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Kazakhstan's evolution

NEW PRESIDENT, FRESH AMBITIONS



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Kazakhstan enters a new era

WHEN KAZAKHSTAN'S PRESIDENT, KASSYM-JOMART TOKAYEV, TOOK THE BATON FROM 'LEADER OF THE NATION' NURSULTAN NAZARBAYEV, HE PLEDGED STABILITY AND CONTINUITY, AS WELL AS NEW APPROACHES TO SUCCEED WHERE PREVIOUS POLICIES HAVE STRUGGLED TO GAIN TRACTION. JACOPO DETTONI REPORTS ON THE PROGRESS SO FAR

Nur-Sultan – the new name for Kazakhstan's capital city, formerly known as Astana, – stands as a barometer of the changes seen in the country since it gained independence from the Soviet Union in 1991. Originally known as Akmola, or Tselinograd in Soviet years, the country's first president, Nursultan Nazarbayev, renamed it Astana – meaning 'capital city' in the Kazakh language – when he made it the seat of government in 1998 (taking over from Almaty).

From then on, a wave of new, sometimes futuristic, construction has transformed the once-sleepy left bank of the Ishim river that crisscrosses the area. The pace of change has been a testament to the country's economic growth, powered by its natural resources, as glittering buildings designed by the likes of renowned British architect Norman Foster sprang up in just a few years.

Evolution, not revolution

When Mr Nazarbayev abruptly resigned in March 2019, bringing to an end the longest tenure of a Soviet-era president, his hand-picked successor, Kassym-Jomart Tokayev, immediately suggested renaming the capital as a legacy to the first president. With a new leader in place, whose mandate was confirmed in the presidential elections held in June, the country is transitioning into a new era under

the mantra of stability and continuity.

"It's an evolution, not a revolution," says Serik Akhmetov, the general director of the state-owned Kuryk Port on the Caspian Sea. "Authorities want to convey to investors a message of stability; this is their main goal."

Kazakhstan is now aiming to replicate the relatively stable transition of power that other countries in the region have pulled off in the recent years – Turkmenistan in 2006, Uzbekistan a decade later – first and foremost by building on the achievements of its first years of independence.

Early success

In the midst of the chaos that followed the collapse of the Soviet Union, the first contracts that Kazakhstan signed with Western oil companies for the development of giant oil fields in the Caspian basin – fields that Moscow used to contest as Russian – put Kazakhstan on the map.

"Today we showed the world that it can trust Kazakhstan," Mr Nazarbayev stated in 1993 while signing a multibillion, 40-year deal with US Chevron for the development of the Tengiz oil field, which went on to become a major source of revenues for both the country and the company.

The elements of business diplomacy enshrined in those deals would soon become key ingredients in Mr Nazarbayev's recipe for success, particularly his openness to partners other than Moscow and market economy reforms. Over the years, Kazakhstan has

11
INVESTORS FROM EXTRACTIVE
INDUSTRIES WILL HAVE TO WORK
CLOSELY WITH LOCAL COMMUNITIES
LL



High rise: the skyline of capital Nur-Sultan has been transformed in recent years

shaped a multi-vector foreign policy that has struck a delicate balance between the interests of some of its more politically aligned neighbours – China to the east, Russia to the north – but also the US and Europe, that over the years have increased their interest in the region.

This approach has led Kazakhstan to become a major player on a regional basis, and a presence globally. It was among the founding members of the Shanghai Co-operation Organisation in 2001, and became a key piece of China’s Belt and Road Initiative since president Xi Jinping first mentioned it in a speech in what was then called Astana in 2013. Kazakhstan then took a lead in launching the Eurasian Economic Union with Armenia, Belarus, Kyrgyzstan and Russia in early 2015, and a few months later it joined the World Trade Organisation. Meanwhile, negotiations to join the OECD are currently ongoing.

A market economy

This plural foreign policy approach has gone hand in hand with domestic reforms aimed to reduce the role of the state in business and transitioning towards a market economy. Numerous waves of privatisation, which have experienced different degrees of success, made available key state-owned assets to private investors at home and abroad. The most recent and modern of such programmes led to the initial public offering of Kazatomprom, the world’s largest uranium producer, on the London Stock Exchange and

the Astana International Exchange.

State oil company KazMunaiGas and KazakhTelecom are expected to come next. Beyond privatisation, a number of business-friendly reforms have made of Kazakhstan one best performing economies among Commonwealth of Independent States (CIS) countries for ease of doing business and competitiveness, and have even led to the creation of a separate, independent jurisdiction at the Astana International Financial Centre (AIFC) to guarantee investors a legislative and judiciary system based on the principles of English common law.

The government’s policies, combined with the country’s large endowment of hydrocarbons and mineral resources such as uranium and copper, have paid large dividends in terms of foreign investment. Overall, Kazakhstan had accumulated FDI of \$147.1bn at the end of 2018, from just over \$10bn in 2000, according to figures from Unctad. This puts it second only to Russia among CIS countries, although Russia’s FDI levels have plummeted since 2010, while in Kazakhstan they have doubled.

Powered by foreign investment, national GDP increased 16-fold since 1991, making it the largest economy in central Asia and gaining it an investment-grade rating from international credit rating agencies.

A continuity pledge

Despite this economic success, the country’s future had been something of a topic of ►



Taking over: Kazakh president Kassym-Jomart Tokayev speaks to the media after his mandate was confirmed in the presidential elections of June 2019

concern in Mr Nazarbayev's later years in power, as he entered his late 70s. The idea of a transition of powers raised stability concerns in the minds of many in a country still dominated by a few competing elites. So far, however, the succession strategy he triggered with his resignation has suggested there is little cause for concern.

