

## FOREIGN INVESTMENTS IN PRIORITY SECTOR THE ECONOMY OF KAZAKHSTAN

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**Abstract.** The inflow of foreign direct investment in Kazakhstan is carried out through the establishment of joint ventures, subsidiaries, privatization of state-owned enterprises with foreign capital, transfer of large industrial enterprises to the management of foreign firms and investment in the banking sector.

The article analyzes the inflow of foreign direct investment in the context from 2014 to 2018, in the priority sectors of the economy of the Republic of Kazakhstan, which are the mining industry, processing industry, professional scientific and technical activities and innovative development.

The paper deals with the issues of investment in priority sectors of the economy of Kazakhstan. The methodological basis of the research was analytical and statistical methods, dialectical method of cognition and observation.

The works of well-known authors of economists were studied and considered. According to the research of the analytical review, by 2022 the inflow of foreign direct investment should grow by 26% compared to the data of 2016, and the ratio of FDI to GDP should be at the level of 19%, while at the moment this figure is 16.5%. Given the investment restructuring and the direction of investment in the service segment of the economy, by 2022 the volume of foreign investment in fixed assets of the non-commodity sector of the economy should increase to 50%, also compared to 2016.

The bulk of foreign investment continues to be directed to areas that do not require large-scale investments and are characterized by rapid payback.

Thus, drawing a conclusion on the study of trends in the functioning, outflow and inflow of foreign direct investment in the priority sectors of the economy of the Republic of Kazakhstan, in the sectoral structure of investments, the main share is the mining industry, and the oil and gas industry is still in one of the first places in terms of attracted investments. Industries such as construction and manufacturing receive the least amount of foreign investment.

The article has scientific value and novelty of research.

**Key words:** foreign direct investment, industry, priority sectors, industry.

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### Шетелдік инвестициялар – Қазақстан экономикасының басым секторына

**Аңдатпа.** Қазақстанға тікелей шетелдік инвестициялар ағыны бірлескен кәсіпорындар, еншілес кәсіпорындар құру, шетелдік капиталдың қатысуымен Мемлекеттік кәсіпорындарды жекешелендіру, ірі өнеркәсіптік кәсіпорындардың шетелдік фирмаларының басқаруына беру және банк секторын инвестициялау арқылы жүзеге асырылады.

Мақалада өндіруші өнеркәсіп, қайта өңдеу өнеркәсібі, кәсіптік ғылыми-техникалық қызмет және инновациялық даму болып табылатын Қазақстан Республикасы экономикасының басым секторларына 2014 жылдан бастап 2018 жылға дейінгі бөліністе тікелей шетелдік инвестициялардың құйылуына талдау жүргізілді.

Жұмыста ҚР экономикасының басым секторларына инвестициялау мәселелері зерттелді. Зерттеудің әдіснамалық негізі аналитикалық және статистикалық әдістер, таным мен бақылаудың диалектикалық әдісі болды.

Белгілі экономистер авторларының жұмыстары зерделеніп, қаралды. 2022 жылға қарай талдамалық шолудың зерттеулері көрсеткендей, тікелей шетелдік инвестициялар ағыны 2016 жылғы деректермен салыстырғанда 26%-ға өсуі тиіс, ал ТШИ-ның ЖІӨ-ге қатынасы 19% деңгейінде болуы тиіс, ал ағымдағы сәтте бұл көрсеткіш 16,5%-ды құрайды. Инвестициялық қайта құрылымдауды және инвестициялардың экономиканың сервистік сегментіне бағытталуын ескере отырып, 2022 жылға қарай экономиканың шикізат емес секторының негізгі капиталына сыртқы инвестициялардың көлемі 2016 жылмен салыстырғанда 50%-ға дейін ұлғаюы тиіс.

Шетелдік инвестициялардың негізгі көлемі бұрынғысынша ауқымды салымдарды талап етпейтін және тез етелімділікпен сипатталатын салаларға бағытталады.

