The current state and structure of foreign direct investment in the Republic of Kazakhstan

Abstract. This paper presents a study related to the current state of investment activity development, which in the conditions of Kazakhstan is considered by the state as a strategically important vector. Based on a comprehensive literature review of sources in the field of economics, the relevant legislation the category of investments is being specified. The assessment of the current state of investment activity in the context of the sectors of the economy of the Republic of Kazakhstan was carried out by employing the method of comparative analysis. In the final part, the author reveals the key problems of implementing the Concept of the Investment Policy of the Republic of Kazakhstan until 2026, and also forms the main directions for overcoming them. Stimulation of investment activity in the Republic of Kazakhstan, according to the author, is directly related to the formation of a favorable investment climate and a change in the structure of foreign direct investment towards manufacturing industries.

Keywords: foreign direct investment, investment activity, business, economic development, Republic of Kazakhstan.

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Introduction

A lot of research has been done in terms of analyzing investment activity in world economy, which suggests that this type of research is not new, but is still of particular interest and importance. Investment activity as a general economic category was studied in the works of such classic scholars as J. M. Keynes, J. Schumpeter, G. N. Mankiw, J. Sachs, K. R. McConnell, P. Samuelson, L. Mises, J. Clark, M. Porter and others.

Meanwhile there can be distinguished two types of scientists engaged in studying investment issues: first, those who support investment activity and consider it as one of the key factors in ensuring sustainable economic development. The most renown representatives of this idea are J.M. Keynes, R. Harrod, E. Domar, W. Solow, L. Erhard, W. Sharp, A. Bulatov, I. Lipsits and others. Second group of scientists highlight the minimal role of investment in economic growth, among them are R. King, E. Denison, S. Kuznets and others. Moreover, recently there is additionally appeared a group of scientists who have determined a negative relationship between the volume of investment and economic growth in several African countries, including Killik E., Rumer M., Misakyan M., and others [1].

A significant contribution to the study of investments and investment activity in the Republic of Kazakhstan was made by S.N. Alpysbaeva, Maidyrova A.B., Sydykov N.A., Iskakov B.M., Dzholdasbaeva G.K., Turekulova A.N. and others [2].

It is necessary to clarify the conceptual apparatus associated with investments in order to analyze issues regarding the current state of investment activity in the Republic of Kazakhstan.

In accordance with the Entrepreneurial Code of the Republic of Kazakhstan, “investments are...
defined as all types of property (with the exception of personal consumption goods), including items of financial leasing, as well as rights to them, contributed by the investor to the authorized capital of a legal entity or an increase in fixed assets used for entrepreneurial activities, as well as in order to implement a project in the field of public-private partnership”. [3]

From this definition it follows that investments include the rational use of all types that are used in expanding business activities and moreover are associated with generating income to the investor.

In modern conditions, investment activity is inextricably studied in conjunction with economic growth and the development of entrepreneurship in the country. In turn, as evidenced by world experience, the development of entrepreneurship in the country contributes to the formation of a competitive national economy, employment, growth in purchasing power and the formation of a favorable social environment.

The constant need to increase the level of competitiveness of the domestic economy determines the relevance of scientific understanding of the goals and objectives in the transformation of investment activity in a changing environment. This, in turn, raises the question of scientific understanding of the essence of the modern investment process as a factor in the modernization of economic structures in their innovative and technological renewal. In addition, it is important to carry out regular analysis of the dynamics of investment activity in order to timely regulate these processes by governmental agencies.

In line with the task announced by the Head of State K.K. Tokayev at the meeting of the Mazhilis of the Parliament of the Republic of Kazakhstan “Lessons of the “tragic January”: the unity of society is a guarantee of independence”, the Concept of the investment policy of the Republic of Kazakhstan until 2026 was developed and approved [4,5].

The implementation of a policy aimed at creating favorable conditions for attracting investment acts as a basis for increasing competitiveness and diversifying the economy of the Republic of Kazakhstan in the context of limited domestic financial reserves.

