

Navigating new horizons: Kazakhstan attractiveness report

June 2024

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Foreword

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During the sixth edition of the Kazakhstan Global Investment Roundtable, the country's Prime Minister Alikhan Smailov laid out the objective to draw US\$150 billion in foreign direct investment (FDI) by 2029. Announcement of this lofty target highlights the importance of FDI to the country's economic journey. Against this backdrop, we are excited to present to you the second edition of our comprehensive study on Kazakhstan's investment landscape.

In 2023, Kazakhstan recorded an influx of 65 FDI projects, up 132% y-o-y. Job creation and capital investment also surged, surpassing pre-pandemic levels. However, it is important to go beyond this headline to uncover what's really happening in Kazakhstan's investment landscape.

The broader story at play is one of diversification. Earlier, the abundance of natural resources in the country led to a concentration of FDI projects in extractive industries. But in 2023, the consumer and mobility sectors accounted for 40% of total inbound projects, with the advanced manufacturing and renewables sectors also posting strong growth. Kazakhstan's economy is now shifting to a stronger focus on digital and on boosting growth in non-extractive sectors. In this direction, the country has taken bold steps such as launching the digital tenge and crafting a strategic plan to nurture a knowledge-based economy.

Similarly, while enjoying historical ties with Russia and China and a strategic location between the East and the West, the country is making concerted efforts to expand its trade reach to other markets and develop a well-diversified mix of foreign investors.

While Kazakhstan is working on laying the groundwork for sustainable growth, the journey ahead is not without its challenges. As our study indicates, Kazakhstan must focus on nurturing talent, instituting structural reforms, and accelerating its transition to a low-carbon economy. These are not just recommendations but the building blocks for Kazakhstan's future prosperity. We invite you to explore the findings of this report and join us in witnessing the exciting evolution of Kazakhstan's investment landscape.

Chapter 1

Geopolitical and economic overview

1.1 Shifting geopolitical and trade relationships will play a strong role in shaping Kazakhstan's economy

Kazakhstan, like many emerging markets, finds itself in a rapidly changing world order. The West's traditional dominance and influence is gradually yielding to a more 'eastern'-focused global paradigm, exemplified by the emergence of the BRICS group of countries (Brazil, Russia, India, and China).

In this evolving landscape, many nations opt not to align strictly with either grouping. Instead, they choose to maintain neutrality and capitalize on ties with multiple blocs. Increasingly, the economic fortunes of countries will depend on the choices they make within the various global and regional blocs they associate with.

Kazakhstan serves as an interesting example in this context. It maintains significant ties to both the West and the East, as it is between Russia to its north and northwest and China to its east. Consequently, it has historical relationships with both countries and significant investments from each. However, its major trade partner is the European Union (EU), which accounts for nearly a third of the country's foreign trade¹.

Kazakhstan is further aiming to broaden its export landscape. In 2023, Kazakhstan's exports reached 135 countries, including new markets such as Gibraltar, Cambodia, and Bangladesh. Notably, Kazakhstan's trade with Southeast Asian countries has seen significant growth. Exports to Asian countries in 2023, excluding the Commonwealth of Independent States (CIS), accounted for 35.3% of its total.²

Kazakhstan's strategic position in Eurasia, abundant natural resources, and significance in global transport routes make it a key player in global geopolitics. The country's involvement in China's Belt and Road Initiative and its ability to provide energy to the west as an alternative to Russia further highlight its importance.

¹ "Close-Up Look at Kazakhstan's Foreign Trade: China Becomes Top Trade Partner, as Non-Commodity Exports to Asia Rise", The Astana Times, <https://astanatimes.com/2024/02/close-up-look-at-kazakhstans-foreign-trade-china-becomes-top-trade-partner-as-non-commodity-exports-to-asia-rise/#:~:text=Data%20from%20the%20bureau%20also,%2C%20while%20imports%20E2%80%93%20%2410.9%20billion,> 27 February 2024.

² "Kazakhstan's Non-Oil Exports Reach \$35.1 Billion as Nation Diversifies Economy," The Astana Times, <https://astanatimes.com/2024/03/kazakhstans-non-oil-exports-reach-35-1-billion-as-nation-diversifies-economy/#:~:text=According%20to%20the%20agency's%20data,increase%20by%20%25%20in%202023.> 21 March 2024.



