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Kazakhstan's Investments in Central Asia

Kassymkhan Kapparov

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Abstract

Absolute majority of the research papers on Central Asia shares positive view on regional integration trends. There are three major economic basis for regional integration in Central Asia: FDI, labour migration and cross-border trade. Among three FDI plays significant role in promoting sustainable growth. FDI from developed economies has been a subject for many research works and its role proved to be vital for sustainable economic growth and economic development. However the role of mutual investments is still a subject for more thorough investigation. This paper examines the current state and development of Kazakh investments in CA region.

Keywords

Central Asia, Kazakhstan, investments

JEL Codes: F15, F21

The Institute of Public Policy and Administration was established in 2011 to promote systematic and in-depth research on issues related to the socio-economic development of Central Asia, and explore policy alternatives.

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Acronyms

BIT	Bilateral investment treaty
BTAs	Bilateral trade agreements
CA	Central Asia
CACO	Central Asian Cooperation Organisation
CIS	Commonwealth of Independent States
ENRC	Eurasian Natural Resources Corporation
EurAsEC	Eurasian Economic Community
FDI	Foreign direct investments
FEZ	Free economic zone
FSU	Former Soviet Union
FTSE	Financial Times and the London Stock Exchange
GDP	Gross Domestic Product
IMF	International Monetary Fund
KASE	Kazakhstan Stock Exchange
KEGOC	Kazakhstan Electricity Grid Operating Company
ODA	Official donor assistance
SEZ	Special Economic Zones
SOE	State owned enterprise
WTO	World Trade Organisation

1. Review of Kazakhstan's Investments in Central Asia

1.1. Current state and dynamics

Kazakhstan is the largest and the richest economy in Central Asian region. With over $180bn GDP and over $13k per capita GDP level Kazakhstan enjoys the undeniable heavyweight status among Central Asian countries. Its GDP has more than doubled since 2000 in real terms, while per capita income level has put the country in middle-income countries list. It comes with no surprise that Kazakhstan is seen as potentially one of the key investors in economies of its neighboring countries, including Central Asia.

Table 1. Main indicators of domestic markets in Central Asian countries

	GDP, $bn		Population, mn		GDP per capita (PPP), $k	
	2000	2011	2000	2011	2000	2011
Kazakhstan	18.3	186.2	14.9	16.6	4.8	13.2
Uzbekistan	13.8	45.4	24.7	29.3	1.4	3.3
Turkmenistan	2.9	24.1	4.5	5.1	2.1	9.2
Tajikistan	0.9	6.5	6.2	7.0	0.9	2.3
Kyrgyzstan	1.4	5.9	4.9	5.5	1.3	2.4

Source: World Development Indicators & Global Development Finance http://data.worldbank.org/data-catalog/world-development-indicators

Strong economic growth and macroeconomic stability has provided the grounds for country's increasing investment potential. Outward investment grew almost 20 times - from $0.4bn in 2004 to $7.7bn in 2011. Sector-wise most of the Kazakh outward investments were directed to trade (46%), finance (22%) and mining (8%).

Table 2. Main macroeconomic indicators of Central Asian countries

	GDP growth, %				Inflation, %			
	2000-05	2006-10	2011	2012F	2000-05	2006-10	2011F	2012F
Kazakhstan	10.3	6.3	7.5	5.9	8.2	10.3	8.9	7.9
Uzbekistan	5.1	8.5	8.3	7.0	18.0	12.5	13.1	11.8
Turkmenistan	16.6	10.4	14.7	7.0	8.4	6.1	6.1	7.2
Tajikistan	9.2	6.6	7.4	6.0	19.1	11.3	13.6	10.0
Kyrgyzstan	4.1	4.1	5.7	5.0	6.5	11.0	19.1	9.4

Source: IMF Regional Economic Outlook. Middle East and Central Asia (Oct'2011) and IMF Regional Economic OutlookUpdate (Apr'12)

Economic potential of the private and quasipublic corporations of Kazakhstan makes the country an increasingly important regional player in Central Asia. So far the list of Central Asian companies publicly listed on international stock markets is mostly comprised of companies operating in Kazakhstan. The well-known names include: ENRC and Kazakhmys - FTSE-100 companies, national oil-producing company KazMunaiGaz, commercial banks – Kazkommertzank, Halyk Bank and Centercredit, as well as national champions Development Bank of Kazakhstan, Kazakhtelecom and Kazakhstan Temir Zholy. Most of these companies have been already implementing expansion programs into neighbouring countries – mostly in the Kyrgyz Republic and Tajikistan.

