EAST/CHAM FINLAND

17.03.2023

Market Outlook Kazakhstan

Content

GENERAL INFORMATION

Introduction

Kazakhstan is the largest landlocked country in the world equal to Western Europe with one of the lowest population densities globally. Deserts and semi-deserts make up most of the country's territory – **44%** and **14%** respectively. Steppes occupy **26%** of the territory, forests **5.5%** correspondingly.
Kazakhstan borders China, Kyrgyzstan, Russia, Turkmenistan, and Uzbekistan.
There are 3 cities of national significance, namely Astana, Almaty and Shymkent.
Kazakhstan links the markets of China and South Asia with Russia and Western Europe by road, rail, and a port on the Caspian Sea. Kazakhstan will increase its significance as a regional logistics hub.

Key Figures

Capital: Astana
Official languages: Kazakh and Russian
The President: Kassym-Jomart Tokayev
Main export products: Oil and mineral products, agricultural products (e. x. grain)
Population **19,7** million (1.12.2022)
GDP, current **$197.1** billion (2021)
GDP per capita **$11 229** (preliminary data, 2022)
GDP growth: **+ 4,3 %** (2021)

Economy

Kazakhstan is the most prosperous and economically developed country in Central Asia.
Since the 2000s, Kazakhstan has seen impressive economic growth driven by market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy.

In 2021 real GDP growth was **4,3%**. Spillovers from Russia's economic collapse are disrupting Kazakhstan's supply chains and denting its growth prospects. Real GDP grew **3.6%** in the first half of 2022. Kazakhstan's GDP expected to grow by **3.7%** in 2023.

Diversification remains a challenge as hydrocarbon output constituted **21%** of GDP and about **70%** of exports in 2020.

The employment rate has reverted to pre-pandemic levels, and real wages increased by **5.7%** in 2021. The poverty rate is estimated to have decreased to **12.4%** in 2021.

The **World Bank's** country program in Kazakhstan consists of **11** projects, with net commitments totaling **$4.37** billion (data as 2022). KZ Government jointly with the World Bank identified 5 priority sectors: Infrastructure (transportation, logistics, ICT), Agriculture and consumer goods industry, Mining and metal sectors, Chemical & Petrochemical industries, Machinery & Equipment industry.

International rating agency **Standard & Poor's** affirmed Kazakhstan's sovereign credit rating at **BBB-/A-3**, improving the outlook from "negative" to "stable". The key factors supporting the rating are strong fiscal and external balance sheets of the country's economy. The analysts also note the effective macroeconomic policy of the government, which is aimed at diversifying the economy through investment programs, improvement of investment climate, reduction of state participation, development of competition, improvement of tax policy, reforming public procurement, as well as reduction of administrative barriers for business.
In general, **S&P** forecasts Kazakhstan's economy growth an average of about **4%** in 2023-2026.

Export & Import

The top **exports** of Kazakhstan are Crude Petroleum, Refined Copper, Petroleum Gas, Radioactive Chemicals, and Ferroalloys, exporting mostly to China, Italy, Russia, Netherlands, and Turkey. In 2020, Kazakhstan was the world's biggest exporter of Radioactive Chemicals, Chromium Oxides and Hydroxides.

The top **imports** of Kazakhstan are Heating Machinery, Packaged Medicaments, Broadcasting Equipment, Cars, and Computers, importing mostly from Russia, China, South Korea, Germany, and Turkey.

International business & Foreign investments

About **2,800** European, **418** American and **369** British companies are registered in the country. Most EU-funded companies are from Germany (**636**), the Netherlands (**529**) and Cyprus (**252**).

The European Union is Kazakhstan’s largest trading partner. The EU’s share of Kazakhstan’s total trade in 2020 was **29.7%**.