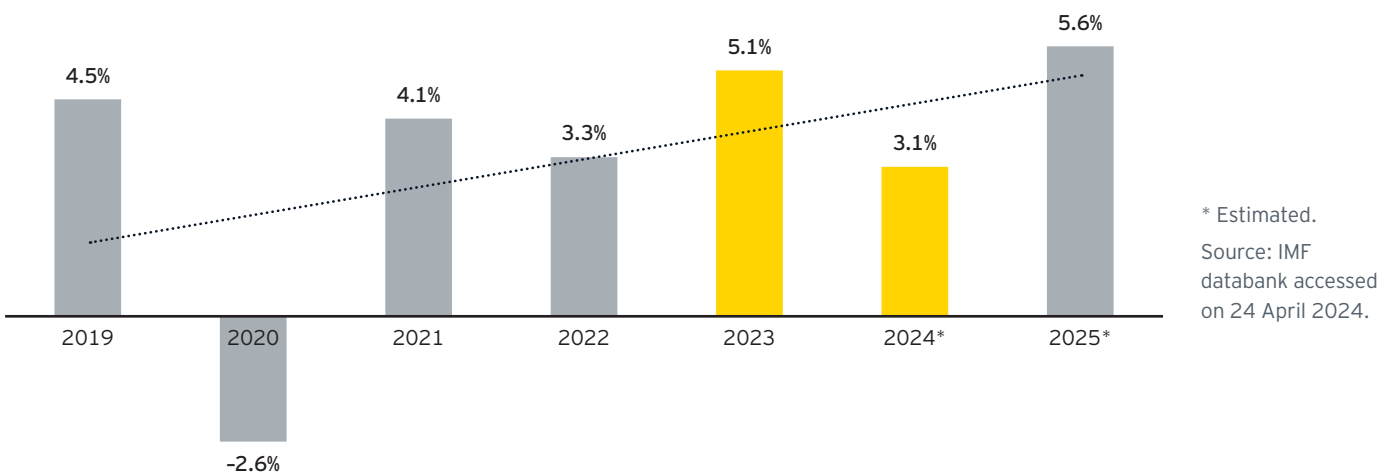
1.2 Kazakhstan aims to reduce oil dependence and bolster economic resilience by embracing digital innovation and diversification

In 2023, Kazakhstan's economy grew by 5.1%, despite challenges such as a current account deficit and the Ukraine conflict. This growth was primarily propelled by the oil, construction, trade, and communication sectors, supported by robust consumption and investment. Additionally, efforts were intensified to broaden export partnerships and prioritize renewable energy and climate strategies.

Market dynamics included modest immigration, company relocations, bank resolutions, capital movements, exchange rate fluctuations, and stable real wage growth.

The International Monetary Fund (IMF) predicts slower growth of 3.1% for 2024, citing Tengiz oil field delays, oil production issues, and escalating global and regional uncertainties.³

Annual real GDP growth (%)



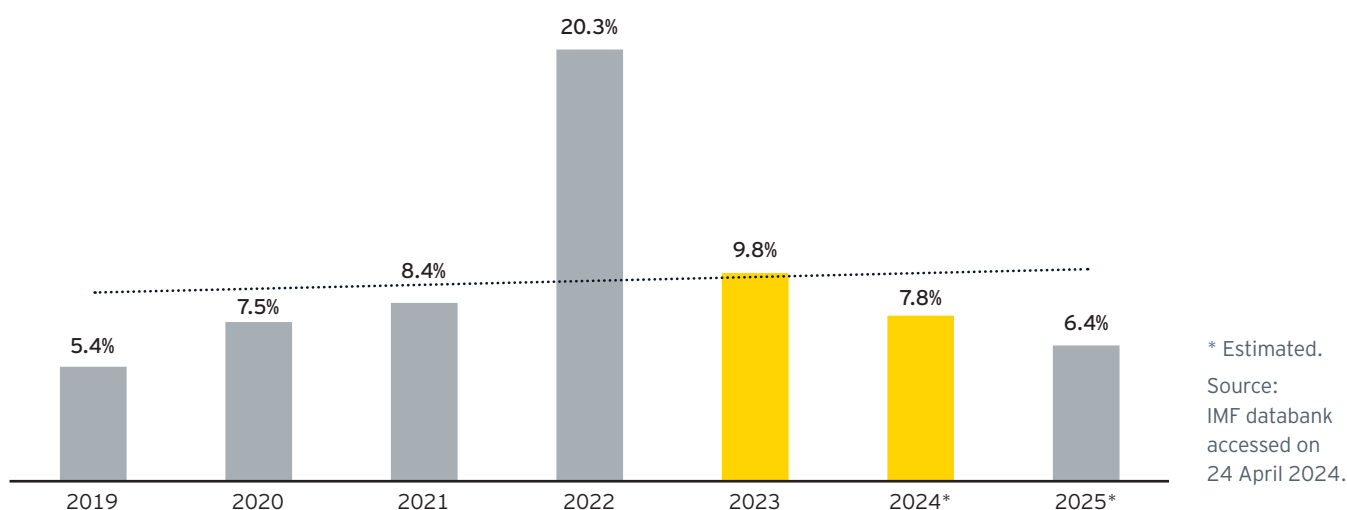
³ Regional Economic Outlook for the Middle East and Central Asia, April 2024: An Uneven Recovery amid High Uncertainty, International Monetary Fund, 18 April 2024.

