FOREIGN DIRECT INVESTMENT IN KAZAKHSTAN

By

Toxeitov Nurlan

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
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MASTER OF PUBLIC POLICY

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LIST OF ABBREVIATIONS

FDI	**Foreign Direct Investment**
IMF	**International Monetary Fund**
IFC	**International Financial Corporation**
IBRD	**International Bank of Reconstruction & Development**
EBRD	**European Bank of Reconstruction & Development**
EEC	**European Economic Community**
EIB	**European Investment Bank**
IAD	**International Association of Development**
BIP	**Bank of International Payments**
MIGA	**Multilateral Investment Guarantee Agency**
TCO	**Tengiz Chevron Oil**
KASE	**Kazakh Stock Exchange**
GDP	**Gross Domestic Product**
FIC	**Foreign Investors Council**
FIAC	**Foreign Investors Advisory Council**
CIS	**Commonwealth of the Independent States**

INTRODUCTION

The main reason for this research is to show the way Foreign Direct Investment was established in the period from 1996 to 2002 in Kazakhstan. This period was the most important for the Kazakhstan economy, because in this time the main influx of foreign capital into the Kazakhstan economy began.

Present day Kazakhstan – is an the attractive market for Foreign Direct Investment. The key factors making a favorable investment climate, political stability, the steady economic development, the advanced financial market, cheap, but the qualified labor, a good geographical position and many others were all present.

1. Foreign Direct Investment and their place in economic system

In this part I would like to show the position of investment in the economic system. Investments are actions that "postpone" for tomorrow's day an opportunity to consume in the future. One part of investments are consumer blessings which are not used in the current period, and are postponed to a stock (investments on increase of stocks). Other part of investments are resources which go on expansion of manufacture (investments in buildings more, machines and constructions).

Foreign direct investments as the catalyst of economic growth (on an example of the various countries)

In modern times the constantly progressing level of integration of global economic and investment activities accordingly to the economic growth in many countries, not only developing, but also advanced, foreign capital participation is supported and amplified. Many countries essentially have changed the approach to their strategy of economic development, by heading the liberalization of economy and integration in global system.

2. Investment climate in Kazakhstan

In this part I would like to explain Fixed Capital Investment in Kazakhstan by region:

- Investments in fixed capital;
- Investments in priority sectors of economy of Republic of Kazakhstan (1997-2001);
- The analysis of social and economic development for 2000-2002 years (Industry, Investment, Agriculture, Infrastructure);

Afterwards I would like to explain the investment (credit) rating of Kazakhstan, because the credit rating expresses the opinion of ratings agencies about the general credit status of the borrower and about readiness in due time to pay obligations. It is appropriated under credits in local and foreign currencies. The forecast of a rating shows a possible direction of the movement in the next two - three years.

The most important part of this chapter will be my analysis of investments in the Kazakh Economy in year 2001. Policy priority for the Kazakhstan economy in present time is developing oil and gas sectors. The strategic partnership with global oil companies, which have invested millions of dollars in the national raw material sectors, is preparing the way for the country's entry into the international hydrocarbons market.

3. Role of the state in investment activity

The purpose of the third chapter is to explain the state investment policy in Kazakhstan. The main question of the state investment policy is the definition of priority spheres and objects of investment, which should answer long working national interests of the state. Also, in second and third paragraph I will show the important factor – the legislative base, and its influence on the investment climate and legal regulation of investment activities in Kazakhstan.

Chapter I

INVESTMENT AND THEIR PLACE IN ECONOMIC SYSTEM

§ 1 Definition of investments and their classification

In system of reproduction, regardless to its public form, investments the major role in business of renewal and increase of industrial resources, and, hence, and maintenance of the certain rates of economic growth belongs. If to present public reproduction as system of manufacture, distribution, an exchange and consumption investments, mainly, concern the first link - manufacture, and, it is possible to tell, make a material basis of his development.

Concept of the investment (from an armour. investio - to put) means capital investments with the purpose of his subsequent increase, i.e. it is set of expenses of the material, labor and monetary resources directed on expanded reproduction of a fixed capital of all branches of a national economy. The gain of the capital as a result of his investment is indemnification for risk of losses from inflation and non receipt of interests from bank contributions of the capital.

Investments are actions that "postpone" for tomorrow's day to have an opportunity to consume in the future. One part of investments are consumer blessings which are not used in the current period, and are postponed to a stock (investments on increase of stocks). Other part of investments are resources which go on expansion of manufacture (investments in buildings more, machines and constructions).

Thus, investments are understood as those economic resources which go on increase of the real capital of a society, that is at expansion or modernization of the industrial device. It can be connected to purchase of new machines, buildings, vehicles, and also with construction of roads, bridges and other engineering constructions. Here it is necessary to include and expenses for education, scientific researches and a professional training. These expenses represent investments in " the human capital " which at the present stage of development of economy get the increasing value for, finally, as result of human activity constructions, both machines, and the equipment act both buildings, and, and the most important, major factor of modern economic development - an intellectual product which predetermines an economic situation of the country in world hierarchy of the states.

Investments in objects of industrial activity are classified to the certain attributes. We shall try to define most essential of them:

1. On objects of capital investments distinguish investments real and financial. As real investments understand an investment of means in real actives - material and non-material (sometimes are characterized as innovational). Financial investments is an investment of money resources in financial actives among which securities prevail.
2. On character of participation in investment distinguish direct and indirect investments. Direct investment is carried out by investors who directly select objects of investment and invest in them the capital (property or actives). As a rule, investors are well acquainted with objects and know the mechanism of investment. Indirect investments are carried out, as a rule, by financial intermediaries. As not all investors are enough qualified for effective selection of objects of investment and management of them their the certain part carries

out purchase of securities which are let out by investment or financial intermediaries. Intermediaries put the collected means in more effective, in their opinion, objects, operate them, and the ambassador distribute the received profit between clients - investors.

3. On term of investment of the investment subdivide on short and long-term. Short-term investments are carried out for the period till one year. To them carry also short-term depositary contributions. Long-term investments are carried out for the period over one year. The big investment companies distribute them on four kinds: till two years; from two till three years; from three up to five and over five years.
4. On patterns of ownership of investors distinguish investments private, state, foreign and general. Private investments carry out physical persons, and also legal persons with the private capital. The state investments carry out the state and local authorities, and also the state enterprises of budgetary and unappropriated funds. Foreign investments carry out physical and legal persons of the foreign states. General - subjects of the certain state or the foreign states.
5. On regional value of the investment are internal and foreign. Internal investments are carried out in objects of investment inside the country. Foreign investments - in objects outside the country. To them purchases of various financial tools of other states - shares of the foreign companies belong also, to the bond of other states.

§ 2 Foreign direct investments as the catalyst of economic growth (on an example of the various countries)

At modern constantly progressing level of integration of world economic activities investment activity and, accordingly, economic growth in many countries, and not only developing, but also advanced, is supported and amplifies participation of the foreign capital. Many countries have essentially changed the approach to strategy of economic development, having headed on liberalization of economy and integration in world system.

Twenty years back both ordinary citizens, and businessmen, and officials concerned were mistrustful of transnational corporations believing, that those aspire to use resources of the country with the maximal benefit for themselves, practically anything thus, not giving in exchange. Was considered, that foreign investors want to take hold of riches of the country, having deprived its population of well-being which would be possible to reach with the help of local resources.

Actually these arguments were used for the justification of nationalization of the industry and expropriation property of transnational corporations with insignificant partial indemnification, and even in general without any indemnification that caused significant damage to foreign investors.

Presently nationalization of foreign investments – the phenomenon rare enough, however in part about itself reminds the former mistrust. For example, when Japanese have started to buy up the real estate in the USA, it has caused serious fears, that Americans will lose the control over own economy or will cease be the conducting economic state of the world.

Similar tendencies are shown and in the countries in the former soviet camp which aspire to involve foreign investments, hoping thus to be integrated in economic. For example, Poles at the end of 90th counted foreign investments useless for Poland, believing, that the country can get depending on foreigners.

For this reason many less developed countries pursued a policy of restriction of foreign investments and trade. In many industries of the different countries of injection of the foreign capital were completely forbidden. Besides a direct interdiction on foreign investments various restrictions were imposed:

- the share of the foreign capital in the national companies was limited;
- difficult procedures of reception of sanctions, approvals or licenses for import and export of the foreign capital were entered;
- high rates of taxes to profit on foreign investments were established;
- export of the profit was limited;
- procedure of returning of the enclosed capital (in particular in the countries, aspiring to keep the currency reserves) became complicated.

In short-term prospect the similar policy quite often brought success, allowing some countries to achieve blossoming of national manufacture. However in intermediate term and long-term prospect its inevitable result was creation of ineffective and noncompetitive production which dearly managed both to the state, and private persons.

But as already it was spoken earlier, less developed countries, as a rule, there can not be their economic crisis without the external help. Therefore, despite of mistrust to the foreign investors, many countries nevertheless it was necessary to resort to their intervention.

For an example, we shall consider the experience of market reforms in Poland. First of all the government has started liberalization of trade, encouragement of attraction of foreign investments, development of a private sector, support of the domestic manufacturer, expansion of a home market. The main problems - backwardness of an infrastructure and absence of reliable bank system were resolved. Realization of market reforms, and also decrease political, economic and financial to risk have created conditions for attraction of the foreign capital. For today Poland is one of the biggest recipients of foreign capitals in the Central Europe.

At presence in USA the advanced system of legislative regulation of investment activity, powerful inflow of the foreign capital to a great extent promoted the further rise of a national economy on a basis, first of all increases of labor productivity and development of a competitive export potential.

Rather active role of foreign investments in rise of economy is clearly visible and in the new industrial countries of Southeast Asia. At his direct participation, they accelerated have passed becoming already classical stages of modern industrialization: development import-substitution branches, creation of an export potential and development of the high technology branches. In result on manufacture of some kinds of production, including the high technology, new industrial countries have left on advanced boundaries in the world economy.

With attraction of foreign investments in Brazil, as well as in the new industrial countries of Asia, tasks of development import-substitution manufactures and consecutive escalating of an export potential first of all were solved. Thus the largest South-Americans the state aspired not to reception of foreign credits and loans which it becomes usual enslaving for less developed countries, credits and loans which usually become enslaving for less developed countries, and to attraction of direct foreign investments for creation of modern industrial productions on mutually advantageous conditions. Simultaneously economic cooperation with foreign corporations whenever possible was organized so that to use their already usual firm channels and commodity markets of Brazilian production.

For example FDI in Kazakhstan, in terms of flows and stock, were dominated by investors from developed countries (figure 3), primarily from the United States, the United Kingdom, the Netherlands and Italy (table 1). Among the developing economies, the Russian Federation and China dominated the FDI situation in Kazakhstan. The lion's share of the FDI flows since 1998 was dominated by investment in the primary sector (figure 5) and about 68 per cent of the FDI stock in Kazakhstan in 2002 were in the mining sector (table 2). Outward FDI flows from Kazakhstan increased significantly in 2002, which was contributed by the surge in outward investment in the primary sector (figure 6) and to the developed countries (figure 4), in particular to the Netherlands (table 1).

Figure 1. FDI flows, 1993-2002
(Billions of dollars)

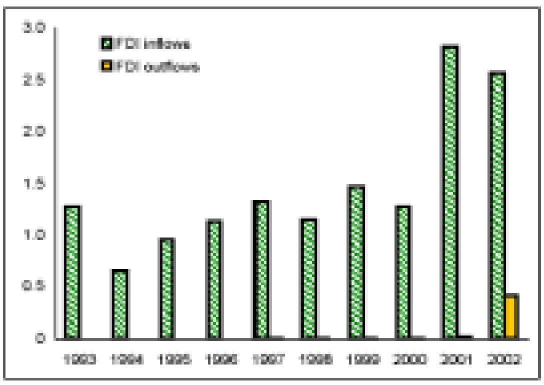


Figure 2. FDI stocks, 1995, 1998 and 2002
(Millions of dollars)

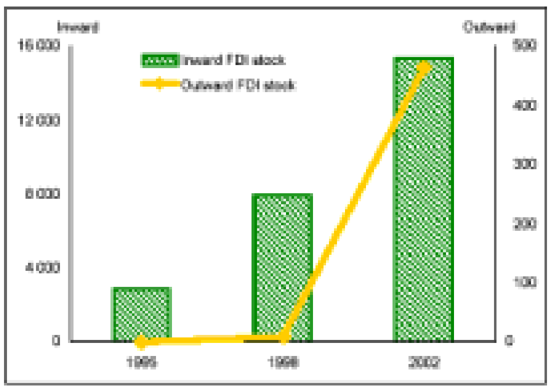


Figure 3. FDI inflows by region, 1993-2002
(Billions of dollars)

Figure 4. FDI outflows by region, 1995-2002
(Millions of dollars)

FDI flows as a percentage of gross fixed capital formation grew from less than 20 per cent in 1993 to over 50 per cent in 2001 (figure 7). Similarly, inward FDI stock as a percentage of gross domestic product grew from about 15 per cent in 1995 to 63 per cent in 2002 (figure 8).

