

24 July 2006



# Country Report on Kazakhstan



Source: The World Factbook, CIA

## 1. GEOGRAPHY

- Total area: 2,717,3000 km<sup>2</sup> (approx. 4,397 times that of Singapore's)
- Capital: Astana (government relocated to Astana from Almaty in 1998)
- Major cities or qala: Astana Qalasy, Almaty Qalasy and Bayqongyr Qalasy

## 2. SOCIO-DEMOGRAPHY

- Population: 15 million as of July 2005 (approx. 3.7 times that of Singapore's)
- Population growth rate: about 0.33% per annum
- Ethnic groups: Kazakh (53%), Russian (30%), Ukrainian (4%), Uzbek (3%), German (2%) Tatar (2%), Uygur (1%) and others (5%)
- Languages: Kazakh - state language (64%), Russian – commonly used in business, aka the “language of inter-ethnic communication” (95%)
- Religions: Muslim (47%), Russian Orthodox (44%), Protestant (2%) and others (7%)

- Kazakhstan is divided into 14 provinces (oblystar) and 3 cities (qala):

<b>Provinces:</b>	Batys Qazaqstan Oblysy	Qostanay Oblysy	<b>Cities:</b>
Almaty Oblysy	Mangghystau Oblysy	Qyzylorda Oblysy	Almaty Qalasy
Aqmola Oblysy	Ongtustik Qazaqstan Oblysy	Shyghys Qazaqstan Oblysy	Astana Qalasy
Aqtobe Oblysy	Pavlodar Oblysy	Soltustik Qazaqstan Oblysy	Bayqongyr Qalasy
Atyrau Oblysy	Qaraghandy Oblysy	Zhambyl Oblysy	

### 3. GOVERNMENT, POLITICAL AND LEGAL SYSTEMS

#### *History*

- Formerly part of the Soviet Union, Kazakhstan gained independence in 1991 following the break up of USSR in December 1991.
- Kazakhstan held its first elections in 1991.
- There was a major reshuffling in the executive branch of the government in 2003 wherein a new prime minister was elected.
- The next re-election is scheduled in 2006.

#### *Executive and Legislative Branches of the Government*

- The Kazakhstan parliament is bicameral, ie. consists of two legislative chambers/houses, namely the Senate (39 seats) and the Mazhilis (77 seats).
- The **President** is the Chief of State and is elected by popular vote for a 7-year term. The current president is Nursultan NAZARBAEV.
- The **Prime Minister** is the Head of Government and is appointed by the President. The current prime minister is Daniyal AKMETOV.
- The prime minister is assisted by a **Deputy Prime Minister** (currently is Karim MASIMOV) and a **Cabinet or Council of Ministers** appointed by the president.
- The judicial system consists of the Supreme Court (44 members) and Constitutional Council (7 members).
- The legal system is based on civil law system.

### 4. ECONOMY

#### *A. Overview*

- Kazakhstan is a landlocked country and the largest Central Asian economy with the largest recoverable crude oil reserves in the Caspian Sea region.
- Its economy is driven largely by the petroleum industry, which accounted for about 30% of the country's GDP and about 50% of the country's export revenues.

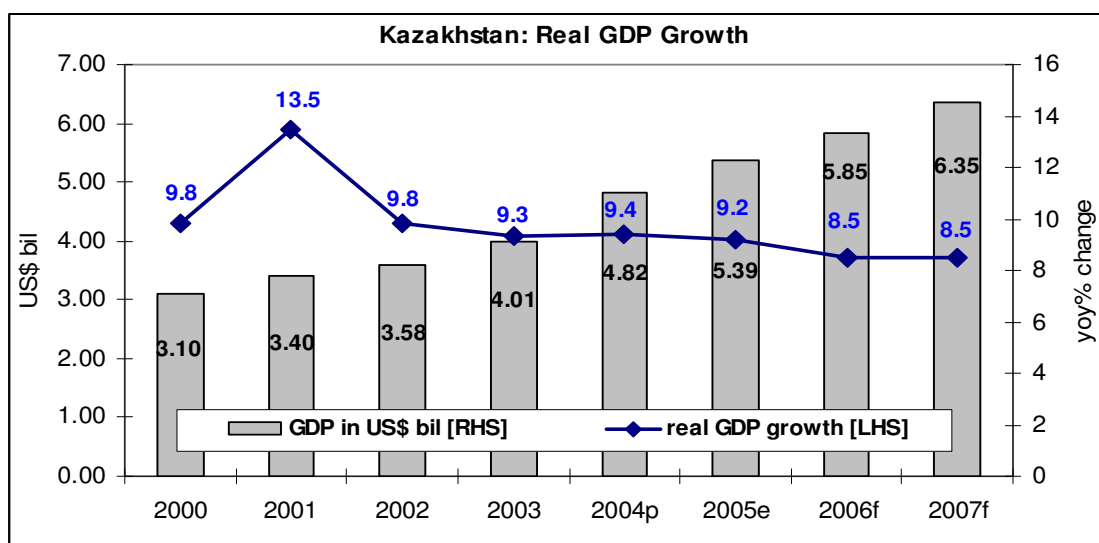
- To protect the country from its over-reliance on the oil sector, which is subject to energy and commodity price fluctuations, the government created a National Oil Fund (estimated at US\$5.2 billion as at the end of June 2005).
- Kazakhstan is slated to be a major world energy producer and exporter in a decade's time.

### **B. Economic Policy**

- The Kazakhstan economic expansion at the start of the new millennium hinged heavily on the extraction, processing and export of the country's vast energy and mineral resources.
- Whilst this sector remains important, the government is pursuing a strategy of sustainable economic growth outside of the oil, gas and mining industries.
- Current policy is to diversify the economy away from these industries and to grow the machine-building sector specializing in construction equipment, tractors, agricultural machinery and defence items.
- Structural reforms include privatizing small- and medium-size enterprises (SMEs), regulating and supervising the financial sector, procurement systems and public investments.
- The government is also seeking to strengthen relations with neighbouring states and foreign countries.