1.2.1 Inflation peaked in 2022 but is now declining

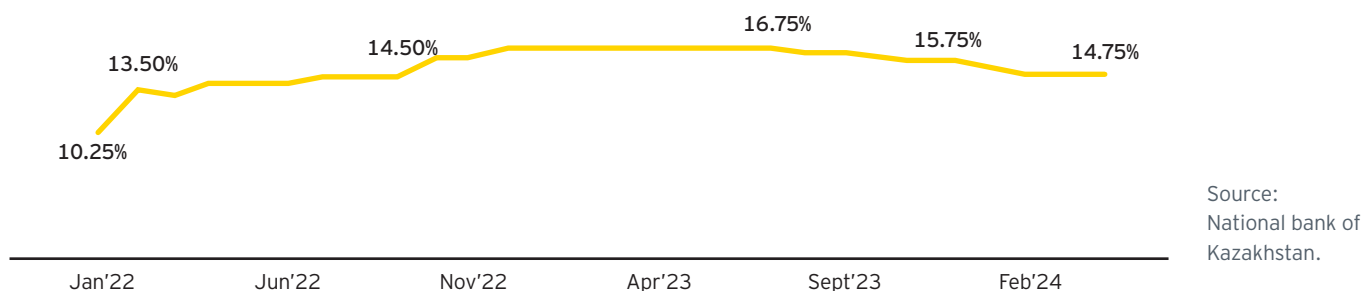
Inflation in Kazakhstan reached its peak in 2022 due to supply chain disruptions, increased commodity prices, and the Ukraine conflict, but has since been on a decline. The inflation rate dropped from 20.3% in December 2022 to 9.8% in December 2023, largely as a result of easing external shocks, particularly in Kazakhstan. To further combat inflation, Deputy Prime Minister Serik Zhumangarin held a meeting on 14 March 2024 to discuss potential solutions. Out of the 30 measures that had been planned for 2023, 25 were successfully implemented, playing a crucial role in reducing consumer prices and inflation.⁴

After the peak in 2022, the National Bank of Kazakhstan (NBK) worked to control the inflationary pressures and began easing its monetary policy. The inflation target was revised to 5% in July 2023⁵, and since then, the central bank has reduced interest rates by 200 basis points.⁶ However, in its April 2024 meeting, the bank decided to keep the rates unchanged due to concerns about potential inflationary pressures, both domestically and from Russia.

Consumer inflation (%)



Central bank Interest rates (%)



⁴ "Kazakhstan's anti-inflationary measures to be revised," Prime minister's office, <https://primeminister.kz/en/news/kazakhstans-anti-inflationary-measures-to-be-revised-27574>, 18 March 2024.

⁵ "Monetary Policy Strategy 2030," NBK, <https://nationalbank.kz/en/news/monetary-policy-strategy/rubrics/2010>, 5 July 2023.

⁶ "Kazakhstan Monetary Policy February 2024," Focus economics, <https://www.focus-economics.com/countries/kazakhstan/news/monetary-policy/nbk-pauses-its-easing-cycle-in-april/#:~:text=Kazakhstan%3A%20NBK%20pauses%20its%20easing,or%20minus%201.0%20percentage%20point>, 12 April 2024.

1.2.2 Kazakhstan is transitioning from an oil-based to a digital, tech-focused economy

The country has a robust extractive industry component, with historical investments closely tied to the fortunes of the oil and gas sector, making it the largest oil producer in Central Asia. However, the country has recently sought to diversify its economy toward broad-based services and manufacturing.

Kazakhstan sharply increased its non-raw material exports in 2023 by 32%, growing from US\$26.5 billion in 2022 to US\$35.1 billion in 2023. This rise is consistent with the nation's plan to lessen its dependency on gas and oil exports and diversify its economy. By 2025, the government hopes to increase non-raw material exports to US\$41 billion.⁷

As Kazakhstan modernizes, its economy is transitioning toward a non-extractive sector with a strong digital focus, driving investments in technology. A prime example of this transition is the government's launch in November 2023 of the Digital Tenge for online transactions, with plans to extend its use to offline and cross-border transactions by 2025. The government's ambition to digitize citizen services and offerings will serve as a further stimulus in this endeavor.

Government revenue (Oil vs Non-oil) (Share of GDP (%))

Particulars	Projections		
	2022	2023	2024
Total Revenue	21.8%	23.1%	20.7%
Oil	8%	6.4%	5.3%
Non-oil	13.8%	16.7%	15.4%

Source: IMF.

