

The Republic of  
Kazakhstan  
KAZNEX INVEST

Strategy planning for attracting Japanese  
companies in Special Economic Zones  
In the Republic of Kazakhstan

FINAL REPORT

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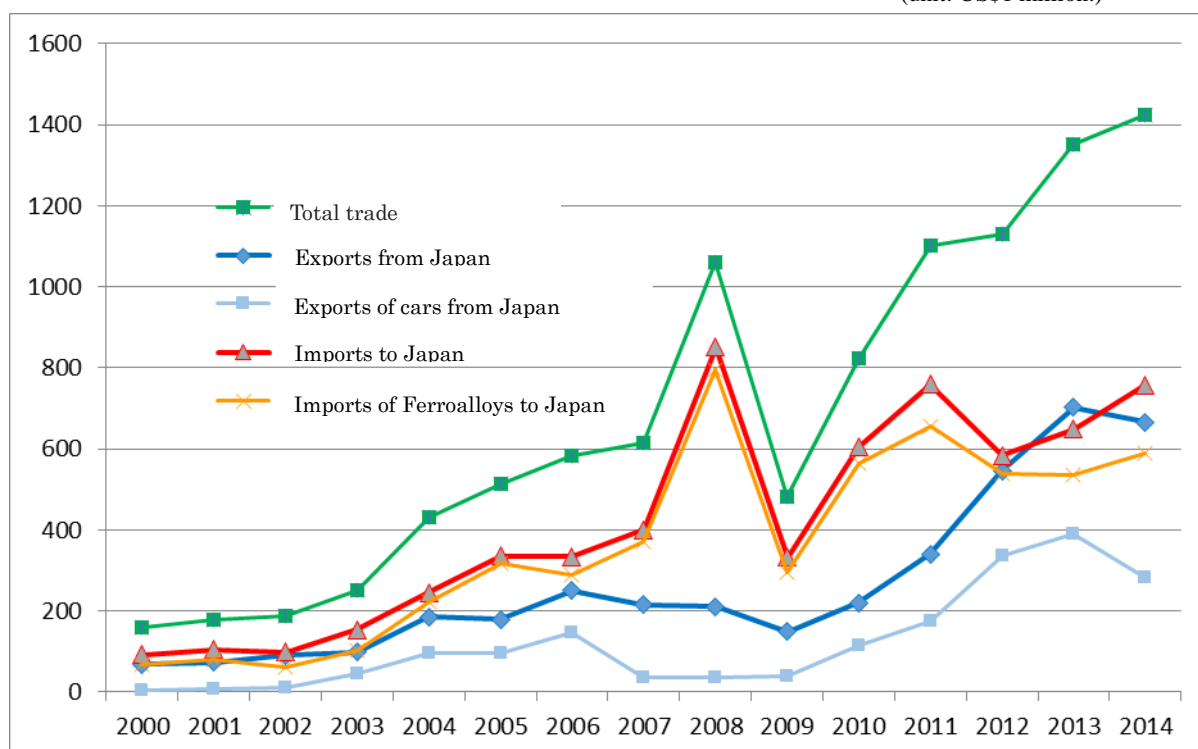
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## Introduction: Bilateral economic relations between the Republic of Kazakhstan and Japan

Trade between Japan and Kazakhstan has expanded steadily since 2000. After a temporary decline due to the Lehman shock in 2009, it reached a record high of US\$1.42 billion in 2014 (Chart 0-1). Although it is still modest occupying less than 0.1% of Japan's total trade, Kazakhstan overtook Ukraine and became No.2 after Russia among the former Soviet Union countries in 2010. Looking at the average of the past five years, amount of the trade between Japan and Kazakhstan accounts for about 70% of the total trade between Japan and the five Central Asian countries (Chart 0-2).

**Chart 0-1 Development in Japan – Kazakhstan bilateral trade**

(unit: US\$1 million.)