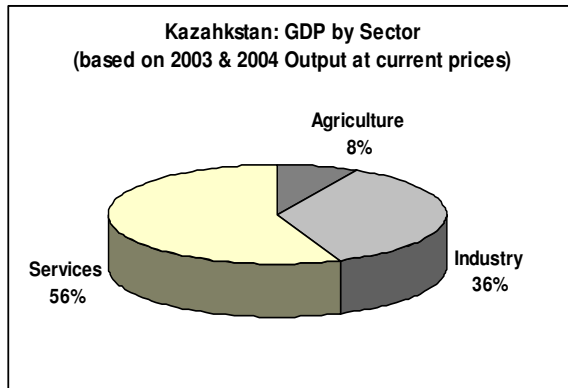
### **C. Gross Domestic Product (GDP)**

- Kazakhstan's GDP growth averaged 10.2% from the year 2000 to 2005, making it one of the high-growth economies in the world.
- 2005 GDP is estimated at US\$ 5.39 billion on the back of a 9.2% yoy growth.

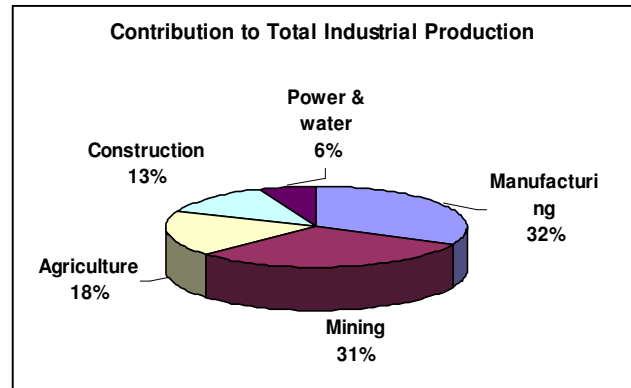


Source: Asian Development Bank

- Forecast for 2006 and 2007 GDP growth, by the Asian Development Bank, is pegged at 8.5% annually due to anticipated slower growth in Kazakhstan oil export as a result of the maintenance of high world oil prices.

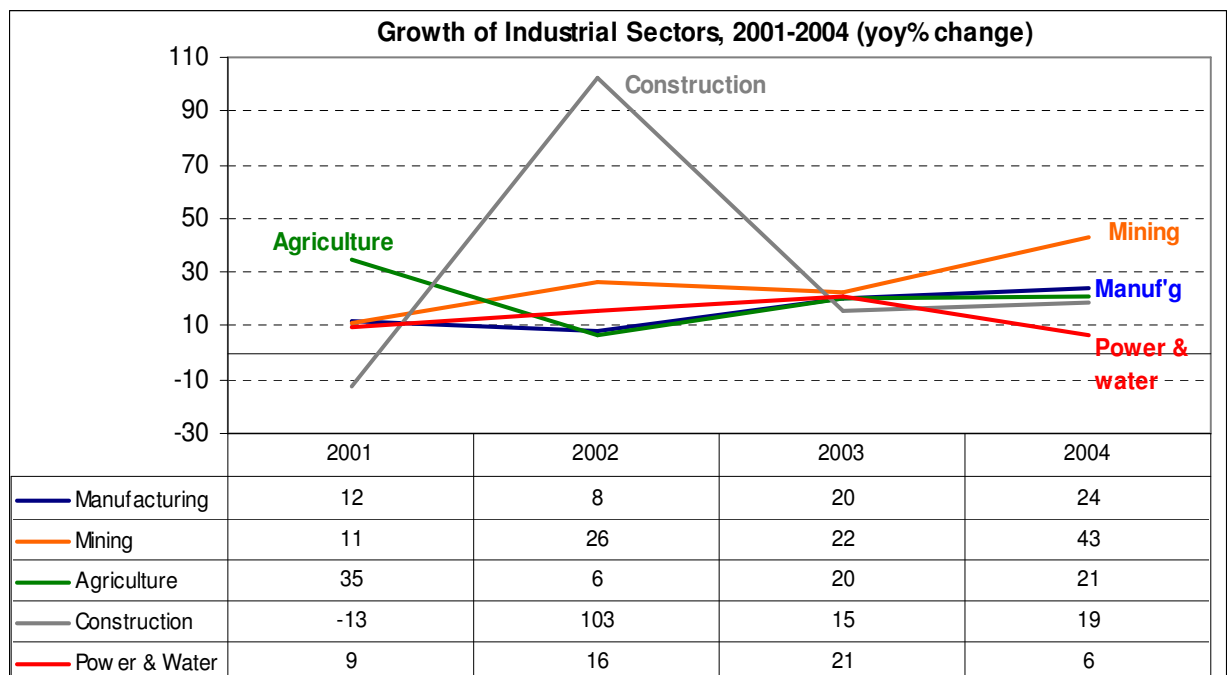


Source: Asian Development Bank



Source: Asian Development Bank

- Services traditionally contributed more than half of the total GDP. This consists primarily of trade, transport and communications.
- The production of goods made up slightly more than 1/3<sup>rd</sup> of the total output. This consists mainly of manufacturing (about 32% of total industrial output), mining (31%), agriculture (18%), construction (13%) and power and water (6%).



Source: Asian Development Bank

- Growth in the mining industry was generally higher in the last couple of years compared to the other industries.