Figure 5. FDI inflows by industry, 1993-2002
(Billions of dollars)

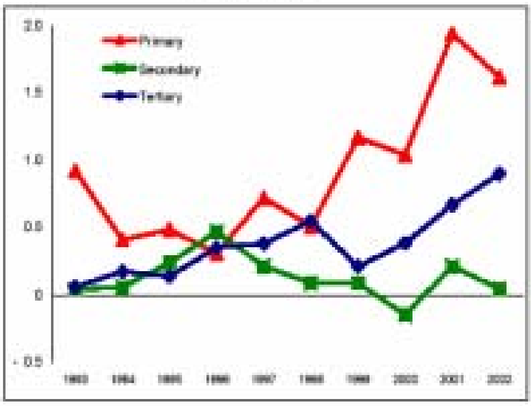


Figure 6. FDI outflows by industry, 1995-2002
(Millions of dollars)

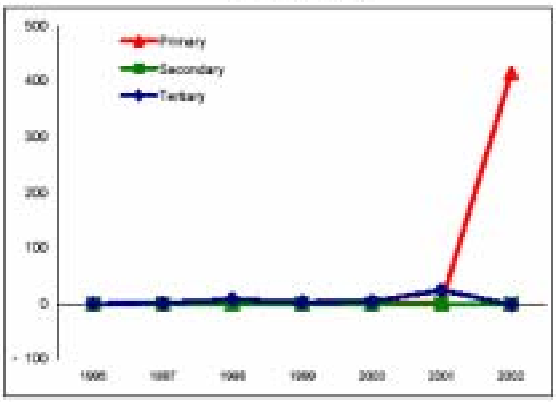


Table 1. The top three investment partners in terms of FDI stocks, 1993,1998 and 2002

Year	Inward FDI stocks	Outward FDI stocks
1993	US (76%), Turkey (4%), China (0.4%)	United Kingdom (67%)
1998	US (29%), Republic of Korea (18%), UK (13%)	Italy (37%), Netherlands (13%), UK (2%)
2002	US (41%), UK (13%), Netherlands (10%)	Netherlands (92%), Russia (3%), Czech Republic (1%)

Table 2. The three most important industries in terms of FDI stocks, 1993,1998 and 2002

	Inward FDI stocks	Outward FDI stocks
1993	Mining (77%), food (4%), finance (1%)	Trade (100%)
1998	Mining (50%), metals (28%), electricity, gas & water (4%)	Finance (55%), transport (26%), construction (15%)
2002	Mining (68%), business activities (15%), transport (4%)	Mining (90%), business activities (4%), transport (2%)

Figure 7. FDI flows as a percentage of gross fixed capital formation, 1993-2001
(Per cent)

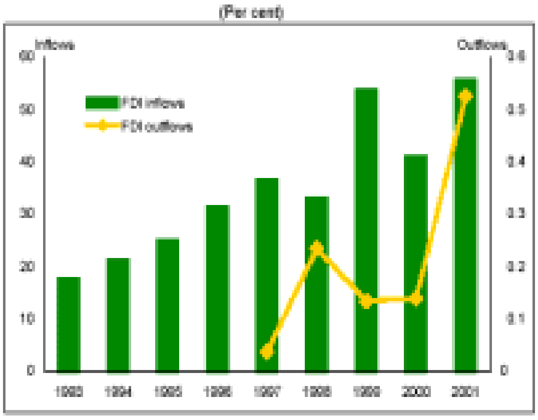
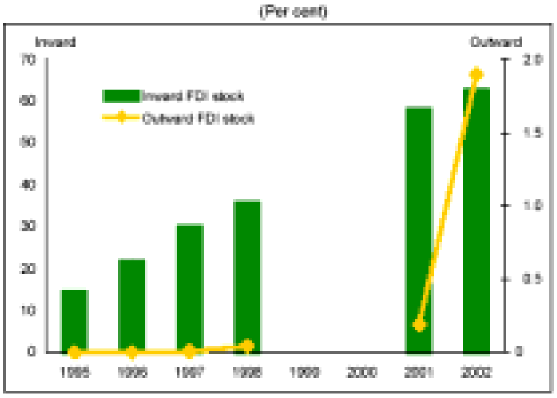


Figure 8. FDI stocks as a percentage of gross domestic product, 1995-2002
(Per cent)

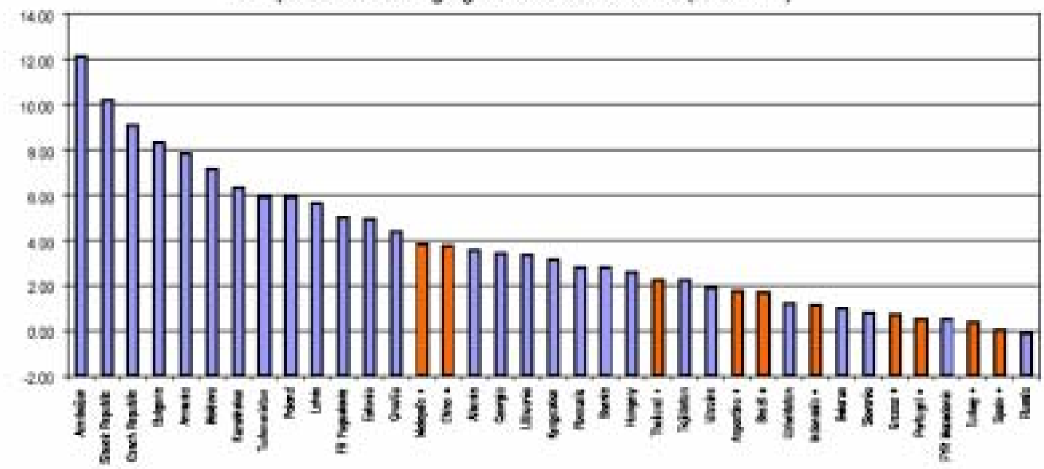


Apparently from the given examples, the different countries, at all their differentiations by opportunities and conditions of economic development in relations with the foreign capital find out much in common.

For example let's view the impact of Foreign Direct Investment on the transition countries. Until recently the transition countries had not received significant amounts of foreign direct investment, which was not welcome in centrally planned economies. In 1990, only Hungary was reporting a significant amount of FDI inflows but the total for all transition countries in that year was below US$ 500 million. By 1998 FDI inflows to central and eastern Europe increased to almost US$ 20 billion, but still accounted for less than 10 per cent of total FDI inflows to the developing countries or less than 20 per cent of FDI inflows to developing countries in per capita terms (EBRD, 2000).

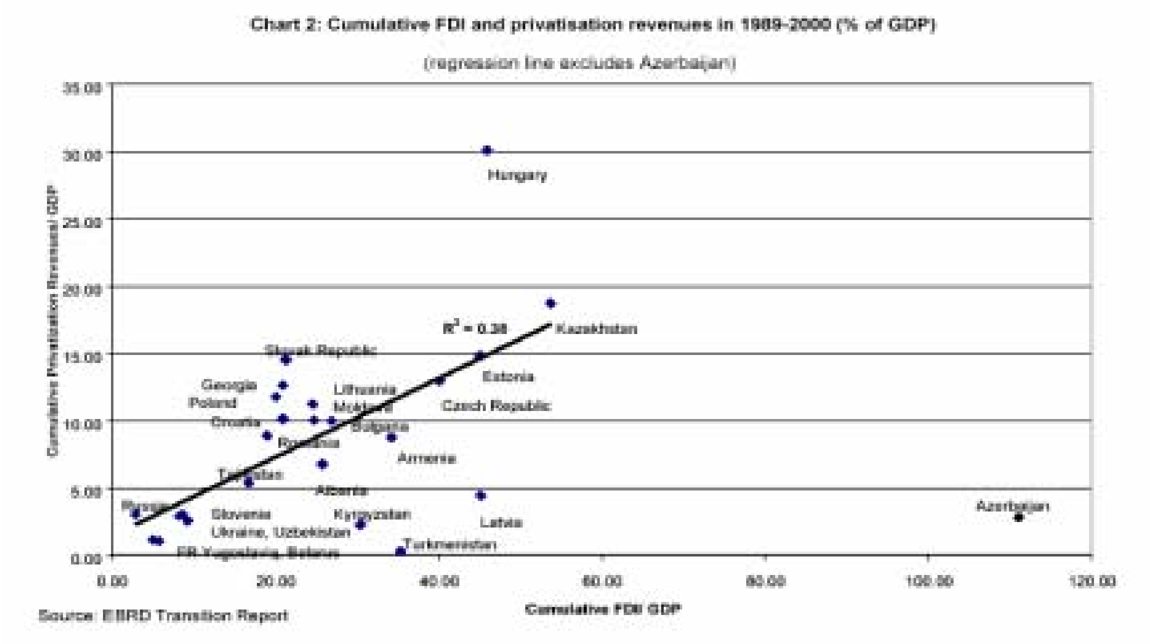
The total volume of FDI inflows to transition countries remains small in comparison with other developing countries. However, FDI inflows are already substantial as a percentage of GDP. FDI inflows as a share of GDP in the benchmark countries in Latin America, South-east Asia and low-income EU countries have been comparable to FDI inflows to transition countries by 2000 (see Chart 1).

Chart 1: Foreign direct investment in transition economies compared with emerging markets benchmarks (% of GDP)



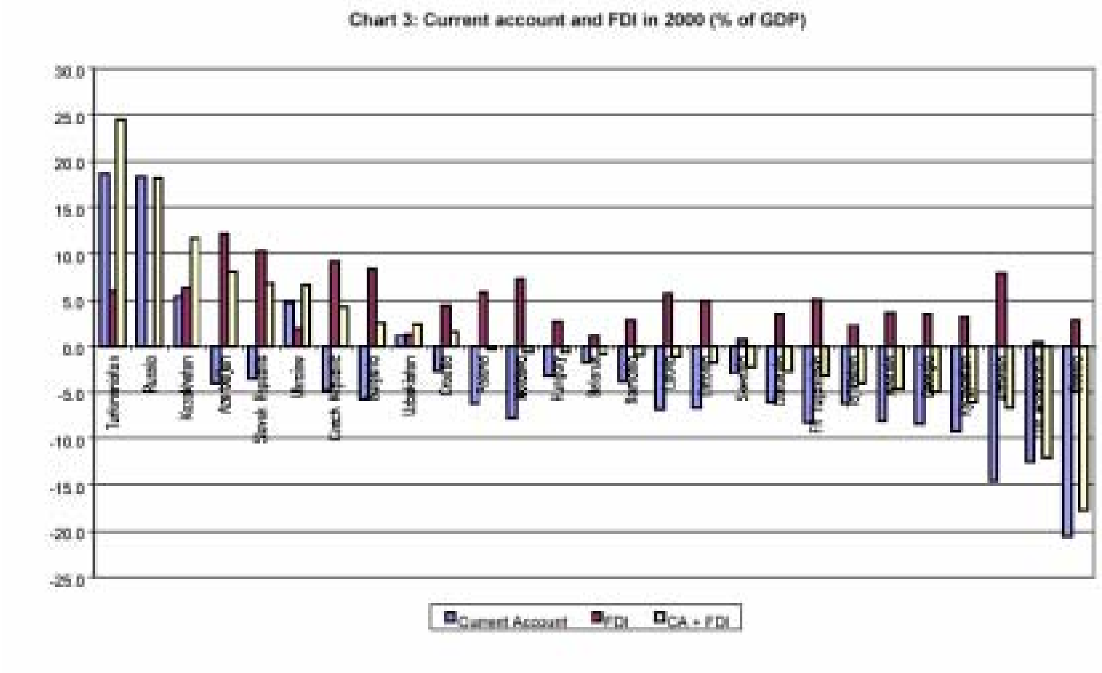
Note: Data for b enchmark economies, denoted with a star (Malaysia, China, Thailand, Argentina, Brazil, Indonesia, Greece, Portugal, and Turkey), refer to average for 1990-2000. Source of the data on transition countries is the EBRD Transition Report Update 2001 and IMF World Economic Outlook 2001.

Also a large share of FDI in transition countries is generated by the privatization process (see Chart 2).



However, there are transition countries that attract a large amount of FDI without embarking on a significant privatization programme (Azerbaijan) while the privatization process in other countries has involved a significant amount of stock market flotation (Hungary, Poland, Russia) and therefore some privatization-related capital inflows are reported as portfolio inflows instead of FDI.

There is a strong relation between FDI and other macroeconomic variables. Privatization related FDI inflows help to finance the fiscal deficit in countries where the need for large infrastructure spending and generous welfare programmes are inconsistent with budget revenue constraints, including inefficient tax administration. Foreign capital inflows are also needed to cover often large current account deficits caused by the inflow of consumer and investment goods which are not produced domestically (see Chart 3).



And the main thing here that foreign investments in economy of this or that country become some kind of the catalyst of the accelerated economic and social development. Thus would be unjustified to reduce all business to creation on the basis of foreign investments of any new manufacture though it, certainly, too is very important. But it is even more important a role of such investments as than the factor which is making active inclusion in economic process of earlier badly used natural, industrial, labor potential. The foreign capital, organically incorporating with national efforts and resources, generates by a principle of chain reaction high integrated effect on the basis of application of more progressive means of work, improvement of professional skill of workers and improvements of use of available industrial resources.

From here it is possible to draw a conclusion, that investment activity and economic growth - factors mutually conditioned among themselves. *Economic growth*, depending from investment activity, in turn predetermines real opportunities of the country in investment at each concrete stage of development. Differently: the rates growth are higher than a total national product and the national income, the it is more than opportunities for the expanded reproduction of investment resources and formation on this basis of the most rational investment policy.

§ 3 The international investment activity and her institutes

The international investment activity is caused by export of the capital abroad in the monetary or commodity form with the purpose of reception of the profit and expansion of economic influence.

As already it was spoken earlier, on character of the property the taken out capital can be private and state.

We can distinguish two forms of export of the capital:

- export of the enterprise capital - its premise in the industrial enterprises of countries - importers;

- export of the loan capital - as loans, credits, investments on the current accounts in foreign banks.

The enterprise capital, in turn, is subdivided into straight lines and portfolio investments.

Foreign direct investment is investments which provide an establishment of long-term relations between partners, and also long-term interest and the control which defines and the organization - resident of one economy concerning the enterprise which is the resident of other economy carries out. To direct foreign investments carry:

- purchase by the foreign investor of a share holding of the enterprise in which it invests the capital, at a rate of not less than 10 % from a total cost of the share capital;
- re-investment to the profit from activity of the enterprise at a rate of which corresponds to a part of the capital of the investor in the share capital and remains at his order after distribution of dividends of any repatriation of a part of the profit;
- inside in firm granting of the credit or equivalent to this operation on settlement of debts in relations between the "parent" company and its foreign branch.

Portfolio investments are investments in the share of the foreign enterprises (without purchase of a control package), bonds and other securities of the foreign states, the international monetary-credit organizations with the purpose of reception of the increased income due to tax privileges, changes of a rate of exchange etc.

The most influential international monetary-credit system is the group of the World bank (Bretton-Wood currency system) which includes the International Monetary Fund (IMF), the International Bank of Reconstruction and Development (IBRD), International Financial Corporation (IFC), the International Agency of Development (IAD), Multilateral Investment Guarantee Agency (MIGA).