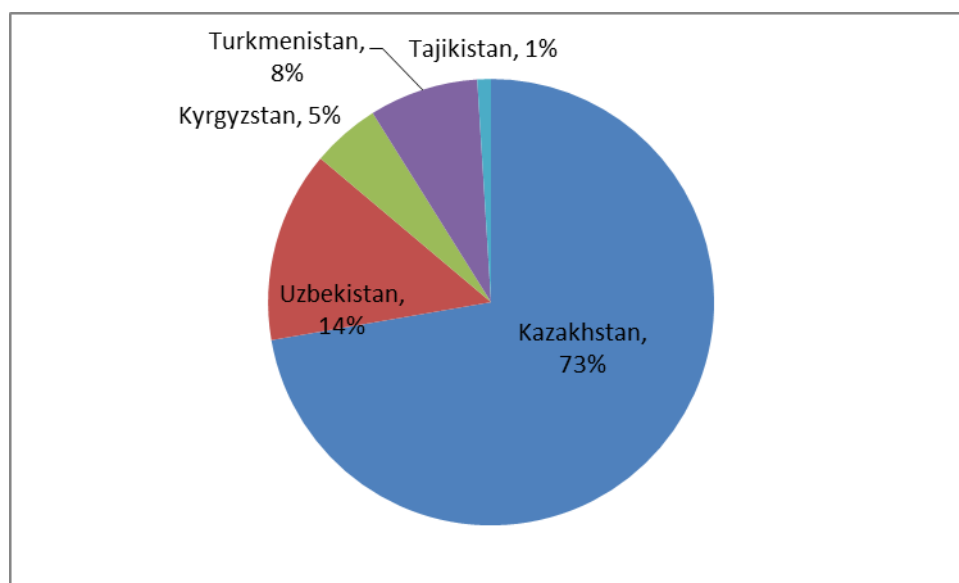
Source: ROTOBO's calculation from foreign trade data published by the Ministry of Finance of Japan. The values of 2014 are preliminary.

Although Kazakhstan has recently become a leading country in the region in terms

of economic relationship with Japan, the country's economic situation with Japan during the period from its independence to the beginning of the 2000s was not so different from that of other Central Asian countries. Bilateral economic relations were only limited to 1) exports of equipment from Japan related to the economic assistance, and 2) imports of raw materials to Japan. Being the world's leader in ODA (Official Development Assistance), Japan continued to be the most significant donor for the Central Asian countries in the 1990s, and implemented many projects under the framework of economic assistance, such as development and improvement of infrastructures including airports, railways, and telecommunication network, for which Japan received great appreciation from the post-independence governments of the Central Asian countries.

On the other hand, investment by Japanese private companies to the Central Asian countries did not increase because of a geographical remote location, poor production capability, and low income level. For that reason, there was no further progress of trade and investment relationships. It can be said that only Kazakhstan has got out of this situation, while other countries of the Central Asian region remained still.

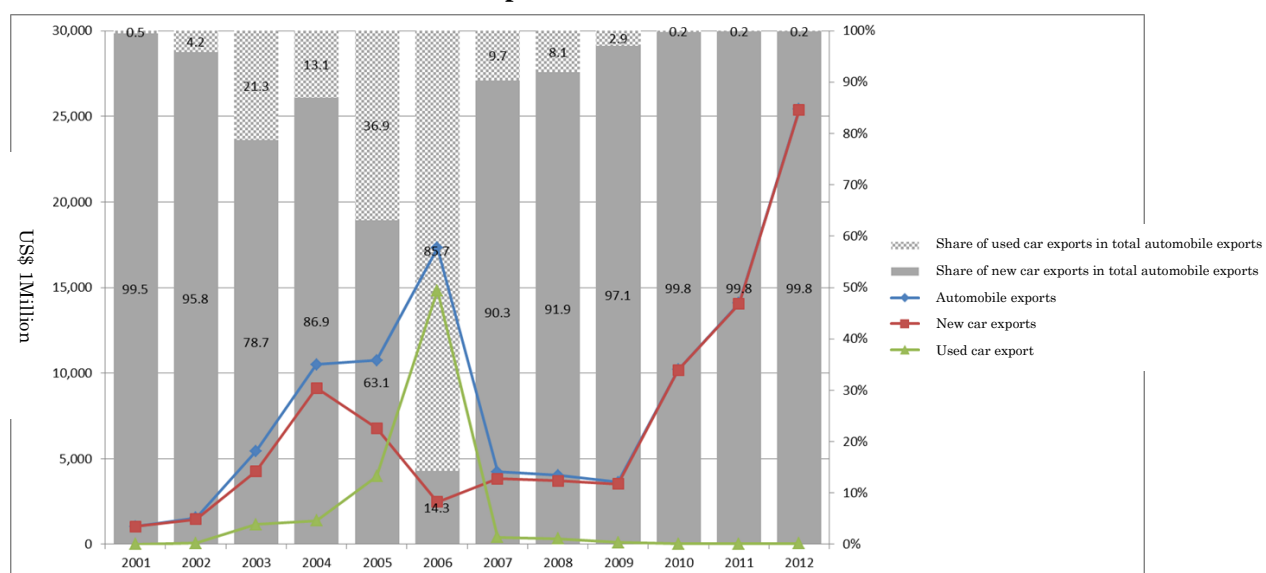
**Chart 0-2 Trade share between Japan and Central Asia, average of the past 5 years**