#### Share of Kazakhstan's GDP by Province and City, 2004

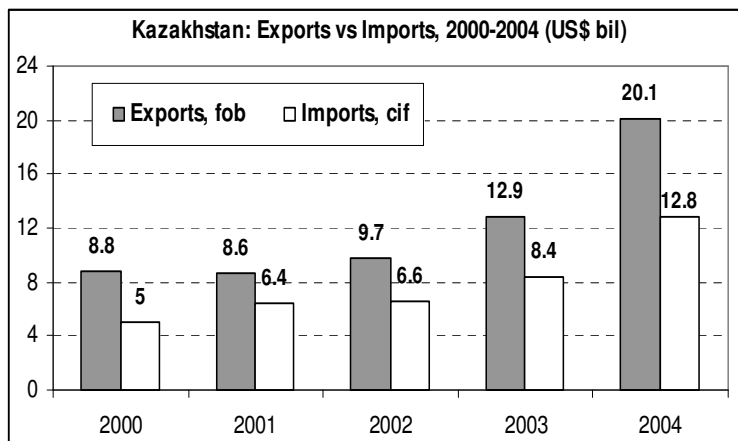
	Province/City:	% share of GDP		Province/City:	% share of GDP
1	Almaty Qalasy	16.0	9	Aqtobe Oblisy	5.4
2	Atyrau Oblisy	12.8	10	Batys Qazaqstan Oblisy	5.2
3	Qaraghandy Oblisy	9.3	11	Qostanay Oblisy	4.9
4	Shyghys Qazaqstan Oblisy	7.2	12	Almaty Oblisy	4.4
5	Astana Qalasy	6.5	13	Qyzylorda Oblisy	3.3
6	Pavlodar Oblisy	6.1	14	Aqmola Oblisy	2.9
7	Mangghystau Oblisy	5.6	15	Soltustik Qazaqstan Oblisy	2.6
8	Ongtustik Qazaqstan Oblisy	5.5	16	Zhambyl Oblisy	2.3

Source: UNDP Kazakhstan Infobase

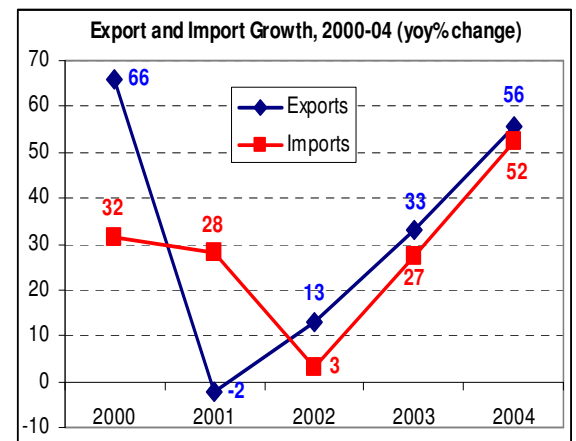
- The city of Almaty and the provinces of Atyrau and Qaraghandy are the major contributors to Kazakhstan's GDP.

#### D. Foreign Trade

- Kazakhstan is a net exporting country; it enjoyed an average positive trade balance of US\$ 6 billion between 2003 and 2004.
- Strong export and import growth in the last couple of years were due primarily to higher world commodity prices and higher industrial output necessitating the import of machinery and equipment respectively.

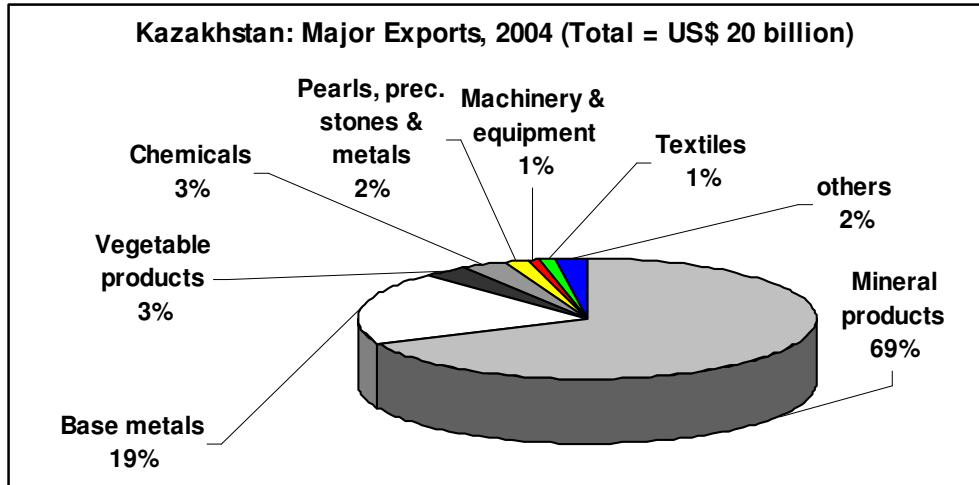


Source: Asian Development Bank



### E. Major Exports

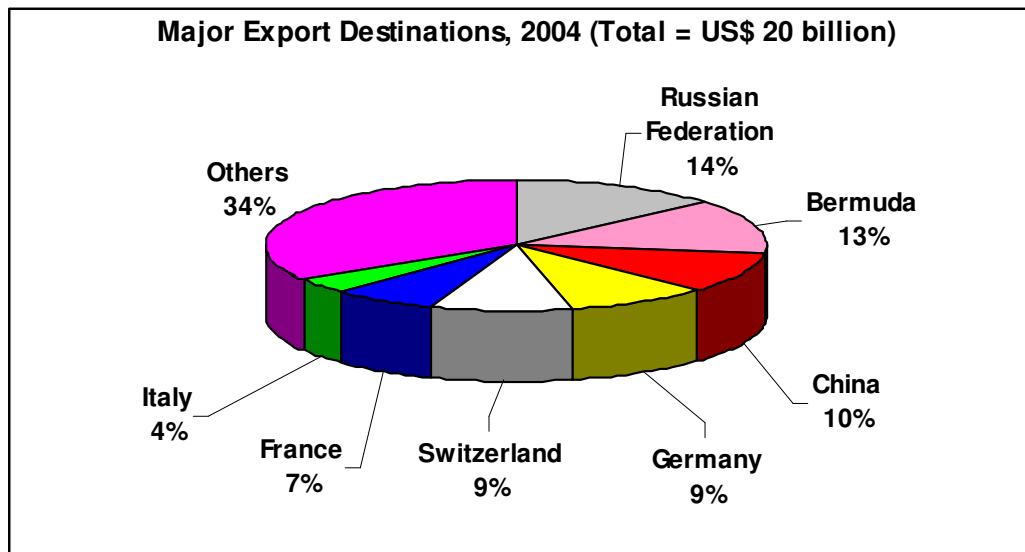
- Kazakhstan's major exports are minerals (69% of total export value in 2004), base metals (19%), chemicals (3%), vegetables (3%) and precious stones and metals (2%).