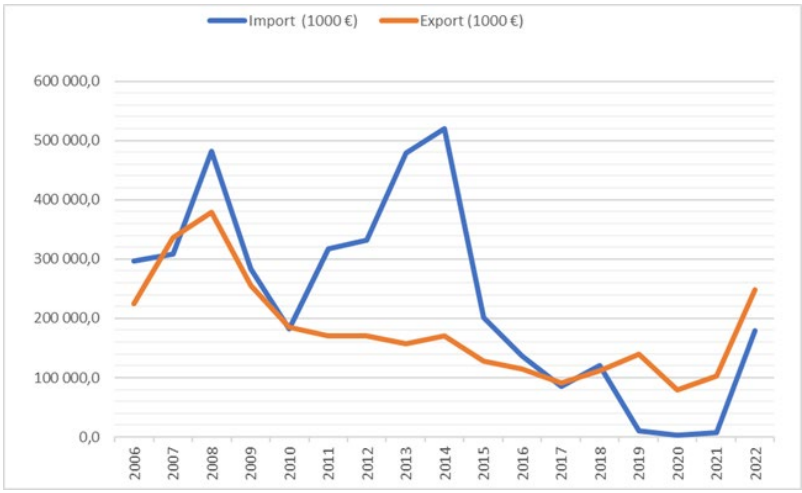
Kazakhstan remains one of the main **investment partners** in Central Asia. In 2021, Kazakhstan’s economy absorbed about **$24** billion of foreign investments, which is **38%** more than a year earlier. Kazakhstan’s pool consists of **850** projects attracting investments from more than **30** countries for a total of about **$63** billion. In the context of industries in the first half of 2022, the largest increase in foreign investment is noted in the following industries: information and communication – by 5.4 times compared to the first half of 2021, the construction industry – by 3.9 times, agriculture, forestry, and fisheries – 2.9 times, manufacturing – by 48%, wholesale and retail trade – by 43%, transport – by 19%, mining – by 8%.

Kazakh President **Kassym-Jomart Tokayev** proposed creating “favorable conditions for relocation to Kazakhstan” for the nearly **1,000** foreign companies that have suspended operations in Russia.

Finland & Kazakhstan trade

Finland has been Kazakhstan’s main trading partner among the Nordic countries.
According to the Finnish Customs, Finland’s **export** to Kazakhstan was **€248.5** million (+ 142,8 %) and import from Kazakhstan **€179.1** million (+ 999 %) in 2022. Finland’s main export products are machinery, packaged medicaments and paper products, the main import products are iron and steel.

Year	Import (1000 €)	Export (1000 €)
2006	296 870,1	224 385,9
2007	307 865,6	335 784,2
2008	482 490,2	379 651,5
2009	283 631	255 920
2010	181 994	185 234
2011	317 132	169 965
2012	331 506	170 758
2013	478 182	157 064
2014	520 289	170 881
2015	200 794	128 043
2016	136 944	114 649
2017	84 748	91 829
2018	119 769	112 104
2019	10 565	139 647
2020	2 958	79 388
2021	8 097	102 355
2022	179 128	248 531



https://tulli.fi/en/statistics/country-statistics/previous-years and https://tulli.fi/en/statistics/country-statistics

Finland ranks second after Sweden among the countries of the Scandinavian region by the volume of investment in the Kazakh economy. **$379.6** million was invested in Kazakhstan over the past 16 years.

There are 45 **Finnish companies** operating in Kazakhstan in the digital technology, energy, transport, agriculture, and education sectors.

The Kazakh-Finnish Intergovernmental Commission for Trade and Economic Cooperation, an institution established in 1993, plays an important role in providing the foundation for bilateral cooperation in trade. Its focus is on economic relations creating more business opportunities between the two countries.

Sanctions and “Know Your Customer” compliance process

The sanctions aimed at Russia also affect trade to Central Asia. In particular, the threat of indirect evasion of sanctions must be taken into account when dealing with Central Asian countries. For this reason, all companies doing business with these countries must now have a sufficiently extensive KYC-compliance process ("know you customer") to prevent this kind of activity, because activity against sanctions is prohibited both directly with sanctioned customer and indirectly using any front organization arrangements. In the KYC- process, the sanctions situation of the product and possible sanctions listings of trade partners must be clarified. Screening of business transactions is a key measure in which the trading partner and the end-users of the product, the related persons, ownership relationships and the comparison of the products to the sanction lists are completed.

End-user certificate must be obtained from the final user of the product if this is possible with the help of reasonable measures. Therefore, seller of the product has an obligation to know the end- user of the product/service since it is prohibited to indirectly deliver/handover any funds or other monetary benefits to possible sanctioned entity, i.e., all "decoy activities" are also prohibited. If the end user is sanctioned (in some cases, the US sanctions should also be taken into account if, for example, US technology, labor or trade is conducted in dollars) the company must not have practically any financial relationship with such sanctioned entity.