Осылайша, Қазақстан Республикасы экономикасының басым секторлары бойынша тікелей шетелдік инвестициялардың жұмыс істеу үрдістерін, ағынын және ағынын зерттеу бойынша қорытынды жасай отырып, инвестициялардың салалық құрылымында негізгі үлесті тау-кен өндіру саласы алады, ал мұнай және газ өнеркәсібі бұрынғысынша тартылатын инвестициялар деңгейі бойынша бірінші орындардың бірінде болады. Құрылыс және өңдеу өнеркәсібі сияқты салалар шетелдік инвестициялардың ең аз санын алады. Мақалада зерттеудің ғылыми құндылығы мен жаңалығы бар.

**Түйін сөздер:** тікелей шетелдік инвестициялар, өнеркәсіп, басым секторлар, өнеркәсіп.

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### **Зарубежные инвестиции - в приоритетный сектор экономики Казахстана**

**Аннотация.** Основной объем иностранных инвестиций по-прежнему направляется в сферы, не требующие масштабных вложений и характеризующиеся быстрой окупаемостью.

Таким образом, делая вывод по исследованию тенденций функционирования, оттока и притока прямых иностранных инвестиций по приоритетным секторам экономики Республики Казахстан, в отраслевой структуре инвестиций основную долю занимает горнодобывающая отрасль, а нефтяная и газовая промышленности по-прежнему находятся на одном из первых мест по уровню привлекаемых инвестиций. Такие отрасли как строительство и обрабатывающая промышленность получают наименьшее количество иностранных инвестиций. Статья имеет научную ценность и новизну исследования. Приток прямых иностранных инвестиций в Казахстан осуществляется посредством создания совместных предприятий, дочерних предприятий, приватизации государственных предприятий с участием иностранного капитала, передачи в управление иностранным фирмам крупных промышленных предприятий и инвестирования банковского сектора.

В статье проведен анализ притока прямых иностранных инвестиций в разрезе с 2014 по 2018 годы, в приоритетные сектора экономики Республики Казахстан, которыми являются добывающая промышленность, перерабатывающая промышленность, профессионально научно-техническая деятельность и инновационное развитие.

В работе были исследованы вопросы инвестирования в приоритетные сектора экономики РК. Методологической основой исследования послужили аналитический и статистические методы, диалектический метод познания и наблюдение.

Изучение и анализ тенденций оттоков и притоков прямых иностранных инвестиций в отрасли экономики Республики Казахстан, а также отраслевой структуры инвестиций позволило выяснить, что основная доля принадлежит горнодобывающей промышленности. Нефтегазовая отрасль по-прежнему находится на одном из первых мест по объему привлеченных инвестиций. А такие отрасли, как строительство и производство, получают наименьшее количество иностранных инвестиций.

**Ключевые слова:** прямые иностранные инвестиции, промышленность, приоритетные сектора, промышленность.

**Introduction.** Focusing on market relations, the main direction of economic reforms is the development and implementation of the investment policy of the state aimed at ensuring high rates of economic growth and improving the efficiency of the economy. In the current conditions, in order to

ensure structural reforms of the economy on the basis of the government's programmer of action to deepen reforms and in conditions of limited domestic sources of financing, it is extremely important to attract foreign capital to the economy of the Republic. Foreign investments in the global

economy are becoming one of the most relevant and priority forms of economic cooperation between the countries. The total volume of these investments in the world is growing at a much higher rate each year than the total gross product of the countries of the world (Chichilnisky G., 1994:874).

Attracting investment resources on a national and regional scale is one of the priorities of Kazakhstan's economic policy. At the same time, the structure of foreign investments is an important issue (Copeland B.R., 1994:755).

Foreign investments characterize investments of capital by non-residents in the objects of investment in the country (David L., 2002:275).

As you know, the main task of the state investment policy of our country is to create a favorable environment for the expansion of extra-budgetary sources of financing of capital investments and attracting private domestic and foreign investments on the basis of further improvement of the regulatory framework and state support for effective investment projects (Atici C., 2012:167-178).

There are several sectors of the economy: the development of natural resources, infrastructure, communications and information, which are essential for our country. The development of these industries will have an impact not only on economic growth, but also on the social sphere, as well as on the integration of Kazakhstan into the international community. These are capital-intensive industries, for the development of which both foreign capital and strict strategic control of the state are necessary (Birdsall N., 1993:137).

