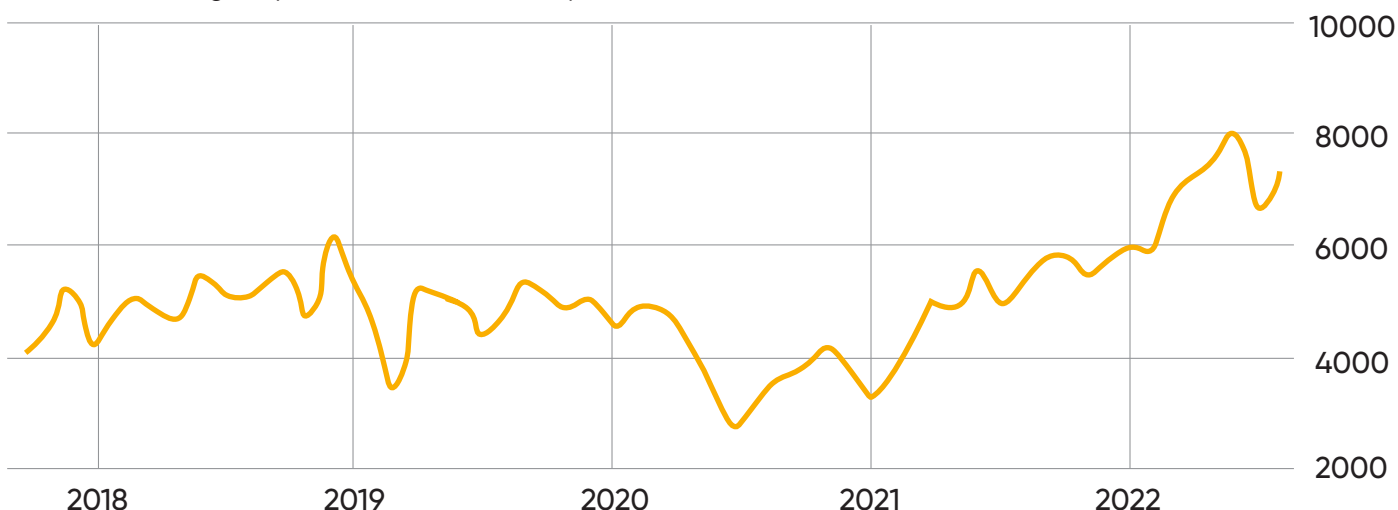
Kazakhstan has always been at the forefront of change in the region, friendly and open to foreign investments and has done exceptionally well at attracting high profile investments from Europe, US, India and Korea amongst others which has made it really stand out amongst Central Asian peers.

Roland Nash, VPE Capital

According to the U.S. Department of Commerce, U.S.-Kazakhstan bilateral trade totalled \$2.5 billion in 2021. U.S. exports to Kazakhstan totalled \$807 million and Kazakhstan's exports to the United States totalled \$1.7 billion. The trade turnover between January and July 2022 reached US\$1.5 billion, which was 36.6 per cent more than during the same period in 2021.

The EU remains Kazakhstan's biggest trading partner. Last year EU imports from Kazakhstan were \$20.51 billion according to the United Nations COMTRADE database. There are also more than 4,000 companies with European connections currently operating in Kazakhstan.

Exports in Kazakhstan increased to 7407.80 USD Million in August from 6688.20 USD Million in July of 2022. Source: Agency of Statistics of the Republic of Kazakhstan



⁽⁵⁾ [Ease of doing business rank \(1=most business-friendly regulations\) | Data \(worldbank.org\)](https://www.worldbank.org)



Overcoming headwinds

This is not to say that economic challenges do not persist, as indeed they do in many countries. Inflation remains a concern. The IMF's October report stated: "Continued increases in inflation, especially food inflation, could severely affect the poor. A higher policy rate is necessary to anchor inflation expectations, bolster the credibility of monetary policy, and reduce the risk of adverse second-round effects arising from wage or exchange rate depreciation pressures."

It added: "While this may incur short-term economic costs, letting inflation rise and having to intervene more drastically later would inflict higher costs on the economy and population."