MINING

Kazakhstan's vast hydrocarbon and mineral reserves form the backbone of its economy. The World Bank estimates that there are over **5000** unexplored deposits in Kazakhstan, valued at over **46** trillion dollars. Kazakhstan is the world's largest uranium producer (**33%** of world output in 2021), also has extensive coal, gold, and manganese reserves. The country ranks **3rd** in the world in terms of titanium production, **7th** for zinc, **8th** for lead, and **11th** for gold. Kazakhstan has the world's **8th** largest reserves of iron ore with **12.5** billion tons. The nation ranks **second**, globally, in manganese ore reserves (**600** million tons). The country's current reserves of copper are estimated at **36** million tons. Kazakhstan has **30%** of the global chromite ore reserves and **95%** of global chromium reserves.

About **80%** of all mining industry products are exported to over **30** countries worldwide, representing **20%** of total exports and **30%** of the country's annual revenue.
Kazakhstan is attracting investment to further develop its gold (ranked **10th** globally) and uranium mining industries as commodity prices rise.

More than **230** companies are involved in the mining business. **The main mining companies** in Khazakstan are **Eurasian Resources Group (ERG)**, **Kazzinc**, **KAZAKHMYS**, **KAZMinerals** , **ArcelorMittal**, **Tau-Ken Samruk**, **KazAtomProm**.

Much of the technology and management practices of the industry date from Soviet times. Around **50%** of Kazakhstan's mining, processing, and smelting enterprises currently use outdated **equipment** that is often in need of repair. Almost all lack **environmentally friendly technologies**. Kazakhstan does not have its own mining machinery industry and relies heavily on imports.

EDUCATION

There are approximately **125** universities in Kazakhstan, many located in former capital Almaty and current capital Astana. Kazakhstan has around **600.000** students in higher education institutions. Around **84.000** students study abroad annually. Based on **Academic Mobility Strategy** in Kazakhstan 2012-2020 **20%** of all students should have experience of study abroad.

The country's **Strategic Development Plan 2050** includes the adaptation of the education system to the new socio-economic environment and creates opportunities for higher education institutions and education technology companies.

In 2019 spendings on education was **3,6%** of GDP, the government has announced to increase spending up to **7%** by 2025 and to build **800** new schools.
Kazakhstan received a **World Bank** loan to develop its education system in the amount of **$60** million.

Eight universities in Kazakhstan are featured in the **QS World University Rankings**® 2016/17, of which the four highest entries are: Al-Farabi Kazakh National University (KazNU), L. N. Gumilyov Eurasian National University, Kazakh National Technical University named after K.I.Satpaev and Kazakh National Pedagogical University named after Abay.

Vocational education is underdeveloped, many vocational colleges and technical training schools were closed or transferred to other uses in the 1990s.

The Bolashak is a national government scholarship for international education with an annual capacity of **1000** scholarships per year. The scholarship covers all costs related to education including tuition fees, travel costs, and living expenses. All recipients must return to Kazakhstan after the program and to work for 5 years in Kazakhstan. The Bolashak program has agreements with **33** countries and **83** educational institutions worldwide. The University of Helsinki was included in the list of recommended universities under the Bolashak presidential scholarship program for 2021-2023.

There are already several **cooperation projects** with Finnish companies, e.x. ESIL University has international dual-degree programs including cooperation with Häme University of Applied Sciences; EduCluster Finland (ECF) has signed an agreement with Al-Farabi Academic School to co-create a Finland International School in Shymkent; more than 1,000 Kazakh healthcare professionals completed the training organized by the JAMK University of Applied Sciences.

AGRICULTURE & FOOD INDUSTRY

In 2021, the **AGRICULTURAL SECTOR** accounted for approximately **5.1%** of Kazakhstan's economic production. Approximately **45%** of the country's population lives in rural areas, and incomes of almost **30%** of the economically active population are generated by employment in the agricultural sector. According to the Statistics Committee of the Ministry of National Economy, out of the total number of **8.5** million employed, **2** million people work in the agricultural sector.

Approximately **75%** of the country's territory is suitable for agricultural production, but only about **30%** of the land is currently under agricultural production. Kazakhstan also has sufficient water resources.

Kazakhstan is one of the **top 10 grain exporters** in the world, exporting to over **70** countries.