Prospects for the development of the country's economy are closely linked to the need to attract foreign direct investment. The formation of a favorable investment climate and the solution of problems to attract foreign direct investment in the priority sectors of the Republic of Kazakhstan, in turn, are associated with a set of economic, social, political, infrastructure and other aspects of economic development. Thus, at present, the Republic of Kazakhstan faces the task of attracting investments taking into account its own incentives and achievements of national goals (Dean, J.M. 1992:103).

**Literature review.** Studies on FDI have used several different proxies for the infrastructure variable (see Root, and Ahamed 1978y.; Nonnemberg and Cardoso 2002y.; Jaumotte 2004y. among others). Unfortunately, however, complete time series data on most of these proxies is not readily available for the period under study (1970-2007yy.). Consequently, this study followed Morisset (2000y.) and Nizar and Singleton (2001y.), among others and uses the

number of telephone lines (landlines and mobile) per 1000 people in a country as a proxy for infrastructure. This has been reported to be a consistent and reliable measure of economic growth which has been extensively employed in the FDI literature (Asiedu, 2002.; Loree and Guisinger, 1995.; Khadaroo and Seetanah, 2003. Mutenyo, 2008.; Opolot, et al 2008.).

Also, Wheeler (2001y.) used data from three developing countries (China, Brazil and Mexico) with a high level of FDI to study its effect on pollution. In this case, he found that the level of FDI decreased the levels of pollution. For their part, Perkins and Neumayer (2008y.) verified the relationship between FDI and the efficiency in CO<sub>2</sub> and SO<sub>2</sub> emissions in 114 countries. The results proved that economies that started from a worse environmental situation improve their ecological efficiency faster when they adopted technologies and environmental policies similar to those of countries that started from a better situation, resulting in a convergence over time. Atici (2012y.) found, on the other hand, that the level of FDI had a negative and significant impact, so that they did not tend to increase pollution levels in the long term. On the other hand, the intensity of research and development activities has a great relevance on the relationship between the economic level and the level of pollution. On the one hand, there are direct effects of better efficiency on the reduction of pollution levels for a level of income. On the other hand, there is the effect of the greater benefit per unit of production, which decreases the energy intensity needed for production by each economic unit. Therefore, we assume that the greater the intensity of R&D activities, the lower the environmental impact of economic activities (Wheeler D., 2001:225).

In fact, Opolot et al (2008y.) contend that although the number of telephone lines may not be the best proxy for infrastructure, its significance nonetheless shows that infrastructure development does matter for FDI inflows to SSA.

Accordingly, in this study, the assumption was that a country with a large number of telephone lines is more likely to have better roads, Internet access, and water/electricity supply, or in short better infrastructure. The model was specified just like Maria Delgado et al. (2000) and Balamurali et al (2004), the time subscripts are omitted for presentation simplicity.

**Material and Methods.** We have developed the following research plan:

1. Analysis of trends in the functioning, outflow and inflow of foreign direct investment in the priority sectors of the economy of the Republic of Kazakhstan.

2. The main countries investors in the Republic of Kazakhstan on the indicators.

In the country context, the largest FDI flows are from the following countries: The Netherlands – \$ 3.1 million., US \$ 2.3 million, Switzerland -1.2 million dollars, China – \$ 495.3 million, Russia – \$ 444.6 million., Belgium – \$ 646.4 million, France – \$ 415.6 million, Korea – \$ 246.8 million, UK – \$ 245.2 million (Sarsenov, 2017:4).

Foreign direct investment is considered not only as an additional source of domestic investment, but also as a way to gain access to new, improved technology, to the sales system in foreign markets, to new sources of financing. Foreign investment can help accelerate the creation of new industries (Pao, 2011:765).

At the same time, there are serious concerns that the transfer of control over resources to foreign corporations may lead to their outflow abroad at unreasonably low prices, negatively affect the potential of national economic development. Real investment policy should be based on the balance of positive and negative aspects of investment (Adeolu B., 2007:165).

Foreign investments in the global economy are becoming one of the most relevant and priority forms of economic cooperation between the countries. The total volume of these investments in the world is growing at a much higher rate each year than the total gross product of the countries of the world (Perkins, 2008:2970).