Source: Asian Development Bank

### F. Major Export Destinations

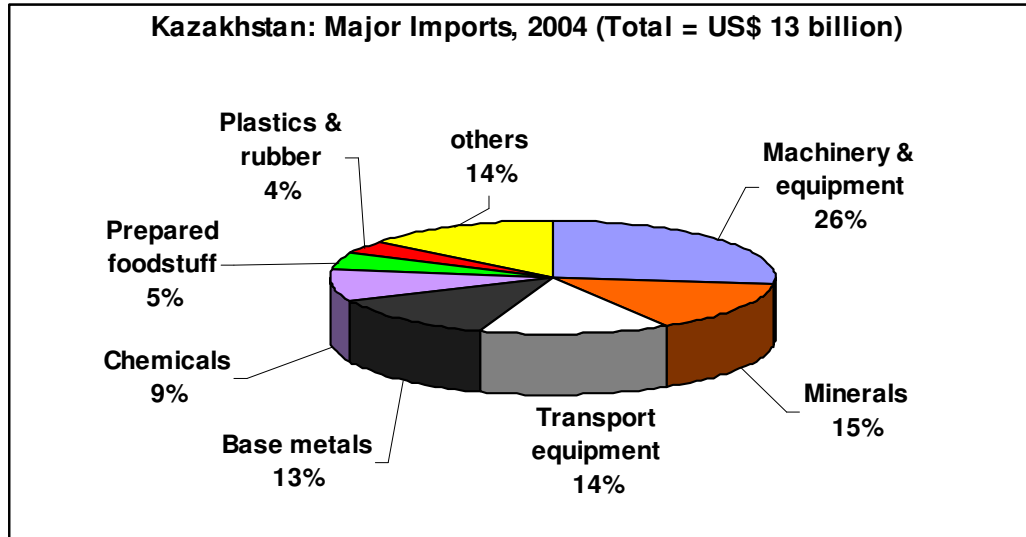
- The top 5 destinations of Kazakhstan's exports in 2004 are the Russian Federation (14%), Bermuda (13%), China (10%), Germany (9%) and Switzerland (9%).



Source: Asian Development Bank

### G. Major Imports

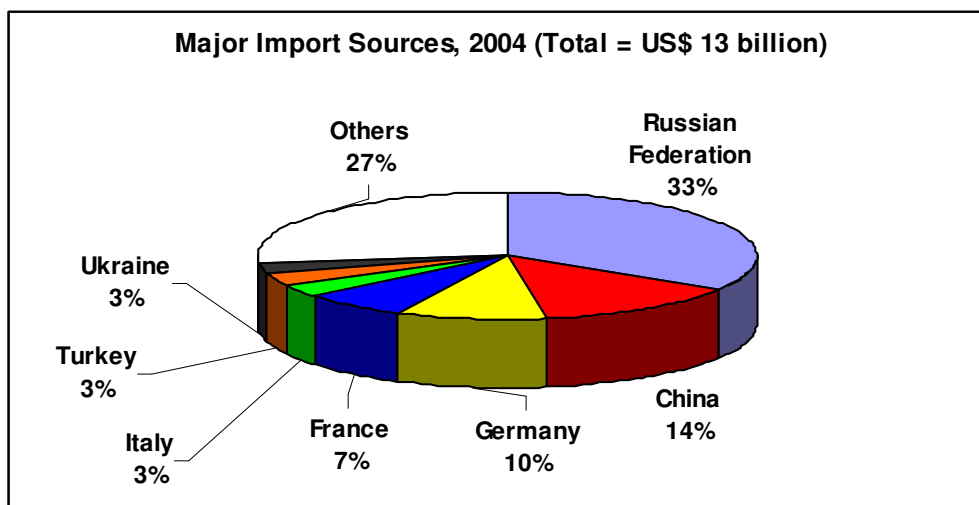
- Kazakhstan's major imports are machinery and electrical equipment (26% of total import value in 2004), minerals (15%), transport equipment (14%), base metals (13%) and chemicals (9%).



Source: Asian Development Bank

### H. Major Sources of Imports

- The top import sources for Kazakhstan are the Russian federation (33% of total import value in 2004), China (14%), Germany (10%), France (7%), Italy, Turkey and Ukraine (3% each).



Source: Asian Development Bank

## I. Bilateral Trade between Singapore and Kazakhstan

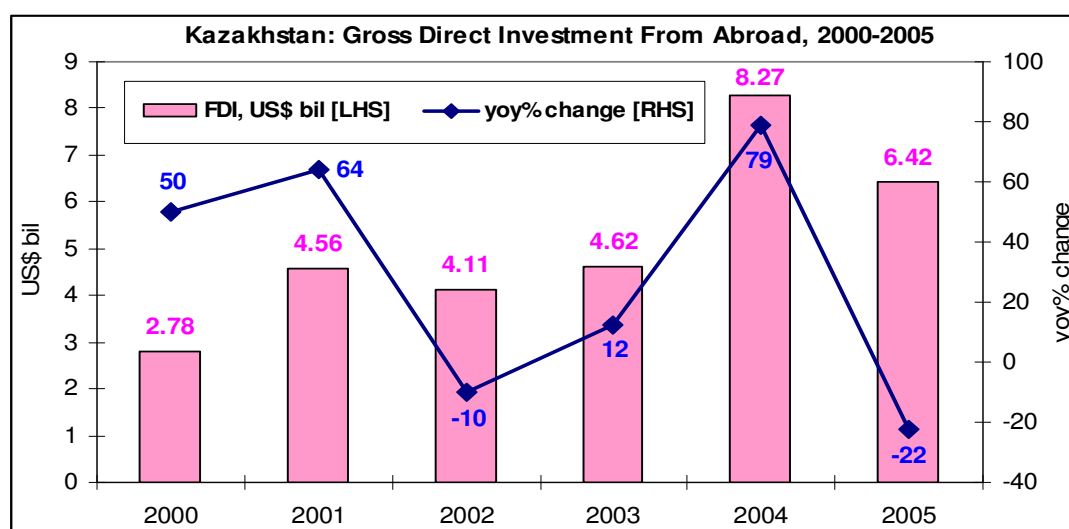
### Singapore's Main Domestic Exports To and Imports From Kazakhstan, 2004