The international bank of reconstruction and development and the International monetary fund - the interstate investment institutes founded simultaneously in 1944 in Bretton-Wood (USA). Members IBRD can be only the countries which have entered IMF.

IBRD began the activity from 1946. Its basic purpose - to serve as the channel of transfer of resources from the advanced countries in developing for assistance to their economic and social development. The bank gives also the technical help, gives the recommendation for development of economic policy.

Co-owners of the IBRD are the governments about 166 countries. Authorized the capital of bank is formed by a subscription of countries - members to actions(shares). Granting of loans to countries - participants is carried out due to the proceeds of credit involved with bank in the world markets of capitals. The significant part of means IBRD acts also from the unallotted profit and repayment before the given loans which are given out by bank for the term of from 15 till 20 years and have a five years' grace period. Loans are given the less developed countries which have shown certain economic growth and social progress. Charter IBRD determines obligatory target use of given loans - they should be used extremely on the productive purposes and to promote economic growth of countries - borrowers, т. е. Object of crediting should be real investments. Loans are given directly to the government or under his guarantee, in view of probability of their repayment in the future.

The main task of the International financial corporation created in 1956, assistance to less developed countries in development of a private sector is by investment or granting of loans. Funds IFC consist of incomes of shares which are bought with countries - members IFC, own loans, and also the unallotted profit.

Members IFC can be only countries - participants IBRD. Now the structure of corporation includes 146 members.

In 1986 under initiative IFC the advisory service under foreign investments - Foreign Investment Advisor Service is created.

At the request of the governments of less developed countries the service develops the most rational ways of attraction of direct foreign investments, studies an investment climate of these countries, helps in development of the investment legislation and the organization of the establishments necessary for attraction of foreign investments.

The Multilateral Investment Guarantee Agency is created in 1988 with the purpose - to promote investment of the share capital and attraction of other direct investments in less developed countries by elimination of barrier of noncommercial character. Within the framework of this task of the MIGA carries out insurance of foreign investors upon the losses connected to noncommercial risk. the MIGA also gives the technical help to less developed countries, gives the recommendation for improvement of conditions of inflow of investments in the country, promotes development and realization of investment programs and projects. Members of the MIGA now are about 90 countries.

The European bank of reconstruction and development (European Reconstruction and Development Bank) was created in 1991 for assistance to transition to the open economy focused on the market, and also development of the private and enterprise initiative in the countries Central and the East Europe.

The European Reconstruction and Development Bank aspires to promote development of a private sector in economy of the countries by means of investment operations and attraction of the foreign capital. It cooperates with commercial banks and investment funds, and also with the state export - credit agencies.

One of the major tasks of the European Reconstruction and Development Bank - assistance to direct investments, structural reorganization of technologically viable enterprises, granting of long-term means by it and the help with the purpose of their transformation in financial the safe and independent companies.

European Investment Bank (EIB) and finance-credit institute of the European Economic Community (European Economic Community) - are created in 1959. Tasks of bank according to the charter are: development of backward areas of countries - participants of European Economic Community, financing of construction, reconstruction and modernization of the enterprises in the separate countries, where not enough own investments for these purposes, and also realization of joint investment projects.

The international association of development is created in 1960 with the purpose of financing projects and programs of development on concessionary conditions in extreme poverty the countries (with the revenue per capita less than 610 US dollars). Now such countries it is totaled about forty. Funds IAD are formed by periodic investments due to the advanced countries. The part of resources IAD receives as translations from IBRD. In IAD the advanced countries - donors, and also less developed countries who delegate on negotiations on granting the help of the representatives (deputies) from among high-ranking officials of the Ministry of Finance, the Ministries for Foreign Affairs or the Ministries of external connections enter. Prepare for decisions executive directors who affirm Board of directors IAD. Now in IAD enters more than 140 countries.

As against loans IBRD, IAD gives credits, resources for which are payments on a subscription, additional payments of industrially advanced countries - members and deductions from net profit IBRD. Interest-free credits IAD are given only by the governments for the term of from 35 till 40 years, with a grace period till 10 years.

The essential role in the international investment activity is played by " Bank of international payments ". This bank was founded in Basel, Switzerland, in 1930 with the purpose of assistance to cooperation among the central banks. BIP carries out four basic functions: accepts on the deposit reserves of the central banks and uses them for granting loans and accommodation of means in the market of capitals; advises the central banks and the international financial organizations on credit and to currency transactions; operates as bank - depositary at realization of the international financial agreements; is the center of monetary and economic researches. General meeting BIP consists of representatives of 25 European countries, USA, Canada, Japan, Australia and Southern Africa.

Also the important role in development of the international monetary-financial relations and investment activity is played with various groupings of the countries incorporated into groups with the similar purposes: mutual aid; coordination of activity in the field of a monetary-financial and investment policy.

Chapter II

INVESTMENT CLIMATE IN KAZAKHSTAN

§ 1 Appeal of economy of Kazakhstan to foreign investors

Since its independence from the former Soviet Union in 1991, the Republic of Kazakhstan has made remarkable progress in achieving market-oriented economic reforms and macroeconomic stabilization. Today, measured by any of a variety of yardsticks, Kazakhstan should be rewarded for its progress during ten years of independence and recognized by the world community as a market economy. Market-oriented reforms achieved by Kazakhstan include: a freely convertible, and now more stable, currency, the *tenge*; legal guarantees to workers of the rights to organize in trade unions and collectively bargain as well as the reality of rising real wage rates (and declining unemployment); price and interest rate liberalization; substantial privatization of small- and medium-scale enterprises and of many of the largest enterprises; the elimination of trade distortions such as quantitative restrictions and pronounced integration into the international trading and investment systems; the introduction of new laws, including a tax code based on international standards, an effective bankruptcy law, laws on competition and the securities market, and other components of the essential legal framework for a market economy.

Kazakhstan's progress in creating a young and growing market economy, although substantial, is ongoing and has not been achieved without a share of difficulties. Kazakhstan's new market economy faces some continuing transition challenges which remain to be met before it can fully realize the economic fruits of its market-based liberalization process. The likelihood that Kazakhstan will continue along the path of transition is high. The stated long-term priorities of the Government of Kazakhstan are consistent with the role of government in an economy that is completing its transition to a market system. Among those stated priorities, spelled out in *Kazakhstan 2030—Prosperity, Security and Improvement of the Welfare of All Kazakhstani People*, is the following (one of seven "key goals"): "Economic growth based on an open-market economy with high levels of foreign investment and internal savings: to achieve higher and more sustainable economic growth."

Kazakhstan has been a leading reformer in Central Asia in the decade since its independence in 1991. In recent years, market-based government reforms have stabilized the macroeconomy, liberalized the financial sector, transformed the pension system, and restructured the public sector. In the aggregate, price liberalization has created a framework where economic agents now respond to market signals in Kazakhstan. Further, as a consequence of the substantial privatization process, the level of foreign direct investment in Kazakhstan is one of the highest among all of the former Soviet bloc countries. In year 2000 it reached 2.7 billion.

While the pace of structural reform in some areas of the economy slowed during 1998 under the strains of declining oil prices, a drought-induced domestic grain shortfall, and the lingering effects of regional financial crises, "the process of market-oriented reform is now seen to be irreversible." The twin shocks of the Asian and Russian financial crises in 1998 interrupted the first modest economic growth that Kazakhstan had achieved since independence. Due primarily to the mass privatizations and other market-based reforms that had been completed by the mid-1990s, Kazakhstan's progress allowed it to realize positive GDP growth in 1996 and 1997. At the same time, unemployment had steadily fallen to less than seven percent and single-digit inflation was achieved by 1998. In spite of the economic progress made to that point, Kazakhstan's GDP growth declined in 1998 as a result of the regional financial crises. Notwithstanding the tremors from these economic shocks, which temporarily diverted the government's attention from its ongoing market reform and privatization goals, the government followed through with its decision to allow the *tenge* to freely float (which completed the *tenge's* procession to full convertibility).

As a testament to the market-based reforms Kazakhstan had already accomplished by 1998, it recovered from the 1998 crisis quickly and achieved positive GDP growth again in 1999, which increased dramatically in 2000by 9.6%. After a decline in 1998, the level of foreign direct investment has also been reinvigorated; inflation, unemployment and the exchange rate have all been stabilized at sustainable levels; and the government has renewed the final stages of market reforms including the final stages of privatization focused on large-scale enterprises. Kazakhstan's recovery from the 1998 shocks and its decision to embrace the remaining elements of market reform show that its fledgling market economy exists within a structural framework evidencing the political will to further develop and grow within a market-based economic system.

§ 2 Fixed capital investment in Kazakhstan by region

For the fullest representation about investment activity in Kazakhstan let's consider at first more in detail about the macroeconomic situation in Kazakhstan through the basic macroeconomic parameters.

The economy of Kazakhstan is based on its extensive agricultural and mineral resources. The country has enormous untapped fossil fuel reserves and supplies of other minerals and metals. Heavy industry was developed for further processing of these mineral reserves. The national engineering industry specializes in construction equipment, tractors, agricultural machinery, and defense equipment. Kazakhstan vast steppe lands secure considerable agricultural potential of the country, which accommodates both grain production and livestock grazing.

Structure of the Economy

The structure of nominal GDP calculated via the production approach changed significantly in the first quarter of 2001 compared to the corresponding period of the previous year. The share of goods (including construction) reached 40.5% of total GDP and the share of services 52.9%. Compared to the first quarter of the previous year an increase of construction, transport, and finance sectors is observed. Growth rates are witnessed in various branches of the economy. The fastest growing sectors of the economy in the first quarter of 2001 compared to the first quarter of 2000 are: Hotels and Restaurants (+22.5%), Communications (+22.1%), Personal and public services (+20.2%), Construction (+18.3%) and Real estate (+17.6%).

Table 3

Composition of GDP, %	**1996**	**1997**	**1998**	**1999**	**2000**	**2000 Q1**	**2001 Q1**
GDP							
Value added - total	**95**	**95.4**	**94**	**94.4**	**94.4**	**93.8**	**93.4**
Goods	*35.9*	*36.2*	*32.9*	*38.1*	*40.5*	*38.9*	*37.3*
Agriculture	12.2	11.4	8.6	9.9	8.6	3.4	3.4
Industry	23.8	24.7	24.4	28.2	31.9	35.6	33.9
Services	*59.1*	*59.3*	*61.1*	*56.3*	*53.9*	*54.9*	*56.1*
Construction	4.1	4	4.9	4.7	5.3	2.6	3.2
Net taxes on goods and import	**5**	**4.6**	**6**	**5.6**	**5.6**	**6.2**	**6.6**

Source: Agency of the RK on Statistics, Kazakhstan Economic Trend report.

Indices of main socio-economic indicators (as percent of previous year)

Table 4

	2001	2002
Gross domestic product	113,5	109,5
Volume indices of industrial output	113,8	109,8**
Agricultural output – total	117,3	102,7
Fixed capital investment	144,7	119,0
Freight turnover of general purpose transport	109,2	102,0
Retail trade turnover	115,4	112,1
Foreign trade turnover*	108,9	107,4
Of which:		
Exports	98,0	112,4
Imports	127,9	100,0
Consumer price index (December to November of previous year, percent)	106,4	106,6
Product price index for industrial output (December to November of previous year, percent)	85,9*	111,9

*Excluding public catering service

**operational data

Source: Statistics Agency of the Republic of Kazakhstan

Economic Indicators

Table 5

	2001	2002
Gross Domestic Product (GDP), mln. Tenge	3,250,593.30	3,747,198.00
GDP, mln. US dollars		
By official rate	22,153.60	24,446.80
Volume indices, as percent of previous year	113,5	109,5
Deflator, as percent of previous year	110,1	105,3
GDP per capita, tenge	218,830.30	252,263.50

GDP, per capita US dollars: By official rate	1,491.40	1,645.80
Volume indexes of GDP per capita, as percent of previous year	113,7	109,5

Source: Statistics Agency of the Republic of Kazakhstan

Experience of the past few years shows that Kazakhstan's efforts to ensure continuous economic growth and macroeconomic stability were quite successful. For three years in a row the country has experienced a significant growth it its GDP: year 2000 - 9.6%, year 2001 - 13.2%. Over the period from 1st July 1999 till 1st July 2002 overall GDP growth constituted 39.6% (industry-46%, ariculture-50%). All the economic achievements of the first decade of Kazakhstan's independence were made possible owing to large scale political and economic reforms and pleasant investment climate.

Now direct foreign investments are defined as the crucial factor of growth and globalization economic. Their value for overcoming crisis situations and depression positions of economy is defined by the following functions:

1. Decrease of deficiency of the capital, increase of its inflow which enables to update manufacture to overcome stagflation to improve structure of the balance of payments;

2. Introduction of modern technologies and organizational methods, expansion of economic relations;

3. dinamyzation the market of the capital and assistance of integration of national economy in global;

4. Stimulation of development of an export potential and decrease of a level of dependence on import;

5. Increase of an occupation level and qualification of a labour.

Intensity of inflow of investments depends on investment appeal of the country as a whole and its regions in particular.