The paper deals with the issues of investment in the priority sectors of the economy of Kazakhstan. The methodological basis of the research is analytical and statistical methods, dialectical method of cognition and observation. The research consists in the following, which sectors of the Republic of Kazakhstan are the priority, that is, the most attractive for foreign investors with the lowest risks, with a high growth of forecasting. The impact of FDI on the economic potential and development of the country's economy (Agosin M.R. 2000:146). Currently, the main factor of the world economy was the direct international production of business associations, based on the international movement of business capital. Capital is characterized by a high degree of international mobility, its movement occurs in the process of moving financial flows between creditors and borrowers of different countries, between owners and their firms, which they own abroad (Eskeland G.S., 1997:1).

**Results and Discussion.** The inflow of foreign direct investment in Kazakhstan is carried out through the establishment of joint ventures and subsidiaries, privatization of state-owned enterprises

with foreign capital, transfer of large industrial enterprises to the management of foreign firms and investment in the banking sector. The main form of attracting direct investment in the Republic are joint ventures (JV), to a lesser extent – with 100% foreign capital-subsidiaries. The largest number of them was organized jointly with Turkey, Russia, China, Germany, the USA, Italy, South Korea, Great Britain and other countries.

As can be seen from figure 1, there is still a steady trend of investment in the extractive industry, with a decrease in the level of scientific and technical activities. At the same time, there is a positive trend in investment in the manufacturing industry.

Due to the fall in prices for the main export commodities, there has been a decline in FDI inflows to our country.

Thus, in comparison with 2014 (\$23.7 million). The volume of gross FDI for 2016 decreased by 11.5 % to \$ 21 million. USA. At the same time, despite the decline in FDI in a number of industries, compared with 2014, FDI in the manufacturing industry increased in 2016:

- production of chemical products 4.8 times (2016y. – \$ 173 million), 2014y. – \$ 35.9 million.);
- production of textiles, clothing and leather 2.8 times (2016y. – \$ 16.8 million), 2014y. – \$ 6.1 million.);
- production of vehicles and equipment-2.4 times (2016y. – \$ 20.8 million), 2014y. – \$ 8.6 million.);
- production of the metallurgical industry by 1.2 times (2016y. – \$ 3.5 million). 2014y. – \$ 3 million.).

According to the National Bank of the Republic of Kazakhstan in the 1st half of 2017y., the volume of gross FDI inflow amounted to \$ 10.5 million. That is 8.6% more, than in the same period of 2016y. (\$9.6 million).

The largest increase in gross FDI inflows is seen in industries such as:

- trade-by 54.2% (\$1.3 million);
- mining-2.2% (\$5.7 million);
- manufacturing-by 46.7% (\$2.4 million);
- transport – 10.3% (\$308.4 million);
- agriculture – by 13.7% (\$14.3 million).

The largest fall in gross FDI inflows in the following sectors:

- professional, scientific and technical activities-95% (\$151.2 million);
- in exploration decline of 95.3%;
- information and communication-94.2% (\$21.7 million).

At the same time, the share of the manufacturing industry in the production of oil and coal, processing of petroleum products in the investment structure

increased from 16.9% (in the 1st half of 2016y.) to 22.8% (in the 1st half of 2017y.).

In the context of the new economic reality – the outflow of capital from emerging markets and falling prices for the main export commodity positions, the Government of the Republic of Kazakhstan faces the task of finding new sources of investment in the development of production in non-commodity sectors of the economy.

In order to improve the investment climate, significant measures are being taken to support investors, including:

- a package of incentives has been introduced, providing for investment preferences, stability of legislation;

- a detailed plan was adopted to improve the investment climate, aimed at improving the visa and migration regime, the import of foreign labor, tax and customs legislation, etc.;

- since 2016, the WORLD is a "one window" for investors, where they can get the public services necessary for the implementation of investment projects. Also, "one window" was created in all regional centers of Kazakhstan;

- there is an investment Ombudsman, which protects the rights and legitimate interests of investors;

- a Government Council has been established to coordinate the work on major investment projects involving TNCs.

