

Many eyes were set on Astana for Expo 2017, and Kazakhstan is hoping to carry this momentum forward.

Kazakhstan is significantly increasing oil production in order to meet economic needs and generate revenue.

Kazakhstan is developing its agriculture sector by increasing grain output and signing new export agreements.

the business year



"In the key thematic areas—the green economy, infrastructure and logistics, agribusiness, and others—we will see more interest from international and domestic investors."

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Agris Preimanis

Head of Kazakhstan at the European Bank for Reconstruction and Development (EBRD)



p 32

"Kazakhstan has the potential to develop renewables to new, significant levels. From a political point of view, we have made many commitments."

Nurlan Kapenov

General Director of Samruk-Kazyna-United Green LLP



p 57

"A crucial landmark with the Silk Road is that the number of container trains passing from China to Kazakhstan increased by 46% in the first eight months of 2017."

Hicham Belmaachi

Chief Operating Officer of DP World at SEZ Khorgos East Gate

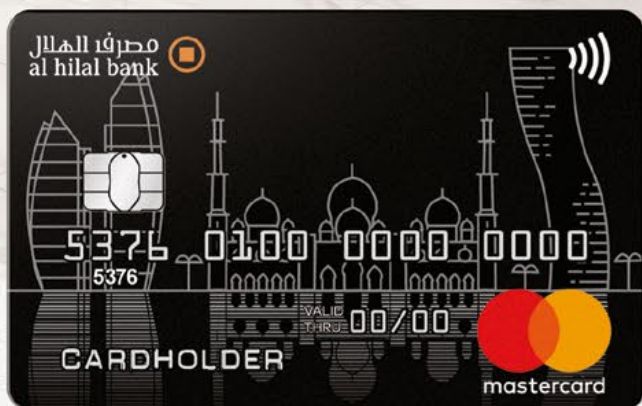
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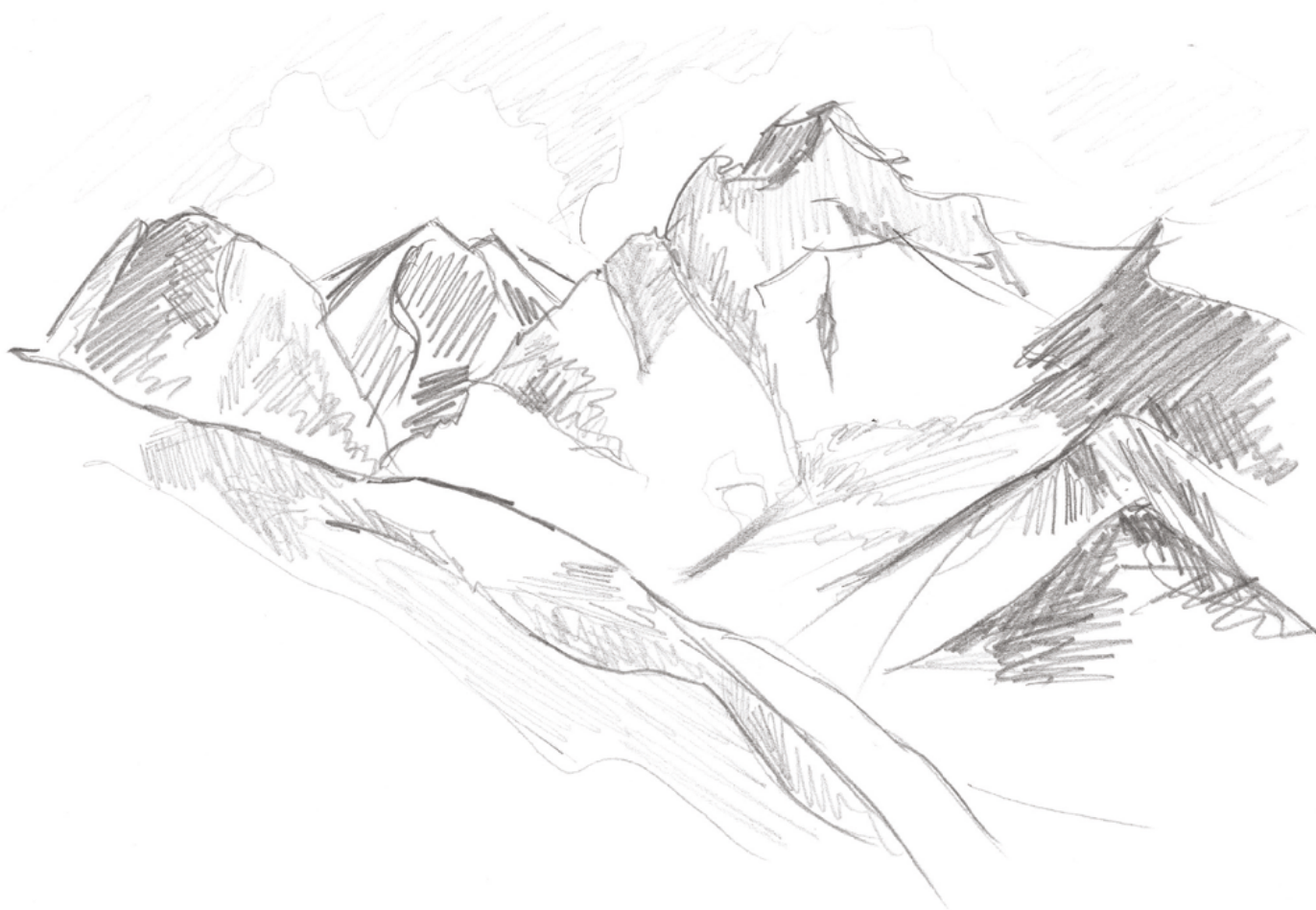
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the business year

KAZAKHSTAN
2018

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CHAIRMAN: THE PRESIDENT
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СОБЕТ ИНОСТРАННЫХ
ИНВЕСТИТОРОВ ПРЕЗИДЕНТА
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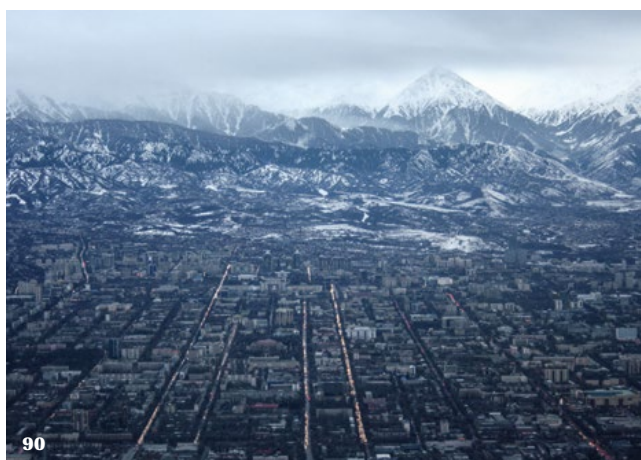
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A top-down shift toward a free market is a key part of Kazakhstan's growth narrative as it aims to transform into a diversified and digitalized economy.

Year in Review

The Kazakhstani leadership has taken an unprecedented long-term approach to growth, with its bold Strategy 2050 aiming to have the country emerge as a key player in the information age, both diversified and digitalized. In the shorter term, however, is the interim National Vision 2025, which targets growth in step with OECD nations. It shoots for ambitious annual growth of 4.5-5%, lifting GDP per capita to USD46,100 by 2025.

And if the age-old maxim that it is “who you know, not what you know” rings true, then Kazakhstan is also well placed. And while the phrase may not take into account the eternal struggle of EMs, that of knowledge transfer, it certainly helps to have well-placed friends. In that regard, Kazakhstan is not only making a strong impression in the West (“He’s on his way, very rapidly,” said President Trump on the subject of Nazarbayev’s 2050 plans), it enjoys a privileged trading position with Russia via the Eurasian Customs Union and forms a key part of the Chinese One Belt One Road (OBOR) initiative, which envisages land and sea bridges heading westward and opening up new markets for Asian goods.

Yet 2050 is still a long way away, and Kazakhstan remains somewhat reliant on its extractive industries. Indeed, growth slowed in recent years following a slide in oil prices that resulted in the central bank taking the decision to let the local currency, the tenge, float freely in an attempt to boost export competitiveness. That wiped more than a quarter of its value almost overnight and causing speculation as to the long-term health of the economy. But for 9M2017, GDP growth upped gears to gain 4.3% YoY, greatly outpacing the 0.4% rise of the same period of 2016. And yes, this is attributable to global oil prices, and locally as production kicked off at the long-delayed Kashagan offshore oil field in the Caspian Sea, with the spoils of the black stuff also felt in the non-hydrocarbon economy.

Timur Suleimenov, Minister of National Economy, told TBV that, “we are seeing a significantly big increase in manufacturing, which has grown over 7%, (while the) pharmaceuticals industry (...) is growing at about 37%.” To this add the sterling performance of external trade, soaring 35% last year from 2016. Elsewhere, Kazakhstan’s new tax code revises tax preferences for the real sector by scrapping benefits of ques-

tionable success and expanding preferential tax regimes for basic investor considerations such as special economic zones, financial leasing, and renovation.

Yet, while Kazakhstan has embarked on economic diversification programs, the oil sector will remain at the center of its economy for the near future. To better manage a shifting landscape, the oil industry has focused on increasing output. The country now expects to produce at levels close to historic highs in 2018. In the natural gas sector, Kazakhstan expects to raise production, as well. Finally, Kazakhstan’s position at the intersection of Europe and Asia gives it unique influence over oil and natural gas pipelines, and it expects that this will play a role in its future ambitions.

On the diplomatic scene, 2017 was a significant year for Kazakhstan—not only did it host the world Expo 2017, the first world’s fair to take place in a former Soviet country, but also hosted eight rounds of peace talks between Russia, Iran, Turkey, Damascus, and various warring Syrian factions to seek an end to the Syrian civil war. President Nazarbayev also met with his counterparts in Washington, Moscow, and Beijing to sign key trade and transport deals, including but not limited to progress on the OBOR initiative.