For example let's see the following indicators in Kazakhstan regions sector:

Annual Exchange Rate of the KZ Tenge against the US Dollar: **2001 – 146.7, 2002 – 153.2**

Fixed Capital Investment Fixed capital investment in Kazakhstan by region (Billion tenge)

Table 6

Region of Kazakhstan*	1998 **)	1999 **)	2000	2001	2002 ***)
Total	254	333	596	943	1056
Akmolinsk	1	1	3	12	12
Aktobe	16	21	41	62	82
Almaty	9	9	10	17	26
Atyrau	46	68	119	232	244
East Kazakhstan	16	21	38	39	35
Zhambyl	2	2	3	5	10
West Kazakhstan	18	59	131	167	194
Karaganda	21	23	33	55	62
Kostanai	14	7	10	17	20
Kzylorda	7	14	10	16	30
Mangystau	16	11	37	57	48
Pavlodar	15	18	25	27	22
North Kazakhstan	6	4	7	6	8
South Kazakhstan	7	4	16	26	22
City of Astana	39	43	59	90	110
City of Almaty	22	28	54	115	131

* - Share of regions in an aggregate number of the population Kazakhstan – (14,820,9 thousand person) (in %):

Akmolinsk – 4,9%, Aktobe – 4,5%, Almaty – 10,5%, Atyrau – 3%, East Kazakhstan – 10%, Zhambyl – 6,6%, West Kazakhstan – 4,1%, Karaganda – 9,1%, Kostanai – 6,3%, Kzylorda – 4,1%, Mangystau – 2,2%, Pavlodar – 5,1%, North Kazakhstan – 4,7%, South Kazakhstan – 13,8%, City of Astana – 3,3%, City of Almaty – 7,7%

**) Without taking small enterprises into account
***) Updated information

Source: Statistics Agency of the Republic of Kazakhstan

Fixed capital investment in different economic sectors Billion tenge

Table 7

Economic sector	1998 *)	1999 *)	2000	2001	2002 **)
All industry	156	216	386	551	579
Minerals industry	93	155	297	418	452
Processing industry	43	42	72	105	101
Production and distribution of power, gas and water	20	19	17	28	26
Transport and communications	26	26	57	105	104
Agriculture	2	2	8	12	14
Building	16	13	21	41	43
Other sectors	54	76	124	234	316

*) Without taking small enterprises into account
**) Updated information

Source: Statistics Agency of the Republic of Kazakhstan

Fixed capital investment in terms of property Billion tenge

Table 8

Form of property	1998 *)	1999 *)	2000	2001	2002 **)
State	66	61	67	137	173
Private	157	238	348	500	537
Property of companies without government or foreign	36	37	103	146	165

participation					
Property of companies with government participation (without foreign participation)	25	24	65	92	88
Property of joint companies with foreign participation	96	177	180	262	284

*) Without taking small enterprises into account
**) Updated information

Source: Statistics Agency of the Republic of Kazakhstan

§ 3 Investment rating of Kazakhstan

Credit rating expresses the opinion of rating agencies about general solvency of a loaner and about his ability to produce opportunely payment of the obligations. This rating is given over the credits in foreign and native currencies. The forecast of the rating shows the possible direction of its way in the nearest 2-3 years. “Stable” – changes are improbable, “positive” – could rise.

The basic factor for sovereign rating of a country is the economic and social conditions of the country, and its political system. The Republic of Kazakhstan has the highest long-term credit ratings among all of the CIS countries.

The rating is of wide respect among investors and is a suitable instrument for the estimation of solvency of a loaner.

28 May, 2003 Standard & Poor's Ratings Services said it raised its long-term foreign currency ratings on the Republic of Kazakhstan to `BB+` from `BB`, and it`s local currency ratings to `BBB-/A-3` from `BB+/B`. The upgrade reflects the sustained strengthening of the Republic`s economic prospects, as well as prudent policies keeping the government`s deficit and debt at low levels.

At the same time, the `B` short-term foreign currency rating on Kazakhstan was affirmed. The outlook is stable.

The persistence of prudent financial policies has limited both fiscal deficits and inflation, thereby strengthening already robust economic prospects. The general government in 2003 is expected to record a small surplus of about 1% of GDP before tax revenue transfers to the National Fund (a deficit of about 2% after the transfers). General government debt is projected at a manageable 14,2 % of GDP at year-end 2003, and will remain broadly stable over the next few years. Meanwhile, macroeconomic stabilization should continue, with price growth estimated at 6,4% in 2003, and economic growth at about 8.6 %. The government`s commitment to market-oriented reforms, as well as improved confidence in the banking sector, should deepen the financial system.

In addition, the vulnerability of the economy and the budget to external shocks has been decreasing. On the back of continuous increases in investment, production, and export capacities in the oil and gas sectors, Kazakhstan is able to post high potential growth and low deficits even in the face of low oil prices.

Kazakhstan`s credit standing is also supported by its robust external liquidity. The current account deficit is estimated at about 0.3% of GDP in 2003, compared with 2.5%

of GDP in 2002, and is expected to decrease further on the back of moderating import growth and strengthening exports, especially of oil and gas. Furthermore, these deficits continue to be comfortably financed by foreign direct investment (FDI) inflows of about 6-7% of GDP annually.

The agency among the negative factors pointed out the highly centralized and opaque nature of governance, along with weak institutional and legal systems.

19 September, 2002 Moody’s Investors upgraded Kazakhstan's foreign currency ceiling for bonds and the rating of the government's foreign currency bonds to Baa3 from Ba2. Simultaneously, the credit rating agency upgraded the ceiling for foreign currency bank deposits in Kazakhstan to Ba1. The rating for the government's long-term local currency instruments has been raised to Baa1. All ratings have a "stable" outlook.

Investment rating given to Kazakhstan – the first among CIS countries by Moody's Investors Service indicates the favorable conditions to invest in the economy of Kazakhstan. The establishment of the National Fund the main function of which is to decrease the influence of unfavourable external factors caused by the world price fluctuations on raw materials also has effected upon sovereign rating of Kazakhstan. Debt and debt servicing ratios are low. The country's geopolitical status is a positive factor in assessing its creditworthiness.

§ 4 Investments in the Kazakh Economy in 2001 (an example)

Today there is no room for argument that the resurgence of Kazakhstan's economy rests entirely upon the rapid growth of its *oil* and *gas* sector. The strategic partnership with international oil companies which have invested millions of dollars in the national raw material sector has prepared the way for the country's entry into the international hydrocarbons market.

Since 1998 there has been sustained growth in production and export of crude oil and gas condensate, accounting for 14% and 18% per year respectively. Foreign investment in Kazakhstan's oil and gas industry is also on the rise. In 1993-2001 gross investment in this sector amounted to about $9.6 billion. or more that 60% of the gross foreign direct investment (FDI) received by Kazakhstan. In 2001 alone this figure was 74.5%, or about $3.3 billion (see Table 9).

Table 9

FDI Inflows into Kazakhstan by type of economic activity (in $ million)			
	1993-2000	2001	2002(Q1)
Mining industry	7.832.5	3.291.4	488.4
Including			
coal, peat and lignite	22.8	-2	0.4
crude oil and gas	6.303.6	3.287.8	487
uranium ore	5.8	3.3	0.6
metallic ore	1.500.3	1.8	0.3
other	0	0.5	0
Processing industry	1.765.4	301.1	49.6
including			
processing of agricultre product	409.3	84.5	8
production of coke, refinery of crude oil, production			
and processing of nuclear materials	73.6	65.6	12.9
chemical industry	78.2	7.2	8.3
ferrous metallurgy	372.4	22.4	4
nonferrous metallurgy	661	31	0
production of metallic goods	0.3	0	0
production of electrical and electronic equipments	136.1	67.5	10.1
other	34.5	22.9	6.3
Production and Distribution Electrical Energy,			
Gas and Water	433	33.4	4.7
Construction	32.9	36.6	14.2
Trade, Repair of Cars and Other	152.1	56.6	30.1
Hotels and Restaurants	52.4	24.6	3
Transport and Communications Network	166.8	144.8	28.8
Financial Activities	206.4	44.1	2.2
Real Estate Business, Leasing and Other	1.433.9	472.8	113.1
State Management, Education,			
Care of Public Health, Social Services	118.1	7.9	1.8
Other	360.8	0	0

Total:	12.561.7	4.418.5	736.6
Source: National Bank of Kazakhstan			

The National Bank of Kazakhstan reports that in the past year gross foreign direct investments totalled $4.418.5m, whilst net external financing under direct investment transactions was $2.760m. Total debt to parent companies, taking into account capitalization of interest accrued, amounted to $1.778m, with three quarters of this amount due to mining ventures.

In 2001 the share capital of Kazakh companies was the primary target for direct investment. The proceeds from selling the State stakes in TengizChevrOil (5%) to Chevron, and in Mangistaumunaygaz (30%) to Central Asia Petroleum Company, made up the main part of state revenues.

One of the largest investments: TengizChevrOil (TCO), a joint venture founded between Kazakhstanmunaigaz and Chevron, was formed as part of a 40-year, $20 billion agreement signed in 1993. Mobil obtained a 25-percent share in the joint venture in 1996. In March 1997, Chevron sold to the Russian company LUKoil a 5-percent share of TCO. By the summer of 1998, the joint venture partners had invested more than $1.1 billion in TCO. In September 1999, TCO stated publicly that construction of the Caspian Pipeline Consortium project, a pipeline from the Caspian across southern Russia to the Black Sea, is proceeding on schedule for completion in the summer of 2001.

In addition, direct investment was made in CPC construction, development of the Karachaganak oilfield, and geological surveys by oil companies.

On the other hand, heavy investment in the oil and gas sector aggravates the existing imbalance in the development of the various industries and regions of Kazakhstan. FDI in the mining sector, ferrous and non-ferrous metallurgy, the food and other industries have been declining year by year. Bearing in mind the need to diversify investment targets, the Governments has been taking steps to attract investment into the priority sectors of the national economy since 1997*. Unfortunately, these efforts appear to have been to no avail, as foreign investors see better opportunities in the oil and gas industry, due to the more favorable investment climate or, at least, the comparable levels of risks and profits for oil ventures.

Let's consider the oil-and-gas sector in more detail:

No sector has generated greater international exposure for Kazakhstan than its oil and gas industry, and U.S. upstream oil companies and service companies have been most active in this key sector. This industry contributes about 32 percent of Kazakhstan hard-currency export earnings and strongly affects the entire economy. Kazakhstan has proven oil reserves of 16 billion barrels and may have, according to Kazakhstan government projections, a further 30 billion barrels both onshore and under its portion of the Caspian seabed. In 1998, oil output in Kazakhstan was 25.9 million tons and natural gas output was 5.5 billion cubic meters, a slight increase from 1997. The Kazakhstan government hopes to boost oil output to 80 million tons per year by 2005 and to 120 million tons by 2020. The success of six test wells to be drilled in the offshore Caspian Kashagan structure in late 1999 will provide an early indicator of how likely these plans are to succeed. Western investment and technical assistance will be a prerequisite to sharply increasing output in the next decade. Though upstream and downstream opportunities exist for U.S. companies, newly-legislated requirements for producers to use Kazakhstan goods and services, transportation problems, unclear legislation and licensing procedures, and constant personnel changes within the hierarchy of Kazakhstan's energy-related entities present serious challenges.

Chevron, with its 45-percent stake, is leading the TengizChevrOil (TCO) venture, which was set up to develop the Tengiz oil field. Mobil and Kazakhoil each have 25 percent and Russia's LUKoil holds the remaining 5 percent. Chevron and the Kazakhstan government have been working on the Tengiz project since 1992. Tengiz is one of the biggest oil fields in the world and may require up to $20 billion in investment. In early 1999, Chevron announced that it would continue its large investment program in Kazakhstan's oil sector despite the dramatic fall in world oil prices. Chevron invested $550 million in the TCO joint-stock company in 1998 and will stick to its plans for another $450 million investment in 1999. TCO produced 8.5 million tons in 1998 (more than 30 percent of Kazakhstan's oil production) and plans to raise annual output to 12 million tons by 2000. California-based Bechtel, in a joint venture with Enka (Turkey), provides engineering, construction, project management, procurement, and financial control services to the integrated TCO team.

The Offshore Kazakhstan International Operating Company (OKIOC), under a production sharing agreement signed in November, 1997, with the government of Kazakhstan, will explore for oil and gas in the North Caspian Sea. The initial owners of OKIOC were Shell, Agip, British Gas, British Petroleum, Kazakhoil, Mobil, Statoil, and Total. In September 1998, Oklahoma-based Phillips Petroleum and the Japanese corporation Inpex each acquired half of Kazakhoil's 14 percent share in OKIOC. OKIOC expects to start drilling in late summer 1999. The first exploration well, East Kashagan, is located 50 miles away from Atyrau city on the northern coast of the Caspian Sea. OKIOC plans to explore and develop 10 out of 200 blocks of Kazakhstan's portion of the Caspian Sea shelf, which may hold an estimated four billion tons of hydrocarbon reserves. OKIOC plans to spend around $450 million over the first six years of operations and anticipates about $220 million of that amount will have been spent by the first drilling.

All the oil majors will be watching OKIOC's progress particularly closely now that two consortia exploring in the Azerbaijani section of the Caspian have closed after failing to find commercially viable quantities of oil.

Negotiations continue with Russia, Azerbaijan, Turkmenistan, and Iran on establishing a viable Caspian demarcation and legal regime for the Caspian Sea. In July 1998, Kazakhstan and Russia signed an agreement dividing their portions of the seabed in the north Caspian. This represents the first and only deal to date that clarifies borders within the Caspian between any of the littoral states.

Kazakhstan has very limited experience in offshore oil production and operations, creating opportunities for U.S. firms in rig work; oil tools (completion, workover, and services); well stimulation; water injection and gas treatment packages; support infrastructure; and environmental technologies. The Caspian Basin's oil bearing formations are quite deep (15,000 feet), under considerable pressure, and often contain a high degree of sulfur and other contaminants, making special Western-made drilling and processing equipment necessary. Another production sharing agreement signed in 1997 is between Kazakhstan and a consortium of British Gas, Agip, and Texaco to develop the giant Karachaganak oil and gas field in northwestern Kazakhstan. This project is expected to run through 2036, with oil and gas production capacity peaking at 12 million tons per year and 25 billion cubic meters per year respectively. Bechtel won the contract to provide engineering and procurement services for the refurbishment and expansion of existing crude processing facilities, additional export pipelines for oil and gas, and new infrastructure required to support the project.