Also, in all regions there are councils to attract investment under the leadership of government structure to address issues at the local level.

Foreign direct investment includes both the investor's initial acquisition of property abroad and all subsequent transactions between the investor and the enterprise in which his capital is invested. The composition of direct investment includes:

- investment of equity capital by companies abroad – capital of branches and shares in subsidiaries and associates;

- reinvestment of profits – the share of the direct investor in the income of the enterprise with foreign investments, not distributed as dividends and not transferred to the direct investor;

- intra-corporate capital transfers in the form of

loans and borrowings between the direct investor, on the one hand, and subsidiaries, associates and branches, on the other.

In most studies on foreign investment, there is a positive role played by investment in the development of the economy of each country, not an exception, and our country – Kazakhstan.

In recent years, investment attractiveness accounts for the share of industrial real sectors of Kazakhstan, which attracted almost 2/3 of all capital investments. One of the strategic plans of the Ministry for investment and development of the Republic of Kazakhstan for 2017-2021yy. is the development of a diversified economy by improving the investment climate, including the involvement of TNCs in the manufacturing industry rather than in the raw materials sector of the economy.

As part of the implementation of the National action plan for the implementation of The President's address to the people of Kazakhstan dated November 30, 2015 "Kazakhstan – a new global reality: growth, reform, development" and "national Plan – 100 steps to implement five institutional reforms", special attention will be focused on further improvement of the investment climate and attraction of TNCs.

In the long-term dynamics, it is noticeable how the interest of countries to Kazakhstan increases. After a sharp decline in global investment flows in 2014y. (up to 1.3 trillion doll.) in Kazakhstan, their volume fell by a significant 38.7% next year.

As shown in Fig. 1, investments in fixed assets for January-April 2018y. amounted to 26 trillion tenge – this is 41.6% more than in 2017y. (it was 19 trillion tenge). The main areas of investment are: industry-1.7 trillion tenge (2017y. – 1.1 trillion tenge), operations with real estate – 335.9 million tenge. (2017y. – 251.9 million tenge), transport and storage – 304.1 million tenge. (2017y. – 191.9 million tenge).

Collectively, the share of these three areas is 88.4%, or 2.3 trillion tenge.

In industry, the main share of investments is directed to the production of crude oil and natural gas – 11 trillion tenge (65%), production of coke and petroleum products – 215 million tenge (12.8%), and production of metal ores – 98 million tenge (5.8%) – tabl.1:

**Table 1** – Investments in fixed capital (January-April 2017-2018 years million tenge)\*

Direction by industry	2017 year	2018 year	growth
All Industry	1128,4	1682,7	49,1%
Real estate transactions	251,9	335,9	33,4%
Transport and storage	191,9	304,1	58,4%
Agriculture, forestry and fisheries	47,2	60,1	27,2%
Wholesale and retail trade	40,4	53,9	33,5%
Education	42,5	37,7	-11,3%
Restaurant and hotel business	22,4	32,4	44,8%
Construction of objects	13,1	21,8	66,7%
Health and social services	10,4	19,0	82,4%
Arts, entertainment and recreation	10,7	19,0	76,9%
Information and telecommunications	14,4	17,1	18,8%
Financial and insurance activities	14,0	15,1	7,5%
Professional, scientific and technical activities	10,1	11,4	12,7%
Administrative and support activities	49,5	10,0	-79,8%
Public administration, defence and social security	6,2	6,2	-3,1%
Provision of other services	3,0	3,0	-14,6%
<b>Total</b>	<b>1856.1</b>	<b>2628.8</b>	<b>41,6%</b>
*Note: compiled by the author on the base of the data of the COP I RK finprom.kz 2018y.			

Table 1 shows that investments in the industrial sector grew by 44.2%, to 2.1 trillion tenge from the beginning of 2018y. The volume of investments in oil production increased by 68.1 %. According to the Agency, almost three – quarters of investments were in the extractive sectors of the commodity sector, and 65% – directly to oil and gas production. With an overall growth of investment in fixed assets of the industrial sector of 44.2 % for the year, taking into account inflation, the growth was 31.2 percent.