Table 3. Gross FDI from Kazakhstan ($mn)

	2004	2005	2006	2007	2008	2009	2010	2011
Total	425	307	1,292	2,637	4,642	5,151	10,273	7,697
Central Asia	16	49	201	200	26	73	11	41
% of Total	4	16	16	8	1	1	0	1
Kyrgyzstan	16	41	103	145	14	58	5	41
Uzbekistan	0	8	86	35	3	1	0	-6
Tajikistan	0	0	12	21	9	12	6	5
Turkmenistan	0	0	0	0	0	2	0	1

Source: National Bank of Kazakhstan http://www.nationalbank.kz/?docid=469

It comes with no surprise that globally recognized companies with operations in Kazakhstan that are listed on international stock markets (hence are compliant to the international laws) can become a channel for international investors who are interested in the Central Asian region.

Central Asian countries are not the largest recipients of Kazakh investments (the share of all investments in Central Asian countries in 1st quarter of 2012 was 0.67% of total Kazakh investments), however investments from Kazakhstan can be considered as significant relatively to the sizes of these countries.

Table 4. Accumulated investments from Kazakhstan on 31 March 2012

	Total investments			FDI		
	$mn	% of Total	% of Central Asia	$mn	% of Total	% of Central Asia
Total	147,940	100.00		20,379	100.00	
Central Asia	985	0.67	100.00	361	1.77	100.00
Kyrgyzstan	534	0.36	54.27	224	1.10	61.96
Uzbekistan	255	0.17	25.89	88	0.43	24.29
Tajikistan	136	0.09	13.82	47	0.23	13.10
Turkmenistan	59	0.04	6.02	2	0.01	0.64

Sources: National Bank of Kazakhstan http://www.nationalbank.kz/?docid=469

Moreover the FDI is considered as a key to achieve the economic growth which is a common goal of all Central Asian countries[1].

Commercial banks of Kazakhstan became key investors in the region due to their high level of development. Key holdings of Kazakh banks in the region include BTA-Kyrgyzstan (former Investment Export Import Bank), Kazkommertsbank Kyrgyzstan and Kazkommertsbank Ta-

1 Alexander Libman, Studies of Regional Integration in the CIS and in Central Asia: A Literature Survey. (Saint Petersburg: Eurasian Development Bank. Centre for Integration Studies, 2012)

jikistan (Kazkommertsbank), Unicredit - ATF, FinanceCreditBank (Alliance), Halyk Bank Kyrgyzstan (Halyk). At highest point Kazakhstan owned around 30% of banking sector capital in the Kyrgyz Republic and around 50% of its assets[2].

Tourism is another important target for Kazakh FDI in the region, especially summer and winter recreational facilities of Issyk-Kul region in the Kyrgyz Republic. Though the official statistics does not reflect the whole volume of FDI's from Kazakhstan (due to local legislative restrictions on land ownership by foreigners) the investments flows are estimated to be significant. Almost any large investment project in Issyk-Kul region involves Kazakh funding. In 2008 governments of two countries has reached an agreement on construction of the direct road from Kazakhstan's largest city Almaty to Issyk-Kul region. However construction has been delayed due to ecological concerns and political instability in the Kyrgyz Republic. It is expected that shortened road will boost Kazakh tourists number and bring even more Kazakh investments in the region.