Source: Same as in Chart 0-1

The leading factor behind the changes in the economic relations between Japan and Kazakhstan was an economic growth of the country since the year 2000. As shown in the Chart 0-1, increasing trade between Japan and Kazakhstan after the global financial crisis is largely attributed to the increase of exports from Japan. Of all the exported goods, passenger cars account for more than 50% of the total exports since 2010 (however, car exports declined to 42.2% in 2014, probably as a result of increased imports of Japanese car from Russia because of a sharp decline of ruble exchange rate against dollar). The export of transport equipment in general occupies the highest position in total exports to other Central Asian countries. However, compared with other countries with relatively high percentages of exports of used cars, trucks and buses, Kazakhstan has much higher percentages of exports of new cars, which accounts for more than 99% of total car exports, indicating the country's high purchasing power (Chart 0-3).

**Chart 0-3 Share of New and Used cars in Total Exports of Passenger Cars from Japan to Kazakhstan**



Source: Same as in chart 0-1

Gross National Income (GNI) per capita of Kazakhstan reached US\$11,550 in 2013. The internal market of new cars totaled about 100 thousand in 2012, and is expected to

increase to 200 thousand per year within the next 4-5 years. In other words, after the period of rapid economic growth, Kazakhstan has become a country that can be considered as a market for Japanese products. In January 2013, the first Japanese convenience store "Mini Stop" was opened in the former capital of Kazakhstan, Almaty, as the first example of advancing to the market of the former Soviet Union. (However, the company announced its closure in June 2014. See Table. 0-5.) Also, in February 2013, "Toyota" announced that they would produce their cars in Kazakhstan from 2014.

The second factor that contributed to the development of economic relations between Japan and Kazakhstan is that Kazakhstan has become an important country for Japan as a supplier of natural resources because of changes of the international environment. Though Kazakhstan is widely known as one of the main oil producers in the world, the absence of suitable transportation routes prevent oil becoming a major item in Japanese imports from Kazakhstan. Since the independence of Kazakhstan, Japan has imported mainly base metals, and especially ferroalloy accounts for about 80-90% of Japan's total imports in recent years (See Table 0-1 and Table 0-2). In the near future, in addition to such a stable imports of base metals, it is likely that, uranium, rare metals and rare earth will also become the major import items to Japan.

**Table 0-1 Export structure by items from Japan to Kazakhstan  
for the period from January to December 2014**

(unit: US\$1,000)

Product	Unit	January - December 2013			January - December 2014		
		Volume	Value	Share	Volume	Value	Share
Total exports	–	–	702,020	100.0	–	666,235	100.0
Food	–	–	148	0.0	–	206	0.0
Raw materials	–	–	4,056	0.6	–	5,088	0.8
Mineral fuels	–	–	1,552	0.2	–	1,441	0.2
Chemicals	–	–	4,119	0.6	–	4,344	0.7
Products of raw material	–	–	158,995	22.6	–	97,891	14.7
Ferrous metals	MT	7,248	110,939	15.8	3,393	79,992	12.0
Steel pipes	MT	7,248	110,904	15.8	3,389	79,698	12.0
Non-ferrous metals	MT	5	837	0.1	4	613	0.1
Products of rubber	MT	5,004	40,176	5.7	2,215	11,623	1.7
Tires and rubber hoses	NO	171,064	39,964	5.7	161,003	11,258	1.7
General machinery	–	–	70,492	10.0	–	78,414	11.8
Engines	–	–	3,930	0.6	–	4,932	0.7
Construction and Mining Equipment	–	–	49,394	7.0	–	48,822	7.3
Handling equipment	–	–	10,888	1.6	–	8,516	1.3
Electrical equipment	–	–	6,248	0.9	–	7,205	1.1
Devices of communication	–	–	754	0.1	–	1,032	0.2
Video equipment	NO	146	613	0.1	658	653	0.1
Transport equipment	–	–	407,590	58.1	–	447,774	67.2
Cars	NO	14,041	397,993	56.7	9,756	292,966	44.0
Passenger cars	NO	13,705	388,972	55.4	9,220	282,745	42.4
New	NO	13,556	388,532	55.3	9,174	282,635	42.4
Used	NO	149	440	0.1	46	110	0.0
Buses, trucks	NO	281	8,864	1.3	491	10,052	1.5
New	NO	278	8,848	1.3	489	10,044	1.5
Used	NO	3	16	0.0	2	9	0.0
Other products	–	–	48,820	7.0	–	23,872	3.6
Precision instruments	–	–	3,159	0.5	–	2,957	0.4
Goods subject to special treatment	–	–	37,598	5.4	–	11,090	1.7
Re-exported goods	–	–	37,598	5.4	–	11,085	1.7