Effective investment activity can influence the socio-economic well-being of the country both at the macro and micro levels (Figure 1).

Note: compiled by the author based on [5]

Figure 1. The impact of investments on the socio-economic development of the country
As follows from the data in Figure 1, properly organized and implemented investment policy positively impacts the country’s economy as a whole, ensures a balanced development of economic sectors, promotes innovation, increases the level of competitiveness of products manufactured in the country, allows expanding production, strengthening the technological component of production processes. However, in practice, as the analysis will show, there is a certain imbalance in the direction of preferential investment in the mining and oil industries in our country.

**Research methods.** This article analyzes secondary data. The following research questions were posed: “What is the dynamics of foreign direct investment flows in Kazakhstan? What is the sectoral and regional breakdown of FDI attracted in Kazakhstan? What impact did the coronavirus pandemic have on FDI inflows to Kazakhstan?”, to which the author responded through the analysis of a set of secondary data. During the research, the author used publications and reports of international organizations such as UNCTAD and the World Bank. To consider the most relevant data, articles published in the media were used. Statistical data of the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, as well as the National Bank of the Republic of Kazakhstan using Microsoft Excel software were used to carry out statistical processing of the collected data, to identify the growth rate of FDI in the country, the correlation coefficient of GDP and FDI volumes.

**Discussion and findings.** Foreign direct investment acts as one of the ways to attract capital, which is a factor in ensuring economic growth in all countries. Of particular importance are foreign direct investment in increasing economic opportunities for the economies of developing countries [6].

The world economy, being an open system, is subject to the influence of various factors of the external and internal environment, which in turn affects the flows of world capital. Thus, the crisis caused by the spread of the coronavirus infection had a negative impact on the development of the global economy and led to a decrease in investment activity in the world.

According to the UNCTAD (United Nations Conference on Trade and Development) report, global investment flows in 2020 fell by more than a third from $1.5 trillion to $1 trillion. This level of global investment turned out to be even the minimum value, which was recorded because of the global financial crisis of 2009 [7].

The year of 2021 was characterized by a recovery in global investment activity, with FDI flow amounting to $1.58 trillion, an increase of 64% compared to the previous year [8].

However, the process of recovery of global FDI flows was undermined in 2022 due to the complicated geopolitical situation between the Russian Federation and Ukraine. This situation, according to experts, has led to a triple crisis (including fuel, food and financial). Uncertainty among investors caused by the current situation can lead to a decrease in global FDI flows in 2022 in some countries with spillover to others.

According to preliminary forecasts of experts, in 2022 it is unlikely that the positive dynamics noted in 2021 will continue to take place. It is expected that the global flow of foreign direct investment this year will either remain at the same level or move on a downward trajectory.

Military operations in Ukraine have their negative impact on the global level, leading to crises associated with rising food and energy prices. All this leads to investor uncertainty, increases the expected risks, which may ultimately have a negative impact on global FDI flows.

The impact of this geopolitical crisis makes it difficult to forecast FDI volumes, especially in the Central Asian countries, whose economies are characterized by close investment ties in the region.

The countries of the Central Asian region are of particular interest to investors due to their
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/geographical location and the presence of a huge potential for the extraction of mineral resources. According to the World Bank data, the Central Asian region has a significant potential in mining, food exports, and agriculture [9].

At the same time, Kazakhstan acts as a leading country in Central Asia in terms of the volume of attracted foreign investment.

Consideration of foreign direct investment in terms of attracted volume makes it possible to judge how effectively the work with foreign investors is organized. Figure 2 shows the dynamics of foreign direct investment in the Republic of Kazakhstan for the period from 2005–2021.

![Graph showing the dynamics of foreign direct investment in Kazakhstan from 2005 to 2021](image)

*Figure 2. Dynamics of gross inflow of direct investments into Kazakhstan from foreign investors in the period from 2005-2021, million US dollars*

The dynamics of the gross inflow of direct investment in the Republic of Kazakhstan has its own characteristics and is subject to the influence of external factors.