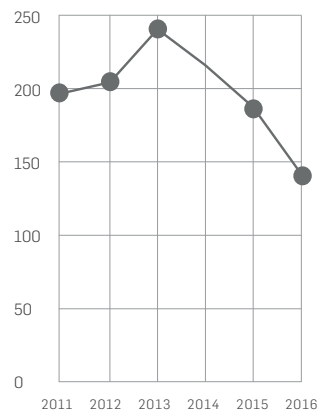
Back at home again, it can’t have escaped anybody’s interest that Kazakhstan is hardly lacking in square mileage. At just over 1 million sqkm, Kazakhstan is the ninth-largest country in the world and enjoys hefty potential for agricultural growth in that sense. Currently representing 6% of GDP, the agriculture sector is at the center of government plans to diversify the economy. Almost three-fourths of Kazakhstan’s land area has the potential for agricultural production, but only a quarter of the land is arable. The government has begun to look at how better use of the country’s land could bring benefits. Both local and international observers think that increasing productivity through greater technological investments could improve economic performance.

Going forward, Kazakhstan is not alone amongst a host of EMs with an over reliance on hydrocarbons. Yet unlike some of its contemporaries, the country is taking a long-term approach to diversification, hoping that by playing the long game it can emerge as a truly sustainable economy in a world without oil. ✖

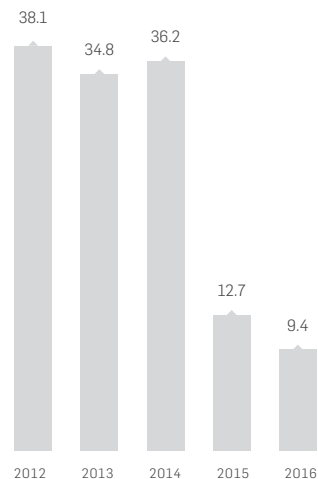
GDP PER CAPITA (2016)
USD7,510

INFLATION (2016)
8.5%

GDP GROWTH (USD BN)
SOURCE: WORLD BANK



TRADE BALANCE (IN USD BN)
SOURCE: FOCUS ECONOMICS



TIMELINE

THE BUSINESS YEAR IN KAZAKHSTAN

With several notable achievements in 2017, including hosting Syria peace talks and Expo 2017, Kazakhstan entered 2018 with a newfound optimism and global stature.

MAY 2017

Astana plays host to the fourth round of Syrian peace talks. Representatives from Russia, Turkey, and Iran sign a landmark memorandum to establish four de-escalation zones in the country.



JUNE 2017

The Expo 2017 launches in Astana. The historic international exposition, held for the first time in a former Soviet Union country, lasts until September 10 and serves as a major global driver for "Future Energy" initiatives.



SEPTEMBER 2017

President Nazarbayev is presented the government's achievements on Digital Kazakhstan by the Minister of Information and Communication, Dauren Abayev. The President will personally oversee the program's development, which, when implemented, is expected to boost economic growth by up to 30%.

SEPTEMBER 2017

On the closing day of Expo 2017, the Organization for Islamic Cooperation summit is held in Astana and is attended by heads of state such as Turkish President Recep Tayyip Erdoğan, Sultan of Brunei Hassanal Bolkiah, and Amir of Kuwait Sheikh Sabah al-Ahmad al-Sabah.

OCTOBER 2017

President Nazarbayev announces that the Kazakh language will officially switch its alphabet from a Cyrillic script to a Latin one. Since 1940, the Kazakh language has used the Cyrillic script. Under its new format, Kazakhstan will be written as "Qazaqstan."

JANUARY 2018

US President Donald Trump invites Kazakhstan's government delegation, led by President Nazarbayev, for an official visit to Washington. This was the first bilateral meeting of the two leaders.



MARCH 2018

Kazakhstan's Minister of Economy, Timur Suleimenov, updates investors on the progress of the much-anticipated privatization of the sovereign wealth fund, Samruk Kazyna. Suleimenov pledges that three large national companies will go on sale throughout 2018.



JANUARY 2018

The State of the Nation Address is delivered by President Nazarbayev. The speech reflects on the country's achievements in the previous year, particularly regarding Expo 2017, and reiterates the nation's "Third Modernization" roadmap.



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Astana is quickly gaining a reputation as a place for effective peace talks.

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Donald Trump, President of the United States.

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Governments worldwide praised Expo 2017 for its highly relevant theme.

Diplomacy

REVIEW

Feted in Washington and Beijing for steering Central Asia's most advanced economy, Nazarbayev nimbly boosted his country's commercial and diplomatic ties with the world's two largest economies.

DIPLOMACY 2.0

A quarter century after gaining independence, no year has been more important to Kazakhstan's national, regional, and international place in the world than 2017: not only did it host Expo 2017, the first world's fair to take place in a former soviet country, but it also hosted eight rounds of peace talks between Russia, Iran, Turkey, Damascus, and various warring Syrian factions to seek an end to the Syrian war. Though the year's final International Meeting on Syria held in Astana between December 21 and 22 did not put an end to the nearly seven-year war, they served as a critical stopgap for the talks in Sochi on the Russian Black Sea coast. President Nazarbayev also met with his counterparts in Washington, Moscow, and Beijing to sign key trade and transport deals, including but not limited to progress on China's critical One Belt One Road (OBOR) initiative.

As far as projections of soft power go, world's fairs are hard to top: they represent not only prosperity and stability,



Image: yakub88

Though still a staunch member of Russia's geopolitical and security alliance, Kazakhstan's decision to switch from Cyrillic to Latin script by 2025 signals a cultural drift away from Moscow and toward the West.

but a spirit of innovation and risk that come from lying at a critical cultural crossroads and knowing what to do about it. The fourth such event of the decade after Shanghai, Yeosu, and Milan, Expo 2017's theme was "Future Energy," a prescient study of how urban conglomerations can become more energy efficient and sustainable in the long term. Held from June to September and hosting over 120 nations, including pavilions from both the DRC and Vatican City, Future Energy was a coup for an energy-rich country whose young capital houses little more than a million residents at a time when the world's most powerful country was pulling out of the Paris Accords and shunning the burdens of collective human responsibility toward fossil fuels.

The success of Expo 2017 was hardly needed to cement Kazakhstan's role as the wunderkind of Central Asia and biggest post-Soviet success story. Crucially, however, it was events both before and after the expo that revealed the true extent to which the coun-

“Paternalism and the application of politically motivated sanctions have worsened economic activity and the lives of millions of people. As a result, the world economy and trade have declined. In these conditions, the world needs a new driver to stimulate international cooperation.”

try has managed to carve out a potent niche for itself as a broker between rising and falling powers, the new world and the old. In May, President Nazarbayev traveled to Beijing to attend the Belt and Road Forum. Four years after Xi Jinping announced China’s gargantuan Silk Road Economic Belt infrastructure megaproject at Astana’s Nazarbayev University, President Nazarbayev dwelt upon the importance of Beijing’s efforts to bind together the vast Eurasian landmass. “Paternalism and the application of politically motivated sanctions have worsened economic activity and the lives of millions of people. As a result, the world economy and trade have declined. In these conditions, the world needs a new driver to stimulate international cooperation.” And OBOR, he posited, is that “new driver.”

As part of its bid to diversify away from carbon, Kazakhstan has wooed vast amounts from the world’s most bullish lender. With more than USD14 billion invested by the Chinese in the past decade alone, Astana already had logistics and transport in mind when it unveiled a 10-year tax break on corporate and land taxes within designated special economic zones for non-energy sectors. As if on cue, China designated the dry port of Korgos, on the Chinese-Kazakh border, as one of the crowning projects of its OBOR initiative. Designated to be the largest dry port in the world—the Dubai of the greater Gobi Desert, some 1,600 miles from the nearest sea—the multibillion-dollar project will more than halve the travel time of Chinese goods en route to Western Europe from 50 to roughly 18 days. A borderland hermetically sealed off for most of the 20th century, Korgos facilitated its two inaugural train journeys in 2017: from Yiwu, China to London in January and from London to Yiwu in April, a distance of 12,000km, second in the world only to the China-Madrid line.

Though Kazakhstan is far and away China’s largest Central Asian trading partner, the middle kingdom’s trading volume has ballooned with the entire region, growing more than 25-fold from USD1.8 billion in 2000 to more than USD50 billion in 2013. As the leader of this regional transformation, Kazakhstan is now trying to leverage the faith Beijing has placed in it to reap further investment from Washington and New York. Traveling to the US in January 2018 to meet with President Trump and the US Chamber of Commerce, among others, Nazarbayev left with USD7.5 billion worth of commercial contracts signed. Both he and the Dotard mentioned Chevron, ExxonMobil, General Electric, and Boeing in particular as being deeply interested in the country and region. Chevron, it should be noted, is leading the expansion of the

Tengiz Field, the world’s deepest operating super-giant oil field, the top of whose reservoir is some 3,500m underground.

Though oil services remain the Americans’ primary sphere of interest, Nazarbayev’s meeting with the US Chamber of Commerce was focused on what American firms can do to help spur the technical modernization of the Kazakhstani economy. But trade was far from the only thing in the offing. Trump also expressed his gratitude for Kazakhstan’s help in the US’ broader South Asia and Afghan policies, not to mention its support on the question of North Korean nuclear disarmament. After all, the only country in human history to voluntarily give up its nuclear arsenal is Kazakhstan, a fact that Nazarbayev highlighted gave his country the “moral right” to admonish Pyongyang to do likewise, though he did add that the issue ought to be collectively resolved by China, Russia, and the US. Before leaving, he received Trump’s support in his efforts to make Kazakhstan one of the world’s 30th largest economies by 2050. Currently 57th in the world, Trump said of Nazarbayev, “he is on his way—very rapidly.”

All this being said, it would be disingenuous to discount the hugely important relationship that Kazakhstan still has with Russia, its strongest ally and closest kindred spirit, culturally, economically, and socially. In the wake of Russia’s 2014 seizure of Crimea, however, things have been slightly on edge. After all, on the bucket list of Russian ultra-nationalists, reincorporating Novorossiia (New Russia), the Russian-inhabited provinces of northern Kazakhstan, is second only to the reconquista of Malorossiia (Little Russia), the Russian enclaves of eastern Ukraine. As such, while guarding its brotherly ties, Kazakhstan also sought to bring a little distance to its relationship with Moscow.

In what may very well one day be his biggest legacy, in October Nazarbayev ordered the country to switch from the Cyrillic to Latin script. The country’s third-such change in the past century—Kazakh, a Turkic language, was written in Arabic script until the 1920s, Latin until 1940, and Cyrillic until the present—all the country’s publications, street signs, and documents must be in Latin script by 2025. While Kazakhstan remains a leading member of the Moscow-based Eurasian Economic Union, Russia’s answer to the EU, not to mention the Collective Security Treaty Organization, the six-member military alliance of former Soviet states (along with Russia, Armenia, Kyrgyzstan, Tajikistan, and Uzbekistan), the EU is now Kazakhstan’s largest trading partner, purchasing 40% of the country’s exports. ✕



the right TRAJECTORY

Nursultan Nazarbayev, President of Kazakhstan, on areas of growth, the need for a sustainable future, and the 20th anniversary of Astana as the capital.