Note: Converted at the rate of US\$ 1 = 96.96 yen for 2013, US\$ 1 = 105.29 yen for 2014.

Source: ROTOBO's calculation based on the data of the Ministry of Finance.

**Table 0-2 Imports structure by items from Kazakhstan to Japan  
for the period from January to December 2014**

(unit: US\$1,000)

Product	Unit	January-December 2013			January-December 2014		
		Volume	Value	Share	Volume	Value	Share
Total imports	–	–	648,423	100.0	–	757,829	100.0
Food	–	–	–	–	–	–	–
Raw materials	–	–	–	–	–	4	0.0
Textile fibers and waste	KG	–	–	–	–	–	–
Mineral fuels	–	–	56,565	8.7	–	117,553	15.5
Crude oil	KL	86,678	56,565	8.7	174,541	113,618	15.0
Chemicals	–	–	15,025	2.3	–	33,313	4.4
Products of raw material	–	–	576,393	88.9	–	606,761	80.1
Ferrous metals	MT	352,566	535,876	82.6	379,157	589,821	77.8
Ferrous alloys	MT	352,566	535,876	82.6	379,157	589,821	77.8
Non-ferrous metals	MT	2,001	40,463	6.2	833	16,867	2.2
Titanium and products from it	MT	360	4,024	0.6	195	1,920	0.3
General machinery	–	–	–	–	–	8	0.0
Electrical equipment	–	–	23	0.0	–	–	–
Other products	–	–	402	0.1	–	189	0.0
Goods subject to special Treatment	–	–	340	0.1	–	165	0.0
Re-exported goods	–	–	340	0.1	–	165	0.0

Note: Converted at the rate of US\$ 1 = 96.87 yen for 2013, US\$ 1 = 105.24 yen for 2014.

Source: ROTOBO's calculation based on the data of the Ministry of Finance.

As for uranium, it is related to the situation that the role of nuclear energy has been globally redefined recently in response to the global warming. In this regard, Japan came to pay more attention to the fact that Kazakhstan has the 2nd largest amount of uranium reserves in the world. In August 2006, the Japanese Prime Minister, Mr. Koizumi, visited Kazakhstan, followed by Mr. Amari, the Minister of Economy, Trade and Industry, in April 2007. During the latter's visit, both sides agreed on a wide range of cooperation in the field of nuclear energy. Taking advantage of this opportunity, several joint ventures for uranium production have been established by the initiatives of large trading corporation and electric power company. In March 2010, the



Agreement between the Government of Japan and the Government of the Republic of Kazakhstan for Cooperation in the Peaceful Uses of Nuclear Energy (commonly called as the Atomic Energy Agreement between Japan-Kazakhstan) was signed and entered into force in May of the following year. With regard to the rare metals and rare earth, destabilization of those supply from China due to the Senkaku Islands issue forced Japanese companies to seek for other sources, and encouraged to establish several joint ventures engaged in metal recovery from uranium remnant after 2010 (Table 0-5).