"Being able to ensure that there is an agreed mechanism to minimise any risk [related to the transition] or disruption to the economy will be a major part of his legacy," says Tim Stanley, senior partner for Russia and CIS countries at risk consultancy Control Risks. "At the same time, we saw similar transitions in central Asia, in Turkmenistan, Uzbekistan, in Azerbaijan in the Caucasus, and none resulted in large-scale turbulence."

While the authority of Mr Nazarbayev is still enshrined in the constitution as he remains the 'leader of the nation', Mr Tokayev is expected to make continuity the mantra of his fresh mandate. "I am going to work to deliver on the first president's long-term strategy," he said at his June 2019 inauguration speech.

Fresh ambitions

In this context of continuity, Mr Tokayev has shaped his political platform around the country's 2050 strategy approved by his predecessor, which aims to place the country among the world's 30 biggest economies by 2050 through economic diversification and supporting investment and entrepreneur-

ship. However, he has also said "new approaches and solutions are needed" in Kazakhstan, thus injecting fresh life and ambition into state policies that have struggled to live up to initial expectations.

A new industrial plan is in the making to renew efforts to diversify the economy away from oil, gas and mining through the development of a base of export-oriented manufacturing. "So far we haven't achieved much in that direction," says Alisher Abdykadyrov, chairman of the Kazakhstan Industry and Export Centre, the state body in charge of promoting manufacturing and exports. "We need to leapfrog to the next stage of manufacturing development by focusing on high-added-value products." (See article on page 12.)

The development of the country's vast agricultural land lying just next door to hundreds of millions of customers in western China also ranks highly in the government's agenda to diversify the economy (see article on page 14).

Additionally, Mr Tokayev has reiterated the government's commitment to supporting SMEs, and a mounting wave of start-up accelerators is working across the country to trigger a cultural change and push local entrepreneurs beyond working in state-owned enterprises and embrace the opportunities and challenges of the global market (see article on page 17).

Social justice

At the same time, Mr Tokayev is increasing the policy emphasis on social security as part of



AUTHORITIES WANT TO CONVEY TO INVESTORS A MESSAGE OF STABILITY; THIS IS THEIR MAIN GOAL



the overarching goal to guarantee a stable transition. This comes in the light of the isolated, but still meaningful, pockets of protests that erupted in the weeks leading up to the June 9 elections.

“I plan to specifically address acute social problems, providing assistance to those most in need,” he added in his inauguration speech, addressing a lingering feeling that the great oil wealth generated in the past decades has not trickled down to the general population but remained within a closed elite.

Mr Tokayev immediately followed this up by announcing a debt-relief initiative for millions of Kazakhs, and devoting much government and budget efforts to address the emergency caused by the explosion of an arms depot in the location of Arys in southern Kazakhstan.

“The government is hypersensitive to community activism. It will work more closely with the local community for the development of investment projects to prevent any unrest over jobs and environmental issues. Therefore investors, particularly those from extractive industries, will have to work more closely with local communities,” says Mr Stanley of Control Risks. “The population has high expectations in terms of living standards. Moving forward, the government has to get the balance right between liberating [and opening up] part of the economy and doing it in a way that gives people jobs.”

Mr Tokayev now has to move Kazakhstan beyond oil by building on a business-friendly environment and promising developments such as the AIFC without ignoring an increasingly demanding and active population. Foreign investment is one thing that can be used to generate high-quality distributed growth to breathe fresh life into the Kazakh economy, stabilise the country’s political transition and propel Kazakhstan on to a new chapter in its young history. ■



Unflinching presence: the Bolashak plant on the Kashagan offshore oil field near Atyrau in Kazakhstan, for many years a mainstay of the country’s economy, though efforts are now being made to diversify

200 AIFC participants from all over the world



Foot fall: AIFC authorities are aiming to reach 250 companies by the end of 2019, and 500 by the end of 2020

A central Asian financial hub?

ASTANA INTERNATIONAL FINANCIAL CENTRE IN KAZAKHSTAN'S CAPITAL CITY IS LOOKING TO ATTRACT INVESTORS TO BRING IN CAPITAL AND RAISE ITS PROFILE, AS JACOPO DETTONI REPORTS

Kazakhstan's first president, Nursultan Nazarbayev, surprised many people when he announced, at an economic forum in May 2015, his ambition to turn the capital Nur-Sultan (the new name for Astana since March 2019) into the Dubai of central Asia.

For years, the Kazakh government had supported the development of an existing stock exchange in Almaty, the country's traditional business hub and base for local financial institutions. However, the global financial crisis and the end of the commodity boom frustrated many of these efforts, convincing Mr Nazarbayev

to change direction abruptly.

"We are confident the Astana financial centre will be the core of the financial infrastructure in Kazakhstan, and in the future [will turn into] a financial hub of the whole central Asian region," he said at the 2015 Astana Economic Forum.

Up and running

Four years later, his vision is taking shape in the iconic area that hosted Expo 2017. Under the leadership of Kairat Kelimbetov and Nurlan Kussainov, the country's former central bank governor and deputy governor, respectively, the Astana International Financial Centre (AIFC) is taking its first steps as a financial hub that offers portfolio and direct investors the protection of a separate jurisdiction based on the principles of English law, as well as a special tax regime, which will be in place until 2065.

A few hundred institutions have

registered under the AIFC jurisdiction and independent courts have been established, while local workers now have the opportunity to refine their finance-related skills at the Bureau for Continuing Professional Development.

With its basic infrastructure in place, the AIFC has already established a profile among international financial centres. It now has to live up to expectations and follow successful peers (such as the Dubai International Financial Centre) to become a regional financial hub that can channel portfolio and foreign investment into Kazakhstan.