Mining is another sector which attracts large amounts of Kazakh investments. The Kyrgyz Republic is most noted for its gold reserves. Approximately one third of its exports is comprised of gold. There are over 30 commercially significant or near significant gold deposits and hundreds more smaller deposits. Other key minerals include beryllium, tungsten, tin and coal. Tajikistan holds over 70 types of deposits, including gold, silver, tungsten, coal, iron, lead, zinc, tin, antimony, mercury and other minerals. Over 400 industrial deposits have been identified for metallic and non-metallic minerals. Mining industry in Uzbekistan is particularly strong for gold, uranium and coal. The Tien Shan Gold Belt includes Uzbekistan's Muruntau deposit, which is the single largest gold deposit in the world. It is the world's ninth-largest gold producer and the fifth largest producer of uranium; all of the latter production is exported. In addition to these minerals, Uzbekistan has silver, zinc, wolfram, lead, sulphuric acid, feldspar, cadmium, molybdenum concentrate, kaolin and other precious metals.

Construction sector is another growing recipient of Kazakh investment, mostly in the Kyrgyz Republic.

The highest activity of Kazakh investors is seen in the Kyrgyz Republic, where Kazakh business community has even established Association of Kazakh Investors in the Kyrgyz Republic[3]. Close cultural background and similar economic reform models are main reasons behind the intensive economic cooperation between Kazakhstan and the Kyrgyz Republic. The Eurasian Development bank has announced that economies of these two countries are the most integrated in the CIS region.

Investment profile of the CA countries

The Central Asian region is by no means a homogenous investment destination. There is much diversity in sector opportunities across the individual economies, but there are also extensive prospects for combining factors of production across the Central Asia for regional investment opportunities in selected sectors. The region's rich natural resources have attracted a great deal of the foreign investment to date for extracting and processing these

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2 A. Abalkina, Bankovskoe sotrudnichestvo v stranah EurAsEC, kak predposilka ih integratsii. (Kontinent partnerstva, 2007), 10.

3 Libman A., «Integratsiya snizu» v Central'noi Azii,» Evraziiskaya ekonomicheskaya integratsiya, №1 (2009): 2.

resources. At the same time, processing industries, trade and retail, energy and real estate have also brought in foreign investors.

In Kazakhstan, the sectors attracting the most investment were mining; processing industries; and real estate, leasing and services. Currently as part of its industrialization program country focuses on the following clusters as priorities for investment.

- Metallurgy;
- Oil and gas machinery;
- Agriculture and food processing;
- Construction materials;
- Construction;
- Textiles;
- Tourism; and
- Transport and logistics.

In Kyrgyzstan most of FDI has gone into the food processing industry, mining, trade and retail, and the financial and real estate sector. The current priority sectors for investment are energy (electric power), mining, agriculture, and recreational and tourist complexes.

Tajikistan has attracted most of its FDI in hydropower and mining (particularly aluminum and its processing). Tajikistan's Government does not have a policy of prioritizing sectors for investment; instead, it encourages foreign investment in all areas of the economy.

The leading sectors for FDI in Uzbekistan are the mining, tobacco, automotive, oil and gas sectors. The Uzbekistan Government has a broader focus in mind for FDI and has therefore prioritized the following sectors:

- Light industries, including silk;
- Construction materials production;
- Automobile industry;
- Agriculture processing;
- Chemical industry;
- Exploration of mineral deposits;
- Tourism; and
- Electrotechnical industry.

However recently Uzbekistan has tightened its internal regulation of foreign investors and has charged large mobile operator MTS and the largest brewery company Carlsberg with tax claims. As a result of these actions the investors has been reluctant to make new investments in Uzbekistan until the situation is resolved.

One of tools that Central Asian countries use in order to increase foreign investments and direct them towards certain regions and sectors is establishing special economic zones. SEZs are often used to attract investment by offering favourable conditions and special privileges not found in other parts of the country. Governments in transitional economies frequently establish SEZs to introduce liberalized economic and investment policies on a limited scale before attempting to implement them nationwide. This allows the Governments to introduce policy changes in a more predictable and controlled manner because of the experience they gain from SEZs.

In 2008, Kazakhstan and Uzbekistan announced discussions to build a new free border trade zone for the two countries, however this plan has not yet materialized.

Kyrgyzstan has set up four free economic zones (FEZs) at Bishkek, Naryn, Karakol and Maimak. FEZs are regulated by the "Law on Free Economic Zones" and the "Regulation on Free Economic Zones". Goods entering and traded within the zones are duty free within Kyrgyzstan. Enterprises located in the FEZs receive accelerated registration, various tax exemptions and simplified customs procedures. Export goods manufactured in the FEZs qualify for exemptions in customs charges, quotas and licensing.