1.3 Kazakhstan is strengthening trade with the EU for market access, diversification, and to balance regional economic dependencies

Kazakhstan's total trade reached US\$139.8 billion in 2023, with exports amounting to US\$78.7 billion. China and Russia are the country's two largest trading partners, although trade with Russia decreased by 3.7% since the start of the Russia-Ukraine war, falling from US\$27 billion in 2022 to US\$26 billion in 2023. China has replaced Russia to become Kazakhstan's top single trading partner, with trade reaching US\$31.5 billion in 2023.

Another major trade partner is the EU, with trade amounting to US\$37.7 billion in the first 11 months of 2023. The conflict in Ukraine has further accelerated trade with the EU, which increased 3.2% from January to November 2023 compared to the same period in 2022.⁸ Kazakhstan and the EU celebrated 31 years of bilateral ties in February 2024, instilling a sense of positive outlook about the future.⁹ The country's well-diversified trade across western and eastern blocks gives it some room to manoeuvre its flow of exports.

⁷ "Kazakhstan's Non-Oil Exports Reach \$35.1 Billion as Nation Diversifies Economy," The Astana Times, <https://astanatimes.com/2024/03/kazakhstans-non-oil-exports-reach-35-1-billion-as-nation-diversifies-economy/#:~:text=According%20to%20the%20agency's%20data,increasing%20by%2020%25%20in%202023.> 21 March 2024.

⁸ "Kazakhstan, EU Mark 31 Years of Bilateral Ties, Looking Optimistic into Future," The Astana Times, <https://astanatimes.com/2024/02/kazakhstan-eu-mark-31-years-of-bilateral-ties-looking-optimistic-into-future/>, 2 February 2024.

⁹ "Kazakhstan, EU Mark 31 Years of Bilateral Ties, Looking Optimistic into Future," The Astana Times, <https://astanatimes.com/2024/02/kazakhstan-eu-mark-31-years-of-bilateral-ties-looking-optimistic-into-future/>, 2 February 2024.

Chapter 2

FDI overview

2.1 FDI at a glance

132%
YoY increase
in FDI projects

Largest investors
by countries



Germany
11 projects

US\$17b
Capital
investments

3
FDI projects
worth **US\$1b** and
creating **4,321** jobs



China
9 projects

29,288
Jobs created

As Kazakhstan focuses on **diverse and suitable investments**



Consumer and Mobility
sectors led FDI in terms of
number of projects



Advanced Manufacturing
generated the most capital
investments



Renewable Energy
projects doubled
in 2023

Source: fDi Markets (Financial Times)



FDI by year 2019-2023

Year	Projects	Capital Investment (US\$ million)	Jobs created	FDI score*
2019	62	6,003	16,644	84.6
2020	10	847	1,569	12.4
2021	20	714	2,094	22.8
2022	28	1,644	5,338	34.9
2023	65	16,990	29,288	111.2
Total	185	26,198	54,933	265.9

*FDI based on the weighted average of three criteria: number of projects, jobs created, and capital invested

Source: fDi Markets (Financial Times)

Kazakhstan witnessed a significant increase in inbound FDI during 2023. The number of FDI projects surged by 132% year-over-year (YoY) in 2023, totalling 65 projects, compared to 28 projects in 2022. Capital investment experienced an even more notable nine-fold increase, with three deals surpassing the US\$1 billion mark. Furthermore, the number of jobs created by FDI quadrupled in 2023 compared to 2022. All three FDI metrics have surpassed their pre-COVID-19 levels.

The surge in investments highlights Kazakhstan's rising prominence in the global economy and its appeal as an investment hub for various industries. The trend is expected to persist into 2024, with 40 new projects in sectors such as healthcare and manufacturing already attracting foreign investments in the first quarter of 2024.¹⁰ With the objective of drawing US\$150 billion in FDI by 2029 to expand the economy, the Kazakhstan Prime Minister's ambitious targets reflect the country's economic aspirations. Further, the country has achieved sixth spot on the 2024 FDI Standouts Watchlist.¹¹

¹⁰ "Kazakhstan Secures Foreign Investment in 40 Major Projects for 2024," The Times of Central Asia, <https://timesca.com/kazakhstan-secures-foreign-investment-in-40-major-projects-for-2024/>, 13 March 2024.