Law and order

"The proof is in the pudding," says James Martin, who left a 16-year tenure at Nasdaq to join the AIFC Authority as deputy CEO. "We have the structure set up; now we are trying to get international, respected players to come here, do

business and prove we have done something right.”

Launched in July 2018, the AIFC has covered much ground since it was first envisioned by Mr Nazarbayev. The country’s constitution was amended in 2015 to grant the prospective AIFC a special, separate jurisdiction based on the principles of English common law. An independent AIFC Court was then set up under the guidance of Lord Harry Woolf, who served as the highest judge in England between 2000 and 2005, and eight other English judges. At the same time, Barbara Dohmann, an experienced English barrister and arbitrator, was asked to lead the centre’s International Arbitration Court (AIC).

This architecture gives investors a familiar regulatory framework to work with, as opposed to the vagaries of traditional Kazakh jurisprudence, while guaranteeing an independent justice system should disputes arise. “The AIFC Court is effectively an ‘enclave’ in the existing judicial system of Kazakhstan,” Bakhyt Tukulov, head of dispute resolution at law firm Grata International, wrote in an August 2018 note. “Undoubtedly, submission to the AIFC Court or arbitration has serious advantages not only for foreign partners, but also for Kazakh parties, as the AIFC Court or arbitration will ensure independent, fair and high-quality justice, which is so important in Kazakhstan today.”

Jewel in the crown

In its first year of operation, the AIFC has incorporated about 200 companies spanning from fintech start-ups to global names such as China Construction Bank – the world’s second largest bank by assets, which obtained a branch licence to provide corporate finance services locally – and emerging cryptocurrency powerhouse Bitfury. AIFC authorities are aiming to reach 250 companies by the end of 2019, and 500 by the end of 2020.

The jewel in the crown of the AIFC is the Astana International Exchange (AIX). Set up to become the stock market of reference for both the country and the rest of central Asia, the pedigree of its shareholders appears to signal its ambitions. The Shanghai Stock Exchange, the US Nasdaq, the Beijing-sponsored Silk Road Fund and Goldman Sachs all joined the AIFC Authority as shareholders and strate-

WE HAVE THE STRUCTURE SET UP; NOW WE ARE TRYING TO GET INTERNATIONAL, RESPECTED PLAYERS TO COME HERE

gic partners in the exchange.

The government is committed to using the AIX as a channel to complete the 2016 to 2020 privatisation process to list minority stakes in several of the most prominent Kazakh state-owned companies. This should garner the exchange much-needed early visibility and volumes. “The privatisation programme should create that initial momentum. But if we don’t get those initial public offerings [IPOs], we lose that opportunity,” says Mr Martin.

National sovereign wealth fund Samruk-Kazyna sold a 15% stake in Kazatomprom, the world’s largest uranium producer, in a dual listing operation on the AIX and the London Stock Exchange in November 2018. The structure of the Kazatomprom IPO is expected to set a template for forthcoming privatisations. Telecommunications company Kazakhtelecom and flagship airline Air Astana are expected to go public later in 2019, Almasadam Satkaliyev, Samruk-Kazyna’s managing director for asset management, said in May. State oil champion KazMunaiGas is expected to follow in the first half of 2020. Meanwhile, Russian mining company Polymetal became the first foreign issuer on the AIX in April 2019.

FDI mission

Despite its relative youth as an international financial centre, the AIFC has already widened its mandate to embrace activities related to attracting FDI. The government set up an inter-ministerial Coordinating Council on Investment Issues in April, and appointed the AIFC as the working body of the council. Under this new structure, the AIFC will act as a one-stop shop coordinating the

task of attracting FDI and promoting Kazakhstan’s investment image.

The numerous bodies that have so far shared different investment promotion responsibilities, from national investment promotion agency Kazakh Invest to Samruk-Kazyna and national holding company Bayterek, will fall under the coordination of the AIFC in its dealings with foreign investors.

In particular, Kazakh Invest will steer the development of a pipeline of projects agreed by each competent ministry. The AIFC will then structure each project as a marketable product and promote it among investors by leveraging the availability of project finance options in the AIFC ecosystem and the advantages of structuring it within its separate jurisdiction.

“The AIFC will provide the international structure for a project and the risk mitigation element [of our laws based on the principles of English common law] that investors might be looking for. Here we have a special jurisdiction, independent courts, and the rulings are enforceable,” says Mr Martin.

In its first year, the AIFC has already climbed the Global Financial Centre Index produced by London-based think tank Z/Yen and now features ahead of bigger, more established markets such as Istanbul, São Paulo and Moscow. Despite its early achievements, the way ahead remains uphill as the AIFC faces the challenge of fitting into the country’s broader economic development strategy as well as the global financial markets. Many international financial centres have struggled to strike this balance in the past; it is up to the AIFC to succeed where they failed. ■

Q&A: NURLAN KUSSAINOV

A fintech focus

THE CEO OF KAZAKHSTAN'S AIFC AUTHORITY TELLS JACOPO DETTONI ABOUT THE FINANCIAL CENTRE'S ACHIEVEMENTS TO DATE, AND DESCRIBES ITS AMBITIONS TO BECOME A REFERENCE POINT IN CENTRAL ASIA FOR CAPITAL MARKETS AND THE FINTECH SECTOR



CURRICULUM VITAE

NURLAN KUSSAINOV

2016

Astana International Financial Centre
CEO

Previously

National Bank, deputy governor;
Development Bank of Kazakhstan,
CEO

Q The Astana International Financial Centre [AIFC] was launched in July 2018. What have been its achievements so far?