Uzbekistan's "Law on Free Economic Zones" (1996) allows for the Parliament (under recommendation of the Cabinet) to establish FEZs in the form of zones of free trade, free industrial, free scientific-technical and other types of zones. The FEZs can receive special customs and currency regimes, and entities operating in the FEZs can quality for tax privileges. The Keles FEZ north-west of Tashkent (near Kazakhstan) was expected to be the first one opened. This FEZ was planned to be an open joint stock corporation with majority control held by the private sector. In December 2008, Uzbekistan's President issued a decree to establish a Free Industrial Economic Zone in Navoi, which has attracted around $90mn of investment. The second FEZ Angren has been established in April 2012 in Tashkent and is aimed at attracting investments in developing high-tech production.

1.2. Push and pull factors

Push factors for Kazakh investments in Central Asian countries has primarily originated from the country's policy towards increasing integration and stimulating the outward investments. However common historic and cultural background played significant role in establishing close ties on the micro level.

Among most significant push factors following must be outlined:

Bilateral trade agreements

Official ties between CA countries has been strengthened by signing the bilateral trade agreements (BTAs). Kazakhstan has signed BTAs with Kyrgyzstan and Tajikistan. Kyrgyzstan has signed with Kazakhstan and Uzbekistan. Tajikistan signed only with Kazakhstan. Uzbekistan has signed BTAs with Kyrgyzstan only[4].

Bilateral investment treaty

Bilateral investment treaty (BIT) is another tool used by CA countries to attract foreign investment into their economies. Kazakhstan has signed 37 BITs, including with Uzbekistan (1997) and Kyrgyzstan (1999), according to UNCTAD (International Investment Agreements database). Uzbekistan signed 41 BITs, including with Kazakhstan and Kyrgyzstan in 1997 and Turkmenistan (1996). Kyrgyzstan signed 25 bilateral investment treaties with Kazakhstan, Uzbekistan and Tajikistan. Tajikistan has signed 23, one of which was with Kyrgyzstan. Turkmenistan has an investment treaty with Uzbekistan since 1996.

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4 UNESCAP, Experiences with Regionalism and Bilateralism in Asia and the Pacific with Focus on Central Asia (Moscow: International Conference on Strengthening of Regional Cooperation for Managing Globalization, 2005).

Double tax treaties
Kazakhstan has withholding tax rates treaties with 35 countries, including the other CA countries. The treaties offer lower withholding rates on dividends, interest and royalties. Kyrgyzstan signed 19 double tax treaties with other countries (including Kazakhstan). Uzbekistan has signed 43 double tax treaties. Tajikistan is the only CA country with which Uzbekistan has not entered into an agreement, due to political tensions between two countries. Similar to Kazakhstan, Uzbekistan's double tax treaties offer favourable tax rates on dividends, interest and royalties.

Cultural ties and economic liberalization
Intraregional connection among Central Asian countries is based on the common history and close development patterns. Similarity in culture and languages has played major role in establishing business connections after the collapse of the Soviet Union. Kazakhstan, Kyrgyzstan and Tajikistan has developed and implemented the accelerated economic liberalization programs with large-scale privatization programs and openness of the economy through foreign trade and foreign investment attraction.

In general, the motivation of investment from Kazakhstan to Central Asia is mostly resource-seeking (mining, tourism) and market-seeking (banking). There are not many evidence of the efficiency-seeking motivation as the difference in cost of labour mainly results in labour migration rather than transfer of production sites from Kazakhstan to Central Asian countries.

Pull factors for Kazakh investments in Central Asia can be grouped in two – those caused by the policy of Central Asian countries and the comparative attractiveness of other countries for Kazakh foreign investments.