In 2017, Kazakhstan became a non-permanent member of the UN Security Council. We also became the first state among the countries of the CIS and Eastern Europe to be chosen by the world community to host Expo 2017. A successfully functioning model of a market economy has been built in Kazakhstan. In 2017, the country, having overcome the negative consequences of the global crisis, returned to the trajectory of strong growth. At the end of the year, GDP growth was 4%, and industrial production grew by more than 7%. In addition, the processing sector exceeded 40% in the total volume of industry. Kazakhstan's successful development has allowed the formation of a middle class.

The era of "oil abundance" is almost coming to an end. The country needs a new quality of development. Global trends show that it should be based primarily on the broad implementation of Fourth Industrial Revolution (Industry 4.0) elements. This brings both challenges and opportunities. I am confident that Kazakhstan has all the necessary attributes to join the ranks of leaders in this new world. Industrialization should become the flagship of the introduction of new technologies. Its results became one of the main stabilizing factors in the crisis years of 2014-2015, when oil prices fell sharply. Therefore, the focus on the processing sector with high labor productivity remains unchanged. At the same time, industrialization should become more inno-

vative, taking advantage of Industry 4.0. It is necessary to develop and test new instruments aimed at modernizing and digitizing our enterprises with a focus on exporting products. They should primarily stimulate the transfer of technology. A pilot project on the digitization of several of Kazakhstan's industrial enterprises should be implemented, and then this experience should be widely expanded. The most important issue is the development of our own ecosystem of developers of digital and other innovative solutions. It should take shape around innovation centers, such as the Nazarbayev University, the Astana International Financial Centre (AIFC), and the International Technology Park of IT Startups. The main factors for the success of the innovative ecosystem are stimulation of the demand for new technologies by the real sector and the functioning of the private venture financing market. In addition, the development of IT and engineering services is of particular importance. It is necessary to adapt education, communication, and standardization systems to the needs of the new industrialization. In 2018, it is necessary to begin the development of the third five-year industrialization period devoted to the emergence of digital-age industry.

The world of the 21st century still needs natural resources, which will have a special place in the development of the global economy and the economy of our country in the future. It is

2018 is the 20th anniversary of our capital, Astana. Its formation as one of the most important centers of Eurasia's development is a source of common pride.

necessary, however, to critically rethink the organization of commodity industries and approaches to the management of natural resources. It is necessary to actively implement integrated information and technology platforms. Expo 2017, held in Astana, showed rapid progress in the sphere of alternative and clean energy. Today, renewable energy sources (RES) account for a quarter of the world's electricity production. According to forecasts, by 2050 this figure will reach 80%. We have set the goal of increasing the share of alternative energy in Kazakhstan to 30% by 2030. Today, we already have 55 renewable energy facilities with a total capacity of 336MW, which generated about 1.1 billion kWh of green energy in 2017. It is important to stimulate business and to invest in green technologies. Regional governors should take measures on the modern disposal and recycling of solid domestic waste with the broad involvement of small- and medium-sized enterprises. These and other measures will require the updating of legislation, including the Environmental Code.

Smart technologies are a chance for a breakthrough in the development of the agricultural industry. The agrarian policy should be aimed at a radical increase in labor productivity and growth in exports of processed agricultural products.

It is necessary to ensure the processing of raw materials and enter world markets with high-quality end products. The development of agrarian science is a priority and requires significant attention. It should focus primarily on the transfer of new technologies and their adaptation to domestic conditions. The state, together with the private sector, should find strategic niches in international markets and promote domestic production in these areas. Intensification of agriculture should take place in line with the preservation of quality and mindful of the ecological compatibility of products. This will create and promote a brand of natural food products. "Made in Kazakhstan" should become recognizable across the world. It is necessary to overhaul ineffective subsidies to reduce the cost of bank loans for agribusiness entities. I therefore gave the order to ensure the increase of labor productivity in the agro-industrial sector and the increase of the export of processed agricultural

products by at least 2.5 times within the next five years.

Today, several transcontinental corridors pass through Kazakhstan. In general, the transit of goods through Kazakhstan in 2017 increased by 17% and amounted to almost 17 million tons. The task is to bring annual revenues from transit in 2020 to USD5 billion. This will make it possible to return the funds spent by the state on infrastructure within the shortest possible timeframe. It is necessary to ensure the large-scale introduction of digital technologies, such as blockchain, to track the movement of goods online and to ensure their unhindered transit, as well as to simplify customs operations. Modern solutions allow us to organize the interactions of all links of the logistics chain. The use of big data will help provide high-quality analytics, identify areas of growth, and reduce excess costs. To achieve this, it is necessary to introduce an intelligent transport system. This will allow us to effectively manage transport flows and determine the requirement for further infrastructure development. To improve intra-regional mobility, it is important to increase funding for the repair and reconstruction of the local road networks. The total budget allocated annually for this should be increased to KZT150 billion in the medium term. It is necessary to ensure the active participation of all regional governments in this work.

2018 is the 20th anniversary of our capital, Astana. Its formation as one of the most important centers of Eurasia's development is a source of common pride. Modern technologies provide effective solutions to the problems of a fast-growing metropolis. It is necessary to introduce comprehensive management of the urban environment based on the smart city concept and the development of competences of those people moving to the city. The world has come to an understanding that it is cities that compete for investors. Therefore, based on the experience of Astana, it is necessary to form a benchmark standard for a smart city and start expanding best practices and an exchange of experiences between the cities of Kazakhstan. Smart cities will be the engines of regional development, spreading innovations and improvement to quality of life throughout the country. ✖

EXTRACTS TAKEN FROM THE STATE OF THE NATION ADDRESS BY THE PRESIDENT OF THE REPUBLIC OF KAZAKHSTAN, NURSULTAN NAZARBAYEV, JANUARY 10, 2018.

BIO

Nursultan Nazarbayev began his working career in 1960 at the Karaganda Metallurgical Industrial Complex. He entered politics in 1969 in the Karaganda region. In 1979 he worked as Secretary for the Central Committee of the Communist Party of Kazakhstan. In 1984 he then became Chairman of the Ministers Council. Between 1989 and 1991 he served as the First Secretary of the Central Committee of the Communist Party of Kazakhstan and Chairman of the High Council of Kazakhstan. He has served as the President of Kazakhstan since the nation received its independence in 1991.

Astana is quickly gaining a reputation as a place for effective peace talks, as proven by Kazakhstan's track record throughout the Syrian conflict.

PEACE IN OUR TOWN

OVER THE PAST DECADE, Astana has taken on an ever-more prominent role on the global stage, hosting major conferences and international gatherings such as Expo 2017 and the 2011 Asian Winter Games. Perhaps most significantly, however, is Astana's growing role as a critical site for peace negotiations. Its central location and well-established diplomatic ties with both Eastern and Western powers make it a natural fit for the complex and politically fraught task of hosting representatives from conflicting groups in the hopes of finding diplomatic solutions to ongoing disputes.

Nowhere has this been more evident and vital over the past few years than in Astana's role in hosting peace negotiations for the Syrian civil war. Since mid-2015, Astana has been the site of negotiations for what has become one of the world's most violent and politically significant conflicts. As of early 2018, negotiations are ongoing, but it appears clear that any diplomatic solution will be reached in Astana.

Since beginning in 2011, the Syrian conflict has resulted in the death of more than 350,000 fighters and the displacement of more than 5 million Syrians, the largest refugee crisis since WWII. Originally an attempt to overthrow President Bashar al-Assad's government after protests that grew out of the Arab Spring movement were repressed, the conflict has since been described as a proxy war due to the number of international parties lending support to both the Syrian government and opposition groups.

Assad has received support from Russia and Iran, while the main coalition opposition group has received military and logistical support from the US, Turkey, and Saudi Arabia, among others. And the fractured nature of the conflict, especially amongst the opposition, has made easy resolutions impossible for any side.

Efforts at ending the conflict through diplomatic means have been underway since the early days of the civil war, but early attempts quickly failed due to the complex relationship between both opposing and allied parties. A pair of UN-

backed conferences in Geneva in 2012 and 2014 could not reach a consensus, with several key parties failing to attend. Enter Astana: in May 2015, President Nursultan Nazarbayev invited representatives from Syrian opposition groups and the Syrian government to attend a conference in Astana on the status of the war. Though the Syrian government did not attend, a series of opposition representatives gathered for talks. After a failed round of peace talks in late 2015, representatives from both sides of the conflict agreed on Astana as a site for extended peace negotiations.

Astana is a compelling fit for these critically important talks because Kazakhstan is one of the few countries in the region with strong relationships with Russia, Turkey, Syria, and Western powers. All parties involved had confidence in President Nazarbayev's leadership and ability to coordinate fair and secure negotiations, overcoming a major obstacle in working toward a resolution.

From 2016 through late December 2017, members of the Syrian conflict held eight rounds of negotiations in Astana, discussing issues ranging from the treatment of detainees to the location of de-escalation zones to reduce violence. In contrast to previous Geneva meetings, Astana has regularly hosted representatives from all sides of the conflict.

As of early 2018, the violence in Syria has subsided from its peak as al-Assad's forces regained control of the country, but UN observers noted that the conflict is far from over. Further talks planned for late January in Astana were expected to have the UN as a participant in order to spur both sides past the deadlock they reached in 2017.

Even once a solution is reached, though, Astana's role as a key hub for international diplomacy will continue. The characteristics that have made it central to ending the violence in Syria will doubtless make Kazakhstan an important participant the next time tensions flare in the Middle East. ✕



For more than a quarter century, the US has seen the strong, sovereign, and independent nation of Kazakhstan as a valued friend and a strategic partner in Central Asia. And we are honored, truly honored, to have been the first country to recognize Kazakhstani independence on Christmas Day 1991. That is a long time ago, but not that long. Kazakhstan has made incredible strides.

Since that time, the US and Kazakhstan have worked together to advance peace and security in the region and far beyond.

Together, we dismantled Kazakhstan's nuclear weapons infrastructure and ensured a safer and healthier future for the children of Kazakhstan and for the world at large. We have pursued opportunities to increase investment in Kazakhstan, and the energy sector in particular.