A The establishment of the Astana International Exchange [AIX], but also the initial public offering [IPO] of Kazatomprom on the same AIX were major achievements. Russian firm Polymetal also carried out a small IPO to test the appetite of local and Asian investors and the AIX held a few bond transactions too. Besides [that], we introduced an independent court system and arbitration system. With our sandbox regime, we registered a few dozen fintechs trying to innovate in the fintech space, from payment solutions to peer-to-peer lending and so on.

Q Where do you see the biggest potential for the AIFC to thrive?

A I'm a big fan of fintech. I believe we have to give a lot of opportunities to fintech companies. The technological revolution has changed the market of financial services dramatically. Traditional banks are less and less competitive, and we believe the AIFC can play an important role in the development of fintechs. We provide a flexible environment; we haven't got the mantra of financial stability on our shoulders.

With our regulatory sandbox we can be more helpful to fintechs, on a regional level at least. Besides, we are part of the Global Financial Innovation Network and we established the Bureau for Continuous Professional Development, which is important in the AIFC ecosystem because it helps the younger generation refocus their skills.

Q What are the key performance indicators you work with?

A We look at the Global Financial Centre Index, and we have made very strong progress recently. Besides, there are metrics approved by the government in terms of IPOs, liquidity and so on. Yet the success of the AIFC is not only related to our internal measures, but very much depends on the country's overall business ecosystem.

We have to develop an open sky policy: we cannot grow the AIFC without more flights in and out of capital city Nur-Sultan. We have about 35 flights a day at the moment – as a reference, Dubai has 600. Other things can be improved, such as the legislation on immigration. We waived entry visas for OECD countries, but we also need more people from the developing world, now that more liquidity, [skills] and sources of FDI come from that part of the world.

We need elementary things such as more international schools. We need to improve those things, not only for the future of the AIFC, but from a national investment attraction strategy perspective.

Q What will be the relationship between the AIX and the existing stock exchange in Almaty, the Kazakhstan Stock Exchange [Kase]?

A Kazakhstan is a small market. We need to make sure we are helping each other by not dividing the market in pieces. Tech-wise it is clear we have a much better platform – Kase is like an old-style Zhiguli Soviet car that has survived so far, but it's difficult to think it has any future. Also, in terms of the privatisation programme, the government was clear that the IPOs of state companies would happen on the AIX. The Kazatomprom IPO proved we are reliable, and we can bring in liquidity and provide efficient services at reasonable tariffs. Now we have a good pipeline of potential AIX future issuers, all with an international angle.

Q What's the ceiling for the AIFC?

A It is a tough business, but I believe we have enough ingredients to become at least a regional hub. One of the key success factors is our jurisprudence based on English common law. None of our neighbours have done such a brave reform. Fintechs can possibly help us do things in a different way at the AIFC. We can become more advanced as a jurisdiction and as a country, in terms of challenging traditional financial services. ■



Metal work: Kazakhstan is hoping to evolve from its traditional heavy industry towards a manufacturing sector

Can Kazakhstan avoid the 'Dutch disease'?

KAZAKHSTAN IS ABOUT TO UNVEIL A PLAN THAT AIMS TO DIVERSIFY ITS EXPORTS BY FOSTERING INDUSTRIAL DEVELOPMENT AND TO MAKE THE COUNTRY A BASE FOR EXPORT-ORIENTED MANUFACTURERS CONNECTED TO GLOBAL VALUE CHAINS. JACOPO DETTONI REPORTS

While Kazakhstan's abundant natural resources are a blessing, they can also be a curse when it comes to developing a competitive manufacturing sector. For decades, Soviet planners used the country almost exclusively as a source of raw materials, which left it with very little industrial legacy after the country gained independence. Once it opened up to the global market, the 'Dutch disease' of overdependence on natural resources, which has affected many mostly oil-rich countries, frustrated the Kazakh government's efforts to diversify the economy.

Additionally, Kazakhstan's landlocked status and isolation from major markets used to be another major impediment to the competi-

tiveness of local manufacturers. Yet the sharp devaluation of the Kazakh tenge that followed the end of the US dollar peg in mid-2015, combined with the infrastructure development triggered by the country's new role as a key connection link between China and Europe in Beijing's grand vision of a modern Silk Road, are revamping the business case for the development of an export-oriented domestic manufacturing. A new industrial plan is now in the making to turn this opportunity into a proper industrial strategy.

A strategy for industry

"We are preparing the country's third industrial plan for the 2020 to 2025 period and it will be ready by the end of the year," says Alisher Abdykadyrov, chairman of the Kazakhstan Industry and Export Centre, the state body in charge of promoting manufacturing and exports.

"The main idea here is to diversify our exports. So far we haven't achieved much in that direction," he adds. "During the Soviet Union [era], manufacturing was mostly located in the western part of the country –

Russia, Belarus, Ukraine – whereas we were simple suppliers of raw materials. We have to develop a manufacturing sector before we start exporting. We are in the process of doing that, but we need to leapfrog to the next stage of manufacturing development by focusing on high-added-value products."

Kazakhstan's exports matrix remains concentrated on a few raw or semi-processed commodities; oil and gas, metals and minerals alone made up about 87% of the country's exports in 2017, according to World Bank figures.

The country's market of 18 million people scattered over a vast landmass does not offer the economies of scale that global manufacturers frequently need to thrive, meaning that the country is looking to become a base for export-orientated producers. From that perspective, the sharp devaluation of the tenge of the past four years – a US dollar now buys 385 tenge, twice as many as in 2015 – boosted the international competitiveness of Kazakh products. In dollar terms, the average nominal salary in Kazakhstan is now about \$435 per ▶

month, while the cost of a retail power supply is about 3 cents a kilowatt hour, according to official data – few other countries in the world have cheaper production inputs.