The policy of Central Asian countries is proved to be not much flexible and stable in order to attract large-scale investments from Kazakhstan. The reason is the unfavourable economic policy (Uzbekistan, Turkmenistan) and lack of political stability (Kyrgyzstan, Tajikistan). Central Asian countries has higher integration level in labour migration, education, trade of agricultural products and electricity than the average for FSU countries. However in 2000-2008 the integration index between CA countries has been steadily decreasing from 100 points to 67 points according to the Eurasian Development Bank estimates (the index is calculated as a sum of regional connections in trade, labour migration, agriculture, electricity and education)[5]. This signals that the investment opportunities and opportunities for economic cooperation between CA countries has narrowed and that other markets (Russia, Georgia, China) has proved to be more attractive for Kazakh investors.

2. Investment and trade

Central Asian countries play bigger role in the external trade of Kazakhstan than in foreign investments from Kazakhstan. The share of central Asian countries in the foreign trade turnover of Kazakhstan in the first half of 2012 reached 2.6% or $1.7bn, of which exports from Kazakhstan was at $1.2bn.

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5 E. Vinokurov, "Dinamika integratsionnih processov v Central'noi Azii," Eurasian Economic Integration, no. 2 (2010): 7.

Table 5. Trade between Kazakhstan and CA countries in 1H2012

	Trade turnover	Export	Import	Trade turnover	Export	Import
	$mn			%		
Total	66,688	46,755	19,933	100	100	100
Central Asia	1,738	1,220	518	2.6	2.6	2.6
Uzbekistan	926	606	320	1.4	1.3	1.6
Kyrgyzstan	467	322	145	0.7	0.7	0.7
Tajikistan	267	235	32	0.4	0.5	0.2
Turkmenistan	78	57	21	0.1	0.1	0.1

Source: National Bank of Kazakhstan http://www.nationalbank.kz/?docid=469

Historically trade between CA countries in 2001-2009 has increased four times mostly on the back of increased exports from Kazakhstan.

Table 6. Trade between Kazakhstan and CA countries ($mn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total	512	471	610	977	1,074	1,472	2,493	3,124	2,131
Exports from Kazakhstan	313	270	407	583	636	830	1,583	2,195	1,632
Imports to Kazakhstan	200	201	203	394	438	642	911	929	500

Source: International Trade Center http://www.trademap.org/Bilateral_TS.aspx

Export structure of Kazakh goods is skewed towards raw materials and agricultural products. The share of top-3 exporting good from Kazakhstan reaches as high as 82% in Uzbekistan.

Table 7. Top-3 exporting goods from Kazakhstan in 2009 (% of total)

	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan
Mineral fuels, oils, distillation products, etc	23	49	19	
Inorganic chemicals, precious metal compound, isotopes	18			
Cereals	15		26	37
Milling products, malt, starches, inulin, wheat gluten		25	37	
Iron and steel		8		
Vehicles other than railway, tramway				15
Salt, sulphur, earth, stone, plaster, lime and cement				8
Total	55	82	81	61

Source: International Trade Center http://www.trademap.org/Bilateral_TS.aspx

Central Asian countries exports to Kazakhstan mostly comprises of mineral fuels, agricultural products and fertilizers. Exports is extremely highly concentrated in the few goods groups – top-3 goods comprise almost 90% of goods exported by Turkmenistan.

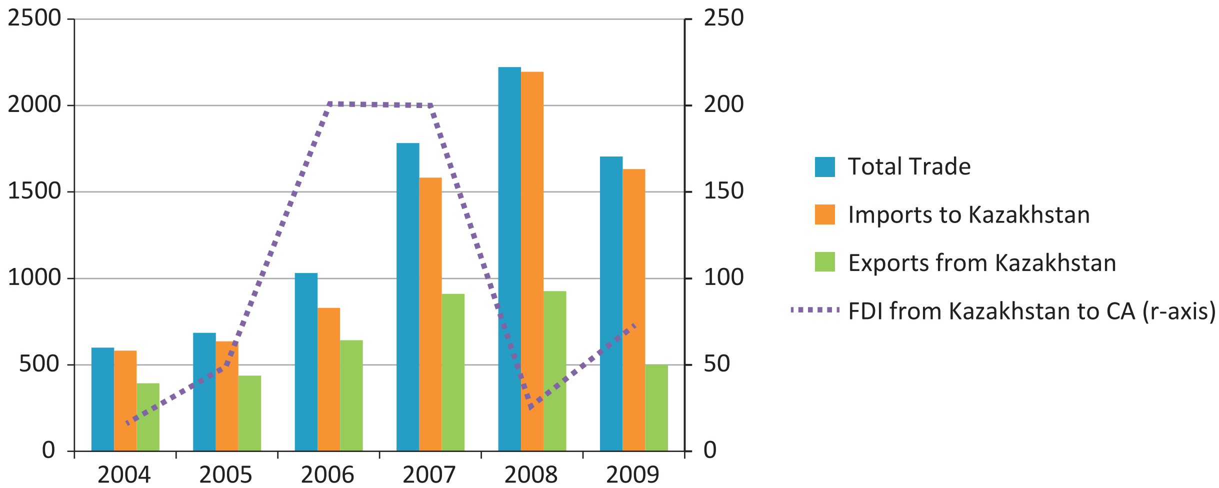
Table 8. Top-3 exporting goods to Kazakhstan in 2009 (% of total)