No.	Singapore's Exports To Kazakhstan	S\$ bil	% of total	No.	Singapore's Imports From Kazakhstan	S\$ bil	% of total
1	Electrical machinery, sound recorders etc	45.9	28	1	Electrical machinery, sound recorders etc	99.6	36
2	Nuclear reactors, boilers etc & parts	38.7	23	2	Nuclear reactors, boilers etc & parts	50.6	18
3	Mineral fuel oils, waxes & products	26.0	16	3	Mineral fuel oils, waxes & products	41.4	15
4	Organic chemicals	17.6	11	4	Optical photographic measuring instruments etc	10.1	4
5	Postal packages & special transactions	8.3	5	5	Aircraft, spacecraft and parts	6.7	2
6	Plastics & articles thereof	7.0	4	6	Vehicles & parts excluding railway rolling stock	6.0	2
7	Optical photographic measuring instruments etc	5.1	3	7	Organic chemicals	5.6	2
8	Miscellaneous chemical products	2.0	1	8	Plastics & articles thereof	4.8	2
9	Pearl, precious stones & metals etc	1.3	1	9	Pearl, precious stones & metals etc	3.9	1
10	Tanning extracts, pigments, paints, varnishes etc	1.2	1	10	Iron & steel	3.4	1
<b>Total Exports = S\$ 166.5 bil</b>				<b>Total Imports = S\$ 276.9 bil</b>			

Source: IE Singapore

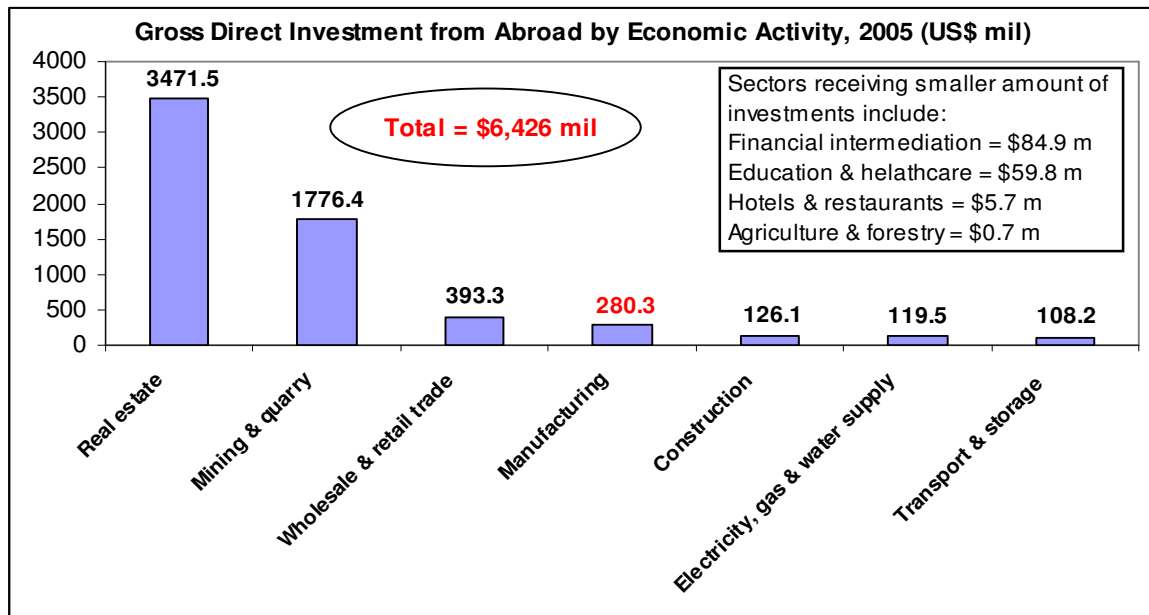
## 5. FOREIGN DIRECT INVESTMENT (FDI)

- Gross direct investment from abroad into Kazakhstan averaged US\$ 7 billion in the last couple of years.



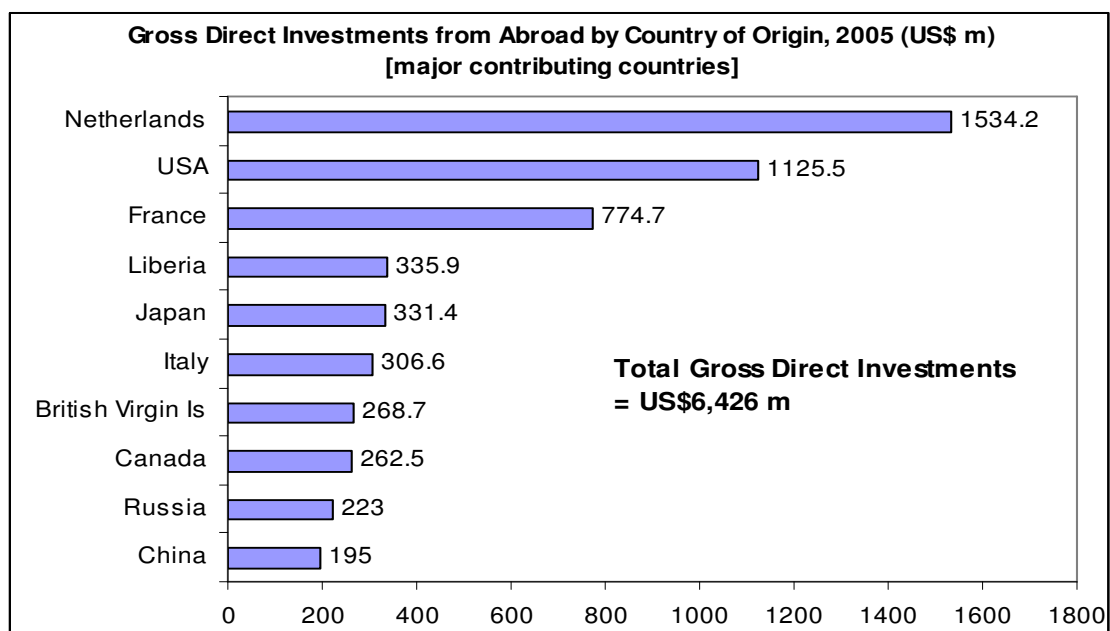
Source: National Bank of Kazakhstan

- The real estate and renting business soaked up more than half (54%) of the total gross direct investments from abroad in 2005.
- Manufacturing absorbed US\$280 million (slightly more than 4% of total).