And today, our strategic partnership with Kazakhstan has advanced my South Asia strategy, which is working—and working far more rapidly than anybody would understand—and providing crucial support for our forces in Afghanistan and denying safe haven for terrorists.

This cooperation has grown even stronger this month during Kazakhstan's presidency of the United Nations Security Council. And I will say, that is a great honor.

President Nazarbayev and I had a series of discussions on how our relationship can further the safety, prosperity, and wellbeing of our people.

PARTNERS FOR *prosperity*



Donald Trump, President of the United States, discusses the country's historical ties with Kazakhstan and opportunities for further cooperation moving forward.

ditional support to bolster Afghan security. The US seeks partners who are strong, prosperous, respectful of their neighbors, and in control of their own destinies.

I am pleased that the President has shared his plan for Kazakhstan to become a top-30 global economy by 2050, and he is on his way—very rapidly. He is also working to improve Kazakhstan's business environment, which will create new opportunities for American companies who are over there, and lots of jobs are being provided to both countries.

American businesses are currently among the largest investors in Kazakhstan. President Nazarbayev will attend a roundtable with American business executives at the US Chamber of Commerce to further advance our commercial ties.

We also agree that fair and reciprocal—such an important word, “reciprocal”—trade benefits both of our countries.

I greatly appreciate Kazakhstan's participation in

our Central Asia Trade Forum and in our Central Asia Trade and Investment Framework Agreement. The President and I are working together to bring high-quality US products and services to the Kazakhstani people—so important. And it is really happening, and it is happening rapidly all across a range of industries, including commercial aircraft, railways, medical services, technology, and energy.

Working in common cause, we can advance greater opportunity for citizens in both of our countries. Our nations have a long history of cooperation to promote a safer, healthier, more prosperous, and brighter tomorrow. I look forward to seeing the great advances of the Kazakhstani people under your incredible leadership. And that is what it is—it is incredible leadership. We want a strong, sovereign, and thriving future for Kazakhstan and for the peace-loving nations of the world.* ✕

*EXCERPT FROM OFFICIAL WHITE HOUSE PRESS TRANSCRIPT



ILIA ELOSHVILI
*Minister of Energy,
Republic of Georgia*



SUHAIL
MOHAMMED AL
MAZROUI
*Minister of Energy,
UAE*



KIMMO
TIILIKAINEN
*Minister of Housing,
Energy and the
Environment,
Finland*

MINISTERS *of energy*

Governments worldwide praised Expo 2017 for its highly relevant theme and the opportunity to expand discussions and partnerships in sustainable energy.

What were your impressions of Kazakhstan's hosting of the Expo 2017: Future Energy?

ILIA ELOSHVILI Expo is one of the most remarkable events on the global calendar, and Astana's hosting was one of the most successful to-date. Georgia has participated in previous Expos, such as in Milan 2015; however, Expo 2017 was one of the most important because it was focused around energies of the future. Green and sustainable energy is perhaps the most vital topic in today's globalized world, not only for the economy, but also for political and social life as well. In this sense, the subject of the Expo was absolutely appropriate and relevant for this discussion. More importantly, technically, it was organized in the best possible

way by both the government of Kazakhstan and the actual organizers. Georgia participated and had the opportunity to be acquainted with new technologies from more than 100 countries. At the same time, we were proud to present our own potential in renewable energies, working with specialist companies in this field and representing our country in the best possible way.

SUHAIL MOHAMMED AL MAZROUI I would like to congratulate the Republic of Kazakhstan for hosting the Expo. It was well organized and the theme was particularly relevant. I visited the Kazakhstan pavilion, and quite simply, it was remarkable. Second, hosting such an event has paved the way for a very successful KazEnergy Forum in

Astana. I would like to congratulate the organizers; it was an excellent gathering where leaders from all over the world looked at the challenges for the future across the energy sector. For us in the UAE, we see the future in green energy, namely a balance between hydrocarbon and non-hydrocarbon sources. We will require all forms of energy, and Kazakhstan is on a similar track. We have a common view on incorporating renewables into the energy matrix. Both of our countries are oil and gas exporters, so for us, it is important to achieve that balance. In discussion with our international partners, we focus on our experience in developing the energy strategy for UAE 2050, according to which we plan to establish an equal balance between fossil and green energy sources.

What opportunities do you see in further developing energy relations with Kazakhstan?

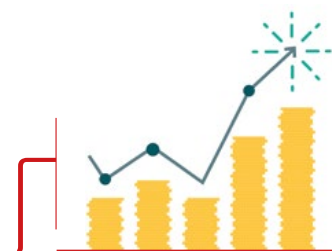
IE Georgia's cooperation with Kazakhstan in the energy sector has been growing continuously for over two decades now. Kazakhstan invests heavily in Georgia's renewable energy potential, distribution companies, as well as ports and logistics sector. This solid relationship we have forged will continue and increase in the coming years. There are several reasons for this, not least our reliable cooperation in the energy field and other economic sectors. In addition, it is important to remember that we are geographically situated close to each other and share many historical bonds as well. Socially even, in Kazakhstan, the level of appreciation for Georgian culture is astonishing. It is touching for us to see such respect from ordinary Kazakhstanis and, perhaps more importantly, these bonds can act as a foundation for us to further develop relations between our governments and the private sector.

SMAM In the foreseeable future, Dubai will focus heavily on energy and particularly sustainable energy as a possible theme for the next Expo in 2020. As such, we are currently in the process of transition, and this is an important element of our relations with Kazakhstan today. In Kazakhstan as well, energy is a key priority for the government, and we can expect great things from this sector in the coming years. It is safe to say that, today, we are increasingly witnessing how energy is a key issue discussed at various international events, which proves that without a well-functioning energy sector we cannot have stable development in general. For this reason, we need to make all possible efforts to work out strategies that will let us achieve sustainable, balanced energy matrices in order to achieve our goals and hopes.

KIMMO TIILIKAINEN It is true that we have well-established political relations: several ministers have visited Kazakhstan, while the Kazakhstani Minis-

ter of Energy has also visited Finland. We have an intergovernmental commission for economic cooperation and that is working for energy. Both sides have noticed that there are many common interests, and we have done a few things in the clean energy field and in terms of renewable energy efficiency in Finland that could work in Kazakhstan. Many of the technologies we have developed and implemented in Finland can be used in Kazakhstan as well. For example, we share a fairly similar, cold climate in the winter and our district heating technologies could be useful here. Regarding renewables, it is fruitful to compare our experiences as Kazakhstan has its own successes and strategies. Specifically, our experiences with smart grids can be of particular interest to Kazakhstan and will be something that will help save energy in the future. Losses in the Finnish electricity grid are remarkably low compared to other countries. We achieved this by planning

the grid, optimizing it, and adjusting the power supply from different sources according to the consumption. These solutions offer huge opportunities because saving energy and improving energy efficiency also means saving money. We are successful in energy efficiency and all forms of green technologies because our government has set a target to be forerunners in the green economy and clean technologies, and we are, therefore, investing a great deal in R&D to bring new solutions. Our companies are interested in that as well, because this is a global trend that has great market demand throughout the world. What we are implementing now creates a stable investment environment as well as a stable environment for the development of clean solutions for the coming decades. It is essential that the private sector finds its own interest; at the political level, we can help create a favorable environment and pave the way for companies, though they are the ones doing the actual work. ✕



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TBY talks to Timur Suleimenov,
Minister of National Economy.

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TBY talks to Zhenis Kassymbek,
Minister of Investments and
Development.

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TBY talks to Erlan Ospanov,
CEO of Verny Capital.

Economy

REVIEW

The Rukhani Janghyru modernization program, President Nazarbayev insists, will position Kazakhstan among the world's top-30 developed countries by 2050.

CAUTION, STATE SHRINKING

In the intervening years to 2050, the Kazakhstani economy will undergo a transformation guided by the comprehensive, nearer-term National Vision 2025. In doing so, it will become both diversified and digitalized to leverage the information era. Also coming is a top-down shift toward the free market to better attract foreign investment.

VISION 2025

Approved in late 2017, the vision targets sustainable growth in step with OECD nations.

Supported by business-friendly law, related policy will maximize Kazakhstan's human capital and rethink employment dynamics. It shoots for ambitious annual growth of 4.5-5%, lifting GDP per capita to USD46,100 by 2025. Maximizing export opportunities in global supply chains will demand looking beyond the hydrocarbon comfort zone to sectors of promise. Timur Suleimenov, Minister of National Economy, told TBY that the 2025 strategies target "GDP growth of no less than 4.5% within eight years."

INVESTMENT APPEAL

To gauge good investment bets you can do worse than talk to a private equity fund. According to Talgat Kukenov, the CEO of The Abraaj Group Kazakhstan, the country beckons for its "strong economic ties with Turkey, China, and Russia, three economic drivers of the region (rendering the nation) a transportation hub for Eurasia, which enables investors to reach other Eurasian markets including the Caucasus, Russia, and China."

Private investment activity is in evidence, and total FDI is observed at about USD12 billion to 6M2017 according to Minister Suleimenov, underpinned by greater state commitment to PPP activity across key economic sectors. He notes, too, that current decentralization of power ceding greater financial autonomy to the regions will "incentivize them to work closely with taxpayers and investors."

TIME TO EXPAND THE FIELD

A recent World Bank report entitled *The Economy is Rising: It is Still All About Oil*, was hardly ambiguous in its assessment of Kazakhstan. In 9M2017 GDP growth upped gears to gain 4.3% YoY,

greatly outpacing the 0.4% rise of the same period of 2016. And yes, this was indeed floated on revived global oil prices, and locally as production kicked off at the Kashagan offshore oil field in the Caspian Sea, with the spoils of the black stuff also felt in the non-hydrocarbon economy.

MAXIMIZING THE POTENTIAL

Yet, Suleimenov noted that while oil and gas and mining together are growing at about 8-10%, "we see a significantly big increase in manufacturing, which has grown over 7% (while the) pharmaceuticals industry (...) is growing at about 37%." To this add the sterling performance of external trade, soaring 35% last year from 2016. Of note, Kazakhstan's new tax code revises tax preferences for the real sector by scrapping benefits of questionable success and expanding preferential tax regimes for bread-and-butter investor considerations such as special economic zones, financial leasing, and renovation.

THE FLIGHT NOW BOARDING...

In 2017, Kazakhstan ranked 81st in the World Economic Forum's World Competitiveness and Travel Competitiveness Index. Yet by 2025, Kazakhstan plans for tourism's share of GDP to reach 8%, up from today's 0.9%, both on adventure and heritage tickets. It would then rival sectors such as transportation (8%), construction (5.9%), and agriculture (4.9%).