¹¹ "Kazakhstan Secures Sixth Position in FDI Standouts Watchlist 2024," The Astana Times, <https://astanatimes.com/2024/01/kazakhstan-secures-sixth-position-in-fdi-standouts-watchlist-2024/#:~:text=ASTANA%20E2%80%93%20Kazakhstan%20has%20claimed%20the,11%2C%202023,4%20January%202024.>

Chapter 3

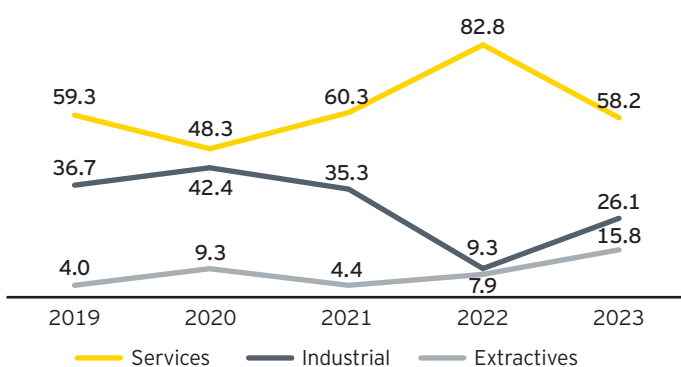
FDI by industry, sector, and function in 2023

3.1 Kazakhstan's FDI in the extractive industries is dropping, with a pivot to non-extractive sectors amidst the global shift toward sustainability and renewables

Kazakhstan's external trade is primarily driven by its energy industry, given the country's abundant reserves of both oil and gas, along with key strategic minerals.

Historically, investments in Kazakhstan have been heavily focused on extractive-based activities. However, this trend has recently shifted, as illustrated in the graph below, with the services industry emerging as the leading recipient of FDI over the past few years.

Share of FDI by industry based on FDI Score*



* FDI based on the weighted average of three criteria: number of projects, jobs created, and capital invested.

Source: fDi Markets (Financial Times).

According to Kazakh Invest, the national company that promotes FDI in the country, in the past, foreign investments in Kazakhstan were predominantly directed toward extractive industries, such as oil and gas. However, in recent years, there has been a decline in foreign investment in these industries, with a growing emphasis on processing industries.¹²

In 2023, the Consumer and Mobility sectors stood out as the key drivers of inbound investments, with each sector attracting 13 projects (up from two and four respectively in 2022). Together, they accounted for 40% of the country's total FDI, measured by the number of FDI projects, and have created approximately 15,472 new jobs. The growth of a middle class and rising real incomes have increased demand for quality products and brand names. Additionally, Kazakhstan is becoming a key transport and logistics hub, connecting China and South Asia with Russia and Europe, and serving as a trade gateway to the Caspian Sea countries, Central Asia, and Western China. These factors suggest potential future growth in the Consumer and Mobility sectors.

¹² "Exploring Investment Opportunities and Cooperation between Kazakhstan and the U.S.," <https://invest.gov.kz/media-center/press-releases/exploring-investment-opportunities-and-cooperation-between-kazakhstan-and-the-u-s/>, 11 September 2023.

FDI in 2023 by sector

Sector	Projects	Capital Investment (US\$ million)	Jobs created	FDI score*
Consumer	13	1,441	11,075	25.5
Mobility	13	1,031	4,397	18.4
Energy	11	2,747	3,811	17.6
Advanced manufacturing	9	8,401	4,110	21.5
Cleantech	5	2,272	233	7.5
Business Services	4	49	32	4.1
Technology	4	44	759	4.8
Real estate	2	832	4,111	6.9
Telecommunications	2	16	42	2.1
Construction	1	107	294	1.4
Health sciences and wellness	1	50	424	1.5
Total	65	16,990	29,288	111.2

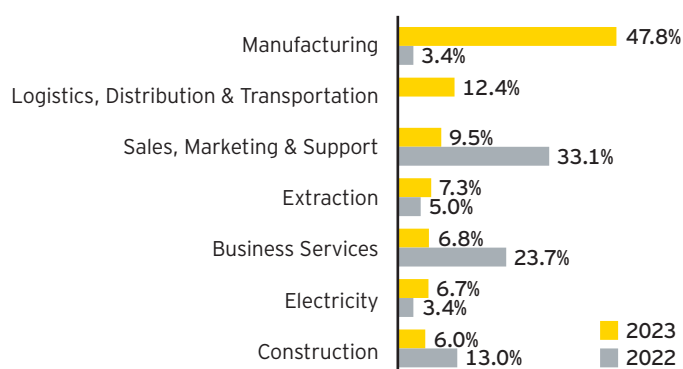
*FDI based on weighted average of three criteria: number of projects, jobs created, and capital invested

Further, in 2023, the Advanced Manufacturing sector witnessed an eight-fold YoY increase in the number of projects driven by the accelerating diversification process toward the manufacturing sector, as Kazakhstan systematically plans a move away from the raw material orientation of its economy. The Kazakh government is offering several benefits to incentivize manufacturing. For example, in December 2023, a new regulation targeting manufacturing industries was passed, offering tax exemptions for up to three years. Additionally, tax incentives were also provided for setting up new manufacturing facilities, including the import of equipment not produced in the country.¹³

Investment in renewable energy (Cleantech) is rising in the country as it pivots from the extractives industry. According to UNCTAD, Kazakhstan ranked fifth among developing countries in attracting FDI US\$56.3 billion investments in renewable energy projects between 2015 and 2022.¹⁴ In 2023, the number of projects more than doubled compared to the previous year. Four out of five projects in renewable energy were from Europe and one was from the UAE.