In the mining sector, 88.5% of investments are directed to the sphere of oil and gas production – 1.4 trillion tenge, which is 68.1% more than in 2017y. this is 65% of all investments in the industrial sector. Another 129.6 million tenge, or 8.3% of investments in the mining industry, is directed to the extraction of metals, plus 25.7% for the year, and 28.7 million tenge, 1.8% – in coal mining. Thus, the annual growth of investments in this area has increased by 2.1 times. Almost three quarters of all investments in the industry are directed to the mining sector – 73.5%, or

1.6 million tenge, which is 56.6% more than a year ago. Another 19% was in the segment of processing – 404.8 million tenge, which is 33.6% more than a year earlier. Less than 8% of all investments in the industrial sector have contributed to energy and water supply. In the refining segment, the main volume of investments also fell on the sphere related to oil – 225.4 million tenge was poured into the production of coke and refined products, plus 38.3% for the year. In second place – the metallurgical industry-15% of investment in processing, 62.9 million tenge, followed by the food industry-46.3 million tenge – is 11.4% of the investments of the manufacturing industry.

In the first half of 2018y., Kazakhstan attracted 12.3 million us dollars to the national economy, which is 15.4% more than a year earlier – 10.6 million dollars.

Representatives of the 10 largest investor countries formed a pool of the most attractive industries. Dutch investors in the history of economic relations

with Kazakhstan have invested 54.2 million dollars (75.8% of all investments) in the mining industry. In the manufacturing industry and professional, scientific and technical activities directed 5.3 million and 5 million dollars, respectively (a total of 14.5%).

US investors have a similar industry investment portfolio: the mining industry accounts for 91.6% (\$28.2 million). In addition, investors from the US see the potential in the financial sector of Kazakhstan, cumulative investments in which amount to 1.3 million dollars (share – 4.3%). Close the list of investments in professional, scientific and technical activities – 479.6 million dollars (share – 1.6%).

Investment preferences of active investors from Switzerland are radically different from those of the previous two countries. For example, the main Kazakh industry investment magnet for Swiss investors is the manufacturing industry: \$ 3.1 billion USD (65.8%) accumulated investments. Next is the wholesale and retail trade, repair of motor vehicles and motorcycles: 480,1 million USD (a share of 10.1%). In the TOP 3 industries also got information and communication – 408.2 million dollars. (8.6%). The total investment from Switzerland at the end of the first half of 2018y. is 4.7 million dollars.

At the same time, it is noted that the Northern neighbor – Russia – is not only one of the key investors of the national economy, but also an important strategic partner. The flow of investments from Russia to Kazakhstan for all years of relations is 12.2 million dollars.

Russian investors, unlike their counterparts (TOP 10 investor countries), have made a more diversified portfolio, distributing investments in relatively equal shares. 24.3% (\$3 million) was allocated to

the manufacturing industry) all means. The mining industry attracted 2.6 million dollars (21.2%) of Russian assets. Closes the three potential industries of wholesale and retail trade, repair of cars and motorcycles: 1.9 million dollars (15.9%).

According to the research of the analytical review, by 2022y. the inflow of foreign direct investment should grow by 26% compared to the data of 2016, and the ratio of FDI to GDP should be at the level of 19%, while at the moment this figure is 16.5%. Taking into account the investment restructuring and the focus of investments in the service segment of the economy, by 2022y. the volume of foreign investments in fixed assets of the non-commodity sector of the economy should increase to 50%, also compared to 2016y.

The bulk of foreign investment continues to be directed to areas that do not require large-scale investments and are characterized by rapid payback.

**Conclusion.** Thus, making a conclusion on the study of trends in the functioning, outflow and inflow of foreign direct investment in the priority sectors of the economy of the Republic of Kazakhstan, in the sectoral structure of investments, the main share is occupied by the mining industry, and the oil and gas industry is still one of the first places in terms of attracted investments. Industries such as construction and manufacturing receive the least foreign investment. These figures for the last two industries have not changed significantly over the past 5 years. Investors are still reluctant to invest in these industries. The main investors in Kazakhstan are developed countries such as the Netherlands, the USA, Switzerland, China, Russia, Belgium, France, Korea and the UK.

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