A GROWTH SECTOR

The national vision foresees the share of agriculture in GDP growing 500% by 2050 through stimulus packages. Averaging at 4.4% in 2001-16, domestic agricultural growth has recently outpaced that of the remaining economy. Close to one-fifth of the working population tills the soil. And yet the large number of unfeasibly small agricultural units is seen as an Achilles' heel, impairing value chains that bring regulated quality standards, resulting in calls for land reform.

DOWN TO EARTH

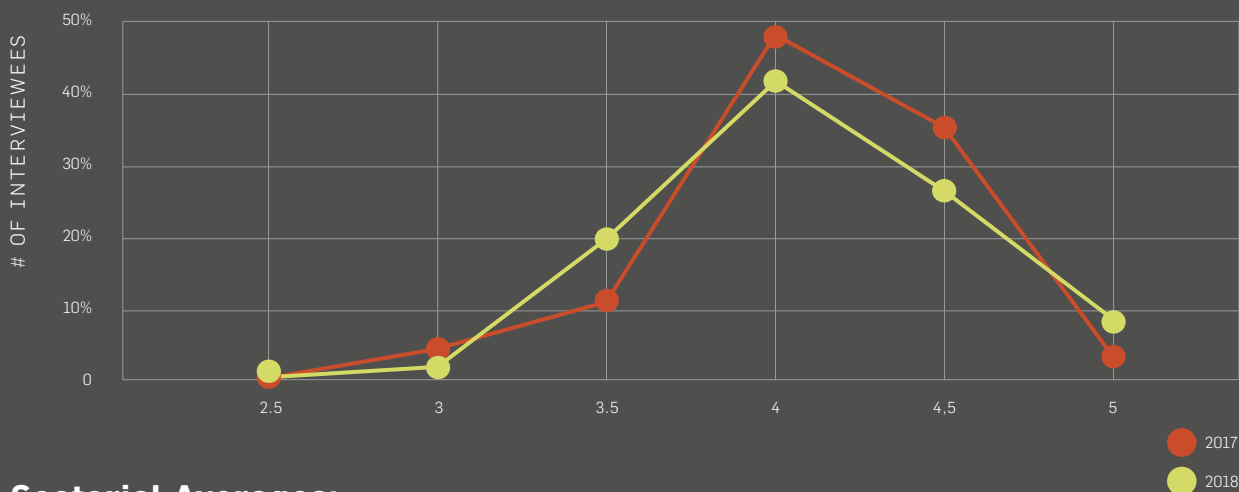
With mining being a notable sector, the new Code on Subsoil and Subsoil Use came into effect on December 27, 2017 replacing the 2010 law. With the exception of uranium extraction, which re-

TBY ANALYTICS KAZAKHSTAN 2018

TBY Analytics reviews all interviews conducted for *The Business Year: Kazakhstan 2018* and examines trends and sentiment among the country's business leaders.

BUSINESS CONFIDENCE INDEX

Through interviews with business leaders across Kazakhstan's economy, TBY Analytics has reviewed business confidence for the year ahead from 1 (very negative, expecting large losses) to 5 (very positive, expecting high growth). The average business confidence rating was **4.09**, which surpasses last year's average BCI of **4.12**.



Sectorial Averages:

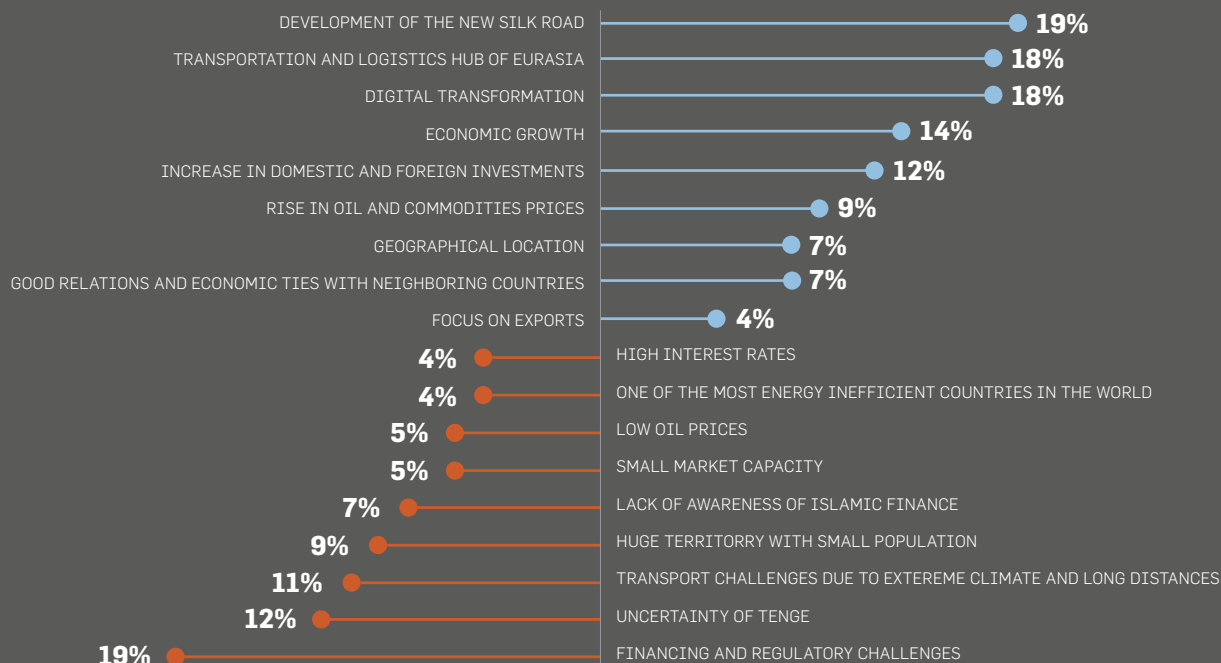
Sector	BCI 2018	BCI 2017	Change
Agriculture	3.5	4.3	-18.7%
Economy	4	4.2	-4.8%
Energy	4.5	4.5	0%
Finance	3.95	3.92	+0.8%
Health and education	3.9	3.95	-1.3%
Industry	4	4.2	-4.8%
IT	4	4.16	-3.8%
Real estate and construction	4.3	3.95	+8.2%
Tourism	4.12	4.12	0%
Transport	4.31	4.17	+3.25%
Green economy	4	-	-

"I have an extremely positive outlook for 2018, and am confident it will be a successful year, both for GE and for the country as a whole. Everything is geared for success. Kazakhstan will remain a key strategic market for GE as we grow our presence here with new initiatives and projects, such as LNG technologies for the gasification of Astana, environmentally friendly renewable and gas-based power generation, as well as a number of areas in healthcare."

Béla Ferenczi, CEO of GE Central Asia & Azerbaijan

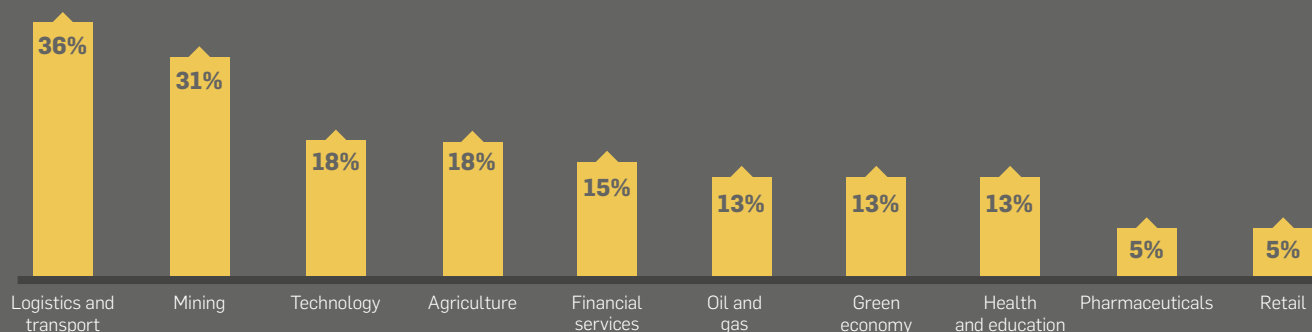
ADVANTAGES AND CHALLENGES

These are some of our interviewees' most frequently mentioned **benefits** and **challenges** to doing business in Kazakhstan:



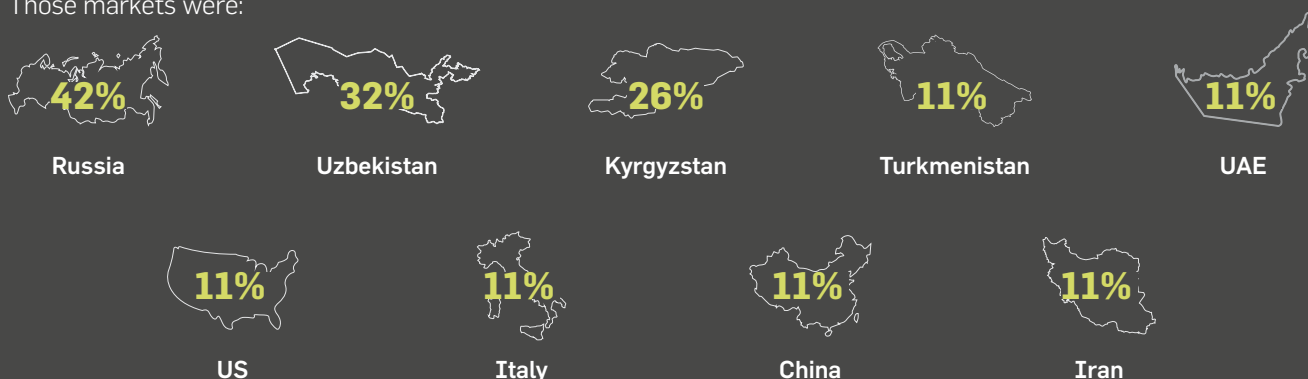
GROWTH POTENTIAL

68.5% of interviewees mentioned the sectors that show the most growth potential and offer the best ROI for FDI. The most commonly mentioned sectors were:



OPERATING MARKETS

31.5% of interviewees told us which markets they have operations in and/or plan to operate in in the coming years. Those markets were:

