



INVESTMENTS IN KAZAKHSTAN: ECONOMIZATION OF THE COUNTRY'S FOREIGN POLICY

At the end of 2018, President of Kazakhstan Nursultan Nazarbayev replaced the country's minister of foreign affairs, just a few days before the expiration of Kazakhstan's non-permanent membership in the UN Security Council (UNSC). The appointment of Beibut Atamkulov, the former Minister of Defense and Aerospace Industry, as a new head of the country's diplomatic service instead of career diplomat Kairat Abdrakhmanov was quite unexpected. Explaining why it was necessary to reorganize the Ministry of Foreign Affairs (MFA), the president stated that, along with performing political functions, the ministry should also supervise investments and exports. As foreign policy should be a continuation of internal policy and assist the country's development, strengthening economic credentials of the MFA seem to be logical, but the major question is whether it will be able to perform new functions and has tools for this.

As a general starting point, it is necessary to acknowledge that any foreign policy is a relationship between a nation's economy and politics. At the beginning of 2010, when Kazakhstan became the OSCE chairman, the MFA was tasked with implementing the global agenda, as initiated by President Nazarbayev himself. Subsequently, Kazakhstan served as the chairman of the Council of Foreign Ministers of the Organization of Islamic Cooperation (OIC) and succeeded in becoming a UNSC non-permanent member. As part of its proactive diplomacy, the country continued to promote the cause of nuclear nonproliferation and disarmament. At the same time, during this period, Kazakhstan joined efforts with Russia and Belarus to create an integration association in the form of the Eurasian Economic Union (EAEU). However, the MFA did not play a major role in the implementation of this initiative, as the creation of the union was a political decision, and the talks on the EAEU were conducted by special negotiation teams staffed by employees of other ministries.

The active implementation of Kazakhstan's global ambitions was dictated by the need to raise the awareness about the country: this argument was, for instance, used at the time of the country's OSCE chairmanship. Understandably, such an active policy in the international arena requires substantial financial costs, but these expenses were needed to introduce Kazakhstan to the world and could be considered as an investment in the country's brand. Moreover, through active politics on the global stage, Kazakhstan tried to raise its international status, creating the image of a "big" country, and such tactics were deemed necessary to protect its interests and security.

Nevertheless, it appears that Kazakhstan's proactive foreign policy was not a crucial

factor in attracting investments as, according to the World Bank's data, the five-year average inward flow of foreign direct investment was only 4.3% of GDP. Therefore, apparently, the leadership of Kazakhstan made a decision to intensify efforts for raising external investment, thereby attaching the functions of a PR-agency and an investor service center to the MFA. The new foreign minister declared that the MFA would create front-offices, where all necessary services would be provided to investors at a single location. Besides, MFA officials are now tasked with providing information about government support measures and incentives to investors, as well as assistance in accompanying investment projects.

It is worth noting that the MFA has long been involved in attracting investments through Kazakhstan's embassies, which even modified their websites under a single standard to include information about the country's business climate and investment opportunities. Moreover, Kazakhstan's diplomatic missions in developed countries were staffed with representatives of other government agencies who had enough expertise to deal with potential investors. Therefore, it is not clear how the reassignment of these specialists to the MFA or the transfer of their functions to diplomats, who lack necessary competence, will make investment promotion activities more effective. In political affairs involving the OSCE, OIC, UN and other international and regional organizations, Kazakh diplomats had to create a platform for negotiations, where the country's leadership could then reach agreements and promote Kazakhstan's status. However, to attract more investment to the national economy, diplomats should not only better understand economic conditions of Kazakhstan, but be engaged in painstaking bureaucratic work with stakeholders both inside and outside the country.

Export promotion is another area where the MFA is now mandated to assist the work of the government by helping to open up foreign markets and remove barriers for Kazakhstani products. The MFA even plans to create a platform together with the Ministry of Industry and Infrastructural Development, the Atameken national chamber of entrepreneurs and the Ministry of Agriculture, although a similar joint work mechanism already exists and was used in the negotiations on Kazakhstan's accession to the World Trade Organization and on the creation of the EAEU. The EAEU practice, however, shows that during five years of Kazakhstan's membership in the union our bureaucracy has so far failed to employ the potential of this organization as the country's businesses still have difficulties in accessing markets of other EAEU members. Moreover, the EAEU member states frequently apply trade-restricting measures against each

other, such as closing borders for certain goods, which demonstrates some incoherence of the declared economic integration policy.