Source: National Bank of Kazakhstan

- The Netherlands (24%), USA (18%) and France (12%) were the leading investing countries in Kazakhstan in 2005.



Source: National Bank of Kazakhstan

## 6. INVESTMENT CLIMATE

- The Foreign Investors' Council (FIC) was set up by the government in 1998 to improve Kazakhstan's investment climate. Key guiding principles include:
  - Stability and predictability
  - Protection of investors' legal rights
  - Equal conditions for foreign and local investors
  - Transparent legal norms
  - Sanctity of contracts
  - Encouraging investments in priority sectors (see below)
- Current priorities of the government in regard to foreign investments are to:
  - Ensure proper and leveled implementation of market legislation and investment laws;
  - Focus on the growth of value-added and high-tech components so that the economy is self-sustained and non-oil dependent and
  - Promote investments in less attractive sectors like (i) agriculture, (ii) manufacturing, (iii) industrial and (iv) cultural and tourism infrastructure
- The priority sectors are:
  - ❖ Agriculture
  - ❖ Textiles
  - ❖ Chemicals
  - ❖ Machine-building
  - ❖ Foodstuffs
  - ❖ Oil products
  - ❖ Metals
  - ❖ Construction
- Investments in these sectors will enjoy special preferences like:
  - Investment tax preferences for land tax, property tax and corporate income tax;
  - Exemption from custom duties and
  - State in-kind grants
- Comparatively, Kazakhstan fared better than most countries base on the findings of The Investment Climate Survey by the World Bank in 2005:

### Investment Climate Survey on Kazakhstan and Other Countries

	In Kazakhstan	In All Countries*
<b>Bureaucracy:</b>		
a) Percentage of senior management time spent on dealing with regulatory requirements	3%	6%
<b>Corruption:</b>		
a) Cost of unofficial payments for firms to get things done	0.7% of sales	1.3% of sales
b) Expected value of gift needed to secure government	1.4% of	2.3% of

contract	contract value	contract value
<b>Courts:</b>		
a) Percentage of firms who expressed confidence in the judiciary system	57%	59%
b) Average number of weeks taken to resolve disputes	7.6 weeks	12.5 weeks
<b>Crime:</b>		
a) Cost of security, in terms of percentage of sales	0.6% of sales	1.4% of sales
b) Losses due to crime, in terms of percentage of sales	0.3% of sales	0.8% of sales
<b>Infrastructure:</b>		
a) Delay in obtaining an electrical connection	7 days/ year	25 days/ year
b) Electrical outages	5 days/ year	21 days/ year
c) Value lost to electrical outages, in terms of percentage of sales	2.2% of sales	3.4% of sales
d) Water supply failures	2 days/ year	10 days/ year
e) Delay in obtaining a telephone connection	20 days	34 days
f) Percentage of firms using the internet to transact with clients/suppliers	51%	47%
<b>Trade:</b>		
a) Average time to clear direct exports through customs	6 days	4 days
b) Average time to claim imports from customs	6 days	6 days

Source: Enterprise Surveys – The World Bank Group, [www.rru.worldbank.org/EnterpriseSurveys](http://www.rru.worldbank.org/EnterpriseSurveys)

\* A total of 28,000 firms were surveyed in 68 countries for this survey

## 7. BUSINESS ENVIRONMENT

### A. Forms of Business Organisation

- The main types of business organizations are:
  - Joint stock companies
  - Full partnerships
  - Special partnerships
  - Branches of foreign companies
  - Limited liability partnerships
  - Additional liability partnerships
  - Sole proprietorships
  - Representatives of foreign companies
- Foreign investors may own shares in Kazakhstan enterprises.



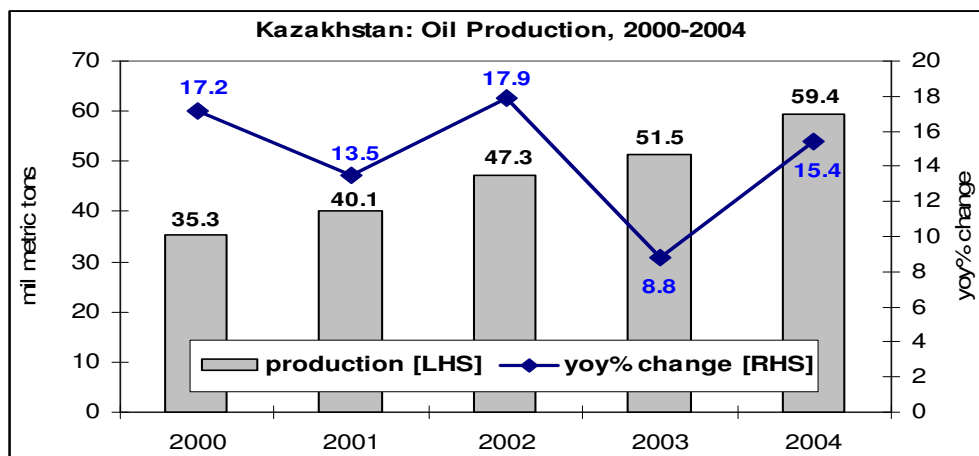
- h) from transport services rendered between Kazakhstan and other countries;
  - i) from activities in Kazakhstan under individual employment contracts and
  - j) from independent professional/personal services
- Summary of tax rates applicable to incomes received from Kazakhstan sources payable to non-residents and where such incomes are not attributable to a non-resident's permanent establishment in Kazakhstan:
    - Dividends, income from equity shares and interest = 15%
    - Insurance premiums paid under risk insurance contracts = 10%
    - Insurance premiums paid under risk reinsurance contracts = 5%
    - Income from international transport services = 5%
    - Other forms of income from Kazakhstan sources = 20%

The above listing is not exhaustive. For more details on other categories of taxable items and tax rates, please refer to Deloitte Guide to Taxation in Kazakhstan ([www.deloitte.com/dtt/newsletter](http://www.deloitte.com/dtt/newsletter)).