The official response to the current economic situation seems, at times, to have more in common with the economic thinking of the socialist era than of the free-market "Washington consensus" that held sway for most of the post-Cold War period. As the IMF noted: "[The National Bank of Kazakhstan] restricted exports of physical foreign currency cash and gold by households, while the government introduced a subsidy on tenge deposits to prevent a rise in dollarisation. In the face of social demands and the outbreak of the war in Ukraine, initiatives announced by the President led to a revision of the 2022 budget, with increased public spending by about three per cent of GDP, financed by higher oil revenues... to contain price pressures, the government put in place temporary export restrictions on several goods and extended fuel price freezes introduced in January."

But it forecast strong growth, with between 2.5 per cent and 2.8 per cent expansion this year, rising to 4.5 per cent in 2023-2024 before settling down to about 3.5 per cent. The fiscal deficit, said the Fund, is set to decline thanks to the strong performance of tax revenue, and "overall, the banking system continues to benefit from high levels of capital, liquidity, and profitability".

The IMF report also noted: "Thus far, adverse spill-overs from the war in Ukraine have been limited." Later, it notes that "banks have coped well with the fallout of international sanctions against Russia".

However, distancing itself from Russia is not perceived as risk free by the global buy-side community.

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We view it as a positive that Mr Tokayev is now aligning himself with the West, having publicly stated that he does not support the war in Ukraine and will not give out fugitive reservists. However, Kazakhstan is still viewed by many as an oil play and is 80% reliant on the Russian Caspian Pipeline Consortium for its oil exports. Currently, it is operating at below full capacity due to damages. We view it as a potential risk that this pipeline could be cut off and, depending on the political dynamics, any alternative routes would require huge capex and years to construct.

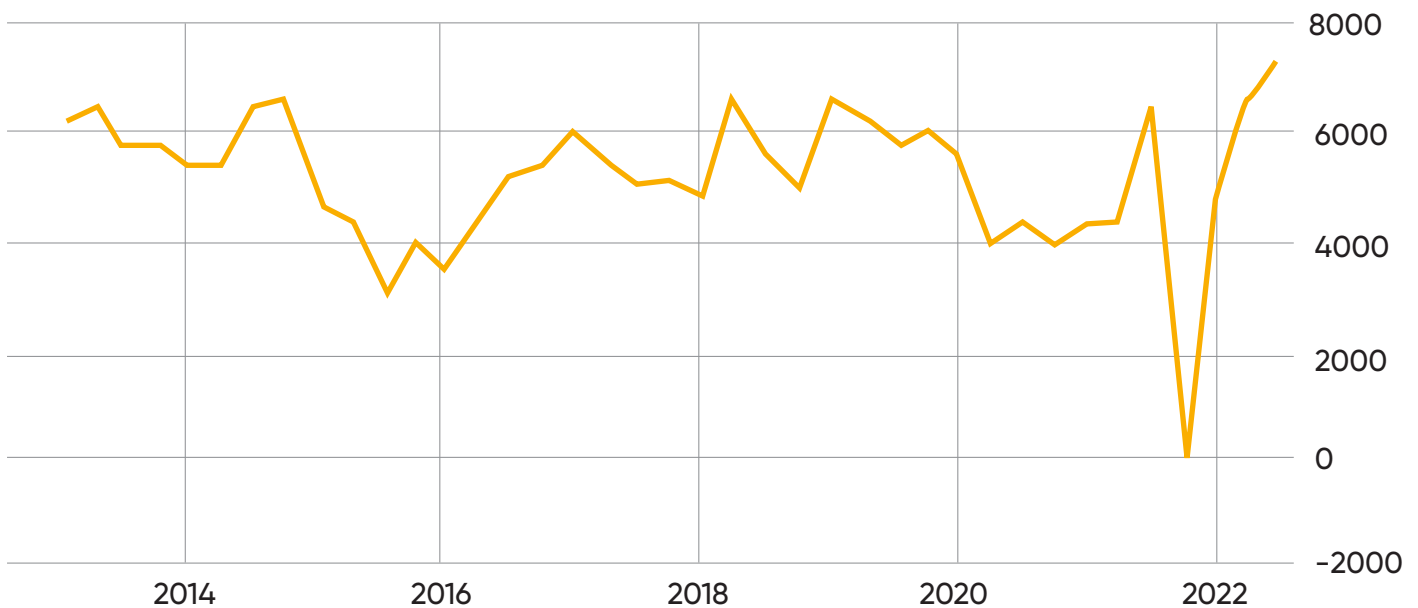
Ksenia Mishankina, Emerging Markets, Loomis, Sayles & Company

Overcoming headwinds

Kazakhstan is maturing, 31 years after regaining its independence for the first time since 1864.⁽⁶⁾ Political reform is in hand, economic growth is positive, it has a highly educated population and a regional hub position in financial services, air transport and food and drink.