The manufacturing function now constitutes more than 40% of the country's total FDI projects due to government efforts promoting Industry 4.0, modernizing infrastructures, and

Share of FDI by function, based on FDI score*, 2023



* FDI based on the weighted average of three criteria: number of projects, jobs created, and capital invested.

Source: fDi Markets (Financial Times).

attracting foreign investment to transition into a diversified high-tech economy. Leveraging its strategic location between Europe, Asia, and the Middle East, Kazakhstan aims to enhance its mining, agriculture, and manufacturing sectors. The country's development plans for 2023-2029 emphasize producing high-value processed goods, boosting domestic competitiveness, and growing exports, indicating a sustained commitment to manufacturing growth through technological advancement and global partnership.¹⁵

¹³ "Kazakhstan Introduces Tax Incentives, New Measures to Attract Investments," The Astana Times, <https://astanatimes.com/2023/12/kazakhstan-introduces-tax-incentives-new-measures-to-attract-investments/>, 8 December 2023.

¹⁴ "Kazakhstan Enters Top Five Recipients of FDI Inflows in 2022," The Astana Times, <https://astanatimes.com/2023/07/kazakhstan-enters-top-five-recipients-of-fdi-inflows-in-2022/#:~:text=ASTANA%20%E2%80%93%20Kazakhstan%20entered%20the%20top,UNCTAD's%20World%20Investment%20Report>, 10 July 2023.

¹⁵ "Concept of Development of the Manufacturing Industry of the Republic of Kazakhstan for 2023-2029," Baiterek, <https://baiterek.gov.kz/en/programs/concept-of-development-of-the-manufacturing-industry-of-the-republic-of-kazakhstan-for-2023-2029>

Chapter 4

FDI by source country

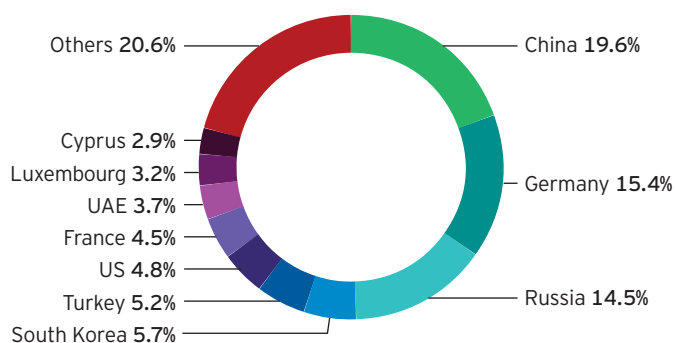
Although the changing geopolitical outlook may well change the shape of Kazakhstan's economic future, there is currently a well-diversified mix of foreign investors.

These investment ties are strongly related to the country's trading partners, where the EU makes up a substantial portion of overall trade, with Asian trade witnessing significant growth.

In 2023, Germany and China led in terms of the number of FDI projects in Kazakhstan. However, China had by far the highest capital investment of about US\$8.5 billion. In terms of jobs created, Russia topped the chart, creating 6,598 jobs in 2023.

Investments into Kazakhstan are increasing from eastern countries beyond Russia and China. For instance, South Korea is a new investor into Kazakhstan with a 6% market share, focusing on manufacturing functions in three of their four deals across diverse sectors.

Share of FDI by source* country, based on FDI score, 2023



* FDI based on the weighted average of three criteria: number of projects, jobs created, and capital invested.
Source: fDi Markets (Financial Times).

FDI in 2023 by source countries

Top 5 investors	Projects	Capital Investment (US\$ million)	Jobs created	FDI score*
Germany	11	1,141	4,942	17
China	9	8,492	4,280	22
Russia	8	1,573	6,598	16
South Korea	4	339	2,056	6
US	4	664	671	5

*FDI based on the weighted average of three criteria: number of projects, jobs created, and capital invested
Source: fDi Markets (Financial Times)

Chapter 5

Policy initiatives

Kazakhstan's strong economic growth with low FDI suggests untapped potential for attracting foreign investment amid current challenges.

According to the Heritage Foundation's Economic Freedom Index 2023, which tracks twelve metrics critical to long-term prosperity, Kazakhstan ranks 67th overall and 13th out of 40 Asia-Pacific countries.

The Heritage Foundation points to three areas that require attention:

1. Although the regulatory framework has undergone reform and procedures for establishing a business have been streamlined, they remain relatively costly.
2. Labor regulations are relatively flexible, but enforcement of the labor code remains inefficient.
3. Judicial effectiveness is below the global average and requires further improvement.