Cutting cost of trade

On top of these cost benefits, the infrastructure development triggered in Kazakhstan by China's Belt and Road Initiative (BRI), which was first mentioned in a speech by Chinese president Xi Jinping at Nursultan Nazarbayev University in Nur-Sultan (the capital of Kazakhstan, then known as Astana) in 2013, could potentially cut the country's traditionally high trade costs by 50%, according to estimates by Dutch bank ING. Soft barriers are also falling with Kazakhstan's recent membership of the World Trade Organisation, as well as the Eurasian Economic Union (EEU).

Kazakh authorities now hope to capitalise on these recent developments and find a place for local manufacturers in the value chains along BRI corridors that already generated trade of \$1300bn in 2018, according to figures from China's ministry of commerce.

"Exporters select a location based upon its closeness to resources and markets, or if they can find local efficiencies in terms of human capital. We are located next to big markets such as China and Russia, at the doorstep of Europe, and we do have both natural and human capital resources. Now we should try to get into the global value chain," says Mr Abdykadyrov.

Zoning in on production

Kazakhstan's abundant natural resources have already attracted several major investors along established value chains such as petrochemicals and agribusiness (see page 14). Yet a broader industrial base has yet to materialise. Despite some 1200 new industrial projects in the past decade, manufacturing accounted for only 12% of Kazakhstan's GDP in 2018, according to figures from the country's ministry of industry, against an average of 21% for other upper- and middle-income countries.

The new industrial plan aims to foster further industrial development and thus diversify exports as well, by leveraging the country's special economic zones (SEZs) and industrial parks to increase the manufacturing, production and export of Kazakh goods.



WE HAVE BOTH NATURAL
AND HUMAN CAPITAL
RESOURCES. NOW WE
SHOULD TRY TO GET INTO
THE GLOBAL VALUE CHAIN



There are currently 12 SEZs scattered around the country. Some have a specific industrial focus, mirroring the country's priorities in terms of industrial development. Petrochemicals and heavy industries characterise the mandate of SEZs in Aktau, Atyrau, Pavlodar, Karaganda, Taraz and Ontustik, in a clear effort to add value to the domestic oil and gas and mining value chains. Other SEZs in Nur-Sultan, Almaty, Turkistan and Khorgos have a more mixed mandate, while two new SEZs have recently joined the list with a clear focus on R&D and high added-value activities across the board: Techgarden in Almaty and Astana-Technopolis in Nur-Sultan.

Launched in 2018, Astana-Technopolis currently hosts eight companies. "We are looking mostly for export-oriented projects to cater to the markets in Russia, Uzbekistan, the Commonwealth of Independent States countries, the EEU and the region as whole," says Ardak Dossanov, chairman of Astana-Technopolis. "In Nur-Sultan's first SEZ there was no specific priority, any project from cheap to chic could be installed. For Astana-Technopolis we want only hi-tech projects across priority sectors such as medicine and other innovation-driven industries."

Any company operating under an SEZ regime pays no corporate income tax, value-added tax, land tax, property tax or social tax for the whole life of the SEZ in which it chooses to locate (the latter is subject to certain conditions), regardless of whether it sells its products or services domestically or abroad. Besides, Kidi is now offering reimbursement over certain

export costs such as marketing and international fairs.

Bottom-up innovation

If Kazakh authorities are striving to set up a business environment conducive to innovative, export-oriented manufacturing, it will still come down to each company to raise its game – even more so now that Kazakhstan is physically connected to the global market through rail connections bound to China, Russia, Uzbekistan and beyond.

"We cannot compete with Chinese products," says Kanybek Aitakov, the general director of LED Solutions, a company producing lighting equipment and operating in one of Nur-Sultan's industrial parks under an SEZ regime. The company has partly shifted its focus on smart lighting solutions developed in house to find new business opportunities in the context of the government's Smart City programme. "Smart lighting is the future for our company. If we don't succeed we will end up like them," adds Mr Aitakov, pointing to a greenhouse that stands on the site of a former rival LED factory that went bankrupt.

Kazakh authorities believe the time is ripe for the country's manufacturing sector to develop, innovate and go global. They are following in the footsteps of many other oil-rich countries that have been forced to look beyond oil after the end of the commodity boom. The global market brings tremendous opportunities, but also competition, and the dividing line between success or failure for this latest 'made in Kazakhstan' drive is a fine one. ■

Q&A: LYAZZAT BORANKULOVA

A national wealth service

KAZAKHSTAN'S SOVEREIGN WEALTH FUND, SAMRUK-KAZYNA, WILL INVEST DOMESTICALLY AND INTERNATIONALLY TO DIVERSIFY ITS PORTFOLIO AND INCREASE ITS VALUE, LYAZZAT BORANKULOVA, THE FUND'S MANAGING DIRECTOR FOR STRATEGIC DEVELOPMENT, TELLS JACOPO DETTONI

Q What is the vision behind Samruk-Kazyna's new 2018-28 plan?

A We are a vehicle for the government to attract investment into Kazakhstan. In 2018, we adopted a new corporate development strategy for the 10 years to 2028. The main idea is to promote a transition of the fund from an operating holding to an investment holding to increase the value of its portfolio, making financial returns for the longer term and thus creating wealth for future generations. The three main strategic goals we will focus on concern the efficiency of portfolio companies, income diversification and sustainable development.

Q How are you going to achieve these goals?

