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Poland's Export and Investment Opportunities in Kazakhstan

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The dynamic economic development in recent years of Kazakhstan, based mainly on oil and gas production as well as enhancing foreign economic cooperation with countries other than post-Soviet states, gave the country a chance to modernize and diversify its economy. Although the energy sector plays the leading role in the country's medium-term investment plans, the growing demand for consumer goods also creates opportunities for Polish companies to extend cooperation with the country. The Polish government's recognition of Kazakhstan as one of the most prospective export markets should attract the attention of the business sector.

Kazakhstan, with an average GDP growth rate of 5.5% in 2007-2012, is one of the fastest-growing economies in Central Asia. The country is focused on enhancing its foreign trade and investment cooperation to diversify its economy, which still relies on natural resources. Polish companies and authorities have also spotted opportunities to increase their presence in Kazakhstan, reflected by the selection of the country as one of the five most attractive Polish export markets in a special government-supported promotion program.

Trade and Investment Perspectives. Kazakhstan's economy is fuelled by the sale of natural resources (mainly oil and gas), which represent about 90% of its exports. In 2012, Kazakhstan produced 1.6 million barrels of oil per day (18th in the world), and had estimated reserves amounting to about 30 billion barrels (12th in the world). Kazakhstan produces about 40 bcm of natural gas per year (that figure is only 6% of the amount Russia produces) and proven reserves are estimated at 2.4 tcm, However, both the oil and gas sectors need substantial investments to develop further. The Ministry of Industry and New Technologies of Kazakhstan predicts that projects in hydrocarbon extraction will involve up to $200 billion in investments in the next 13-15 years. Thus, opportunities exist for firms from other countries not only in the exploitation of new oil and gas reserves, where activity by Italian, Chinese and South Korean firms is noticeable, but also in the supply of modern equipment and technology.

Another prospective industry for foreign cooperation is mining, as there are immense deposits of metals and minerals such as coal, zinc, manganese and uranium. It is assumed that by 2015, production should be doubled in comparison to 2010. This is mainly the result of increasing domestic electric energy consumption, which will grow by 30% between 2009 and 2015. Currently, 80% of electricity is produced by coal-fired power plants. In the medium term, coal will remain a major source in the country's energy mix and construction of new coal-fired power plants and modernization of existing ones will be required. In this context, Kazakhstan's government plans to invest about $4 billion in the development of the country's coal industry by 2020. Concurrently, given Kazakhstan's climatic conditions and willingness to reduce its dependency on traditional natural resources, the wider use of renewable energy sources is planned (to up to 50% of the country's energy mix by 2050).

Opportunities have also emerged in the construction sector. According to Kazakhstan's "Strategic Development Plan 2020", road transport infrastructure will be extended in the near future. Also, the country's airport network and tourist base will be developed. Moreover, Kazakhstan's rapid development has brought an increase in personal incomes. The IMF indicates that purchasing power has nearly tripled since 2000 and amounts to $13,900 a year per person. IMF experts predict stable, high average GDP growth at the level of 5.8% to year 2016. This, along with healthy public finances, have positively affected private expenditure growth, which is already reflected in the rise of imports in recent years of such goods as cosmetics, furniture, electric appliances, telecommunications equipment, building materials, medications and food.

Polish Experience. Polish firms have not fully used the opportunities for economic cooperation with Kazakhstan yet. Although the country accounts for only about 0.4% of total Polish exports, it is Poland's most important trading partner in Central Asia. In 2012, Polish exports to Kazakhstan amounted to $568.2 million, which is only about 10% of what is exported to Ukraine. Nevertheless, exports to Kazakhstan rose by 63% between 2007 and 2012. So far, some Polish enterprises (e.g., Polpharma, Zelmer, Selena, Turek) have been quite successful selling goods such as chemical products, electrical devices, building materials and food to Kazakhstan.