Meanwhile, according to the World Bank, "Kazakhstan needs to strengthen competition and human capital and improve public sector and state-owned entities' (SOEs) performances. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation. Since Kazakhstan's economy relies heavily on oil-related revenues, and given the global shift toward decarbonization, the Government should continue diversifying the economy. The transition to renewable energy needs to be accelerated to ensure a sustainable and resilient economic future. Investing in renewables, implementing carbon taxes, and energy tariff reforms are key areas to achieving this."

We focus on some of these selected recommendations in the section that follows.

5.1 Promote the development of talent and skills

Kazakhstan needs to prioritize the development of its human capital to drive economic growth and enhance productivity. For over a decade, Kazakhstan has been experiencing a brain drain of skilled and educated workers in many key industries.¹⁶ Addressing this challenge requires increased investments in education, particularly for underserved groups, to foster a human-centric and inclusive approach aimed at eliminating gender inequality. Collaboration with educational institutions, businesses, and incubators is crucial to enhance the employment-related resilience and professional skills of both young men and women.

To diversify its economy, the government of Kazakhstan, in partnership with the United Nations Development Programme (UNDP), has launched a new Strategic Plan for 2022-2025. This plan aims to establish a platform for a knowledge-based economy by aligning education with employers' needs, upskilling the workforce, and promoting innovation to meet the demands of a technology-driven future.¹⁷

Like countries globally, Kazakhstan must identify the necessary skills for its future-fit economy and develop an appropriate education framework to support those needs. Additionally, Kazakhstan must prepare its citizens for the challenges of the new digital age. Digital literacy will play an increasingly vital role in determining the future rates of economic expansion. Consequently, its government will need to consider the following options:

1. Labor market analysis and long-term planning:

Develop comprehensive and long-term strategies for public service delivery. Consider demographic shifts, technological advancements, and other factors that may impact service demand and design. Identify current and projected skills needs in various sectors.

- 2. Engage with employers:** Ask employers about their workforce needs to understand the required skills and qualifications, and tailor training and education programs accordingly.
- 3. Reskilling and upskilling:** Support reskilling and upskilling initiatives to help workers transition from declining industries to growing ones. Provide assistance via subsidies for training programs or by creating online platforms for continuous learning.
- 4. Promote STEM education:** To sustain strong growth, prioritize STEM education to cultivate a skilled workforce integral to industrial and economic progress. Furthermore, according to the World Bank's Chief Economist for Europe and Central Asia, investing in human capital, encouraging private investment, and strengthening institutions are essential for enriching national wealth. There is substantial progress in STEM education. For instance, The Education Infrastructure Support Fund has improved 718 schools with new STEM labs.¹⁸ Kazakhstan's Tech Girls program¹⁹ and the US Embassy's NextGen TechCamp²⁰ aim to boost young women's STEM involvement in Central Asia. Thus, the policymakers should further boost these developments.

¹⁶ "Can Kazakhstan embrace wartime influx of talent to jump-start its slowing economy?," <https://www.scmp.com/week-asia/opinion/article/3237898/can-kazakhstan-embrace-wartime-influx-talent-jump-start-its-slowing-economy>, 14 October 2023.

¹⁷ "Fostering high-productivity, diversified and knowledge-based economic growth," The UNDP, <https://www.undp.org/kazakhstan/fostering-high-productivity-diversified-and-knowledge-based-economic-growth>

¹⁸ "Factsheet on Key Outcomes and Results in Kazakhstan's Sectors in 2023," Government of Kazakhstan, https://www.gov.kz/uploads/2024/1/3/55a5f14fcf72b57ba4116dbc78a055e5_original.38381.docx, 3 January 2024.

¹⁹ "Kazakhstan Launches Tech Girls Program to Boost Female Participation in STEM," The Astana Times, <https://astanatimes.com/2024/02/kazakhstan-launches-tech-girls-program-to-boost-female-participation-in-stem/>, 12 February 2024.

²⁰ "NextGen TechCamp Advances Women and Girls Across Central Asia in STEM," The Astana Times, <https://astanatimes.com/2024/04/nextgen-techcamp-advances-women-and-girls-across-central-asia-in-stem/>, 15 April 2024.

5.2 Institute structural reforms to develop market-driven business environment

Kazakhstan's market-driven business growth is hindered by limited private sector development, heavy reliance on natural resources, financing difficulties, state dominance and industrial structure barriers. As a result, the government and policy makers could consider the following measures:

1. **Privatization and greater transparency and disclosure:**

The government should proceed with privatization plans for SOEs operating on a commercial basis. It ensures transparency and disclosure in the ownership and regulation of SOEs, including clarifying the boundaries of the general government and public sector and bringing entities that do not operate on a commercial basis under the direct supervision of line ministries.