A We have four strategic initiatives to deliver these goals. We want to increase the profitability of portfolio companies through digital transformation, measures that drive operational effectiveness, and the modernisation of technologies; streamline the structure of the portfolio by executing the privatisation and disinvestment programmes and look for strategic partners for current investment projects; diversify the income of our portfolio through new investments in Kazakhstan and abroad; and continue to drive corporate governance improvements and sustainable development through the implementation of best corporate governance practices and the

execution of sustainable development initiatives.

Q Can you give us some insights into the fund's new investment programme?

A Our new investment policy does not limit the fund's investment activities in terms of geography or sector. Samruk-Kazyna is free to invest in any commercial and viable project, either independently or, preferably, with strategic partners. We manage our portfolio by receiving dividends, divesting from assets and reinvesting the proceeds domestically into new industries aimed to support the development of the national economy. We invest abroad to allow the fund to diversify its portfolio and generate income.

Q When will the investment campaign kick off?

A In 2019-20 Samruk-Kazyna will take its first steps in this direction. To start with, we will work closely with external asset managers, leveraging their international expertise and resources. Over time, we will gradually evolve into co-investment partners with private companies and corporations, [and we will also do this] within the framework of inter-governmental agreements, or agreements with other sovereign funds. Ultimately, our aim is to be able to carry out direct investments in various industries and countries, either independently or with partners.

Overall, new investment will make up a maximum of 30% of our assets under management. Investments in Kazakhstan will swing between 2% and 10% of the portfolio; those abroad between 4% and 20%. At the moment the fund is very exposed to commodities: 60% of its assets are exposed to commodity prices. The main goal here is to decrease the risk of the portfolio's exposure to oil.



CURRICULUM VITAE

LYAZZAT
BORANKULOVA
2018

Samruk-Kazyna
Managing director for strategic development

Previously
KazMunaiGas Exploration and Production, economics and planning department

Q In this new co-investment perspective, what is your message for investors that are unfamiliar with Kazakhstan?

A We do understand many international investors are not familiar with Kazakhstan, and they are afraid of bringing their money here. Our presence in any investment project is going to be a guarantee per se. On a more national level, the country has done well since independence. Its main challenge now is the diversification of the economy as most of the GDP still comes from oil and gas and mining.

We put in a lot of work to make the investment environment attractive and the economy is expected to grow at an annual 4.1% in the next five years. The new government will continue to work in this direction. New president Kassim-Jomart Tokayev has been very clear that all the things initiated in past years will continue. ■

NEW INVESTMENT
WILL MAKE UP
A MAXIMUM OF 30%
OF OUR ASSETS
UNDER MANAGEMENT



Healthy crop: Kazakhstan has long been a key player in agriculture, particularly wheat

Grain expectations

THE DEVELOPMENT OF ITS AGRIBUSINESS SECTOR IS ONE OF KAZAKHSTAN'S KEY PRIORITIES, AND A FIRST WAVE OF FOREIGN INVESTORS FROM EUROPE AND ASIA IS LOOKING AT THE COUNTRY AS A BASE TO SUPPLY MAJOR MARKETS IN THE REGIONS. JACOPO DETTONI INVESTIGATES

Once considered the breadbasket of the Soviet Union, Kazakhstan remains one of the world's largest producers and exporters of grains. Yet some believe the potential of its agriculture has still to be fully explored.

"Kazakhstan has been a well-kept secret over the years," says Joshua Dixon, vice-president and general manager for international irrigation at US-based Valmont Industries. "For those who haven't heard much of Kazakhstan in the past, they will hear more about the country because of its proximity to so many large markets in the world. It's next to China, Russia and north of India. Many millions of people in close proximity will be eating products grown and shipped from Kazakhstan in the future."

Kazakh authorities are now preparing for an overhaul of the national agriculture sector by directly engaging with private domestic and foreign agribusiness companies. New opportunities are emerging along the agribusiness value chain, and a first wave of food producers is already setting up local operations to meet the needs of major markets across the whole Eurasia region.

Quantity or quality?

Kazakhstan's vast landmass, the world's ninth largest, together with its low population density, provides the agriculture sector with a wide stock of land to put to work. The country currently has about 20 million hectares of arable land, about the same size as the whole of UK, and another 180 million hectares of meadows and pastures, according to figures from Kazakh Invest. It features among the top 10 grain exporters in the world, shipping about 9.8 million tonnes of produce in the 2017/18 season, figures from the International Grains Council show, and is one of the largest exporters of wheat flour.

Yet quantity does not necessarily mean quality and Kazakhstan has a long way to go to upgrade its crops. In this regard, the adoption of better irrigation practices and technologies is already a government priority.

"The opportunity is tremendous here. The agriculture department issued very strong goals to irrigate an incremental 1 million of hectares in the next 10 years. They have plenty of land, good access to fresh water, but they need the know-how and expertise," Valmont's Mr Dixon told *fDi* a few weeks before signing a co-operation agreement with the



[KAZAKHSTAN HAS] PLENTY OF LAND, GOOD ACCESS TO FRESH WATER, BUT THEY NEED THE KNOW-HOW AND EXPERTISE



government of Kazakhstan for the development of a \$50m facility alongside another two partners, Global Beef (of the US) and Kusto Group (of Kazakhstan), to produce modern irrigation systems locally.

Nearly 90% of machinery currently in use in the Kazakh agriculture sector is at the end of its life cycle and needs to be replaced, according to estimates by the US Department of Commerce, with the rate of machinery renewal expected to grow to between 6% to 8% a year (up from 3% to 4.9% over the past five years) through imports, but also new projects to assemble machines locally.