As a result the country is increasingly attracting international investment with Foreign Direct Investment in Kazakhstan in the second quarter of 2022 at \$7.58 billion – its highest level for a decade – according to the National Bank of Kazakhstan.

Foreign Direct Investment in Kazakhstan increased by 7582.57 USD Million in the second quarter of 2022.
Source: National Bank of Kazakhstan



This momentum is set to continue, with investors showing their appetite for Kazakhstan at recent highly positive meetings in New York between the Kazakh leadership and heads of global financial

institutions, including Citi, Goldman Sachs, NASDAQ, Auerbach Grayson & Company, and Franklin Templeton.

⁽⁶⁾ Paul Brummell; Kazakhstan: the Bradt Travel Guide





Main Industries

America's Heritage Foundation notes: "Oil production is booming, primarily because of a nearly \$37 billion expansion of the Tengiz oil field. Kazakhstan's vast hydrocarbon and mineral reserves, especially in the Caspian Basin, form the backbone of its economy. The country is the world's largest producer of uranium and has a large agricultural sector that features livestock and grain." ⁽⁷⁾

The Foundation adds: "Over the past several years, Kazakhstan has been transitioning from the Cyrillic alphabet to the Latin alphabet." That's an intriguing parallel with official attempts to nudge Kazakhstan away from dependence on commodities and towards higher value-added sectors, an economic transition.

A sovereign wealth fund, on the Norwegian model, has been established, and the government identified a number of priority business sectors that it wished to grow. These included textiles, petrochemicals and tourism.

"Kazakhstan's recent economic growth has also been marked by a rapid recent expansion in the services and construction sectors, the latter including the many building projects in the capital of Astana as well as excellent new motorways." ⁽⁶⁾

According to World Atlas: "Kazakhstan's service industry comprises tourism, retail investment, and ICT. Innovation and technology are considered key to the country's future development.

"Thus, the government in partnership with international organisations such as the World Bank have invested in the sector. In 2014, the World Bank approved a loan of \$88 million to facilitate Kazakhstan's socially and commercially viable innovation in technology." ⁽⁸⁾

In 2021, ⁽⁹⁾ as calculated by Statista, the market data specialist, services accounted for 53.51 per cent of Kazakh GDP and industry of all types 35.04 per cent. Agriculture took up 5.11 per cent

of GDP, but this relatively low figure underplays the sector's importance – World Atlas notes that it employs 20 per cent of the labour force.

It added: "The largest crop grown in the country is wheat, which is mainly for export. Other major crops include cotton, barley, sugar beets, flax, sunflower, and rice." Intriguingly, it adds that many believe the apple originated in Kazakhstan. ⁽⁷⁾ Gulf state investors in particular are interested in the agriculture sector in Kazakhstan, given the huge land resources and its proximity to the Middle east. Wheat exports are expected to stand at 5 million tonnes this year, while the government plans to increase subsidies in dairy and cattle rearing to boost other areas of agriculture. (Y)



(6) Paul Brummell; Kazakhstan: the Bradt Travel Guide

(7) [Kazakhstan Economy: Population, GDP, Inflation, Business, Trade, FDI, Corruption \(heritage.org\)](#)

(8) [What Are The Biggest Industries In Kazakhstan? - World Atlas](#)

(9) [Kazakhstan - share of economic sectors in the gross domestic product 2021 | Statista](#)

Main industries

In terms of services, one of the most prominent companies is the national flag carrier, Air Astana. Headed by Peter Foster, a Cambridge graduate and veteran of airlines including Cathay Pacific. Air Astana is perhaps unusual in that, from its inception in 2002, it has been run on a strictly commercial basis, and has been profitable for all but two years since then.