Growing sectors of Agriculture

- Additional measures will be taken for the development of **animal husbandry**. Three modern meat processing plants and 8 large poultry factories will be put into operation. There are also plans to build 25 industrial and 30 family dairy farms. In the meat processing sector, production facilities with a total capacity of 45 thousand tons will be commissioned. In 2020, the **World Bank Executive Board** approved a **$500** million loan to Kazakhstan to develop farming as part of the **Sustainable Livestock Development Program**.
- **Fish farming** is developing dynamically in Kazakhstan. Over the past 7 years, the volume of fish raised has increased 9 times, from **800** tons to more than **7,000** tons. There are about **180** fish farms in the country. The Kazakh government is aiming to boost domestic fish production from the current annual figure of **7,000** tons to **270,000** tons by 2030. The authorities expect **541** billion tenges of investments (**$1.3** billion) to be pumped into the domestic aquaculture sector. In 2020, the government approved a subsidy for a **50%** reimbursement of costs associated with brood stock purchases for fish farms.

Nearly **90%** of agricultural machinery currently in use in Kazakhstan is at the end of its lifecycle and needs to be replaced. Agricultural businesses are increasingly seeking out modern production technologies, especially within the animal husbandry, meat production, and specialty crop production sectors.

The main branches of the **FOOD INDUSTRY** are represented by **meat, dairy, fish, flour and cereals, bakery, pasta, brewing, alcoholic beverage**. At the end of 2020, food production accounted for **14.8%** in the structure of the manufacturing industry, and **3.4%** for the beverage industry. The volume of food production over the past 5 years has grown by **35.2%**.
Over the past few years, foreign direct investment in food production has grown 6 times, which indicates the high attractiveness of this industry for foreign companies.
The state at the republican and local executive levels provides **support** to domestic food producers in the form of subsidies, lower interest rates on loans, tax, and customs exemptions, etc.

GREEN AND RENEWABLE ENERGY

Kazakhstan has significant potential in **renewable energy sources**:

- Kazakhstan possesses significant potential for **hydroelectric power**, estimated at **170B** kWh annually. The development of small river potential in Kazakhstan is also quite promising. According to data of the Kazakhstan Institute Hydroproject, more than **503** projects are available for construction of hydroelectric power stations on small rivers, with an overall capacity of **1380** Megawatts.
- Due to its location, much of Kazakhstan is in the 'wind belt' of the northern hemisphere and is extremely rich in **wind resources** and thus of **wind power**. According to estimates, the density of the wind potential in Kazakhstan equals approximately **10** megawatts per square kilometer.
- Although Kazakhstan is located northward between latitudes 42 and 55, the potential solar radiation is significant and may produce **1300-1800 kWh** per square meter. Due to the continental climate the number of solar hours is about 2200-3000 per year, making **solar energy** use possible.

The Strategy Kazakhstan 2050 announced in December 2012, sets clear guidelines for transition to a green development path:

- **50%** of alternative energy (including nuclear energy) sources in power generation by 2050
- decrease energy intensity of GDP by **50%** (2008 baseline) by 2050
- resolve issues related to the agricultural water supply by 2040

Realization of the Green concept and transition to the green economy will help creating new jobs, impact agriculture, increase water and power security, facilitate investments and bring technology development.

The Energy Efficiency Project (World Bank) will improve energy efficiency in public and social facilities and the enabling environment for sustainable energy financing.

Investments
For the implementation of **the Concept on transition to a Green Economy** (adopted in 2013) the total amount of investments required till 2050 will be on average **$3-4** billion per annum. Investments will peak at **1.8%** of the GDP in the period from 2020 to 2024, and the average investments till 2050 will

constitute about **1%** of the GDP. The largest share of these investments (slightly more than **$90** billion or 3/4 of the total investments over the whole period till 2050) will be used for implementing energy efficient measures and developing renewable energy as well as establishing gas infrastructure. For the most part, these investments will all be raised from private investors' funds, such as EBRD, Clean Technology Fund, Private Kazakh funds, Private companies (Siemens, GE, Power Construction Corporation of China).

ENVIRONMENTAL CHALLENGES

Industrial waste and air pollution

Kazakhstan is the largest emitter of carbon dioxide in Central Asia and the 14th in the world. The problem of waste in Kazakhstan has been increasing for the last 10 years. Greenhouse gas emissions grew by more than **60%** between 2001 and 2019. Large-scale mining, oil and gas exploration, electricity and heating generation, and industrial activities, economic growth in the last decade, and increased traffic flows - all require urgent and serious air pollution control.

The country's sizable manufacturing industries, such as steel and aluminum, are among the most energy- and carbon-intensive in Europe and Central Asia. The power sector in Kazakhstan is one of the main sources of atmospheric pollution through its emissions of sulfur oxide, nitrogen, carbon monoxide and ash. The current situation in the power sector is characterized by the significant wear of generating and network assets, the dominating position of coal generation and the absence of reserve capacities required for covering peak loads.