Fertile ground for FDI

Improved irrigation and machinery can help unlock the potential of the country's crops, as well as improve its pastures. The country produces about 5 million head of cattle per year but with better pastures and genetics, Kazakh authorities estimate that could reach as high as 15 million head of cattle per year. This potential has not gone unnoticed to a first wave of foreign investors.

"It is believed that with the export of beef and mutton to the Chinese market, Kazakhstan's agriculture and animal husbandry will

be developed rapidly, and Kazakhstan will soon become an international agricultural and animal husbandry country," says a spokesperson for Longyuan Jetysu, a Chinese company setting up a slaughterhouse and meat processing facility in Almaty.

Chinese investors have been active in growing crops, as well as producing meat and other food products, for several years in Kazakhstan, as the Belt and Road Initiative opened up new co-operation opportunities at a national and local level while upgrading export routes able to cater to western China. But the sector is increasingly on the radars of investors from other parts of the world.

Western interest

The US's largest meat processor, Tyson Foods, is reported to have been in talks with the Kazakh government since early 2019 to set up a \$200m meat-processing facility that would give the company backdoor access into China and potentially allow it to avoid tariffs on US agriculture goods. Inalca, a subsidiary of Italian meat giant Cremonini, is carrying out a Tg15bn (\$39m) investment in Almaty for a facility that can produce

180,000 tonnes of meat a year at full capacity and employ 280 people. Also in Almaty, Dutch food powerhouse Farm Frites is investing Tg43bn in a processing facility expected to produce 140,000 tonnes of potato chips a year at full capacity and employ 150 people. In the Turkistan region, Nepalese tycoon Binod Chaudhary is investing more than Tg5bn to upgrade an instant noodle facility to serve the domestic markets, as well as neighbouring Uzbekistan and Kyrgyzstan, and even India.

"We are very excited to be in Kazakhstan, there is so much happening here," Mr Chaudhary told *fDi Magazine* at the Kazakhstan Global Investment Roundtable, held in May in Nur-Sultan.

Husbandry and agriculture have marked the pace of life on the Kazakh steppes for centuries. The knowledge that comes from that tradition, combined with the capital, technology and management skills of foreign investors, is now expected to take the country's agribusiness sector to the next level. Millions of consumers in neighbouring markets, from China and Russia all the way down to India, could soon be the final judges of Kazakhstan's sweeping agribusiness ambitions. ■

Q&A: RUSTAM ISSATAYEV

From preaching to proactivity

THE DEPUTY CEO OF KAZAKHSTAN'S NATIONAL INVESTMENT PROMOTION AGENCY TALKS TO **JACOPO DETTONI** ABOUT THE COUNTRY'S NEW FDI STRATEGY, WHICH INVOLVES A PROACTIVE APPROACH TO ATTRACTING INVESTMENT INSTEAD OF SIMPLY TALKING UP THE COUNTRY



CURRICULUM VITAE

RUSTAM ISSATAYEV

2018

Kazakh Invest
Deputy CEO

Previously
Advisor to the prime minister

Q What role will Kazakh Invest play in Kazakhstan's new investment promotion architecture?

A It is crucial that Kazakh Invest should be at the very core of this new architecture. Kazakh Invest will bring together all the dispersed information [about investing in the country] and all the measures of state support to investment, and process them into a simplified form. At the end of this, investors will receive ready-to-use information packages to help them make a decision.

Second, the prime minister [Askar Mamin] identified Kazakh Invest as the unified database of all the investment projects in the country. The government estimates that the country needs to increase FDI by three or four times from its current levels and each ministry has been given a target in terms of expected FDI growth, with some sectors such as energy, healthcare and agriculture having the most ambitious targets. Each ministry now has to develop a specific pipeline of projects for which it will be accountable. Once that pipeline of projects is approved, it will be on the balance sheet of Kazakh Invest.

Up until today, there were projects promoted by Kazakh Invest and other agencies, but some key ministries were hesitant over their real priorities. Now the ministries themselves will approve the projects first, so that Kazakh Invest will work on a pipeline of projects that truly represents those supported by the country's decision makers.

Q What will be the nature of the relationship between Kazakh Invest and the Astana International Financial Centre [AIFC], which also has a major role in the country's latest investment promotion architecture?

A The two institutions will complement each other. The AIFC is looking at the development of capital markets, but will also provide financial and non-financial companies [the opportunity] to incorporate inside its special jurisdiction based on the principles of English com-

mon law, and offer access to its independent courts and arbitration system. This solves the main concern of all the investors regarding the safety of their investments. This is the main support we see coming from the AIFC.

Q Where do you see room to increase FDI?

A FDI ensures quality economic growth. We want to enable 5% GDP growth for the next 10 years and this figure requires FDI attraction on a massive scale. We are aiming to reach a level of overall investment (public and private) in the economy of 30% of GDP by 2024, from the current 18%. It is a bold ambition – all high-performing countries have a similar investment-to-GDP ratio. With specific regard to foreign investment, the target is an annual \$34bn by 2024, from \$24bn in 2018. From this perspective, the focus will fall on greenfield FDI, rather than headline FDI. Our four priority sectors are petrochemicals, agriculture, metals and mining, and machine building.

Q How are you going to improve perceptions of Kazakhstan abroad?