	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan
Mineral fuels, oils, distillation products, etc	24	60	38	77
Edible vegetables and certain roots and tubers	12			
Dairy products, eggs, honey, edible animal product nes	9			
Salt, sulphur, earth, stone, plaster, lime and cement		8		
Fertilizers		5		
Plastics and articles thereof				6
Ships, boats and other floating structures				6
Ores, slag and ash			28	
Vegetable, fruit, nut, etc food preparations			19	
Total	45	72	85	89

Source: International Trade Center http://www.trademap.org/Bilateral_TS.aspx

Trade between CA countries is influenced by both intergovernmental relations in the region and informal conditions. The latter is considered to play bigger role, as the private business (and to some extent public companies) can overcome the formal barriers but, on the other hand, informal barriers could remain costly and restrictive even with favorable regulation.

Figure 1. Linkage between Trade and FDI ($mn)



Source: International Trade Center
http://www.trademap.org/Bilateral_TS.aspx

Positive link between trade and FDI in the Kazakhstan-Central Asia data is seen in 2004-2007 – period when booming banking lending in Kazakhstan prompted Kazakh companies to expand their operations in the neighboring countries, including Central Asia. Therefore, the trend brake in 2008 can be explained by the influence of global crisis on the investment decisions of Kazakh companies who lost their access to global cheap funding.

Formal trade numbers do not account for informal and cross-border trade. The informal integration is strongly linked to the re-exports of Chinese bazaar goods through Kyrgyzstan, who is a member of WTO and enjoys lower import barriers. The informal trade is operating without being affected by any formal regionalism and intergovernmental cooperation and have showed its ability to overcome existing barriers.

One of the possible reasons for weaker link between trade flows and investment flows is that Kazakhstan and Central Asian states failed to produce meaningful and effective framework for regional integration. Between 1993 and 2002 the Central Asian states experimented with three successive regional integration agreements, the Central Asian Union, Central Asian Economic Community and Central Asian Co-operation Organisation (CACO), which, however, did not result in any sensible de facto cooperation. In 2004 Russia joined CACO, and in 2006 the organisation was merged with the larger association EurAsEC.

However despite the low efficiency of formal integration mechanisms in CA region, informal ties suggest that there is a regionalization trend in CA region. The common belief is that any regionalisation in the FSU is based on asymmetric economic links with Russia as a dominant party due to the size of the Russian economy. However new data suggests that Kazakhstan is emerging as a new center of regionalisation in the FSU and in CA.

In particular, there are two directions of Kazakhstan's development as an independent integration core. The first direction is labour migration. Kazakhstan attracts labour from the rest of the FSU and is especially attractive for migrants from its closest neighbours, the Central Asian states. This can be explained by several reasons: the rapid economic growth since the 2000s and the problems encountered by labour migrants from CA in Russian society. Uzbekistan, Tajikistan and Kyrgyzstan shows the enormous growth of migration to Kazakhstan, which relatively to the size of population in Kazakhstan is even more significant than in Russia.