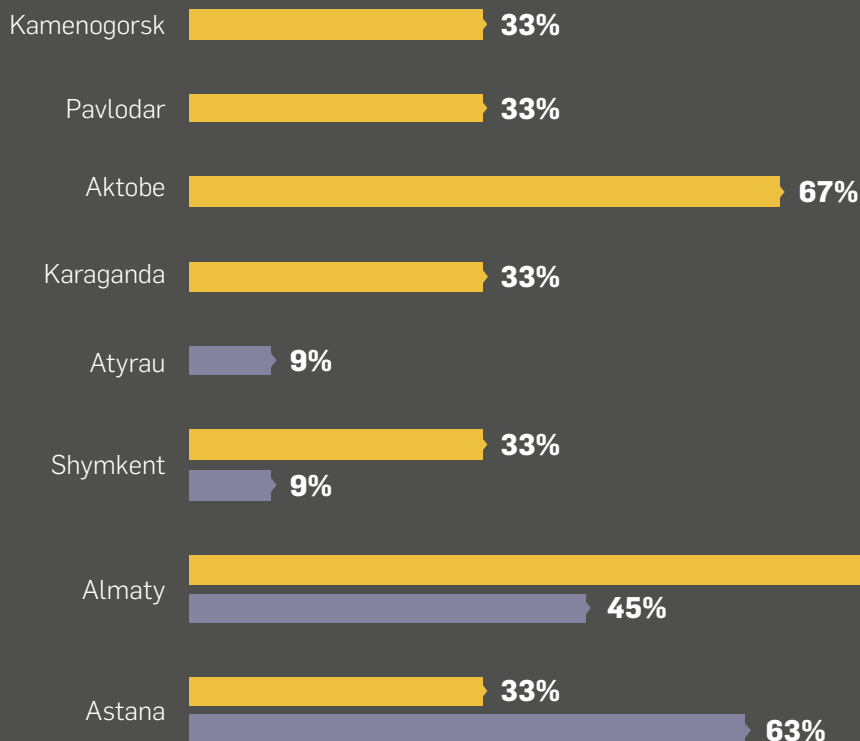


REAL ESTATE AND CONSTRUCTION

Our interviewees in the real estate and construction sector mentioned the types of projects/segments they are focusing on in the next few years. The below graph illustrates the most common type of projects they are focusing on:



60% of interviewees in this chapter mentioned where their operations are located and where they plan to expand to in the coming year.



There is a project of Abu Dhabi Plaza's stature in every country; even if it is entirely unrelated, it could be of similar scale, such as airports, stadiums, malls, or mixed-use developments. These are the projects we seek. Moving forward, we target Almaty and West Kazakhstan as the next growth areas from a megaproject perspective, and not so much Astana.

Selim Karakulah
Country Manager, Entegre Satek Elektronik

TRANSPORT

50% of our interviewees mentioned the **benefits of the New Silk Road for Kazakhstan**, including:

- *Development of rail and road infrastructure*
- *Rise in the number of container trains passing from China to Kazakhstan*
- *Becoming a large player in logistics*
- *Shorter transit times*

Our interviewees in the sector noted that Kazakhstan stands out as a transport/logistics hub given that:

- *The country is well positioned geographically*
- *Customs Union with Russia*
- *Great relations with neighbors*
- *Great partner for companies that want to enter hard-to-reach markets such as Russia, Turkmenistan, Iran, and Turkey*
- *Largest landmass to cross after China*
- *Will become a driver of the Silk Road within the region*

62.5% of interviewees are increasing their capacity

FINANCE

40% of interviewees in the finance sector **discussed the potential for Islamic finance in Kazakhstan.**

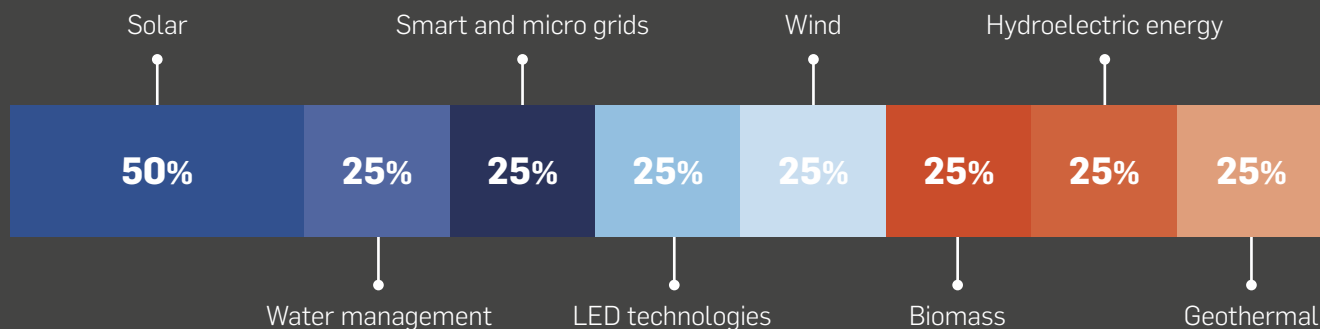
The key positives surrounding the development of this sector are:

- Government's desire to foster Islamic finance in the country
- Ongoing efforts to boost awareness and education about Islamic finance
- President Nazarbayev's announcement in September 2017 that Kazakhstan would issue a USD300-million sukuk in 2018
- Development of Islamic payment cards to introduce the benefits of Islamic banking to the wider population

GREEN ECONOMY

Our interviewees told us what green technologies they are introducing in Kazakhstan.

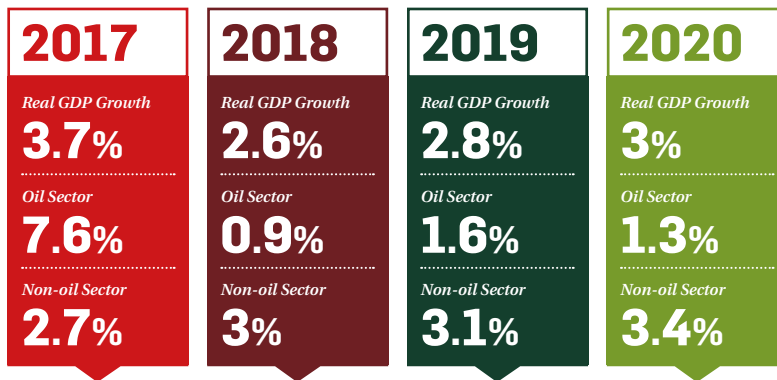
The below graph illustrates the percentage of interviewees that are involved in specific green technologies:



50% of them are involved in **smart city projects**

PROJECTIONS: OIL VS. NON-OIL SECTOR GROWTH

SOURCE: WORLD BANK



mains subject to the old contractual system for investors, other mining activities including oil and gas will now be legally subject to licensing.

DRIVING INDUSTRY

The automotive sector weakness of 2014-2016 was reversed with the roughly 20% recovery of 2017. The Association of Kazakhstan Automobile Business targets 50% production localization by end-2019 from today's approximate 36%. Industry data reveals a doubling of the share of automotive industry in machine building overall.

SHRINKING THE STATE

The government seeks to reduce the non-oil deficit of its consolidated budget to under 8.5% of GDP in the 2018 budget. Accordingly, it has reduced its core spending by cutting noncore transfers to state-owned enterprises (SOEs) by roughly 2pp of GDP. This year's budget also features a pronounced cut in oil fund consumption, from USD13.5 billion (8.5% of GDP in 2017) to USD8 billion (4.6% in 2018).

PRIVATIZATION

According to technology futurist Paul Saffo, there are two kinds of fools: "One who says this is old and therefore good, and the other who says this is new and therefore better." Kazakhstan has sought to avoid being either by treading cautiously on structural reform and privatization under presidential council. The second privatization wave was 71% completed in January 2018. The Complex Privatization Plan for 2016-2020 that also covers entities held within the Samruk Kazyina Sovereign Wealth Fund encompasses 904 facilities. As of January 2018, 1,255 facilities await liquidation or rationalization. Key economic entities such as Air Astana, KazMunayGas, and Kazatomprom are earmarked for privatization in 2018.

This is encouraging because the numbers in the aforementioned WB report paint a telling economic portrait, where the total assets of SOEs remain at approximately two-thirds of GDP. Moreover, such enterprises are ostensibly

held by three major holding companies that sit on over 90% of total assets. Clearly, this means that key economic sectors ranging from ICT to utilities, and from education to healthcare remain in the public domain, artificially buoyed by the national budget, but arguably lacking the innovative oxygen of market forces. The public sector employs around a quarter of the workforce, which in part explains the government's hesitancy to rush headlong into the hallmark downsizing involved. And it is by finetuning the close to 50% of the workforce classified as individual entrepreneurs and self-employed, and the roughly one-third of the workforce employed at SMEs that the social cost of privatization is to be mitigated. The Business Roadmap 2020 and the Productive Employment and Mass Entrepreneurship Program are two tools the government has at its disposal in doing so.

A DIGITALIZED ECONOMY

As of December 2016, Kazakhstan had 13.93 million internet users making for a penetration rate of 76.8%. Meanwhile, the Digital Kazakhstan program, launched in December 2017, involves the meatier issue of building a nationwide digital infrastructure in preparation for the myriad wonders promised by 5G. By government forecasts, a prospective ecosystem of high-tech entrepreneurship, a catalyst of innovation, promises 300k new jobs by 2022. The estimated investment requirement from the quasi-public sector is USD508.69 million, to which state coffers will add a further USD424.41 million; by 2025 the scheme is officially estimated to have generated a return of between 4.8 and 6.4 times.

In his book *After the Neocons*, political thinker Francis Fukuyama writes that "International institutions like the IMF and World Bank have sought to use conditionality in structural adjustment loans as a means of artificially stimulating demand for reform in countries where it is low." In conclusion then, we note that Kazakhstan has attempted to grasp the economic reform nettle on its own terms. Its vision, if realized, will leave it in good stead for tomorrow. ✖



TALGAT KUKENOV
CEO, The Abraaj Group Kazakhstan

What is Abraaj Group's strategy in Kazakhstan?

Abraaj is a one of the leading private equity (PE) funds with two decades of experience investing in growth markets, impressive track records, and multinational companies such as Aramex in the GCC and Fun Milk in Sub-Saharan Africa. Our mid-market PE strategies focus on four sector groups: consumer goods and services, financial services, industrial materials and logistics, and healthcare and education. Our core view is that strong returns are generated by the ability to find, build, and exit exceptional companies and assets. One hurdle that might prevent large PE investors from entering Kazakhstan is the small market capacity. With 18 million people scattered over huge territory, the republic might not look attractive compared to markets like Indonesia, India, Turkey, or Pakistan.

Do you see any opportunities in the wider Central Asian region?