The Polish presence on that market could be strengthened by investments. Currently, Polish FDI is just a small part of the foreign capital in Kazakhstan and amounted to $55.6 million at the end of June 2012 (compared, for example, to $49 billion in the Netherlands). Up to now, Polish companies have been active in oil and gas exploration and medication production, although some of them (e.g., Petrolinvest) have not succeeded in Kazakhstan to date. Therefore, more attention should be paid to less-explored branches, such as light industry, food processing or machinery and chemical goods production.

Market Access Barriers. Kazakhstan has made a considerable effort in recent years to create a favourable business environment. The World Bank's "Doing Business 2013" report ranks Kazakhstan 49th in the world in terms of the ease of running a company, which is 14 positions higher than in 2010 (Poland is ranked 55th). The country is named as an attractive destination for potential investors. It is praised for such things as the low cost of setting up a business, a simplified taxation system and increases in investor protection. Moreover, labour regulations are relatively flexible and the financial sector has stabilised. However, there are also some barriers to market access. The average un-weighted external tariff rate (ETR) in the Customs Union (CU) with Russia, Belarus and Kazakhstan amounted to 10.9% in 2012, which was much higher than the average tariff in Kazakhstan before the CU's creation in 2010. Russia's commitments after WTO accession in 2012 and Kazakhstan's upcoming accession to the organisation should help Polish exporters enter the domestic market at a lower cost because of the gradual reduction of the average ETR to about 7.9% by 2020. However, various non-tariff barriers, such as licensing requirements or vague technical standards may increase the costs of trade.

The main problems for investors include unclear legal codes and political interference in economic affairs. Moreover, the country's infrastructure is not fully-fledged, thus potential investors in physical projects are often obliged to support local infrastructure projects, which considerably changes the return on the investment. Another concern is labour quality—about 64% of enterprises report a lack of adequate skills in the workforce. Other significant problems include an ineffective justice system and the lack of intellectual property protection. In addition, the country has had to deal with serious corruption cases and political instability stemming from uneven social gains from the economic boom. Nevertheless, to attract investors, nine special economic zones have been created in which such things as special tax preferences have been allotted.

Conclusions and Recommendations. Kazakhstan appears to be a highly prospective trade and investment partner for Poland. Modernization plans in infrastructure and the energy sector will create demand for modern equipment, such as gas and oil extraction machines and mining equipment (creating opportunities for Polish firms such as Kopex or Famur), clean carbon, solar and wind power technologies, as well as geological and construction services. Also, the growth in income should increase demand for imported consumer goods and durables. Polish products are perceived to be of good quality and available at competitive prices. Thus, Kazakhstan appears to be an attractive market for such Polish businesses as cosmetics and furniture exporters. To achieve real success, though, Polish businesses have to be better promoted at all levels, both economic and political.

More frequent meetings of high-level government officials accompanied by business people from both sides would contribute to the enhancement of bilateral economic cooperation. That would bear fruit in deeper mutual trust, which is indispensible to carry out high-priority projects in Central Asia. More attention should be paid especially to dialogue at the regional level, while many decisions concerning such areas as the mining industry will be made by local authorities. Also, economic forums that include both countries should be organised to discuss challenges that may appear, such as concerns related to trade rules. Poland should actively support ongoing negotiations on the EU-Kazakhstan Partnership and Cooperation Agreement (PCA), especially in areas that involve reducing trade and investment barriers.

It would also be advisable if the Polish authorities would support enterprises, especially from the SME sector, in presenting offers for goods and services in Kazakhstan, perhaps by partially financing their participation in prestigious industry fairs or economic missions. This could be achieved as part of a Polish export promotion program, conducted by the Ministry of Economy. Polish diplomatic and economic institutions could also be helpful in providing practical information about customs and trade regulation changes, especially after Kazakhstan's WTO accession.

Certain Polish companies should also consider investing in Kazakhstan by setting up production facilities or creating joint-venture companies. This would enable the avoidance of some CU import regulations and reduce the overall costs of transport. Moreover, Kazakhstan's location makes it a great logistic hub for future expansion to other Central Asia states as well as southern Russia.