Natural resources and the environment of the country are seriously deteriorating across all crucial environmental standards. Kazakhstan ranks second in terms of organic contamination among the countries in Central and Eastern Europe and Central Asia.

High levels of air pollution have been observed in the cities, and the solid particle concentration is dozens of times higher than in the EU.

The new **Environmental Code of the Republic of Kazakhstan** was adopted on 2 January 2021. It covers most items of EU environmental regulations, also some additional issues (protection of forests, protection of soils, environmental education and awareness raising, research and development, management of radioactive waste, specific environmental requirement for certain activities) and country specific issues (Protected area in the northern part of the Caspian Sea).

According to the new code, it is expected that the 50 largest oil and gas, mining and metallurgical, chemical, and electric power companies that account for 80% of emissions in Kazakhstan, will replace their old technologies with the best available technologies (BATs) by 2025. The BAT principles should be gradually introduced in 10 years. If enterprises do not switch to BAT, then the rates of payment for emissions will grow from 2025 2 times, from 2028 - 4 times and from 2031 - 8 times.

One of the main innovations of the Code is the principle of "the polluter pays and corrects". Polluters will have to take measures to prevent negative impact on the environment, and in case of environmental damage, restore the environment to its original state.

The Strategy on Achieving Carbon Neutrality by 2060 was approved by the President of the Republic of Kazakhstan on February 2, 2023. Kazakhstan's commitment to carbon neutrality by 2060 and to reducing greenhouse gas emissions by at least **15%** by 2030 requires fundamental change to how the economy operates and what drives its growth. Decarbonizing the energy system (power, heat, transport, industry) is a key to achieving the 2060 net-zero goals. Achieving these green targets will be impossible without decarbonizing manufacturing, which accounts for **13.6%** of direct emissions.

Consumption waste

The annual increase of accumulated solid waste equals to **5** million tons. Only **3-5%** of garbage is being recycled. About **97%** is stored in outdoor dumps. Most of the dumps don't meet ecological requirements. There are few waste-sorting companies in bigger cities, but their amount is far from being significant. There are 2 strategies: "Kazakhstan-2030" and "Kazakhstan-2050". Both include goals of reducing waste and improvement of ecological situations.

The population don't have the habit of sorting any kind of waste, all the waste collected goes to the outdoor landfills which sometimes might be in the nearest forest or plain. In 2020 the Government started to inform the population and to monitor the landfills from space.

The new **Environmental Code** aims at step by step and circular waste management: minimization of waste generation, reuse of waste generated, recycling, disposal, and landfill disposal. In addition, for the implementation of activities for the processing, disposal and destruction of hazardous waste, a licensing procedure is introduced.

HEALTH

Kazakhstan's healthcare sector accounted for roughly **2.9%** of GDP in 2020. In 2019, the government approved the **State Program for the Development of Healthcare 2020-2025**. The total budget of the program is estimated at **$7.5** billion. The focus is on cardiovascular, oncological, chronic respiratory diseases and diabetes.

The market for **medical equipment** in Kazakhstan is roughly **$1.3** billion. The market is dominated by imported equipment with **90%** of the market and by public purchasing (**85%**). **37%** of medical equipment in public hospitals is obsolete and needs to be replaced.

In December 2019, the Kazakhstani government and EBRD signed a **Memorandum of Understanding** on the implementation of a **Comprehensive Program for the Modernization of Healthcare Infrastructure** in Kazakhstan. The program envisages the construction of up to 19 new hospitals to replace 40 outdated existing facilities and the upgrade of up to **50%** of the hospital bed capacity in Kazakhstan as part of the **State Health Care Development Program** for 2020–2024.

Expenditures on health in Kazakhstan is **3.4%** of GDP, compared to **10%** in Europe and **17%** in USA. The share of private clinics in Kazakhstan is **20%** of their total number. Almaty, Astana and Shymkent are leaders in the number of private clinics.

Private clinics have strong positions in dentistry (**60%** of all private clinics), gynecology (**20%**) and diagnostics (**10%**). The share of private clinics in the implementation of state orders is around **14%** in value terms (2019).

Kazakhstan **pharma market** in 2021 was estimated as **$1.5** billion, dominated by import with **84%**. Kazakhstan has **single distributor** system, operating through **SK-Pharmacy** company. The volume of purchases through the Single Distributor, at the end of 2021, amounted to **243** billion tenge, or **66%** of the total funds spent on medical provision. The share of independent procurement by hospitals, respectively, amounted to **34%**.