Aside from building a welcoming investment climate, the major challenge for land-locked Kazakhstan is to build access routes to export its oil to world markets. Kazakhstan currently depends on its neighbors to transport petroleum products to the world markets. Presently, the bulk of Kazakhstan's oil exports pass through the Russian pipeline system, by railcar through Russia to the Black Sea and the Baltics, and by barge across the Caspian to Baku. In late 1998, Russia agreed to increase its export quota on Kazakhstan oil from 3.5 to 7.5 million tons per year for transit through the Atyrau-Samara pipeline via Russia to Europe. This has helped shippers, such as TengizChevrOil, who export oil through this pipeline. However, Kazakhstan production already exceeds even this increased quota and it will therefore need additional export routes as production increases. This presents medium and long-term opportunities for U.S. engineering and service companies. After two years of delays, the Caspian Pipeline Consortium's (CPC) project to build an oil export pipeline from Tengiz to Novorossiysk is moving ahead. On May 12, 1999, CPC celebrated a major milestone as construction began on the marine terminal for a 1,500-km pipeline from the northeast shore of the Caspian to Novorossiysk, the Russian port on the Black Sea. If plans proceed as expected, Kazakhstan will have an export outlet with an initial capacity of 28 million tons per year by 2001. Completion of upgrades (probably not before 2005) would boost capacity to 67 million tons per year.

Approximately $1.5 billion worth of contracts have already been awarded. California-based Fluor Daniel is a main subcontractor to this project. The construction contracts have a large Russian content, with contracts awarded to companies such as Kubanneftegazstroy, Stavropoltruboprovodstroy, and JSC Koksokhimmontazh. The governments of Kazakhstan, Russia, and the Sultanate of Oman are signatories to the CPC agreement. The following petroleum companies are shareholders of CPC: Chevron, LukArco, Rosneft-Shell Caspian Ventures, Mobil, Agip, British Gas, Kazakhoil, and Oryx.

However, the CPC pipeline alone will not be enough to export Caspian production. Several pipelines may be needed to ship Kazakhstan hydrocarbons to world markets. Another possible route is a pipeline from the Tengiz field in western Kazakhstan via Baku to the Georgian port of Supsa. Oil then would be shipped through the Black Sea and the Bosporus to the Mediterranean Sea. A small Baku-Supsa pipeline, re-opened in April 1999, cost $565 million to rehabilitate, or about twice its original estimate. Another route currently moving beyond the planning stage is a pipeline from Baku, Azerbaijan, through Georgia and Turkey to Ceyhan (Turkish Mediterranean coast). Western Kazakhstan oil would, at least initially, be shipped across the Caspian Sea to Baku by tanker and then join the pipeline. Cost estimates for this pipeline range from $2.4 to $2.9 billion, although the Government of Turkey has guaranteed to reimburse builders for any costs for the Turkish portion of the pipeline exceeding $1.4 billion. The Baku-Ceyhan routeavoids the commercial, environmental, and safety risks associated with increased oil shipments through the Bosporus and received the endorsement of the region's leaders at an Istanbul Summit.meeting in November 1999. A proposal to build a large-scale pipeline across Kazakhstan to China is widely believed to have given the Chinese National Petroleum Corporation (CNPC) the edge in winning onshore tenders for Uzen, Zhanazhol, and Kenkiyak (three large oil fields in western Kazakhstan). CNPC agreed to study construction of this eastward-flowing, 2,000-mile pipeline, but progress on the study has been slow and the study had not been published as of December 1999.

Kazakhoil, Kazakhstan's national oil and gas company, is largely responsible for arranging tenders of oil and gas properties still to be privatized (although actual licensing for projects is issued by the State Agency for Investment) and plays the leading role in practically all contracts with foreign oil and gas companies. New legislation also gives Kazakhoil a regulatory role in overseeing contract execution, although it has not yet been implemented. Kazakhoil's portfolio also includes Kazakhstan's share of CPC and the

TengizChevrOil joint venture. Kazakhoil earnings provide 37 percent of the Kazakhstan government budget revenues. In 1998, Kazakhoil's subsidiaries pumped 5.3 million tons of oil. In March 1999, Kazakhoil signed a grant agreement with the U.S. Trade and Development Agency that provides financing for a feasibility study on national oil and gas exploration and a production database project and petroleum information service. The feasibility study is being implemented by Virginia-based Mathtech International and the Sarkeys Energy Center of the University of Oklahoma.

The Kazakhstan National Oil Transportation Company (Kaztransoil) was created in 1997 to manage all of Kazakhstan's domestic oil pipelines. Mr. Timur Kulibayev, formerly a vice-president at Kazakhoil, became president of Kaztransoil in March 1999. In 1997 the Kazakhstan government leased the main Kazakhstan gas pipeline system to Tractebel, a Belgian energy company. Kazakhstan's pipeline infrastructure needs are great, but Kaztransoil does not have the ability to finance upgrades and/or new pipelines. It remains to be seen how prominent a role Kaztransoil can really play in Kazakhstan's transportation picture. Kazakhstan has three oil refineries: Shymkent, Pavlodar, and Atyrau. Shymkent is currently owned by Kazakhstan's largest private bank, Kazkommertsbank. In 1996, CCL Oil, a U.S.-registered company, took a five-year concession on the Pavlodar refinery. The Atyrau refinery is under the control of Kazakhoil. The three refineries are all producing below their design capacity due to poor maintenance. All of the refineries need funds for repairs and working capital.

The political and regulatory risks which foreign investors are faced with in the oil and gas sector appear somewhat more manageable, compared to processing industries. Importantly, many mining contracts with internationals companies involve the Government as a shareholder a factor which has a strong bearing on decision-making by the authorities. Finally, the rights of foreign investors are protected by the "stabilization clauses" of the Kazakh Act On Foreign Investment.

As for political and regulatory risks in the processing sector, neither foreign nor Kazakh investors seem to be in a position to exert nay influence on the situation. Medium-sized and small businesses lack an efficient mechanism for interaction with state bureaucracy, they are unable to lobby their interests through associations, nor can they take direct initiatives to change or interfere with public decisions.

Major problems arise from the very start of any new business. Thus, it might take a foreign investor as long as half a year to get a company set up in Kazakhstan. The situation is much the same in Russia, where the full bureaucratic procedure, including registration, approval and project appraisal at federal and regional levels takes at least nine months. Given the fact that Kazakhstan draws heavily on the Russian model, the prospects for new foreign and domestic investment in its processing sector, agriculture, tourism and other industries are poor.

Unlike Norway, where about 45% of the national workforce is engaged in small businesses and the service sector despite the country's status as the largest European oil producer, the investment policy of Russia and Kazakhstan is centered around "projects of the century"; that is to say that projects worth millions of dollars are deemed to be a more promising choice than the routine work of fostering small and medium-sized business development.

At the same time Kazakhstan is faced with serious problems associated with uneven development of its regions. Whereas the official unemployment rate in the country averages 3.7%, in some areas it is 6% (for comparison in Russia: unemployment rate - 8% (2001 est.), plus considerable underemployment (2002 est.). Amazingly, unemployment strikes especially hard in oil-producing regions, revealing the inadequate development of the small and medium-sized business sector there.

As elsewhere, the efficiency of investment policy at a regional level largely depends on the powers vested in local governments. Prompted by the example of some Russian provinces, the administrations of the Mangistau, Atyrau and other regions have embarked on attracting capital through bond issues. These regions have received investment ratings from the leading international agencies, which improves their chances considerably. However, it should be remembered that many provincial governments in Russia are now encountering serious problems with repayment, whilst the expected upsurge in the local economies has not occurred. In my opinion, the competence of local authorities should be extended not only to include borrowing capacity, but also in the sense of giving them more freedom to make contracts with foreign and domestic investors, and granting tax rebates to those who can improve employment in the region.

Increasing employment with small and medium-sized companies has a far-reaching effect: a growth in personal income boosts consumption and, accordingly, production by the food, light and other industries. Ultimately, solvent demand from the population itself represents an internal “strategic investor”.

Recent years have seen an increase in public trust in the domestic banking sector, resulting in an expansion of savings with commercial banks (see Table 10).

Table 10

Structure of deposits by residents of Kazakhstan (in billion tenge)

	1999	2000	2001
Total	**170.4**	290.6	437.9
Deposits by private persons	53	88.3	184.8
Source: National Bank of Kazakhstan	*1$-138.3t 1$-145.4t*		*1$-150.9t*

In 2001 deposits from the public doubled to reach some $1.3 billion, which is half the total net FDI for the same year. The deposit structure is also changing: during the first half of 2002 dollar deposits grew by 3.4% and tenge deposits by 16.4%.

In 2001 lending by commercial banks doubled compared to the previous year (see Table 11).

Table 11

Loans provided by second-tier banks to various sectors (in billions tenge)			
	1999	2000	2001
Total loans	148.8	**276.2**	489.8
Including			
Industry	32.3	84.3	166.2
Agriculture	11.8	25.9	50.6
Construction	5.7	12	23
Transport	4.7	16.5	21.1
Communication	2.9	5.9	11.6
Trade	41.4	91.8	151.9
Other	40.3	39.9	65.4
Source: National Bank of Kazakhstan	*1$-138.3t 1$-145.4t*		*1$-150.9t*

Although trade loans still dominate the loan structure, lending to industrial companies, farms and construction businesses is on the increase. In the first half of 2002 a trend formed towards a greater proportion of loans being denominated in tenge: this grew from 28.8% to 33.6%. At the beginning of the year the weighted-average interest rate for corporate borrowers was reduced from 15.3 to 14.6% for tenge loans and from 13.1 to 12.7% for dollar loans as compared to December 2001.

The rapid growth of the banking sector in Kazakhstan has been accompanied by a decrease in the number of foreign banks (from 17 to 12) and foreigner co-founded banks (from 10 to 4) in operation; the number of affiliated banks has remained the same for three years (12). As a results, the proportion of foreigner co-founded banks in the total authorised capital of Kazakh second-tier banks dropped from 36.9% in 1998 to 17.6% in 2001.

The policy of the National Bank is explicitly orientated towards favouring the interests of local banks and containing the presence of foreign capital in the national financial sector. This explains to some extent the low level of the Kazakh commercial banks' equity capital (about $1 billion as of 1 July 2002).

Meanwhile the domestic capital market has become prone to a lack of balance between the dominant short-term and high-liquidity borrowing opportunities, and the overall demand for long-term loans. Commenting on this situation, Grigory Marchenko, head of the National Bank of the Kazakhstan, stressed the need to expand borrowing by the real sector of the economy on the domestic stock market.

Towards July 2002 the official list of the Kazakh Stock Exchange (KASE) has been expanded with 33 private bond issues in a total amount of 65.5 billion tenge ($0.44

billion). By subscribing to these instruments, pension funds and other institutional investors are financing the real sector of the national economy. Currently non-state bonds issued by Kazakh entities account for 35% of the investment portfolio (totaling about $0.36 billion) of private pension funds.

Whereas in 2001 the non-public securities sector accounted for as little as 5% of the Stock Exchange turnover, during the first half of 2002 transactions in these instruments grew by six times compared to 2000. However, bonds remain the principal item traded on KASE, and the lack of shares in circulation represents a major concern. According to National Bank data, by 1 July 2002 there were 3,123 joint-stock companies in Kazakhstan, whilst shares in circulation totalled 728.1 billion tenge (about $4.9 billion). As a rule, shares are concentrated in the hands of strategic investors, which greatly reduces the opportunities for the sale or additional issues of shares intended for public floatation.

The fact that Kazakhstan has made little progress in promoting the sector of portfolio investors is undeniable when comparing the foreign investment structure for developing countries with that of Russia and Kazakhstan (see Table 12).

Table 12

Structure of foreign investment by countries (in %)			
Types of Foreign Investment	Developing Countries	Kazakhstan	Russia
	1990-1997	**2001**	2001
Total	100	100	100
Direct	38	67.8	46
Portfolio	27	3.5	3.9
Other	35	28.7	50.1

A more or less balanced picture can only be seen in the investment structures of developing countries. By early 2002 Kazakhstan and Russia had developed a clear imbalance ensuing from the low degree of diversification of investment flows. Portfolio investments in both economies are comparable and account for a negligible percentage. In Kazakhstan, most portfolio investors are from Great Britain, whilst in Russia this sector is dominated by Germans and Cypriots. US investors take a very reserved position towards both countries. (see Table 13-14).

Table 13

Foreign Investment in the economy of Kazakhstan as of March 31, 2002 (in $ million)					
	Cumulative			Including	
	Total	In percent of total	Direct	Portfolio	Other
Total investment	19,592.0	100	13,279.3	691.3	5,621.4
Including by basic countries					
USA	5,952.8	30.4	5,613.2	46.5	293.1
Great Britain	2,102.5	10.7	1,575.0	115.9	411.6
Netherlands	1,237.3	6.3	986.2	7.1	244.0
Italy	1,151.6	5.9	1,135.1	0	16.5
Russia	733.0	3.7	472.0	0.9	260.1
Japan	668.1	3.4	287.6	0	380.5
Germany	580.4	3.0	248.8	6.0	325.6
Turkey	584.1	3.0	376.2	2.7	205.2
Switzerland	570.6	2.9	91.5	7.4	471.6
China	539.7	2.8	495.2	0.1	44.4
Canada	451.6	2.3	430.6	0	21.0
France	343.6	1.8	169.9	0.1	173.7
Indonesia	311.4	1.6	311.1	0	0.3
Source: National Bank of Kazakhstan					

Table 14

Foreign Investment in the economy of Russia as of March 31, 2002 (in $ million)					
	Cumulative			Including	

	Total	In percent of total	Direct	Portfolio	Other
Total investment	34,436	100	17,184	1,353	15,899
Including by basic countries					
Germany	6,311	18.3	1,350	382	4,579
USA	5,306	15.4	3,991	89	1,226
Cyprus	4,554	13.2	3,399	335	820
Great Britain	3,659	10.6	1,861	143	1,655
France	3,320	9.7	217	0.1	3,103
Netherlands	2,333	6.8	1,974	18	341
Italy	1,457	4.2	164	1	1,292
Switzerland	767	2.2	277	35	455
Japan	647	1.9	372	1	274
Austria	614	1.8	133	60	421
Source: Central Bank of Russia					

After the financial crisis of 1998, the Russian economy was fed principally by loans, whereas Kazakhstan focused on seeking Foreign Direct Investment . In this respect partnership with the USA is strategic to Kazakhstan, since the inflow to the country comes in the form of direct investments. Some international experts argue that Foreign Direct Investment must not exceed 15% of GDP, because a greater proportion would threaten the nation’s economic independence. In 2001 the figures for Kazakhstan and Russia was 10.7% and 0.6%, respectively.