As mentioned above, spurring innovation is a government priority, to which end its QazInnovations agency ⁽¹⁰⁾ has a mission to promote “analytical, methodological, and operational support for the development of the national innovation ecosystem”. Grants and other assistance are available, tailored respectively to large, small and medium-sized businesses, but successful applicants will need a proper management team, existing contracts, an investment by the founders and the potential to grow.

Current priority areas include fintech, green tech, artificial intelligence (AI) and the “Internet of Things”.

The stable of businesses supported by the agency is nothing if not varied. It includes Cerebra, which developed new and more accurate methods of detecting strokes, Egistic, an AI-based farm management system, and Parquor, which uses licence-plate recognition to provide parking access and revenue collection.

(10) <https://qazinn.kz>

The financial services sector in Kazakhstan is also on the rise, with Goldman Sachs reporting that profitability levels were positive for 18 out of the country’s 22 banks, as disclosed by the National Bank of Kazakhstan, with sector net profit at KZT 804.3 Billion in 2022 to date implying a 24% ROE. Retail lending increase of 19% year-to-date is seen as a key driver of lending growth acceleration in the country. (X) Kaspi bank, listed on the London Stock Exchange, is a consumer-focused financial ecosystem that provides an indication of the uprise of innovation-driven financial services in the country.

Overall, Kazakhstan’s economy is set to be liberalised further. In August this year, Prime Minister Alikhan Smailov launched consultations on a revised economic policy. As reported by The Astana Times: “The draft strategy, developed at the initiative of the head of state, envisions greater economic freedom and diversity, increased export potential and labour productivity.

‘I want to reiterate that the business sector will take the lead in implementing the transformations. Together with the business community, the government will continue to enhance business conditions and provide the groundwork for our country’s economic growth and development, enhancing the well-being of our citizens,’ said Smailov.”





Astana International Financial Centre

International investors, but British in particular, ought to feel quite at home in the impressive 1,632-hectare AIFC in Astana. Not only does English Common Law rather than Kazakh law hold sway within its boundaries, but the Chief Justice is none other than Lord Mance, formerly Deputy President of the Supreme Court in the UK.

It is precisely because English law, supported by elements of best practice elsewhere, is familiar to international investors that it was chosen for the AIFC when it opened in 2018.

What is the AIFC for? In its own words, it plays a pivotal role in global finance and commerce. More than 1,400 companies from 64 countries have already registered at the centre. At its heart is the Astana International Exchange, which describes its mission as “to develop a deep and liquid capital market in Kazakhstan and [the] Central Asian region by providing clear and favourable conditions for private and public businesses to raise capital”.⁽¹⁾

The exchange is jointly owned by the AIFC itself, along with Goldman Sachs, the Shanghai Stock Exchange, China’s Silk Road Fund and NASDAQ.



⁽¹⁾ AIFC

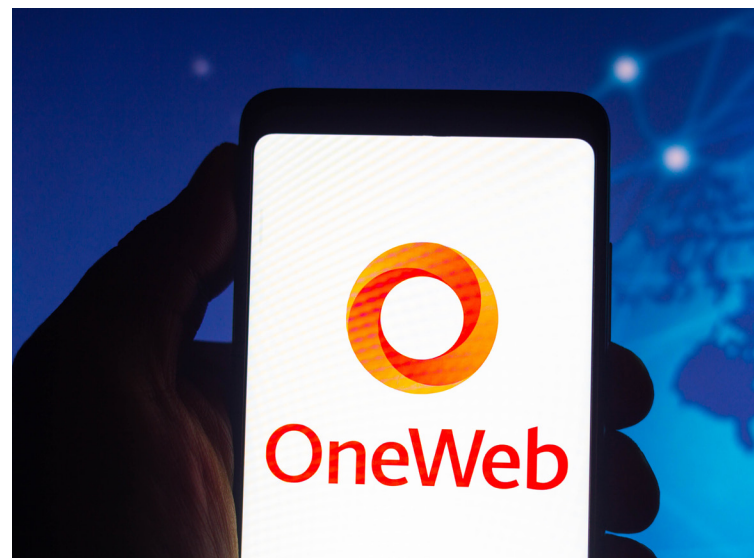
International companies already active in Kazakhstan

It is perhaps unsurprising, given the country's abundance of natural resources, that oil giants have made a home in Kazakhstan. **Chevron** was one of the first off the mark, signing a 40 year agreement with the government in 1993, as were Italy's **ENI** and **British Gas**.