At the same time, to be attractive for foreign investors, Kazakhstan should regularly demonstrate improvements in its business environment. Under President Nazarbayev, the government worked hard to promote Kazakhstan's positions in two authoritative international rankings – the World Economic Forum's Global Competitiveness Index and the World Bank's Doing Business. To accomplish this task, the leadership of Kazakhstan initiated a number of very significant and high-quality reforms, and it is necessary to recognize that the country managed to achieve good results, significantly improving its positions and becoming one of the leaders among the former USSR countries. Thus, in Doing Business 2019, Kazakhstan ranked 28th, rising by eight positions. However, it seems that opportunities for further growth in this field have been exhausted, and related effects for foreign investors have most likely been achieved as improvements continue only in certain directions.

A key issue that needs to be solved in Kazakhstan is the problem of corruption. Active anticorruption practices are especially important for transnational companies that avoid being involved in corruption schemes in third countries for fear of facing enormous fines in Europe or the United States. Therefore, the MFA will have to convince foreign investors that the country will continue its active fight against corruption and safeguard their investment projects from possible encroachment on the part of corrupt officials.

Ultimately, the economic factor is a very important part of foreign policy of any country. The logic of Kazakhstan's leadership in transforming the role of the MFA is clear, but the problem is that the country's foreign policy officials are not professionally capable of promoting investments and exports in an effective way. The role of the MFA and the embassies should be a general coordination and facilitation of activities of government agencies responsible for Kazakhstan's economic development. Along with creating business conditions favorable for foreign investment, the government should formulate at the conceptual level comparative advantages of investing money in or conducting trade with Kazakhstan. In this regard, it is important to fully utilize the potential of public diplomacy. At the same time, the MFA of Kazakhstan should continue to promote the country's political and security initiatives in the international arena, without focusing solely on the economization of foreign policy.

Politics, Foreign Affairs, and Security

- The CIS Council of Ministers of Defense held its meeting in the Russian city of Anapa to discuss multilateral cooperation on defense and security issues. The parties addressed the main areas of practical interaction focusing on air defense, air safety, and the use of unmanned aircraft, agreed joint military activities for 2020, and approved the conceptual framework for the development of military cooperation of the CIS countries until 2025.
- Minister of Foreign Affairs of Kazakhstan Beibut Atamkulov met with Secretary-General of the Shanghai Cooperation Organization (SCO) Vladimir Norov to discuss the work of the SCO observer mission in the country. The 25-member mission headed by Norov observed the preparation and conduct of the early presidential election in Kazakhstan.
- President of Uzbekistan Shavkat Mirziyoyev met with the delegation of Kazakhstan's Parliament led by Chairman of the Mazhilis Nurlan Nigmatulin. The parties reviewed the current state of bilateral relations and discussed ways to expand mutual multifaceted cooperation, including between the parliaments of the two countries and their relevant committees.
- The second meeting of the Kyrgyzstan-Uzbekistan inter-parliamentary commission for cooperation was held in Osh. The parties discussed issues related to the harmonization of the two countries' legislation and the monitoring of the implementation of bilateral agreements. In particular, the parliamentarians discussed the creation of a single visa regime for the Central Asian countries.
- Representatives of the naval forces of Kazakhstan and Italy met in Nur-Sultan in accordance with the bilateral plan of military cooperation. The parties discussed the upcoming activities outlined in the plan, including the possible participation of the Kazakh Navy in the 12th Regional Seapower Symposium to be held in Venice in October 2019.
- According to media reports, India intends to open a \$100 million credit line to Kyrgyzstan to support the purchase of various Indian-made weapons and military equipment, including simulators of battle tanks and infantry fighting vehicles. The loan will also involve the modernization of ground platforms and systems of Soviet/Russian production, and the supply of body armor and protective helmets.
- The Sixth International Conference of the "Ulaanbaatar Dialogue on Northeast Asian Security" was held in Ulaanbaatar. The conference brought together over 200 government officials and scholars from 14 countries, as well as representatives of international organizations. Participants discussed ways for ensuring security and sustainability in the region, including via interaction in disaster reduction, promotion of youth inclusion in strengthening peace, and energy cooperation.