The second direction is trade integration. Kazakhstan has been strengthening trade links within the CA region (Table 6) as well as with countries outside of the region. It should be noted that the position of Kazakhstan in regional integration is asymmetric. While for Kyrgyzstan (and to a much lesser extent for Tajikistan) Kazakhstan is an important trade and labour migration partner, for Kazakhstan itself these smaller states are of lesser importance, with economic linkages being directed towards Russia and other FSU countries. Hence the lower integration of Kazakhstan in CA region, as it is viewed as the integration core for other states of Central Asia, but economic concerns of Kazakhstan in the region remain limited.

Another possible factor that cannot be omitted when analyzing the investment flow from Kazakhstan to Central Asia is the labour migrants transfers. Studies on other developing countries (Mexico, Egypt) revealed that the remittances have a positive impact on savings and investment[6], however so far there is no real evidence that the remittances from Kazakhstan in Central Asian countries are directed more to investment rather than consumption.

6 Ratha, Dilip, «Workers' Remittances: An Important and Stable Source of External Development Finance, « Economics Seminar Series, no. 9 (2005)

Trade and construction sectors in Kazakhstan attract large labour resources from CA countries, which is reflected in the statistics of labour migrants transfers. For example, according to World Bank migrants transfers has constituted 35.1% of Tajikistan GDP (highest ratio in the world) and in 15.4% in the Kyrgyz Republic (2.4 times higher than the official international aid provided)[7]. For both countries migrants transfers far outreach the volumes of FDI and ODA (official donor assistance). Total outflow of money transfers from Kazakhstan has reached $3bn in 2011, at least half of which has been directed to the CA countries by labour migrants[8].

3. Use of Kazakhstan's financial infrastructure by Central Asian companies

Financial markets in the Central Asian countries remain in their infancy and thus provide far fewer services other than banking. Although all of the banking sectors still have a great deal of participation from the Government, the banking sectors in Uzbekistan and Tajikistan are more government-controlled than those in Kazakhstan and Kyrgyzstan. Demand for credit and other forms of finance tend to exceed the available supply in most Central Asian countries, but Kazakhstan's financial services are more developed than the others.

Kazakhstan has gradually liberalized its financial system in order to attract more investments into the country as well as to serve as a regional financial center. Financial liberalization included:

- increasing the limit on foreign ownership of banks to 50%;
- eliminating foreign exchange surrender requirements for exporters;
- placing Treasury bills of longer maturity;
- creating an overnight facility for banks;
- regulating the newly revised pension system funds;
- splitting the Stock Exchange into the Almaty Financial Instruments Exchange (for foreign currency trading) and the Kazakhstan Stock Exchange (for securities trading)[9].

The Kazakhstan Stock Exchange (KASE) was initially set up to focus on foreign investors and blue-chip stocks, but the exchange was subsequently re-focused towards domestic institutional investors (mostly represented by pension funds). Currently, there are 121 companies listed on the KASE. The corporate bond market in Kazakhstan is growing, and this demonstrates the increasing sophistication of the country's financial services. The extent to which Central Asian companies borrow in Kazakh banks and/or listed at stock exchanges in Kazakhstan is limited. KASE have not become the regional hub for companies and investors from other CA countries.

7 UNDP, "Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty", Ch.4 (UNDP, 2011)

8 V. Iontsev and others, "Ediniy rinok truda v EEP: ekonomicheskiy effekt soglasheniy v oblasti trudovoi migracii," Eurasian Economic Integration, no. 2 (2012): 15.

9 OECD, New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century (Mexico City: OECD Global Forum on International Investment, 2001).

The securities markets in Central Asia have received assistance from international financial institutions, which has enabled their young markets to have relatively sophisticated electronic trading systems and central depository systems, except in Tajikistan. Uzbekistan in particular operates an electronic over-the-counter trading system for small investors.

Securities markets in Central Asia have served primarily as a means for privatization of SOEs. In addition, short-term government bonds tend to be the main product compared to equity and corporate bonds. Stock market capitalization throughout Central Asia is low, and not all of the markets are active. Most companies of any size in Central Asian countries rely on reinvested earnings or bank loans for any significant investment activities.

Kyrgyzstan has a small stock exchange (Kyrgyz Stock Exchange). In 2001 the Kazakhstan Stock Exchange became a shareholder. A few small investment funds are operating with stock exchange securities.