Russia has no distinct strategic partner. This observation is supported by the fact that its Foreign Direct Investment from the USA is roughly matched by that from Cyprus. It is appreciated, however, that investments from Cyprus, an offshore zone, are of completely different nature and represent a return of capital outflows. Investors from Germany are particularly active in the Russian market; they are implementing long-term projects in the oil and gas, food and other industries. In the 90s, German businessmen had unsuccessful experiences from working in Kazakhstan, and must still be nurturing a negative image of our country. Bearing in mind that the German economy is third in size only to those of the USA and Japan, the Kazakh Government should take decisive steps to get German business circles to take one more unprejudiced look at Kazakhstan.

The investor has a vast geographical choice for capital allocation, and hence exercises great caution in decision-making. Whereas before the 1997 Asian crisis, which was followed by the Russian default of 1998, the main selection criteria were rate of return and the prospects for economic growth in the country, investors today are generally concerned about the quality of economic changes, the competence of the national authorities, and the predictability of political decisions. In this connection the setting up of foreign investors' advisory bodies under the governments of Kazakhstan and Russia is an important step forward.

However, finding a common language with the authorities often appears to be an arduous job for these bodies. For example, it took the Foreign Investors Advisory Council (FIAC) under the Russian Government a whole year to allow foreign entities to open more than one currency account in the country. The adoption of the production sharing agreements law took five years, and finally is was heavily amended "to support the domestic producer", to the prejudice of foreign investors' interests.

The Advisory Council in Russia is an important vehicle for foreign companies to lobby for changes in investment conditions, which are equally relevant to Russian businessmen. These include:

- improving the awareness of tax-payers, and eliminating the scope for fiscal bodies to construe the tax legislation arbitrarily;

- setting up favourable conditions for increasing the presence of foreign banks in Russia;
- improving the transparency of the banking system;
- simplifying the procedure for granting tax credits and exemptions to eligible investors;
- other initiatives on protecting ownership rights and fighting corruption.

At the October 2002 meeting of FIAC, Mikhail Kasyanov, head of the Russian Government, said that a number of bills are in the pipeline to amend the currency, customs, anti-monopoly, land and labour laws. He also said that "passage of this package by the State Duma will stabilise the rules of play in the Russian market". In his opinion, the key issue at present for stabilising the economy is court reform, as "the judical system no longer meets modern challenges, especially as regards arbitration practices".

"The objective of our policy is to ensure equal competitive conditions for all market payers," stressed Kasyanov.

The Russian Government has learned a lesson from the situation. Indeed, the fact that in 2001 Kazakhstan's Foreign Direct Investment flows exceeded those of Russia by some $400 million (according to EBRD) is illustrative of the superiority of Kazakh investment climate (see Tables 15-a,b,c,d on the Appendices). However, Kazakhstan should not reduce its efforts. A new investment law is currently under consideration by a conciliation committee, and customs and taxation practices are being perfected; not all Government intiatives, however, are found to be adequate or welcomed by investors.

The forthcoming entry of Kazakhstan into the WTO requires revision of the legal framework for foreign trade-related investment. In this connection, there is a special WTO agreement on trade-related investment measures (TRIMs Agreement), which deals with the obligatory proportion of national input in foreigner co-founded ventures, restrictions on the use of foreign currency by these ventures, and the percentage of exports in their output. Therefore any newcomer to the WTO is required to bring its national laws into line with the organisation's standards.

Largest Investments in Kazakhstan (as of June 1998 – to present)

1. Philip Morris signed an agreement with the Almaty Tobacco Company in 1993, under which Philip Morris pledged to invest $350 million through 1998. The project is considered to be one of the largest privatization efforts in the former Soviet Union. Philip Morris has been producing cigarettes in Kazakhstan for domestic consumption since 1994, and hopes to begin exporting large quantities of cigarettes from Kazakhstan in 1997-1998.

- Summer 1998 update: On June 25, 1998 then-Prime Minister Balgimbayev attended a ceremony to lay the cornerstone of a greenfield cigarette manufacturing plant in Almaty oblast. The $200 million investment will produce over 25 billion cigarettes annually by the year 2000.

2. The Offshore Kazakhstan International Operating Company (OKIOC), nine international petroleum companies (BP-Amoco, Statoil, British Gas, Royal Dutch Shell, Mobil, Agip, Inpex, Philips and Total), in 1993 began work to explore oil and gas reserves in the northern section of the Caspian Sea. The Government of Kazakhstan had been a member but sold its share to Inpex and Philips. Consortium members jointly paid approximately $350 million for a seismic study and a bonus to the Kazakhstan

government for the rights to prospect for oil in the Caspian. Seismic work was completed in August 1996. A production sharing agreement (PSA) was signed in November 1997. Early estimates of offshore reserves are placed at ten billion barrels of oil and two trillion cubic meters of natural gas. OKIOC spouted its first well above the offshore structure known as Kashagan in August 1999.

3. Two international petroleum companies, Agip and British Gas, together with the Russian company Gazprom, signed an agreement in 1992 with the Kazakhstan government for the development of the Karachaganak gas field in western Kazakhstan. Texaco acquired a 20% interest in Karachaganak in the fall of 1997 (Agip and British Gas have a 32.5% interest, and Lukoil has 15% in the field). A PSA was signed for Karachaganak in November 1997. Western partners plan to build a pipeline to Atyrau to join into the Caspian Pipeline Consortium pipeline to Novorossisk, Russia on the Black Sea.

4. In August 1996, the American firm AES bought the Ekibastuz-1 power plant and committed to invest more than $500 million over the next six years to renovate and improve the facility. The power plant currently generates only 10% of its potential capacity of 4,000 megawatts. In the fall of 1997 AES purchased two hydroelectric power generation plants and several other coal-fired power/heating plants in and around Ust-Kamenogorsk, in eastern Kazakhstan. AES continues to upgrade its entire generation network in Kazakhstan, and is also investigating the export of power to western China and Russian Siberia. However, due to a dispute the Government, AES has requested international arbitration. The arbitration process has been put.on hold while the two sides engage in direct negotiations. The government stressed in December 1999 that it has firm intentions to sign and implement contracts that will allow AES to continue its investment in Kazakhstan.

5. In October 1996, the American firm Access Industries bought the Bogatyr coal mine and 66% of the neighboring Stepnoy coal mine (both part of the giant Ekibastuz colliery) for more than $40 million. Access pledged to invest $550 million toward upgrading the coal mines over the next five years. Access Industries continues its investment program at the Ekibastuz colliery. The government is negotiating compensation with Access Industries for disruption to operations caused by competing claims to parts of the Bogatyr mine as of end-1999.

Other major investments in the past several years have included:

- Trans World Metals (a UK-registered company) in October 1995 purchased Kazakhstan's schromium plant and associated mine. Trans World paid $65 million for the facilities and pledged to invest a further $400 million. As of June 1998, Trans World was locked in a legal battle with Kazakhstan Mineral Resources, a local Kazakhstan company, over rights to its chromium operation and rights to other properties in Kazakhstan.
- Ispat (India), in November 1995, purchased the Karaganda steel plant. Ispat paid $225 million and pledged to invest a further $450 million. Ispat's Karaganda investment is experiencing losses because of financial problems in East Asia, where it sells most of its product.
- Samsung (South Korea) bought the Zhezkazgan Copper plant in May 1996, for which it paid $49 million and pledged to invest a further $300 million. Despite falling world prices for copper in 1998, Samsung's low production costs mean its operations in Kazakhstan are still profitable.
- Tractebel (Belgium), in October 1996, bought the city of Almaty's electricity and heating facilities. In the spring of 1997, Tractebel also purchased rights to operate the gas pipeline network in southern Kazakhstan. In doing so, Tractebel

pledged to spend $150 million on the construction of a gas pipeline by-pass around the section of pipe currently transiting the Kyrgyz Republic. Tractebel, unable to raise utility rates high enough to earn a profit, claims its Kazakhstan operation is well over $60 million in debt.

- Hurricane Hydrocarbons (Canada), in November 1996, bought the state oil company Yuzhneftegas. Hurricane paid $120 million for the property and pledged to invest $280 million. Since acquiring the property, Hurricane has greatly boosted production, selling all of it to the local market in southern Kazakhstan.
- Triton-Vuko (Indonesia), in the spring of 1997, bought the Karazhanbas state oil company for an undisclosed sum (presumably in the tens of millions of dollars, along with an associated investment pledge in the hundreds of millions of dollars). The financial crisis in Indonesia has seriously weakened Triton-Vuko's ability to keep to its investment schedule.
- Central Asian Petroleum (Indonesia), in the spring of 1997, bought a controlling share of the Mangistau state oil company. Central Asian Petroleum, similarly, is severely affected by the financial crisis in Indonesia.
- China National Petroleum Company (CNPC) (PRC) purchased 65% of the Aktyubinsk state oil company in Summer 1997. CNPC paid $325 million, while pledging to invest a further $4 billion in the field and in an associated oil pipeline to western China. CNPC (PRC), in July 1997, was awarded a tender for purchase of the Uzen state oil company. CNPC plans to pay $52 million for it and to pledge to invest several hundred million dollars in developing the field. The final contract has not yet been signed because it was conditional on building a pipeline to China. A feasibility study on the pipeline has been completed, but not released to the public.

Chapter III

ROLE OF THE STATE IN INVESTMENT ACTIVITY

§ 1 The state investment policy

The important role in the organization of investment activity belongs to the state. *The state investment policy* - a complex of legal, administrative and economic incomes of the state directed on expansion and activization of investment processes.

The analysis of world practice of investment processes enables to allocate two types of the state investment policy: passive and active. *The passive state investment policy is*, that the state applies methods of mainly legal and economic character, limiting direct administrative intervention in investment processes to a minimum. In case of an *active state investment policy* the state widely applies all kinds of methods and frequently itself becomes the investor.

The main question of the state investment policy is definition of priority spheres and objects of investment which should be equitable to long working national interests of the state.

Since announcing its independence from the Soviet Union in 1991, Kazakhstan started implementing series of broad-based reforms in an effort to move from a planned economy to a market economy, and to attract foreign investment. These reforms include: de-monopolization, privatization, debt restructuring, banking reform, lifting profitability controls, price liberalization, establishing a securities and exchange commission, trade liberalization, enacting laws on investment, setting up an adequate government procurement process, customs reform, and tax reform.

The State Agency on Investments was established in late 1996 to serve as a "one-stop shop" for foreign investors.

The February 1997 Law on State Support for Direct Investment was enacted to stimulate additional investment, both foreign and domestic, in "priority sectors of the economy." The Foreign Investment Law provides for guarantees for national treatment and non-discrimination among foreign investors. Kazakhstan's generally liberal investment regime means that no sectors of the economy are closed to investors. The Government of Kazakhstan remains both an implicit and explicit player in attracting foreign investment.

Currently, the declared priority sectors for investment include:

- Infrastructure (including industrial, electrical infrastructure and telecommunications)

  Railways and enterprises supporting the operation of railway transport

  Highways

Airports with airport facilities

Air navigation establishments

Sea and river ports

Bridges and over/under passes

Thermal electric power stations

Transformer substations and electricity transmission lines (except main lines)

Telecommunication networks

- Manufacturing and processing

Production of high quality clothes, yarn, textile, footwear, fur and leather products

Production of high quality furniture and accessories

Industrial processing of agricultural products

Processing of fishery and fish-breeding products

Procurement and storage of agricultural products

Production of food for children

Production of confectionery, soft drinks and wines

Manufacturing of high technology machinery, equipment and tools

Production of all types of automobiles and other types of transport equipment

Production of industrial electrical engineering products

Production of electrical home appliances and consumer goods

Production of medicine

Production of veterinary equipment and medicine

Production of high-yield varieties of crops, livestock, fertilizers and pesticides

Production of household chemical products, perfume and cosmetics

Production of goods of final processing of ferrous and non-ferrous metals and aluminium using modern and effective technologies

Production of modern construction materials and goods

Waste management

- **Housing and Social sector investments**, including investment in the health, education, sports, tourism and culture sectors, as well as in commercial housing
- **Establishments in Astana**, i.e. investments connected to the transfer of the capital to Astana.

Here we shall consider little bit more in detail about investments in "Astana-New City":

President of the Republic of Kazakhstan signed the Decree of President of the Republic of Kazakhstan "About establishment of "Astana-New City" special economic zone" dated June 29, 2001, #645, which provides for the establishing of the special economic zone for the period from January 1, 2002, to 2007.

The SEZ is established to enhance the development of the left bank of Ishim River by attracting investments and employing modern building technologies, as well as by creating a modern infrastructure in the territory of 1 052.6 square hectare.

The main industrial direction of the SEZ is construction of administrative, infrastructural, and living complexes in the capital.

To fulfill this mission a special regime of privileged taxation is established.

- **Agriculture**

Cultivation of high productivity grains based on modern technologies

Breeding of high productivity seed sorts of plant-growing products

Production and breeding of high productivity cattle, poultry and pedigree flock

Production of highly efficient and chemical-free fodder and fodder supplements

These sectors may be subsequently modified with the approval of the President. As inducements to stimulate additional investments in these sectors, various forms of tax (up to 100% tax relief on the first five years of the investment and up to 50% tax relief on the second five years) and customs exemptions (partial or full customs duty exemptions on equipment and raw materials needed for the investment), together with contributions of real property by the government, may be negotiated with the Agency on Investments.

In May 1992 the United States and Kazakhstan signed a Bilateral Investment Treaty, which came into force on January 12, 1994. In May 1992, the United States and Kazakhstan signed an Investment Incentive Agreement, which became effective from the date of signing. In December 1996 the United States and Kazakhstan ratified the Treaty on Avoidance of Dual Taxation. Kazakhstan has bilateral investment agreements in force with the following countries: Great Britain, Germany, Spain, Italy, Finland, France, Switzerland, Hungary, Lithuania, Poland, Romania, the Czech Republic, Israel, Iran, Turkey, India, China, South Korea, Malaysia, Mongolia, Egypt, Azerbaijan, the Kyrgyz Republic, Georgia, and Ukraine.