As shown in the chart, FDI stocks have been positive since 2005, peaking at $28,885 million in 2012. This was followed by a phase of reduced FDI flow into the country, with a minimum recorded volume in 2015, which took place due to a sharp drop in oil prices in 2014. After 2015, the world economy was recovering and there was an increase in the flow of FDI into the country until 2019.

As a result of the negative impact of the spread of coronavirus infection and the introduction of quarantine restrictions, there was a decrease in direct investment in the country’s economy by a third compared to 2019.

In addition to determining the general dynamics of the inflow of foreign investment into the country, it is important to determine what share they occupied in the formation of the country’s GDP. The following Figure 3 shows the trends that have taken place since 2005 to 2021 in the dynamics of the gross domestic product by the production method and the share of foreign direct investment in the country’s GDP.
Figure 3 shows the positive dynamics of the country’s GDP growth from 2005 to 2013. An increase in FDI volumes was also recorded (Figure 2) in the same period. However, as the graph shows, the share of FDI in GDP growth was on a reverse trajectory. Between 2014 and 2021 GDP dynamics is characterized by volatility, being influenced by external and internal factors.

The author calculated the correlation coefficient, which turned out to be 0.32. This indicates a low relationship between the analyzed indicators.

The level of foreign investment inflow to the Republic of Kazakhstan largely determines the degree of integration into the world economy, most of the FDI inflow is carried out at the expense of the countries of the European Union, and mainly in the oil and gas industry.

The mutually beneficial partnership of Kazakhstan with the countries of the European Union is distinguished by its duration and scale, as shown in Figure 4.

In terms of country affiliation, the leadership in investment belongs to such countries as the Netherlands (35%), the USA (14%), Switzerland (13%), as well as China and the Russian Federation (9% each). Thus, these five countries together make up 80% of the total flow of foreign direct investment in Kazakhstan.

The inflow of foreign direct investment largely depends on changes in world prices for energy resources and other commodities, which determines the interest of investors in the group of extractive industries.
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Note: developed by the author according to the National Bank of the Republic of Kazakhstan

Figure 4. Top 10 investor countries in the Republic of Kazakhstan as of 2021

This situation represents an increased risk for the Republic of Kazakhstan and other countries exporting mineral resources due to the lack of a sufficient level of economic diversification and direct dependence on the extraction and sale of raw materials, which are characterized by low added value.

The volume of foreign direct investment in the sectoral context is shown in Figure 5.

Note: developed by the author according to the National Bank of the Republic of Kazakhstan

Figure 5. Dynamics of foreign direct investment in the sectoral context for 2005-1st quarter of 2022

As follows from the available statistics, until 2011 the leading industry in attracting foreign investment was professional, scientific and technical activities, namely the activities of geological
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exploration and surveys. In 2005, it accounted for 52.37%, then there was a decrease in the share in this area with overflow mainly into the mining and manufacturing industries. Since 2013, there has been an increase in the volume of the mining industry with a peak in 2018-2019 at a level of more than 56%. The pandemic has had its impact not only on the volumes of FDI discussed earlier, but also on their structure. Thus, in 2020, there was a decrease in the share of the mining industry to 47.8%, while the share of the manufacturing industry expanded (to 18.4% from 14.2% in 2019), as well as wholesale and retail trade to 15% in 2020. Structurally, only two industries are leaders in the mining and quarrying group, namely the extraction of crude oil and natural gas and the extraction of metal ores (as of Q1 2022, their share in the aggregate is 97.7% of the industry-wide value mining industry and about 50% of the total FDI flow into the country).

Let us consider in more detail the trends in the main FDI sectors in the Republic of Kazakhstan from 2018–2021 in order to assess the level of impact of the pandemic and the process of recovery from the crisis it caused (Table 2).