## 8. KEY INDUSTRIES

### Oil and Gas Industry

- Kazakhstan claims most of the Caspian Sea's biggest known oil fields.
- Combined onshore and offshore proven hydrocarbon reserves are estimated to range from 9 to 29 million barrels, comparable to OPEC members like Algeria (at the low end) and Qatar (at the higher end).
- Kazakhstan produced approximately 1.22 million barrels of oil per day (bbl/d).
- It consumed only 224,000 barrels a day and exported almost 1 million barrels in the year 2004.



Source: Republic of Kazakhstan Statistical Appendix, IMF Country Report, July 2005

- The major oil fields are located in:
  - Kashagan (largest oil field outside the Middle East and 5<sup>th</sup> largest in the world), located off the northern shore of the Caspian Sea with an estimated recoverable reserves of 7 to 9 billion barrels;
  - Tengiz, on northeast shores of the Caspian Sea with recoverable crude oil reserves estimated at 6 to 9 billion barrels;
  - Kurmangazy, situated on the maritime border between Russia and Kazakhstan with reserves estimated at 7.3 billion barrels and
  - Karachaganak, located onshore in northern Kazakhstan holding reserves estimated at 2.4 billion barrels/day.
- Current emphasis is on developing the downstream activities like refining, design and engineering, equipment manufacturing and maintenance, logistics etc.
- The move by the government to go up the value-chain by upgrading to high value-added operations accords opportunities for supporting or auxiliary industries:

<b>Supporting Industries:</b>	<b>Potential Product/ Service Offerings:</b>
Oil operators	Oil exploration and extraction
Design and engineering	Plant design, overall project management and engineering
Equipment manufacturing and maintenance	Pumps, valves, containers, drilling rigs, transportation vehicles and pressurized vessels
Materials and components	Steel, cement, plastics, chemicals, additives and electronics
Construction	Oil platforms, buildings, roads and housing

Source: Background Paper No:2: Economic Diversification in Kazakhstan, with Special Emphasis on the Oil and Gas Value Chain, Joint Economic Program of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan and the World Bank

## **Coal Mining Industry**

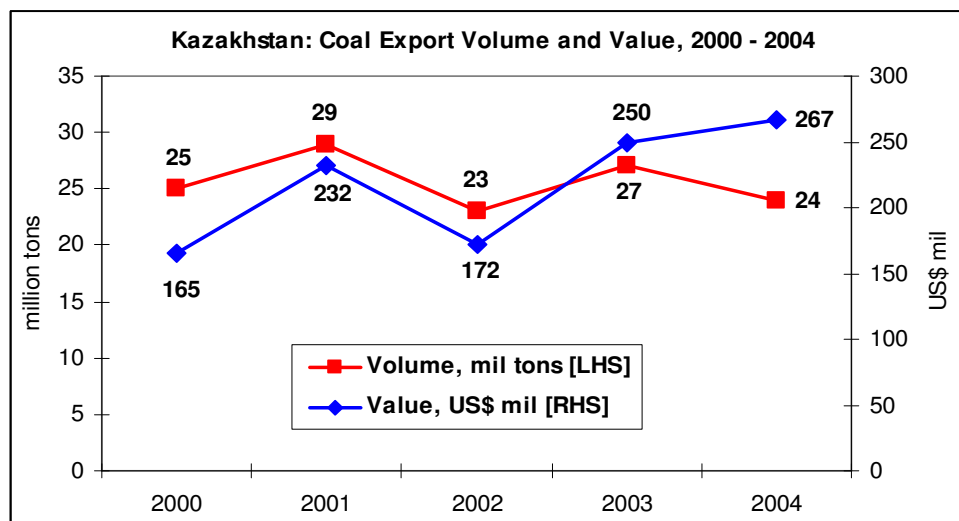
- Kazakhstan contains Central Asia's largest recoverable coal reserves estimated at 37.5 billion short tons (Mmst), mostly of the anthracitic and bituminous type.
- Coal mining is centered predominantly in north-central Qaraghandy province.
- In 2003, it produced 86 million Mmst. The Kazakhstan Ministry of Energy and Energy Resources aims to produce 100 million to 105 million Mmst of coal annually by 2015.
- Whilst Kazakhstan ranked 8<sup>th</sup> in terms of reserves, its comparatively low production ranks it among the top in terms of life (years) left of coal deposits.

- Foreign investment is needed not only to achieve the official target output but also to improve and upgrade current production methods and processes.

### Coal Reserves and Production (million short tons)

	Estimated Reserves	Annual Production	Years of Coal Left
Ukraine	37,647	63	598
Russia	173,074	294	589
<b>Kazakhstan</b>	<b>34,479</b>	<b>86</b>	<b>401</b>
India	101,903	403	253
US	270,718	1072	253
Australia	86,531	373	232
S. Africa	53,738	264	204
China	126,215	1635	77

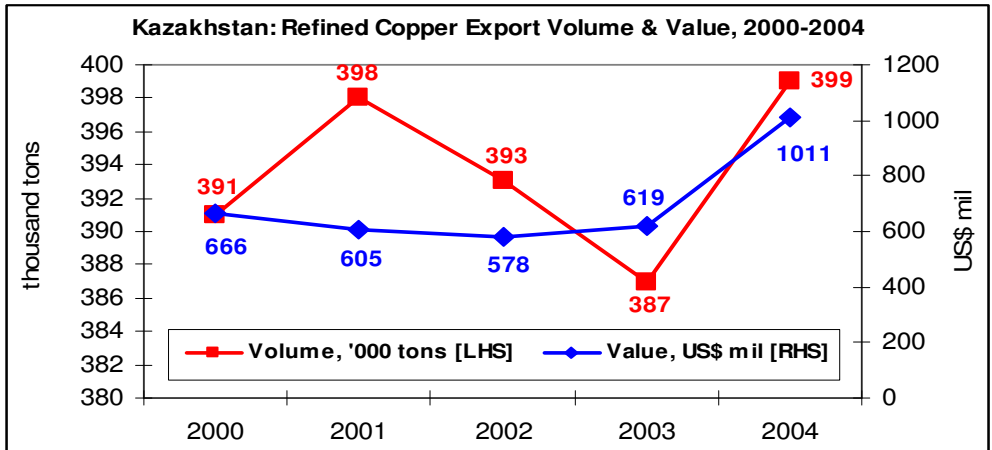
Source: Peak Oil Debunked: How Fast Can We Mine Coal? September 16 2005  
(www.peakoildebunked.blogspot.com)