§ 2 Legislative base, and its influence on the investment climate

Increase of investment activity in the country is directly connected to guarantees which are given with the state to subjects of investment activity, and protection of investments.

Direct example of state regulation and support of the investment in Kazakhstan is the accepted **Law of the Republic of Kazakhstan "On Investments" January 8, 2003 № 373-II ЗРК** [1]

This Law regulates the relations which are associated with investments in the Republic of Kazakhstan and defines the legal and economic basis of the stimulation of investments, guarantees the protection of the rights of investors when carrying out investments in the Republic of Kazakhstan, defines the measures of state support of investments, and the procedure for resolution of disputes with participation of investors.

For an example I shall specify on the basic moments of the given law where the purposes and the order of the state support of the investment in Kazakhstan are painted:

Chapter 3. State Support of Investments

Article 11. The Objective of State Promotion of Investments

1. The objective of state support of investments shall be the creation of a favourable investment climate to develop the economy and stimulate investments into the establishment of new facilities, enlargement and renewal of existing facilities, with application of up-to-date technologies, creation of new and preservation of existing jobs, as well as environmental protection.

2. The state support of investments shall mean the granting of investment preferences.

Article 12. Authorised Body

1. The state support of investments shall be carried out by the authorized body, as appointed by the Government of the Republic of Kazakhstan.

2. The authorized body, within its authority and in performance of its mission, shall have the right to involve specialists of respective state bodies, consultants and experts, being the Republic of Kazakhstan’s individuals and legal entities, in accordance with the procedure established by the Government of the Republic of Kazakhstan.

3. The activity of the authorized body shall be governed by the regulations approved by the Government of the Republic of Kazakhstan.

Article 13. Types of Investment Preferences

In accordance with this Law and by means of concluding a contract with the authorized body the following investment preferences shall be granted:

1) investment tax preferences;

2) exemption from customs duties;

3) state in-kind grants.

Article 14. The Procedure for Granting Investment Preferences

1. Investment preferences shall be granted within the priority types of activity, the list of which is approved by the Government of the Republic of Kazakhstan at the level of the classificatory of activity subtypes.

2. The Government of the Republic of Kazakhstan shall approve maximum investment volumes and duration of investment tax preferences for each priority type of activity, under which the authorized body shall grant investment preferences.

3. In case the established maximum volume of investments is exceeded, the duration of investment tax preferences shall be determined by means of an appropriate decision by the Government of the Republic of Kazakhstan.

4. Investment preferences are granted by means of execution of a contract with an investor.

Article 15. Conditions for Granting Investment Preferences

Investment preferences shall be granted subject to:

1) the compliance of the proposed investment activities with the list of priority activity types;

2) carrying out investments into fixed assets of a legal entity of the Republic of Kazakhstan to create new facilities, enlarge or renew existing facilities with application of up-to-date technologies;

3) the submission of necessary documents as set forth by Article 19 of this Law which evidence the availability of financial, technical, and organizational capability of the investor for carrying out of the investment project.

Article 16. Investment Tax Preferences

1. Investment tax preferences shall be granted for a term to be determined depending on the volumes of investments into fixed assets, but not to exceed five years.

2. The commencement date for investment tax preferences shall be established by the contract, in accordance with the Tax Code of the Republic of Kazakhstan.

3. Investment tax preferences shall not be granted with respect to a legal entity's activities, to which a special tax regime applies, as well as activities under the contracts of subsoil use.

4. Investment tax preferences shall not be granted in respect of the fixed assets that have been conveyed to a legal entity of the Republic of Kazakhstan in the form of the state natural grant.

Article 17. Exemption from Customs Duties

1. Exemption from customs duties may be granted with respect to imported equipment and components thereof brought in to implement the investment project in the following cases:

1) unavailability on the territory of the Republic of Kazakhstan of manufacture of similar equipment and components thereof;

2) insufficient manufacture of similar equipment and components thereof on the territory of the Republic of Kazakhstan in order to carry out activities with respect to the investment project;

3) unconformity of similar equipment and components thereof manufactured on the territory of the Republic of Kazakhstan to the requirements pertinent to such project.

2. Exemption from customs duties shall be granted for the term of one year with possible extension of such term, but not for the term exceeding five years from the moment of the contract's registration.

Decision on granting the exemption from customs duties and extension of the term thereof shall be made by the authorized body.

3. Notification on decision made in accordance with the paragraph 2 of this Article shall be sent to the authorized state body on the customs affairs.

[1] Source of given clauses: from the official law of the Republic of Kazakhstan “On Investments” January 8, 2003 № 373-II ЗРК

§ 3 Legal regulation of investment activities in Kazakhstan

Formation of Investment Legislation

The history leading up to the coming of age of Kazakhstani investment legislation begins with the adoption of the first legal act in this area: the Law On Foreign Investment in the Kazakh SSR of 7th December 1990. This law provided legal protection of investments and a number of tax preferences for foreign investors. It was a measure that played a considerable role in encouraging the first foreign capital to come to Kazakhstan.

The next step was the Law On Foreign Investment of 27th December 1994, which was a kind of ‘second generation’ law. The changes included in it took account of the revised state policy towards investors called for by the economic development of the country and the inception of a favourable investment climate. Investment legislation was furthered by the act On State Support of Direct Investment of 28th February 1997. This act targeted the regulation of investment relations in priority sectors of the economy and served as an incentive to develop manufacturing.

As a full member of the international community, Kazakhstan has created a workable basis for mutually beneficial cooperation with foreign investors.

Of course, the country's integration into the international market has also contributed to development of the Kazakhstani legislative framework at an international level. Kazakhstan has joined several international organizations and acceded to international treaties and agreements, both bilateral and multilateral. This has resulted in the implementation of generally accepted international principles in domestic legislation.

The passing of the Law On Investment of 8th January 2003 is yet further proof of Kazakhstan's commitment to creating a favourable investment climate and encouraging external capital. This newly adopted law envisages equal conditions and equal preferences and guarantees to foreign and local investors.

Today the country faces the task of encouraging local capital by providing favourable conditions to domestic investors.

The Law On Investment comprises two parts, which used to be regulated by two separate legal acts. The first part establishes the legal framework for investment and the second includes provisions regulating state support of investment.

Defining Investment

The law that was passed defines investment as all forms of property (except goods intended for personal consumption), including leased property from the time of signing a leasing agreement, and the rights to them, invested by an investor in the authorized capital stock of a legal entity, or increasing fixed assets used for business purposes. This definition covers a relatively broad field of investor rights, but at the same time it is specific in nature.

Two types of objects—authorized capital stock and fixed assets—are being introduced to replace the broad general concept of business objects, which was used by previous legal acts. The aim of this is to stimulate the development of manufacturing and breathe new life into Kazakhstan's domestic market.

Investment Guarantees

Under the new law the following traditional guarantees serve as instruments to protect the rights and interests of investors: a guarantee of legal protection of investors' activities in the territory of Kazakhstan, a guarantee on the use of profits, transparency of the actions of government bodies, control and supervision to be carried out only by authorized bodies, and guarantees concerning nationalisation and requisition.

The law also includes provisions concerning standards of compensation for investor losses. Under these provisions Kazakhstan will give compensation in full for force majeure losses. This measure is especially relevant to investors at the present time. The procedure for compensating for losses is defined under the civil legislation of Kazakhstan.

Another interesting item is a new approach to the guarantee of 'legislative stability', which is also tremendously important to foreign investors. The Republic of Kazakhstan guarantees the stability of the terms of agreements signed between investors and state authorities of Kazakhstan, except in the event of agreements being amended by mutual consent.

These guarantees do not cover:

1) Changes in the legislation of Kazakhstan or legislation coming into force, or alterations in international treaties signed by Kazakhstan that change the procedures for the import, production and sale of excise goods;

2) Changes and amendments made to legal acts of Kazakhstan to ensure national and environmental security, health or public morality.

Since the above are very much exceptions to the rule, it can be concluded that, in other cases, changes to legislation will not influence the stability of the terms and conditions of agreements.

Investment Preferences

Measures for state stimulation and support of investment were reflected in the law as investment preferences, i.e. tailor-made privileges. These comprise investment tax exemptions, exemptions from customs duties and the provision of state grants in kind. The main condition for granting investment preferences is the need to place investment in the priority sectors. A list of priority sectors is approved by the government of Kazakhstan.

Investment tax preferences are granted as follows:

- Through corporate income tax. Investors who invest in fixed assets with the purpose of setting up new production facilities or expanding and rehabilitating existing ones, will be granted the right to deduct the cost of the fixed assets commissioned from their aggregate annual income, depending on the term of validity of the preferences.

By using corporate income tax preferences, the taxpayer will not include the cost of fixed assets constructed under an investment project in the cost balance, so will have to account for this separately;

- Through property tax. Investors will be exempted from tax on fixed assets that are re-commissioned under an investment project with the purpose of setting up new production facilities, or expanding and rehabilitating existing ones;

- Through land tax. Investors will be exempted from tax on land lots that are bought or used for implementing the investment project.

When the investment tax preferences expire, investors will pay taxes as required by the legislation of Kazakhstan.

In addition to tax exemptions, customs duty exemptions will form part of state support for investment: customs exemption will apply to newly imported equipment and spare parts essential for implementing the investment project.

Investment preferences are granted under a contract signed by the investors and the authorized state body (the Committee for Investment of the Industry and Trade Ministry of Kazakhstan). However, the law states that in the event that the maximum investment amount is exceeded, preferences will be granted on a resolution of the government of Kazakhstan.

In addition to tax preferences and customs preferences, the law holds that investors can receive state grants in kind. Grants in kind mean free transfer of state property to the investor, if it is necessary for implementing the investment project. Under the law, grants in kind include land lots, buildings, equipment, machines, facilities, computer equipment, metering and regulating devices, means of transport (except motor cars) and production or household equipment. However, the value of the state grant in kind will not exceed 30% of the investment under the investment project. In the event that the estimated cost of the required state grant in kind is higher than this threshold, the investor can receive the property on paying the difference between the estimated cost and the maximum state grant in kind.

The advantages of the new approach are as follows:

- exemption from corporate income tax and property tax are granted to an investor corresponding to the investment that the investor places in fixed assets;

- the process of decision-making on the type, size and term of the investment preferences provided will involve the ministries and departments concerned, and will boost transparency and improve the quality of investment attracted;

- the law introduces the institution of voluntary insurance, which in our case means moving to an international mechanism of insuring non-commercial risks (force majeure conditions) by international insurance organizations.

- the procedure for settling investment disputes is changed fundamentally by the law: firstly, the broader concept of investment disputes is used; secondly, all investment disputes may be resolved by international courts of arbitration.

The new approach to providing investment preferences will help to ensure targeted use of the state's stimulation and support measures, and effective monitoring of investment project implementation.

Therefore, it can be stated that Kazakhstan is adhering to international principles and standards.

International Legal Regulation of Investment Activities

Special attention should be paid to the importance of international treaties, especially bilateral ones on the stimulation and mutual protection of investments.

Today, legal regulation of foreign investment is carried out at national and international levels. The shortcomings of national regulation of foreign investment relations may be compensated for by international legal regulation. The guarantees provided to investment by national legislation may be cancelled any time due to the adoption of new laws with different provisions. The guarantees provided for by an international treaty cannot be cancelled unilaterally. Therefore, despite the similarity of national and international legal documents on investment protection, international legal regulation of investment is of special importance to foreign investors.

International legal regulation of foreign investment comprises multilateral and bilateral international treaties. In addition, international organizations in the UN system, and various global and regional international institutions, play a key role in unifying local legislations regulating foreign investment. Several documents have been passed by these organizations, which have had a great impact on the legal regulation of foreign investment.

Bilateral treaties on the stimulation and mutual protection of investment form part of the international legal regulation of investment. As a rule, bilateral agreements define investment as:

1) movable and fixed property and other property rights such as mortgage and pledge rights;

2) rights to shares and other interest in companies;

3) incorporeal rights to the money used to create items or services of economic value and related investments;

4) intellectual property rights, including those to inventions, technology, know-how, industrial samples and trademarks;

5) any other rights and property of value considered as investment under the legislation of their country of origin.

Certain bilateral agreements view the rights to commercial activities and concessions, including exploration rights, production or operation of natural resources, as investment.

It is obvious that bilateral treaties are also important in respect of the guarantees that are provided by the contracting countries to investors from these countries. For example, in treaties signed by Kazakhstan on stimulating and protecting investments, the contracting parties provide most-favoured nation treatment or national treatment on a mutual basis. In each case, an investor has the right to choose between the two.

The new law On Investment lacks a clear definition of the above guarantees in the form of most-favoured nation treatment or national treatment. It is obvious that domestic investment legislation is aimed at establishing common principles and standards for all investors, irrespective of their country of origin. The state policy for creating a climate conducive to investment in the country is being pursued both at national and international levels.

§ 4 Kazakhstan and Investment Community: New Horizons of Co-operation

As an emerging market Kazakhstan is facing many challenges, therefore the Government of Kazakhstan is currently taking steps towards further improvement of the investment climate on the domestic market. In its investment policy Kazakhstan adheres to the principles of stability and predictability; transparent legal norms; protection of investors' legal rights; equal conditions for foreign and local investors; sanctity of contracts; encouraging direct investments to the priority sectors of the economy. In this regard the Government of Kazakhstan takes measures only after prior consultations and exchange of views with the board of foreign investors, particularly, within the framework of the Foreign Investors' Council (FIC) under the President of Kazakhstan set up in June 1998.

Let's consider the basic functions and activity of Foreign Investors' Council:

Foreign Investors Council under the Kazakh President is an advisory body established by presidential decree # 3985 of 30th June 1998. The Constitution and laws of Kazakhstan, presidential decrees and other legislative documents of Kazakhstan, and the provision on the Foreign Investors Council constitute the legal framework of the Council's activity. The Council is headed by the Kazakh President, who approves agendas and presides at the Council's sessions.

The main goal of the Council is to support economic reforms carried out in Kazakhstan, ensure a direct dialogue between the government and investors operating in Kazakhstan, and promptly solve problems relative to the investment activity.