<table>
<thead>
<tr>
<th>Sector</th>
<th>2018</th>
<th>2019</th>
<th>2019, growth %</th>
<th>2020</th>
<th>2020, growth %</th>
<th>2021</th>
<th>2021, growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and quarrying</td>
<td>13 620,9</td>
<td>13 683,1</td>
<td>0,46</td>
<td>8 203,8</td>
<td>-40,04</td>
<td>9 704,7</td>
<td>18,30</td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>3 419,3</td>
<td>3 460,8</td>
<td>1,21</td>
<td>3 169,5</td>
<td>-8,42</td>
<td>5 242,2</td>
<td>65,39</td>
</tr>
<tr>
<td>Building</td>
<td>533,2</td>
<td>723,0</td>
<td>35,59</td>
<td>516,1</td>
<td>-28,61</td>
<td>711,3</td>
<td>37,81</td>
</tr>
<tr>
<td>Wholesale and retail trade; car and motorcycle repair</td>
<td>3 274,2</td>
<td>2 985,3</td>
<td>-8,82</td>
<td>2 634,3</td>
<td>-11,76</td>
<td>3 864,0</td>
<td>46,68</td>
</tr>
<tr>
<td>Transport and warehousing</td>
<td>733,8</td>
<td>1 104,6</td>
<td>50,55</td>
<td>899,5</td>
<td>-18,57</td>
<td>1 004,7</td>
<td>11,69</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>1 307,4</td>
<td>1 033,7</td>
<td>-20,94</td>
<td>1 030,4</td>
<td>-0,32</td>
<td>1 619,8</td>
<td>57,21</td>
</tr>
<tr>
<td>Other</td>
<td>1 382,5</td>
<td>1 446,4</td>
<td>4,62</td>
<td>726,0</td>
<td>-49,81</td>
<td>1 511,5</td>
<td>108,21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24 271</strong></td>
<td><strong>24 437</strong></td>
<td><strong>0,68</strong></td>
<td><strong>17 180</strong></td>
<td><strong>-29,70</strong></td>
<td><strong>23 658</strong></td>
<td><strong>37,71</strong></td>
</tr>
</tbody>
</table>

Trends in the main sectors of FDI in the Republic of Kazakhstan from 2018-2021, USD million
Note: developed by the author according to the National Bank of the Republic of Kazakhstan

As can be seen from the above data, in 2020, because of the pandemic, FDI in the mining industry decreased by 40%, while the decrease in FDI in manufacturing did not exceed 8.5%. At the same time, in 2020, there is an increase in FDI in areas such as Food, beverage and tobacco production, as well as Production of basic pharmaceutical products and preparations, but this increase remains insignificant in total volume.

It is noteworthy that during the recovery period, the manufacturing industry managed to attract FDI in terms of volume even higher than in pre-pandemic 2019 due to increased FDI flow (in 2021 compared to 2020) in the Metallurgical industry and the production of finished metal products, except for machinery and equipment 1.7 times; Production of rubber and plastic products, as well as other non-metallic mineral products, by 2 times; Production of chemical industry products by 2.2 times;
Production of coke and refined petroleum products by 3 times.

With such a clear structure of FDI by industry, it should be noted that all regions of Kazakhstan also have their own industry focus. Figure 6 shows the structure of the gross inflow of FDI in Kazakhstan in the regional context.

![Diagram showing the gross inflow of foreign direct investment by regions of Kazakhstan from 2014 to 1st quarter of 2022](image)

Note: developed by the author according to the National Bank of the Republic of Kazakhstan

Figure 6. Gross inflow of foreign direct investment by regions of Kazakhstan from 2014 to 1st quarter of 2022

The leaders in attracting FDI as of the 1st quarter of 2022 are Atyrau region 35.6%; the city of Almaty 23.9%; East Kazakhstan region 9.4%; Pavlodar region 5.9%. Thus, only two regions - Almaty and Atyrau region attract about half of all FDI attracted to the country.