2. Anti-corruption measures: Integrate anti-corruption education into the public sector and educational curricula to foster a culture of integrity. Strengthen the independence of the judiciary to ensure unbiased adjudication of corruption cases.

3. Secure intellectual property (IP) rights: Strengthen IP rights protection to encourage innovation and creativity in the digital space while balancing the need for access to knowledge.

4. Foster a predictable investment climate: Strengthen the legal framework for investment and commercial disputes, streamline contract enforcement, and promote alternative dispute resolution methods.

5.3 Drive further diversification of the economy away from commodities

The strong reliance on commodities has shaped an economy vulnerable to globally determined oil and other commodity prices, which are susceptible to the whims of geopolitical events and global capital markets. Consequently, Kazakhstan's economic fortunes are not always within its control. The World Bank cites trade as 68% of Kazakhstan's GDP, underscoring the significant role imports and exports play in the country's economy.²¹ To diversify the economy and mitigate dependence on commodity exports, the government and policymakers could consider the following measures:

1. Develop and invest in next-generation industries, including the sub-industries within renewable energy, such as solar, wind, hydro, and geothermal power. These industries create new jobs, reduce reliance on fossil fuels, and contribute to sustainability.

2. Develop infrastructure, including transportation networks, energy systems, and digital connectivity. These steps can both attract investment and support growth of new industries.

3. Tap into global value chains: Integrate into global value chains by becoming a part of multinational production networks. This can provide access to international markets and technological know-how.

4. Public-private partnerships (PPPs): Collaborate with private sector entities to develop and invest in new sectors, leveraging their expertise and resources.

²¹ "Trade (% of GDP) – Kazakhstan," <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=KZ>, accessed on 22 April 2024.

5.4 Accelerate the drive to a low-carbon economy and develop a regulatory framework fit for the digital era

Kazakhstan must facilitate a methodical, phased transformation across all economic sectors and lifestyles. Additionally, implementing the strategy will require collaboration among government, businesses, and citizens to foster sustainable development and collectively reduce carbon emissions. Simultaneously, as the world increasingly digitalizes, Kazakhstan's regulatory framework needs to be up-to-date and aligned to the new digital era. Concerns around how to manage data security and privacy infringements, conforming to local laws, etc., all need a new legal mindset.

- 1. Economic incentives for reducing greenhouse gas emissions:** Reboot the national greenhouse gas emissions trading system and make it a market mechanism for businesses. Introduce auctions for greenhouse gas quota sales, creating a reserve mechanism to stabilize the market, and publish a long-term forecast for the reduction of freely allocated quotas. Implement a carbon tax on the use of fossil fuels for industries and enterprises not covered by the trading system. Establish a Carbon Fund for Kazakhstan as a source of financing for decarbonization projects at enterprises.
- 2. Further accelerate the development of renewable energy:** Kazakhstan is investing US\$110.7 million in renewable energy for 2024 and is aiming to add 117.35 MW across 11 new facilities, including wind, solar, and hydroelectric plants.²² With 146 existing renewable sites, the country is targeting a total capacity of 2.9 GW.²³ Policymakers should continue to focus on further accelerating its renewable transformation.

- 3. Develop infrastructure:** Actively develop corresponding infrastructure to facilitate the transition to more environmentally friendly modes of transportation, particularly electric vehicles.
- 4. Develop data privacy, protection, and cross-border regulations:** Implement strong data protection regulations that safeguard individuals' personal information and require organizations to handle data responsibly.
- 5. Cybersecurity regulations:** Develop regulations that set cybersecurity standards for businesses and organizations, promoting secure digital practices, and protecting critical infrastructure from cyber threats.
- 6. Digital identity and authentication:** Establish rules for digital identity verification and authentication to ensure the security and privacy of online transactions and interactions.
- 7. Collaborate with the tech industry** to develop regulations that are feasible.
- 8. Adaptability and flexibility:** Develop a regulatory framework that can adapt to the rapidly evolving digital landscape, allowing for iterative updates as new technologies and challenges arise.

²² "Kazakhstan to Allocate Over \$110 Million Investment in Renewable Energy in 2024," The Astana Times, <https://astanatimes.com/2024/02/kazakhstan-to-allocate-over-110-million-investment-in-renewable-energy-in-2024/>, 26 April, 2024.

²³ "Kazakhstan's Renewable Energy Sector Gains Momentum with 146 Facilities in Operation," The Astana Times, <https://astanatimes.com/2024/03/kazakhstans-renewable-energy-sector-gains-momentum-with-146-facilities-in-operation/>, 5 March 2024.



Remark

The evaluation of FDI in Kazakhstan is based on FDI Market Intelligence's proprietary database. This database tracks the FDI projects that have resulted in new facilities and new jobs. By excluding portfolio investments and M&A, it shows actual investment in manufacturing and services by foreign companies into Kazakhstan.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

Thanks

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ED None.

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