The following big foreign pharma companies have already done investments into Kazakhstan: **Polpharma**, **Abdi Ibrahim**, **FarmStandart** (Rus), **Nobel**.

Kazakhstan is also interested in localization of foreign medical equipment companies. Top authorities of Kazakhstan have met already the leading foreign medical equipment producers (**Philips, Canon, Roche Diagnostics, GE Healthcare, Aktubroentgen**) and discussed possibilities and tools that might support localization projects.

CONSTRUCTION

Construction is the second largest industry in the country, and the most attractive area for investments. The share of sector accounts for up to **6%** of Kazakhstan's GDP. In terms of employment, it provides about **700** thousand jobs, **7%** of the population is involved in construction.

There are about **40 000** construction companies in Kazakhstan. Private companies execute the largest volume of construction work and almost half of all work was carried out by small enterprises, while the share of large companies is just over **30%**.

The largest volume of construction work is carried out in four regions of the country: in two capitals - the city of Almaty and Astana, in the west in the Atyrau region and in the north in the Karaganda region. The main problems of the industry hindering its development are lack of new technology, lack of qualified personnel, low salaries in the industry, and low-quality local production.

Transport Infrastructure development
The objective of the **South-West Roads Project** (World Bank) is to increase transport efficiency on the road sections between Aktobe/Kyzylorda oblast border and Shymkent.

In 2019, the government of Kazakhstan adopted the **Nurly-Zhol** infrastructure development program for 2020-2025. One of the targets of the program is to increase the share of republican roads in good and satisfactory condition to 100%, and the share of regional and district roads in good and satisfactory condition should be increased to 95% by 2025. **Nurly-Zhol** program is expected to spend around **$18** billion on infrastructure projects.

Other investment projects: **New Silk Road** (multi-modal logistics chain from the SEZ Khorgos-East Gate), the **TRACECA** (the development of transit traffic along the corridor Europe-Caucasus-Asia), **North – South international transport corridor** (will connect India with Northern Europe).

BUSINESS OPPORTUNITIES IN KAZAKHSTAN

Opportunities in Mining

Kazakhstan is attractive market for Finnish **mining equipment/machinery suppliers**, particularly for manufacturers of bulldozers, drilling equipment, explosives, trucks, drill rigs, trams, cranes, crushing and pulverizing machinery, dredges, hydraulic excavators, quarrying machinery and equipment, elevators, compressors, hammer mills, specialized trucks, etc.

Opportunities in Education

Education technology and **vocational education** are highlights for demand in the market.
The State Program of Education includes modernization of vocational and technical education, e-learning education projects, and professional development systems for teachers. The government will continue to seek digital learning content from sources abroad to be adapted to local standards.

Opportunities in Agriculture & Food Industry

Equipment exports to Kazakhstan consist mostly of **grain harvesting combines, reapers, sprayers, tractors, seeders, cultivators and grain drying and cleaning equipment**. Best prospects include pneumatic seeders, reapers, sprayers, grain drying and cleaning technologies, grain storage equipment and storage quality control systems, water-saving and irrigation technologies, engineering, design and veterinary services for cattle feed complexes and on-farm processing facilities.
Businesses are also seeking **slaughtering equipment**, **digital technologies**, and **food safety technologies** to modernize meat processing facilities.
Specialty crop producers are investing in modern **greenhouse operations**, pesticides, new plant varieties, and drip and pivot irrigation to improve production.
Kazakhstani producers are investing more resources in modern **breeding techniques**, such as utilizing artificial insemination, sexing of embryos in dairy cows, and importing high-quality imported genetics to increase poultry, beef, dairy, and egg production.
High quality **animal feed** and **feed additives** are also needed.

Opportunities in Green and Renewable Energy / Environmental issues

Finnish **know-how** in clean technologies and waste management will be in a high demand in Kazakhstan. Equipment and solutions are needed to achieve goals of Environmental Code and to solve environmental problems.

USEFUL LINKS

Bureau of National statistics https://stat.gov.kz
Kazakh Invest https://invest.gov.kz
Government of Kazakhstan https://www.gov.kz/?lang=en
Industrial Development Fund https://idfrk.kz/en/
Customs of Finland https://tulli.fi/en/statistics/country-statistics
Team Finland contacts https://finlandabroad.fi/web/kaz/team-finland-in-country