Moreover, each of these regions has its own area of specialization. Thus, Atyrau region is the leader in the mining and quarrying segment (32.2% of the total FDI in Q1 2022), Almaty attracts the largest amount of FDI in wholesale and retail trade; repair of cars and motorcycles (10.2%), East Kazakhstan and Pavlodar regions attract FDI mainly in the manufacturing industry (7.4 and 4.8% respectively).

**Conclusion.** The influx of foreign direct investment in world practice acts as one of the forms of international exchange, acting as a driver of economic development and growth. At the same time, investment activity is distinguished by the formation of long-term relationships between the investor and enterprises acting as an investment object.
The most favorable for the recipient country of foreign capital are investments aimed at improving the production, technological, organizational, and financial processes of the invested enterprise [12].

As the analysis showed, investment flows to Kazakhstan have a rather narrow focus, determined by the preferences of investors in obtaining a quick income from the sale of commodities. Meanwhile, for Kazakhstan, as well as other countries of Central Asia, the issue of diversifying the economy and overcoming dependence on raw materials is acute.

Certain measures are being taken in the Republic of Kazakhstan to diversify the economy. These measures are recorded in such documents as: Kazakhstan-2050, the National Development Plan "100 Concrete Steps", the State Program for the Development of the Agro-Industrial Complex and others.

It can be noted that the country is aware of the need to reorient investments towards diversification of the economy, since it is this direction that can have a positive impact on increasing the competitiveness of the domestic economy, increasing entrepreneurship, and creating new jobs.

The Government of the Republic of Kazakhstan is working to create a favorable investment climate, JSC NC "Kazakh Invest" acts as a single operator in this process [13].

However, in accordance with the analysis, the share of direct foreign directed to the manufacturing industries with the creation of high value-added products remains low.

In this regard, the implementation of a set of measures aimed at the structural change of FDI from extractive industries to manufacturing with the production of competitive goods with high added value is urgent.

The current situation associated with the introduction of sanctions against the Russian Federation, the withdrawal of a number of foreign companies from the Russian market, can serve as an incentive for the development of the production of goods of medium and upper processing in the context of creating favorable conditions for the relocation of these companies to the territory of Kazakhstan [14]. Thus, investment activity is subject to change and depends on a large number of external factors, and therefore tracking trends in FDI inflows and their structure may be a subject for future research.

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Н.Б. Демеуов, А.М. Есдаулетова

Аннотация. Бул жұмыста Қазақстан жағдайында мемлекет стратегиялық тұрғыдан маңызды міндет ретінде қарастырылып тікелей шетелдік инвестициялардың қазіргі жағдайы мен құрылымы

Түйін сөздер: тікелей шетелдік инвестициялар, инвестициялық қызмет, бизнес, экономикалық даму, Қазақстан Республикасы.
Н.Б. Демеуов, А.М. Есдаулетова

Евразийский национальный университет имени Л.Н. Гумилева, Астана, Казахстан

Современное состояние и структура прямых иностранных инвестиций в Республике Казахстан

Аннотация. В данной работе проводится исследование текущего состояния развития инвестиционной деятельности, которая в условиях Казахстана рассматривается государством как стратегически важная задача. На основе обзора литературных источников в области экономики, соответствующего законодательства уточняется категория инвестиций. Посредством использования метода сравнительного анализа осуществлена оценка современного состояния инвестиционной активности в разрезе отраслей экономики Республики Казахстан.

В заключительной части автором раскрыты ключевые проблемы реализации Концепции инвестиционной политики Республики Казахстан до 2026 года, а также сформированы основные направления их преодоления. Стимулирование инвестиционной деятельности в Республике Казахстан по мнению автора непосредственно связано с формированием благоприятного инвестиционного климата и изменением структуры прямых иностранных инвестиций в сторону обрабатывающих отраслей.

Ключевые слова: прямые иностранные инвестиции, инвестиционная деятельность, бизнес, экономическое развитие, Республика Казахстан.

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