Uzbekistan could represent strong potential for PE investors. In light of recent reforms implemented by new president, the future of Uzbekistan looks quite promising. With a young, dynamic, and growing 32.3-million population and unsatisfied demand for healthcare service, high-quality education, and consumer goods, Uzbekistan might be an attractive target for PE funds in the future.

on the RISE

TBY talks to **Timur Suleimenov**, Minister of National Economy, on sectors contributing to growth, privatization and decentralization, and a new PPP framework.



Where does Kazakhstan stand today in terms of how 2017 progressed and which macroeconomic factors have contributed to this positive outlook?

We saw growth of 4% in the first 10 months of 2017, which is excellent. One contributing factor was the rise in oil prices. The improved price for oil and commodities in general was a gain, as was the increased production from the Kashagan oil field. In mining, we see huge additional excavation works going on, likely directly attributable to the increased commodity prices. Oil and gas and mining together are growing at about 8-10%. In addition, we are also seeing a significantly big increase in manufacturing, which has grown over 7%. The pharmaceuticals industry is in fact a champion of the economy and is growing at about 37%. Another great contributor to Kazakhstan's GDP growth is trade. External trade has picked up tremendously, growing by about 35%, and we see our trade balance improving greatly from 2016. There has also been an increase in investment, with a relatively stable growth of about 5%. We are tracking not only investment overall, but also those in the

private sector, and the economy is growing not only on the back of state-run and sponsored programs. FDI is a great contributor as well, and total FDI stood at about USD12 billion for six months.

The Ministry of the National Economy's Strategy 2025 targets GDP growth of no less than 4.5% within eight years. What are the main drivers and keys to achieving this goal?

We want the private sector to play a more active role in the economy than it is currently. Privatization will undeniably improve the quality and volume of growth. Hopefully by 2025, we will have fully privatized to the level that we want to, including KazMunayGas (KMG) and other Samruk Kazyna assets, and we will not have any non-core assets at the regional and municipal levels. Another driver is moving from a centralized economy, where all the decisions are made in Astana, to a more decentralized model. We would like to give our regions more economic freedom and, with that, the means of achieving their goals. The way to do it is to give them greater taxation authorities, though we have yet to finalize these mecha-

nisms. This change will not only provide additional tax revenues and mechanisms for the local authorities, but also incentivize them to work closely with taxpayers and investors. We also want to focus more on exports, particularly non-natural resource exports.

What opportunities will reforms to the PPP laws bring in the long run for private-sector involvement in the economy?

Many countries have been trying to implement and harness PPPs. It is tough, especially for countries with a Soviet background where everything has to be controlled and repeatedly checked for accountability. We thus have to change the mentality and the law, and the way we operate our models is new as well. It is tough and somewhat subjective to define a fair return for private sector investors; it is not written in the budget code or government resolution. This is holding back significant PPP implementation in Kazakhstan. Hopefully, potential investors will see our dedication toward reform as a positive sign. We see a large increase in PPPs on a local and regional level, for example for kin-

dergartens, small sports centers, and waste management plants. We are introducing many changes to our budget code and laws on PPPs; for example, we have cut back on the time and procedures required and introduced a more efficient sharing of risk. We have also shared our responsibility with the regions; obligations up to about USD20 million can be taken at the local level. ✕

BIO

Timur Suleimenov graduated from Pavlodar State University with a degree in economy and management and moved on to study at Robert H. Smith School of Business, University of Maryland, US, earning a master's degree in business finance. He also earned his JD from Pavlodar State University in 2006. Following his consulting experience at Ernst & Young Kazakhstan and senior management roles at KazMunayGas, he became the Vice Minister of Economy and Budget Planning in 2009. Also in 2009, Suleimenov became the World Bank Deputy Country Manager and EBRD Deputy Country Manager. From 2012-2016, he was a member on the board of the Eurasian Economic Commission in charge of economic and financial policy. He was appointed Minister of National Economy in 2016.

Many eyes were set on Astana for Expo 2017, and Kazakhstan is hoping to carry this momentum forward into 2018 with a new financial hub.

COMMON TO AN UNCOMMON DEGREE

EXPO 2017 was intended to announce the emergence of Astana on the global stage, and 2018 will surely cement Kazakhstan's capital as an economic hub for the region. With the launch of the much-anticipated Astana International Financial Centre (AIFC) expected in July 2018, Kazakhstan will adopt a truly modern and vibrant vision for the future of its financial sector.

Situated on the exact site of the Expo in the world's largest spherical building, some 10km away from the center of Astana, the ambition to create such a hub was brought to life back in May 2015 when President Nursultan Nazarbayev signed a decree for the establishment of the AIFC. Outlining the core guidelines of the project, the President said: "It will be based on the principles of English law with a preferential tax regime and an independent financial court. We are confident that AIFC will be the core of the financial infrastructure in Kazakhstan, a further financial hub for the entire Central Asian region."

Indeed, the AIFC's independence, through its adoption of Common Law, represents one of its core institutional strengths. In December 2017, the AIFC appointed the distinguished and hugely experienced Lord Harry Kenneth Woolf, a retired British barrister and judge, as its chief justice. He will ensure that the AIFC is independent from the judicial system of the Republic of Kazakhstan and oriented to the principles, norms, and precedents of the law of England and Wales and the high standards of other international financial centers, such as Hong Kong and Dubai.

Likewise, as highlighted in the President's decree, it is the AIFC's unique proximity to key emerging markets that is its other key advantage, and will no doubt prove a major pull-factor for investors around the world. With Kazakhstan neighboring western China, the Caucasus, the Eurasian Economic Union—with a population of almost 170 million people—and

the fast-emerging Central Asian region, AIFC will leverage its unique offering to attract companies, banks, and investors alike to its shores. Moreover, national carrier Air Astana has put in place a strategy to establish direct routes from the capital to key financial hubs around the globe such as London, Frankfurt, Dubai, New York, Shanghai, Singapore, and Tokyo.

Nonetheless, AIFC has come a long way from its early blueprint to implement major strategic directions such as capital markets through the newly established Astana International Exchange (AIX), asset management, Islamic finance, private banking, fintech, and green finance. It has also announced the formation of an international center for green technologies and international IT start-up hub to be launched on its premises throughout 2018.

According to the Governor of AIFC and former Deputy Prime Minister, Kairat Kelimbetov, the first five years will be aimed at achieving self-sufficiency by reaching its designed capacity, which in the process should inject USD3-5 billion of FDI into Kazakhstan.

After that, AIFC has set its sights on becoming one of the world's top-30 financial centers in the next 20 years. From there, the economic windfall for Kazakhstan, according to the governor's forecasts, is limitless. Namely, Kelimbetov expects that over 10-15 years, the AIFC will be able to attract over USD40 billion in investments and, in this period, create around 17,000 new jobs, 40% of which will go to Kazakhstani citizens.

Simultaneously, Kazakhstan's economy will be revolutionized through the widespread privatization of its sovereign fund, Samruk Kazyna. Key state assets, such as Kazatomprom, Kazakhtelecom, and Air Astana are expected to be offered to international markets starting 4Q2018. And with a sizeable share of the offerings also expected to appear on a local exchange, the timing to launch the revolutionary AIFC could hardly have been more perfect. ✖

INTERVIEW

TBY talks to *Zhenis Kassymbek*, Minister of Investments and Development, on industries with existing potential, promising sectors, and creating a more favorable investment environment.

PROMISE and POTENTIAL



The ministry has been leading Kazakhstan's efforts to climb up the ease of doing business ranking in recent years. What have been your key objectives and achievements in this respect, and which initiatives can we expect to further ease investment?

A new national strategy was developed to stimulate the inflow of investments, and work on its implementation has already begun. The experts of the World Bank and other international experts took part in the development. The government also drafted and submitted to parliament a draft of the new tax code with the aim of protecting the interests of the taxpayers. In addition, a new code on sub-surface and subsoil use has been developed, in which an international system for calculating reserves will be introduced and free access to geological information will be ensured. In addition, a new customs code has been prepared, designed to give a significant incentive to develop business. A draft has been developed that improves the regulation of free economic and industrial zones.

In your view, which sectors of economy will emerge as prime investment opportunities in 2018, and how is the ministry helping to attract investors in these industries?

A number of sectors have been emphasized, and these are the sectors that are the most profitable and most likely to attract new investments aimed at improving efficiency. In general, two groups of industries are selected for proactive attraction of investments that realize the export potential of the Republic of Kazakhstan. Group I is "industries with existing potential:" the food industry, deep processing of oil, gas and minerals (metallurgy, chemistry, and petro-chemistry), as well as engineering. Group I consists of industries in which it is possible to promote FDI focused on improving efficiency in the short or medium term. These industries represent sources of competitive advantages of Kazakhstan and will attract FDI, ultimately using Kazakhstan as a production base for exports. Information work will be proactively targeted at these industries, as well as increasing the quantity and quality of local suppliers. Group II is "promising sectors:" ICT, tourism, and finance. This group consists of industries in which investors should be interested in the long term. These industries demonstrate good potential for attracting investment and

increasing exports. For example, in tourism this means increasing the number of incoming tourists. For the financial sector, the successful functioning of the Astana International Financial Center is the first focus. For ICT, we are emphasizing the creation of a critical mass of specialists in this field in the country. In addition, these industries show a steady global demand for new investments and can potentially provide high profits for the country. On the part of the state, a number of activities will be carried out to improve the investment climate. These activities include creating favorable conditions for attracting investments; improving the protection of investors' rights; improving trade logistics and developing supply-side relations between foreign investors and local companies; implementing effective operational measures and development of new approaches to attract investment, improving institutional mechanisms for attracting, maintaining, and supporting investors; and developing proactive approaches to attracting and retaining investments. We are also focusing on PPPs and compliance with the privatization plan and PPP mechanisms with a particular priority on attracting foreign investments and ensuring the participation of foreign investors in the privatization process and PPP projects. ✖

BIO

Zhenis Kassymbek graduated from the Kazakh State Architecture & Construction Academy in Almaty and the L.N. Gumilyov Eurasian National Academy in Astana. He has worked as Head of Railway Transport & Ports Division at the Agency for Regulation of Natural Monopolies & Competition Protection, Head of the Tariff Policy Division at the Coordination & Tariff Policy Department, Director of the Water-Borne Transport Department at the Ministry of Transport and Communications, and Director of Aktau International Sea Port RSE. He has held several ministerial positions and is currently Minister of Investments and Development.