Uzbekistan's Toshkent Republican Stock Exchange started in 1994. Currently it has 111 listed companies and about 600 other companies not listed but usually traded.
Tajikistan established a securities market, but it is not operational yet.

4. Central Asian investments to Kazakhstan

Kazakhstan is a natural center of gravity for the rest of Central Asian countries due to the size of its economy and openness of its economy. Kazakhstan is considered as a second core for integration among FSU countries after Russia. The reasons are - first, due to its attractiveness for labour migrants from CA countries (driven by dynamic economic growth and close culture), and second, Kazakhstan is an increasingly important trade partner for other CA countries, especially in trade of grain.

Table 9. Net accumulated investments to Kazakhstan on 31 March 2012

	Total investments			FDI		
	$mn	% of Total	% of Central Asia	$mn	% of Total	% of Central Asia
Total	166,017	100.00		96,812	100.00	
Central Asia	186	0.11	100.00	18	0.02	100.00
Kyrgyzstan	91	0.05	48.81	15	0.02	84.29
Uzbekistan	47	0.03	25.42	3	0.00	14.66
Tajikistan	38	0.02	20.54	0	0.00	1.05
Turkmenistan	10	0.01	5.23	-	0.00	0.00

Source: National Bank of Kazakhstan
http://www.nationalbank.kz/?docid=469

Kazakhstan's investment climate has improved in 2011 - according to the survey conducted by Ernst&Young 35% of respondents claimed the improvement, up from 27% in 2010.

The importance of investments from Central Asian countries to Kazakhstan is still not significant, which can be seen from the fact that there is no member of Foreign Investors' Council originated from these countries yet.

We expect that the investment flow from Central Asian countries into Kazakhstan would increase triggered by the country's membership in Customs Union with Russia and Belarus and its expected progress into Common Economic Space. Moreover once Kazakhstan will join the WTO attractiveness of Kazakhstan for Central Asian investors will increase. The closer location and cultural similarity - both factors will promote Kazakhstan as a choice of investment destination for Central Asian capital.

Table 10. FDI to Kazakhstan ($mn)

	2004	2005	2006	2007	2008	2009	2010	2011
Total	8,317	6,619	10,624	18,453	19,760	19,017	18,144	19,850
Central Asia	5	3	1	8	3	9	16	7
% of Total	0.06	0.04	0.01	0.04	0.02	0.05	0.09	0.04
Kyrgyzstan	3	2	1	1	3	8	4	5
Uzbekistan	1	1	0	0	0	0	13	2
Tajikistan	0	0	0	6	0	0	0	0
Turkmenistan	0	0	0	0	0	0	0	0

Source: National Bank of Kazakhstan http://www.nationalbank.kz/?docid=469

5. Prospects for the investment cooperation in the region

There are several promising areas for increasing the volume of Kazakh investments in Central Asian region:

- **Power generation** in the Kyrgyz Republic and Tajikistan. On a large-scale projects of constructing Rogun (Tajikistan) and Kambarata (Kyrgyzstan) hydro-power plants Kazakhstan is planning to participate through its state-owned enterprises, such as KEGOC and Samruk-Energo. Private investors from Kazakhstan demonstrate explicit interest in smaller-scale investment projects (up to $50mn), such as hydro-power plants for the mountain rivers (for example, Chakan hydro power plant in Kyrgyzstan). These projects are expected to materialize in the near future, as the need for additional revenue will push hosting countries to offer more attractive terms for investors and the emerging electric power deficit in Kazakhstan will push it to consider higher costs of the projects.
- **Textile production** in Kyrgyzstan, due to lower cost and availability of skilled labour.
- **Economic liberalisation** in Uzbekistan (primarily the lifting of currency repatriation) and Turkmenistan (possible privatization of public sector).

Formal grounds for possible increase in Kazakh investments in CA countries could be established by following next conditions:

- signing of bilateral trade agreements – Kazakhstan-Uzbekistan and Kazakhstan-Turkmenistan.
- signing bilateral investment treaty – Kazakhstan-Tajikistan and Kazakhstan-Turkmenistan.

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