Economy, Finance, and Energy

- Diplomats from more than 35 embassies of African states in Russia and representatives of the expert and business communities attended the conference in Moscow dedicated to expanding trade and economic cooperation between the EAEU and Africa. Over the past eight years, the EAEU's trade with the African continent increased by 2.7 times and reached \$21.7 billion in 2018.
- Over 19,000 participants from 145 countries representing more than 570 foreign and over 1,800 Russian companies attended the 23rd St. Petersburg International Economic Forum. High-ranking guests included President of China Xi Jinping and UN Secretary General Antonio Guterres. The event, themed "Creating a Sustainable Development Agenda", reportedly resulted in deals worth 3.1 trillion rubles (about \$48 billion).
- The International Food Policy Research Institute presented its annual report for 2019 at the conference on agriculture, food security, and nutrition in Central Asia held in Tashkent. According to the report, to meet the growing demand for employment in rural areas and improve food security, Uzbekistan needs to strengthen the role of its private sector, improve institutional framework, and explore opportunities for regional integration.
- The Uzbek city of Namangan hosted the international investment forum "Doing business with Namangan" that resulted in the signing of 39 documents worth \$320 million. More than 500 participants, including about 230 entrepreneurs from 36 countries, attended the event, which was devoted to the presentation of the region's economic potential and business opportunities, including in the textile industry and agriculture.
- The Uzbek-Turkish cluster, consisting of three industrial complexes for leather processing, shoe manufacturing, and leather goods, is scheduled to be launched in Uzbekistan's Jizzakh region by the end of 2019. The investment cooperation agreement between the Turkish Leather Industrialists Association and the Uzbekcharympoyabzali Association of Leather and Shoe Enterprises was signed in Istanbul in 2017.
- A new line for the production of synthetic winterizer will be opened at the Ashgabat cotton factory, Turkmenistan's oldest enterprise of the textile industry. The Turkish company Norsel International İnşaat Dış Ticaret Sanayi, the country's long-time partner with extensive experience in the construction and reconstruction of Turkmen textile facilities, will commission the new production facility.
- Oil output at Kazakhstan's Kashagan field reached 400,000 barrels per day, which is an all-time high volume since the field was put in operation in 2016. The rise in oil production was achieved after the completion of the maintenance works on the oilfield. Previously, the daily oil output at Kashagan was about 330,000 to 340,000 barrels per day.

Society and Culture

- The UN General Assembly passed a non-binding resolution reaffirming the rights of Georgians displaced from South Ossetia and Abkhazia to return to their homes by a vote of 79 in favor, 15 against, and 57 abstentions. The UN body have been passing similar resolutions initiated by Georgia for twelve years in a row since 2008.
- Ashgabat hosted an international conference entitled "The Role of Water Diplomacy in Achieving the Sustainable Development of Central Asia". Environmental protection and water management officials and experts from the Central Asian countries and representatives of the UN and other international and regional organizations participated in the event to discuss issues related to the rational use of the region's water resources.
- The investigation of Kazakhstan's Ministry of Internal Affairs established that the mass death of fish in the Ural River in December 2018 was caused by the Atyrau Su Arnasy municipal water supply enterprise which had discharged wastewater containing increased amounts of chlorides into the river. As a result of the pollution, 118 tons of dead fish, including 108 tons of sturgeon, had been extracted from the Urals.
- The government of Kyrgyzstan issued a decree imposing a ban on activities on licensed areas designated for geological exploration and development of uranium. The ban, introduced in response to a series of mass protests against uranium mining, will be in force until the issue is regulated by the legislature. The ban does not apply to activities related to the rehabilitation of uranium tailings and dumps.
- Following a scuffle between local teenagers, Kyrgyz residents of the village of Orok located near Bishkek burned a barn and smashed windows in about 15 houses of Ahiska Turks. Police dispersed the crowd and detained 32 people, while the Ministry of Internal Affairs of Kyrgyzstan denied that the conflict had an interethnic nature.
- The Confucius Institute at the Azerbaijan University of Languages and the Center for Political Psychology (CSP) signed an agreement on establishing the Center for Chinese Language and Culture at the CSP. The center that will focus on the language training is expected to further expand bilateral humanitarian relations between Azerbaijan and China.
- The government of Uzbekistan and Novaport Holding, the largest Russian airport development company, concluded an agreement on the project to modernize airports in Samarkand, Namangan and Urgench. The Russian company will upgrade the infrastructure of the three airports and improve their operational and financial efficiency, thus increasing their attractiveness for airlines and passengers.