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INTERVIEW



TBY talks to **Agris Preimanis**, Head of Kazakhstan at the European Bank for Reconstruction and Development (EBRD), on increasing growth, investing smartly, and building a more inclusive economy.

What have been some of the recent key projects you have been involved in?

This year has been an exciting year for EBRD thanks largely to the big green economy projects we have financed. Our headline project was the USD50-million investments in the 50-MW Burnoye Solar-2 project, which is an exciting development in green economy investment and commercial scale renewables. Just before the opening of Expo, we signed a framework agreement with the Ministry of Energy for USD200 million. This is a project support agreement that allows us to invest this amount in the future. We expect more projects will follow throughout 2018 and 2019. It is important to understand that these projects are commercial in scale and highly bankable. Other sectors are

catalysts FOR GROWTH

also proving interesting for us, such as transport infrastructure. We are looking at everything from municipal infrastructure to irrigation systems. We want to help create a proper ecosystem for small and medium-sized businesses to operate in some of the more remote regions of the country. I also want to highlight the banking and financial sectors; we have a successful program for SMEs and another program that supports female entrepreneurs through commercial banks in the country.

As you reach your lending limit with Kazakhstan's sovereign wealth fund, how will this impact your overall strategy going forward?

Our overall strategy remains to focus on the key opportunities across the country. We recently approved our strategy for the next four years in the country, and we will focus on developing and modernizing the state sector and helping to move onto more market-based activities. We will also focus on the financial sector and capital market development, and invest heavily in developing infrastructure and connectivity both domestically and internationally. As mentioned, we will continue to focus on green investment in a broad sense, looking at renewable energies and energy efficiency. The strategy is in place, and it is very much a continuation of what we did before. The fact that we will have to reduce our invest-

ment in the sovereign wealth fund may impact the types of investments we do in the country, but it does not have a fundamental impact on our overall strategy. We concentrate on finding project opportunities across these strategic themes. There are exciting projects, and there are some attractive investment areas. We expect to see much larger projects with international sponsors across the country. Kazakhstan is one of the most energy inefficient countries in the world, so we see this area as being ripe for major improvement and ourselves as a key catalyst for investment in these areas.

Which factors have led to your assessment of the Kazakhstani economy's potential for 2017?

Kazakhstan has weathered the recent slump in oil prices well. A lot of state funds were used to support the economy, and the results were good. We have projected this year's growth in the Kazakh economy at 3.8%. This is reasonable, and it provides a good base moving forward. The real question is how to go from 3.8% growth to 5-6% growth. In order for the country to emerge as a more developed market, it needs to find a way to grow around these levels. We also have to consider the quality of growth and which sectors are growing and how the growth is distributed across the various regions of the country. On the macro level we still need to refer back to

the traditional sectors. There is no getting away from the fact that the backbone of the economy will remain oil and other extractive resources. What is important, however, is that there are a lot of improvements in competitiveness and governance within these sectors, so improving efficiencies in traditional sectors has to be a priority. The digitalization revolution alone can bring huge benefits to the traditional sectors in Kazakhstan, and the state apparatus itself. ✕

BIO

Agris Preimanis is the Director for Kazakhstan within the EBRD. He is also Chairman of the Board of Kazakhstan Foreign Investors' Council Association. In his work, he has engaged with governments, regulators, and the private sector on formulating economic policies, strategies, and structural reforms. He also maintained a broader role in the venture capital and private equity sector across the region. Before joining EBRD, he worked for Oxera, a UK-based advisory firm, advising financial services firms and regulators in the UK, Europe, and the US. He holds a PhD in financial economics from the University of Oxford.

TBY talks to **Doris Bradbury**, Executive Director of the American Chamber of Commerce (AmCham), on participation in Expo 2017, high-potential sectors, and forums for increasing public-private cooperation.



How do you rate the overall success of Expo 2017, particularly in light of the increasing internationalization of Kazakhstan?

Expo 2017 was a success for Kazakhstan and raised international awareness of the country and its economic and cultural attractions through Western media coverage. CNN was particularly good in its coverage of the Expo, the historical Silk Road, and Kazakhstan today. Kazakhstan's enormous commitment of time and financial resources was well spent, and the Expo "Future Energy" theme underscored the country's vision for the future, a vision that is shared by all of the world's developed countries. AmCham also produced a magazine devoted to Expo and its theme that showcased our members' efforts across all sectors to contribute to the development of energy today and in the future, expanding the theme to include the broader green economy. We were pleased to be able to show AmCham member companies fully participating in building this future for Kazakhstan.

With higher than 3% GDP expected for 2017, which specific sectors have potential to continually grow the economy?

There are many opportunities available, though there still are some issues that the government needs to address. Agriculture could be

SHARED *vision*

enormously important for Kazakhstan; however, land reform needs to be addressed for the country's agricultural potential to be fully realized. Mining is also a priority sector, but the new Mining Code that has been developed needs to be enacted. Major mining companies are anxious to begin large-scale exploratory operations, but first they need the assurances that will be entailed by the new code, which is based on the Australian Mining Code. Mining and agriculture could both be true growth industries for Kazakhstan if the fundamentals necessary for their development are supported by the government. The government is also keen to develop innovative technology aiming to create a technology hub in Kazakhstan. With the development of the New Silk Road project, logistics is another priority sector with a promising future. Kazakhstan's proximity to China, Russia, and Europe are key to the future of logistics.

What are some of the major issues being brought forward to the government by the business community?

AmCham is fortunate to have established a productive advocacy platform with the government, which actively seeks out AmCham advice and recommendations on the most crucial investment issues. Eight years ago, the prime minister created the Council to Improve the Investment Climate, a monthly forum for AmCham and its members to meet with cabinet ministers responsible for the country's

economy and which is actively chaired by the current Prime Minister, Bakhytzhan Sagintayev. Prime Minister Sagintayev is proactive and truly wants to see the reforms that will enable Kazakhstan to fully realize its economic potential. Issues raised at the council this past year have been privatization, deregulation, currency controls, intellectual property protection, tax reform, judicial reform, and environmental regulatory change, the last issue following on Expo's future energy theme. These are all vital issues that require a systemic approach with both immediate and long-term objectives. Privatization is a current priority as the government seeks to return to the private sector companies that were taken under the government's wing during and after the 2008 financial crisis. Some public sector institutions will also be privatized, namely the state railway system. This is not an easy process and is one that has proven difficult even for highly developed European countries. Currency controls are a thorny topic at present: the National Bank is keen to introduce more stringent currency controls under its de-dollarization initiative, which worries the investment community. We have pointed out that this may have a negative impact on the investment environment, and the government has listened carefully to our views. The council has proven a very productive forum to bring the government into direct contact with investors and to make the investment community's voice heard. ✕

BIO

Doris Bradbury joined the American Chamber of Commerce in Kazakhstan as Executive Director in May 2006. A career specialist in the countries of the post-Soviet Union, she began her career teaching at the University of St. Andrews in the UK before embarking on international work. After working for over a decade with the Canadian Government in Ottawa, she served as a Senior Associate Director at the Carter Center in Atlanta, and worked extensively in Moscow. A graduate of McGill University (Canada), the University of Edinburgh (UK), and having conducted PhD research at the University of London and Moscow State University, she has broad professional experience in Canada, the US, Russia, Ukraine, and Kazakhstan.



new ties THAT BIND

TBY talks to **Baurzhan K. Ospanov**, Chairman of the Investment Industrial Corporation (ZHERSU), on national capacity, the agriculture sector, and opportunities for international partnerships.

How would you describe the successful journey of ZHERSU from its inception in 1992 to becoming one of the leading industrial holding companies in Kazakhstan today?

When we were just starting, we did not have much knowledge about how the market economy functions. It was not easy to start a business in 1991-1992 after the dissolution of the Soviet Union, when the legal framework was not established yet and the economy was in crisis. As the former ties with the republics were lost there was a need to find new partners to provide new equipment and technologies for the country. Gradually, we came to realize that we could produce the same equipment and goods that we were bringing from abroad here in Kazakhstan much cheaper, faster, and of higher quality. We started developing in various directions such as construction, energy, agriculture, and IT.

What are some of your upcoming plans in the agriculture industry?

Most of our companies are developing successfully, but I would say the major focus that we have had for the last two years is in the agricultural sector. Here we have new projects

that will support our production—gas and water purifying and water desalination plants. In the future, the agricultural sector is going to be the key for Kazakhstan. Therefore, we are planning to develop our brand in meat and honey production. The countries most interested in importing these goods are Russia, China, Japan, and Australia. We are hoping to finish a new horse farm and two farms for the breeding of cattle at end of the summer or in early autumn 2018, totaling thousands of new livestock. One of our major goals right now is to make our product competitive in foreign markets. Farming has great potential here.

How active are you today internationally, and how important is it for the business today?

Of course, we are always keeping an eye on international markets and opportunities, mostly because the local market is quite limited in size. We work with various countries depending on their expertise. For example, in energy, our major partners are China, Japan, Germany, France, the US, Italy, and Spain. In agriculture, we have close ties within Eurasian Union but also cooperate with some other European countries. So, based

on the sphere of economy, we partner with the companies in specific markets that possess the technology necessary for us to develop further. At the same time, we are trying to develop the technology here as we are seeing great improvements in local manufacturing. Economic conditions in Kazakhstan will gradually improve in the years ahead, so we want to be well positioned with a sustainable and diversified local portfolio.

What are your expectations for 2018 specifically?

In 2018, we are planning to start the water purifying and desalination project as it addresses a serious problem throughout Kazakhstan today. If the project turns out to be a success, we will implement it in different regions of the country. We are preparing a number of energy stations projects to be built in 2019 based on anticipated legislation. In 2018, we will finish the longest electricity cable line project (1,800km) in the northeast region of Kazakhstan. Also, the gas purifying plant is an interesting and significant project for the country because oil extraction is growing and gas recycling negatively affects the ecological situation. We are quite optimistic about the year ahead, specifically about our current and upcoming projects in various spheres, such as in agriculture. These projects will have significant importance for the country in terms of its international image and branding. At the same time, at the local level these projects will also have a positive effect by creating new work places and bringing true value to the local consumer. ✖

BIO

Baurzhan K. Ospanov is an entrepreneur and philanthropist. He takes 44th place out of 50 influential businessmen in Kazakhstan according to a 2015 *Forbes Kazakhstan* annual ranking of "The top 50 most influential businessmen in Kazakhstan." Ospanov serves as the Vice President of Kazakhstan Boxing Federation and Wrestling Federation of Kazakhstan.



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