The **China National Petroleum Corporation** was welcomed in 1997, and Russia's **Lukoil** and **Rosneft** operate in the country. ⁽¹³⁾

Less predictable was the news in September that **OneWeb**, motto: "space is the future", had, as it put it, performed successful field trials by satellites in low Earth orbit over rural areas of Kazakhstan. ⁽¹⁴⁾ The partnership between the government and OneWeb hopes to digitise the Kazakh economy and make the country a pioneer in the latest satellite communication technologies.



The following month, The Astana Times ⁽¹⁵⁾ reported that **Honeywell**, the US industrial technology group, had opened an assembly plant for automation and safety equipment.

Earlier in the year, Deputy Foreign Minister Almas Aidarov disclosed that 43 major foreign companies are ready to relocate to Kazakhstan to strengthen their presence in Eurasia.

⁽¹³⁾ [ZP International LLP](#)

⁽¹⁴⁾ [OneWeb](#)

⁽¹⁵⁾ [Honeywell Opens Its First Assembly Plant in Kazakhstan as Part of New Localization Strategy - The Astana Times](#)



Education

Many countries would insist their education system is rigorously meritocratic. It is fair to say that Kazakhstan has a better claim than most in this regard. Its leading higher education institute, Nazarbayev University in Astana, neither reserves places for “legacy students” whose parents studied there, nor, Soviet-style, for the children of the nomenklatura.

It opened in 2010 at a time when the country’s existing universities were considered still to be influenced by Kazakhstan’s time in the USSR. NU was to prize academic freedom and research excellence. And in an echo of the use of English law in the AIFC, all instruction is in English. ⁽¹²⁾

⁽¹²⁾ [Nazarbayev University \(nu.edu.kz\)](http://Nazarbayev University (nu.edu.kz))

Once graduated, Kazakh students can apply for the programme known as Bolashaq, “the future”, a government scheme to put the brightest post-graduates into top universities around the world. But the selection process is tough, and even to get to the starting line a candidate would need two things. One is an offer from an elite institution, such as Oxford or Harvard, and the second is a chosen field of study that matches one of the government’s priority areas.

Currently, these include innovation and new technology; engineering; healthcare; education, and social sciences.

The application process may be gruelling, but the rewards are significant. As a spokesman said:



Bolashaq graduates do not look for jobs – employers search for them.



Culture and the life of the vine

Kazakhstan has been making wine for centuries, but only recently have its offerings become well known outside the immediate region. There are three dozen wine-producing companies in the country, including Silk Alley, Bacchus, AgroWinProm and the largest, Arba Wine.



Vineyards are sited in the Assa Valley, where the soil structure is similar to that of Burgundy, making the terrain ideal for grapes such as Pinot Noir.

An Arba spokesman said:

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Assa Valley wines are surprisingly pure in their naturalness. The vineyards are 1,000 metres above sea level at the foothills of the snow mountains of Trans-Ili Alatau.

Arba has enjoyed international success, taking gold medals in competitions in France and Italy. Among its many varieties are a 2015 Reisling, suggested as an accompaniment to Kazakh cuisine, and a 2014 Saperavi, which goes well with steak and beef.

Kazakh wine-growing country, said Arba, is at the crossroads of natural beauty, a unique climate and mineral rich soil. Plenty of people will raise a glass to that.





Conclusion

Kazakhstan's post-independence period is over, and the next stage of its development is under way. The "super-presidency" that served the country for nearly three decades is being reshaped along more conventional lines, and new opportunities are opening up for investors, not least in meeting the rising aspirations of the population.

Growing interest from overseas investors and companies reflects broadening business opportunities and the country's strategic economic position at the crossroads of Eurasia.

All this is underpinned by increasing confidence that sustainable reforms will provide the stability for business and commerce to thrive.



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