The other crucial tasks set before the Council are:

- Submitting to the Kazakh President proposals on improving the legislation regulating investment issues as well as on implementing Kazakhstan's large investment programmes and projects of international importance;
- Elaborating recommendations on improvement of the investment climate and on a strategy of attracting foreign investment to Kazakhstan's economy;
- Developing suggestions on integrating Kazakhstan's economy into international economic processes.

To successfully accomplish the declared tasks, the Council holds close plenary sessions (at least once a year), intermediate meetings, round-table discussions and presentations. The Council members consider a wide scope of issues concerned with perfecting Kazakhstan's investment image, *improving the situation in the judicial, taxation and tax administration systems, and enhancing transparency of the law-making process.* The Council is responsible for licensing recruitment of foreign workforce, preventing conflicts and settlement of investment disputes extrajudicially, coordinating tariff policy and transport rates with the neighbouring countries, simplifying entry and departure procedures for executives of foreign companies, fighting red tape and corruption, and insuring investment against political and regulatory risks.

To elaborate recommendations for regular meetings of the Council and implement the decisions made, four joint working groups are operating within the Council: on taxation, legislation, day-to-day operation of foreign investors and enhancement of the investment image of Kazakhstan. The Council's activity is coordinated by its working body – the Investment Committee under the Kazakh Ministry of Industry and Trade.

Good will and a positive approach to maintaining a constructive dialogue between state bodies and transnational companies, respect for a partner's position and effective exchange of experience – all these allow solving the most complicated questions Kazakhstan and the international investment community faces on-the-fly.

During the session all members of the FIC pointed out the progressive development of Kazakhstan's economy, effectiveness of on-going reforms, macroeconomic stability, growth of industrial production, low levels of inflation, creation of new industrial capacities, growth of domestic investments.

The issue of creating favourable conditions for the attraction of Foreign Direct Investments (FDI) has been vital for the newly independent country. Adoption of the Law of the Republic of Kazakhstan "Of Foreign Investments" in 1994 was conditioned by the need to attract foreign capital into the country's economy. At that time the first contracts were concluded, mainly, in the field of mineral resources development, which offered privileges and guarantees to foreign investors.

The aim of the Law "Of State Support of Direct Investments" which was introduced in 1997 was to attract foreign investments to less attractive sectors of the economy.

At the present time in the sphere of its economic policy the Government of the Republic of Kazakhstan is moving away from the practice of attracting foreign loans giving priority to direct investments. Import of capital in the form of direct investments apart from the transfer of technology and management enables to avoid any excessive burden on the state's foreign debt, at the same time it will lead to the increase in the numbers of domestic investors. In order to support large infrastructural projects the Development Bank of Kazakhstan has been created, pension funds and commercial banks have accumulated enough funds to invest into the country's economy. The latter does not suggest that Kazakhstan rejects foreign credit facilities. Under these circumstances the quality of attracted financial sources acquires a big importance: it may be "soft" loans - long term credit facilities on low interest rates which are free of liabilities (purchase of equipment, raw materials, computer software, etc. from the country providing the credit).

The adjustment of economic, particularly, investment priorities, and also the necessity of the improvement of the legislative acts regulating investment activities brought about the need of changing the existing laws and preparing the new draft of the Investment Law in 2001. The new draft of the law summarises the previous experience and improves the means of state support for investments as well as the guarantees for the protection of investors' legal rights.

The gross volume of foreign direct investments (FDIs) attracted into the economy of the Republic of Kazakhstan from 1993 to 2001 have made up US$16.98 billion. The growth of investments into the fixed capital stock in 2001 reached 26.4%. It has to be noted that Kazakhstan has achieved positive results during the slowdown of the global economy observed since mid 2001.

Taking into account such indicators as economic changes and the volume of investments per capita Kazakhstan is among the leading 3 countries in Central and Eastern Europe and the CIS.

Changes on the capital market in 2001 promoted greater inflow of FDIs. The positive balance of FDIs for the year 2001 accounted for US$ 2 760. mln., thus increasing more than twice in comparison with the year 2000 and reaching the highest indicator of FDI net influx since 1993.

The share of enterprises involved in producing crude oil and natural gas account for half of the total volume of investments, and among the regions the main bulk of investments goes to the Atirau and West Kazakhstan regions.

In order to level out the disproportions in the country's economy the state investment policy is directed at promoting investments into the following, less attractive fields, which are declared as priority:

- agriculture;
- manufacturing sector;
- industrial infrastructure;
- social, cultural and tourism infrastructure;
- infrastructure of the city of Astana.

The investors carrying out projects in the priority sectors of the economy enjoy a number of privileges stipulated by the state support for investments, particularly, privileges in taxation and customs tariffs.

In general, the measures, which are being taken within the framework of the investment policy, allow Kazakhstan to be one of the leaders on the CIS space on such indicators as the political stability, currency stability and investment climate, volume of FDIs per capita, integration to the world economy, development of securities market legislation and price stability.

CONCLUSION

My conclusion will consist of two parts: first, the current estimation and condition of Foreign Direct Investment in Kazakhstan, second, my recommendations for the improvement of the Foreign Direct Investment climate in Kazakhstan.

Estimation and the current condition of Foreign Direct Investment in Kazakhstan

Framework for Foreign Direct Investments into Kazakhstan

It can not be denied that Kazakhstan has already received significant amounts of Foreign Direct Investments totaling $23.4bn by the end of October 2002. GDP growth is strong (9.5% in 2002), inflation moderate (CPI 2002: 6.6%). The banking sector is one of the most developed in the former CIS and the country's credit rating (Moody's Government Bonds Foreign Currency Long Term Rating: Baa3) has for the first time reached investment grade.

The majority of Foreign Direct Investments flow into the natural resources sector especially into the oil and gas sector. The fact that an oil rich country attracts investments in this sector is not unusual. Even Nigeria, one of the worst investment locations in the world attracted more than $22bn in investments. Large international oil companies know very well how to operate in an uncertain environment and what risk premium they have to charge.

Recommendations

Ways to improve investors' sentiment

Kazakhstan has to realize that because of its geographic landlocked location and market size it is not a preferred investment location as such. The current framework for Foreign Direct Investments is not sufficient to attract large scale investments outside the oil and gas sector e.g. in the petrochemical industry.

Government level:

The challenge with attracting Foreign Direct Investment is to create and then retain investor confidence. To help to meet that challenge successfully, the following elements are important:

- the rule of law as the norm for host/investor relations, thus reducing conflicts between host authorities and investors;
- a professional, well-trained and well-remunerated judiciary, thus facilitating the satisfactory resolution of conflicts;
- the consistent pursuit of effective coordination among ministries to minimise inter-ministry conflict, in accordance with detailed written administrative orders outlining responsibilities;
- the consistent pursuit of effective coordination between central and local government;
- a worldly, professional and highly-trained civil service able to handle the task of promoting foreign direct investment in a responsible manner and meeting foreign investors as equals;
- a code of bureaucratic conduct, with vigorous pursuit of infractions and allegations of staff impropriety, supported by appropriate disciplinary measures as required;
- a clear mission statement for the investment promotion agency, separating it from policy involvement, thus allowing staff to work more efficiently (while acknowledging that, in the transition economies as elsewhere, to try to distinguish between administration and policy can be difficult);
- fewer personnel changes, especially in the top leadership, to avoid disruption to the management of the investment process;
- consideration of the optimum ministerial home for the agency, e.g., the Foreign Ministry, the Ministry of the Economy or others.

Kazakhstan certainly has an image problem as the above mentioned Transparency International corruption perception index suggests (Kazakhstan: country rank – 88, CPI 2002 Score – 2.3). Only countries such as Nigeria, Bangladesh were ranked worse than

Kazakhstan. So should Kazakhstan worry about its image? Definitely it should, *because the image can make a country commercially viable.* Kazakhstan has not yet started efficient image enhancement measures.

It is necessary to note, that in section Investments in the Kazakh Economy in 2001 I have most in detail analysed investment process through the basic sectors of economy of Kazakhstan. Also the basic moment in the given section is the comparative analysis of investment appeal of economic sphere of Kazakhstan in an example of the various countries of near and far abroad.

The basic criterion from the given unit can be the characteristic of national predisposition to inflow of FDI. The purpose is to find the prioritiest parties for the greater investment in the Kazakhstan economy. After almost 14 years of independence of Kazakhstan weakness and strengths have come to light in attitude to FDI, which have been used by the state with a view to the reorientation and strengthening of a position astride successful economic development. The investment image of the country depends on a "healthy" economy, high rates of growth, the positive income per capita. Only so is it possible to take a successful place " under the sun " with a number of other countries.

APPENDICIES

Table 15a

Foreign Direct Investment (net inflows recorded in the balance of payments)					
	1998	1999	2000	2001	2002
					(projection)
			(in $ million)		
Central and Eastern Europe and the Baltic States	13,368	17,622	17,847	16,933	21,318
Croatia	835	1,445	827	470	1,090
Czech Republic	3,591	6,234	4,477	4,820	7,000
Estonia	574	222	324	350	300
Hungury	1,555	1,720	1,107	2,204	1,502
Latvia	303	331	398	300	250
Lithuania	921	478	375	450	545
Poland	4,966	6,348	8,171	6,502	7,000
Slovak republic	374	701	2,058	1,500	3,500
Slovenia	250	144	110	338	131
South-Eastern Europe	3,049	2,094	2,545	2,745	2,974
Albania	45	51	141	220	235
Bulgaria	537	789	1,003	641	900
Bosnia and Herzegovina	100	90	150	164	200
FR Yugoslavia	113	112	25	120	300
FYR Macedonia	175	27	175	445	70
Romania	2,079	1,025	1,051	1,154	1,269
CIS	5,476	4,900	2,309	5,831	9,381
Armenia	221	122	104	92	80
Azerbaijan	1,023	550	117	314	1,307
Belarus	201	443	90	84	146
Georgia	221	60	152	100	150
Kazakhstan	1,143	1,584	1,245	2,400	2,500
Kyrgyzstan	109	38	29	40	72
Moldova	88	34	100	60	100

Russia	1,496	1,348	-347	2,000	4,000
Tajikistan	25	21	22	9	26
Turkmenistan	62	89	131	130	150
Ukraine	747	489	594	531	700
Uzbekistan	140	121	73	71	150
Total	21,893	24,616	22,701	25,509	33,673
Sources: IMF, Central Banks and EBRD estimates.					
Transition Report update, May 2002, European Bank.					

Table 15b

Foreign Direct Investment (net inflows recorded in the balance of payments)		
	Cumulative FDI-inflows	Cumulative FDI-inflows
	1989-2001	per capita 1989-2001
	(in $ million)	(in $)
Central and Eastern Europe and the Baltic States	98,297	1,365
Croatia	4,744	1,065
Czech Republic	26,493	2,570
Estonia	2,358	1,637
Hungury	21,869	2,177
Latvia	2,798	1,200
Lithuania	2,837	771
Poland	34,426	890
Slovak republic	5,669	1,050
Slovenia	1,847	925
South-Eastern Europe	15,206	296
Albania	815	241
Bulgaria	3,961	491
Bosnia and Herzegovina	504	117
FR Yugoslavia	1,110	130

FYR Macedonia	888	444
Romania	7,928	356
CIS	34,368	196
Armenia	642	213
Azerbaijan	4,062	501
Belarus	1,315	132
Georgia	838	157
Kazakhstan	11,001	741
Kyrgyzstan	479	101
Moldova	498	116
Russia	9,702	67
Tajikistan	153	24
Turkmenistan	1,043	189
Ukraine	3,866	79
Uzbekistan	768	30
Total	147,871	600
Sources: IMF, Central Banks and EBRD estimates.		
Transition Report update, May 2002, European Bank.		

Table 15c

Foreign Direct Investment (net inflows recorded in the balance of payments)		
	FDI-inflows	FDI-inflows
	per capita 2000	per capita 2001
	(in $)	
Central and Eastern Europe and the Baltic States	208	211
Croatia	189	105
Czech Republic	434	468
Estonia	226	243
Hungury	110	219
Latvia	168	129

Lithuania	102	122
Poland	211	168
Slovak republic	381	278
Slovenia	55	169
South-Eastern Europe	56	79
Albania	41	65
Bulgaria	123	79
Bosnia and Herzegovina	35	38
FR Yugoslavia	3	14
FYR Macedonia	88	223
Romania	47	52
CIS	19	28
Armenia	27	30
Azerbaijan	14	39
Belarus	9	8
Georgia	28	19
Kazakhstan	84	162
Kyrgyzstan	6	8
Moldova	23	14
Russia	-2	14
Tajikistan	4	1
Turkmenistan	24	24
Ukraine	12	11
Uzbekistan	3	3
Total	88	102
Sources: IMF, Central Banks and EBRD estimates.		
Transition Report update, May 2002, European Bank.		

Table 15d

Foreign Direct Investment (net inflows recorded in the balance of payments)		
	FDI-inflows	FDI-inflows
	2000	2001
	(in % of GDP)	
Central and Eastern Europe and the Baltic States	5.3	4.7
Croatia	4.3	2.3
Czech Republic	8.8	8.5
Estonia	6.4	6.4
Hungury	2.4	4.3
Latvia	5.6	4.0
Lithuania	3.3	3.8
Poland	5.1	3.6
Slovak republic	10.7	7.6
Slovenia	0.6	1.8
South-Eastern Europe	3.9	5.1
Albania	3.8	5.3
Bulgaria	8.4	4.9
Bosnia and Herzegovina	3.4	3.6
FR Yugoslavia	0.3	1.1
FYR Macedonia	4.9	12.8
Romania	2.9	3.0
CIS	3.3	3.3
Armenia	5.4	4.3
Azerbaijan	2.2	5.6
Belarus	0.7	0.7
Georgia	5.1	3.2
Kazakhstan	6.8	10.7
Kyrgyzstan	2.1	2.7
Moldova	7.1	3.7
Russia	-0.1	0.6
Tajikistan	2.2	0.9

Turkmenistan	5.2	4.4
Ukraine	1.9	1.4
Uzbekistan	1.1	1.2
Total	4.1	4.3
Sources: IMF, Central Banks and EBRD estimates.		
Transition Report update, May 2002, European Bank.		

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