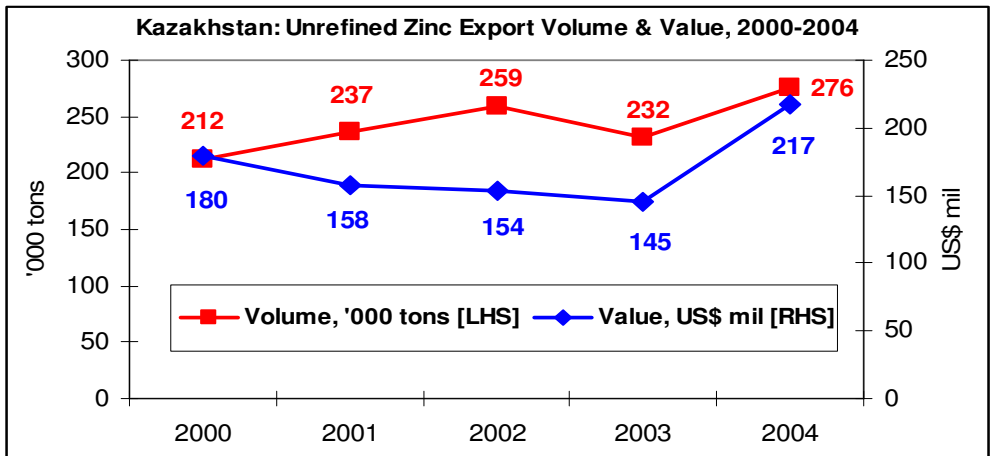
Source: Republic of Kazakhstan Statistical Appendix, IMF Country Report, July 2005

### Metallurgy/Metals Processing Industry

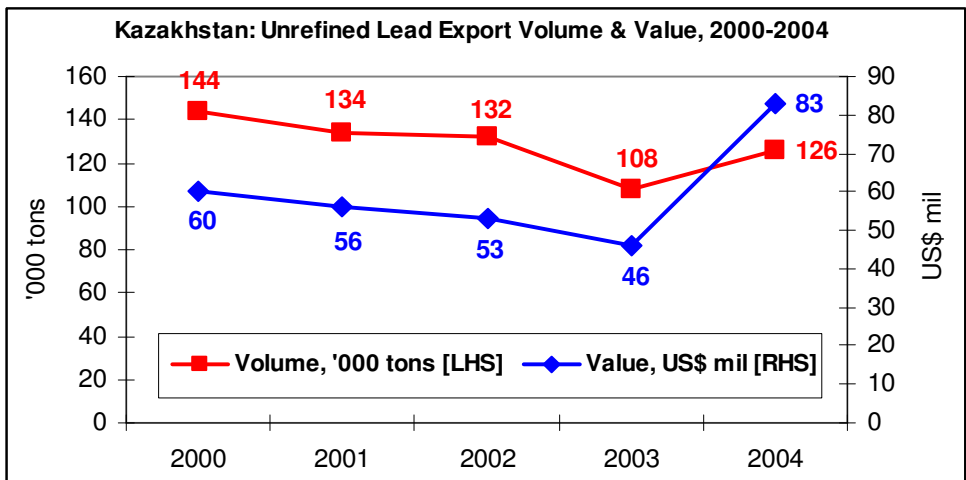
- There are about 50 chemical elements produced in Kazakhstan from extracted ores. The final products are metals, alloys and products such as refined copper and lead, zinc, titanium, magnesium, rare metals and their compounds.
- The key products in Kazakhstan's non-ferrous metallurgy industries are copper, lead, zinc, aluminum, titanium and magnesium. These metals are of significant interstate importance.



Source: Republic of Kazakhstan Statistical Appendix, IMF Country Report, July 2005



Source: Republic of Kazakhstan Statistical Appendix, IMF Country Report, July 2005



Source: Republic of Kazakhstan Statistical Appendix, IMF Country Report, July 2005

- The main development directions of the non-ferrous metallurgy industries include:
  - The development of a steady market domestically and internationally
  - The restoration of the raw material base of the country
  - The formation of an enterprise system of independent manufacturers and the organization of independent business operations
  - The maintenance of a reliable power supply, which is essential for this power-intensive industry
  - The maintenance of a sustainable production system of these chemicals and
  - The development of preventive measures to curb environmental pollution
  
- Potential opportunities hence lies in the provision of equipment, technology and services (eg. consultancy) relating to the supply of power and waste/pollution management.

## 9. STARTING A BUSINESS IN KAZAKHSTAN

- According to the World Bank Group, there are roughly 7 procedures to complete in setting up a private limited liability company in Almaty city, Kazakhstan that takes up to a maximum of about 26 days and at an estimated cost of US\$ 195:

	Nature of Procedure	Days needed	Cost (US\$)
1	Notarize the company deed	1	32
2	Open bank account and deposit initial capital; pay registration fee into the account of the Ministry of Justice	1	2
3	State registration of legal entity, statistical and tax registration with the local department of Ministry of Justice	15 to 20	127
4	Make a company seal	1	14
5	Notarize certificate of state registration and other post-registration documents	1	20
6	Open the current account in the bank	1	0
7	Register for the obligatory insurance of life and health for employees	1	0

Source: Starting a Business in Kazakhstan – World Bank Group ([www.doingbusiness.org](http://www.doingbusiness.org))

**Sources:**

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- Kazakhstan Market Information, [www.kazakhembus.com](http://www.kazakhembus.com)

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