A We have to switch from a preaching mode to a more proactive mode, where we will do the homework for investors by identifying specific projects of national interest. Then we will also identify and target priority investors. Eventually, those interested in implementing these projects will bypass many procedural levels and [be able to] access unprecedented support. ■

FDI ENSURES QUALITY ECONOMIC GROWTH. WE WANT TO ENABLE 5% GDP GROWTH FOR THE NEXT 10 YEARS



Looking forward: Astana Hub has become a symbol of Kazakhstan's tech-driven future

An innovation nation

AS THE DIGITAL KAZAKHSTAN PROGRAMME CREATES AN ENVIRONMENT CONDUCIVE TO INNOVATION, START-UP HUBS ARE SPRINGING UP ACROSS THE COUNTRY. THEIR TASK? TO MOVE THE ECONOMY BEYOND COMMODITIES AND MAKE THE COUNTRY A REGIONAL CENTRE OF INNOVATION, AS JACOPO DETTONI REPORTS

The sphere of the Nur Alem pavilion stands out at the heart of area developed in the Kazakh capital Nur-Sultan (known as Astana until March 2019) to host the Expo 2017 world fair. Claimed by some to be the world's largest spherical building, the Nur Alem pavilion offers a glimpse of modernity rarely found elsewhere in the capital city (despite its many architectural landmarks) or in the country as a whole.

During the expo, the sphere hosted the main exhibition dedicated to the future of energy. It was a remarkable endeavour for a country whose economic success since independence has been rooted in its extensive fossil-fuel resources. Once the event was over, the iconic sphere remained as a legacy of the country's ambitions to look beyond its traditional role as supplier of oil and minerals to the world and become a beacon of innovation for central Asia today. It houses a museum that focuses on the future of energy, while the surrounding pavilions are filling up with institutions expected to propel the Kazakh economy into the future, from the Astana International Financial Centre (AIFC) to the IT University and Astana Hub.

"Data is the new oil," says Valery Vavilov, CEO of emerging blockchain

powerhouse Bitfury, which became a member of the AIFC in 2018 with a mission to explore opportunities in blockchain, cryptocurrencies and data centres.

Incubating success

Achieving such a widespread shift is a challenging task in an economy dominated by state-owned companies that operate in traditional sectors such as oil and gas, mining, transport and logistics. Yet an increasing number of tech incubators are emerging as platforms to support an ecosystem of innovation-driven companies needed by the country if it is to diversify its economy.

"One of the major challenges for entrepreneurial culture here is to be globally minded," says Pavel Koktysh, head of government-sponsored IT and start-up incubator Astana Hub. "The structure of the domestic economy is dominated by public or quasi-public companies, which is why the local IT market tends to be more oriented towards business-to-business solutions for large clients. Astana Hub encourages companies to go global rather than spend years battling for contracts with [sovereign wealth fund] Samruk-Kazyna. Their world has to offer more than Samruk-Kazyna."

Since its launch in 2018 in the ▶

business park, located just across from the Nur Alem sphere, Astana Hub has registered and supported about 261 start-ups and more than 3000 individual members. Additionally, it has launched 16 R&D centres in partnership with IT powerhouses such as Huawei and Nokia.

Unleash the gazelles

“We dream of unicorns, but more realistically we have a goal of launching 10 gazelle companies [start-ups that reach a valuation of more than \$100m] in the next few years,” says Mr Koktyshev. The hub officially aims to attract investment in resident start-ups for Tg67bn (\$174m) by 2022.

While Astana Hub was launched with government support, independent and purely private initiatives are springing up across Nur-Sultan, attracted by its human capital. This gained Kazakhstan a place among the top five countries for availability of ‘affordable talent’, according to research firm Startup Genome. Even foreign names are chipping in, as was the case with Seedspace, a Swiss network of entrepreneurs in emerging markets that launched its 14th entrepreneurship hub worldwide in Nur-Sultan in early 2019.

Private start-up platforms are even more established in Almaty, the country’s traditional business hub, which is believed to account for half of all start-up activity in Kazakhstan through its networks, incubators and accelerator programmes. The city is also home to local emerging e-commerce company Chocofamily, one of the country’s best-known success stories.

Government support

While the private sector is leading the way in bringing new talent and ideas to Kazakhstan, the government is working to create a policy and regulatory environment that supports the development of a growing ecosystem of start-ups.

“We want to create a new economy to improve the lives of citizens,” says Zhanat Zarubekovna, deputy chairwoman of national infocommunications holding company Zerde. “Traditionally we are an oil-based country and we depend on natural resources. The aim of initiatives such as Astana Hub, and the broader Digital Kazakhstan policy, is to foster the development of new sectors.”

Launched in December 2017, Digital Kazakhstan aims to digitalise the private and public sectors of the

WE BELIEVE 5G NETWORKS
WILL CREATE THE
ENVIRONMENT TO BRING
IN MORE DEVELOPMENT
IN KAZAKHSTAN

country’s economy. Local authorities also approved a new venture capital legal framework in October 2018 which paved the way for the establishment of QazTech Ventures and QazAngels, public institutions tasked with shaking up the country’s lacklustre venture and seed capital markets. The AIFC will also contribute by matching the demand of capital by fintech companies with the offer of capital by financial institutions registered in its jurisdiction.

5G upgrade

Digital Kazakhstan will also promote the upgrade of the country’s digital infrastructure, particularly the adoption of 5G networks.

“The 5G networks we will develop with our private partners such as Veon, or Kazakh Telecom on the government side, will be creating the possibility of a new digital era. We believe 5G networks will create the environment to invest more and bring in more development in Kazakhstan,” says Mikko Lavanti, vice-president for central and eastern Europe and central Asia at telecom giant Nokia, one of the companies to partner with the Kazakh government in the development of new generation networks.

Innovation-driven companies, combined with the government’s plans to develop 5G networks, will not only fulfil the ambition embodied by the Nur Alem sphere to transcend commodities, but also augment the potential of the same resource-based sectors through productivity and efficiency gains. Kazakhstan’s economy is unlikely to transform in the near future, but the seeds sown in recent years may well bear fruit in the longer term, finally catapulting the economy towards prosperity. ■