**Table 0-3 Foreign direct investment in Kazakhstan by source country**

Ranking	1993 ~ 1999, total			2000			2005			2010			2012		
	Country	1)	2)	Country	1)	2)	Country	1)	2)	Country	1)	2)	Country	1)	2)
1	USA	3,210.1	32.8	USA	993.5	36.1	Netherlands	1,534.2	23.91	Netherlands	5,762.7	33.21	Netherlands	8,510.0	31.51
2	South Korea	1,494.2	15.3	UK	464.2	16.9	USA	1,125.5	17.54	France	1,507.6	8.69	China	2,374.3	8.79
3	UK	1,220.1	12.5	Italy	351.0	12.8	France	774.7	12.07	China	1,221.6	7.04	Switzerland	2,007.0	7.43
4	Turkey	473.8	4.8	CIS <sup>3)</sup>	174.9	6.4	Liberia	335.9	5.24	UK	1,025.7	5.91	USA	1,981.4	7.34
5	China	461.3	4.7	Canada	144.9	5.3	Japan	331.4	5.16	Virgin Islands <sup>4)</sup>	712.5	4.11	UK	1,285.1	4.6
6	Japan	285.7	2.9	Netherlands	109.9	4.0	Italy	306.6	4.78	Russia	634.6	3.66	France	1,164.2	4.31
7	Netherlands	283.8	2.9	China	87.0	3.2	Virgin Islands <sup>4)</sup>	268.7	4.19	Italy	609.8	3.51	Belgium	856.8	3.17
8	Canada	245.0	2.5	Germany	68.8	2.5	Canada	262.5	4.09	Japan	603.3	3.48	Italy	815.9	3.02
9	Germany	191.6	2.0	Indonesia	68.1	2.5	Russia	223.0	3.48	Switzerland	479.4	2.76	Russia	748.9	2.77
10	Virgin Islands <sup>4)</sup>	183.5	1.9	South Korea	56.8	2.1	China	195.0	3.04	Canada	436.5	2.52	Canada	742.6	2.75
-				Japan (Rank 14)	<b>18.1</b>	<b>0.7</b>							Japan (Rank 14)	<b>471.5</b>	<b>1.75</b>
	million \$	2 751.5		2 751.5			6 416.4			17 353.4			27 007.0		

Note: 1) Foreign Direct Investment in million US\$, 2) Share in % in total, 3) Breakdown unknown, 4) British Virgin Islands  
Source: Agency of Statistics of the Republic of Kazakhstan, "Statistical Bulletin for 2012" (2013), similarly in 2011 (2012), 2006 (2006), in 2001 (2001).

**Table 0-4 Changes of Kazakhstan's ranking of major trade partners (import / export)**

Ranking	2000		2005		2010		2013		2014 (Preliminary)	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
1	Russia (19.5)	Russia (48.7)	Switzerland (19,8)	Russia (38.0)	China (16.8)	Russia (39.4)	Italy (19.5)	Russia (36.8)	Italy (20.5)	Russia (33.3)
2	Bermuda (14.9)	Germany (6.6)	Italy (15.0)	Germany (7.5)	Italy (15.9)	China (12.7)	China (17.0)	China (17.1)	China (12.5)	China (17.9)
3	Virgin Islands (11.6)	USA (5.5)	Russia (10.5)	China (7.2)	Russia (9.5)	Germany (5.9)	Netherlands (11.7)	Germany (5.0)	Netherlands (11.2)	Germany (5.6)
4	Italy (9.8)	UK (4.3)	France (9.6)	USA (6.9)	France (7.4)	Italy (5.1)	Russia (6.9)	Ukraine (4.7)	Russia (6.6)	USA (4.8)
5	China (7.3)	Italy (3.1)	China (8.7)	Ukraine (4.9)	Netherlands (6.9)	Ukraine (4.4)	France (6.4)	USA (4.4)	France (6.0)	Ukraine (2.9)
6	Germany (6.2)	China (3.0)	Iran (3.2)	Italy (3.9)	Australia (4.2)	USA (4.2)	Switzerland (5.1)	South Korea (2.6)	Switzerland (5.8)	France (2.6)
7	Switzerland (5.3)	Turkey (2.8)	Germany (3.2)	Japan (3.5)	Canada (4.1)	UK (2.3)	Australia (4.3)	Japan (2.2)	Australia (3.6)	South Korea (2.6)
8	Ukraine (2.9)	Japan (2.1)	USA (2.4)	UK (2.4)	Germany (2.9)	Turkey (2.0)	Canada (3.1)	Italy (2.1)	Turkey (2.9)	Italy (2.5)
9	Netherlands (2.6)	South Korea (1.6)	Israel (2.4)	Turkey (2.3)	UK (2.3)	Japan (1.8)	Turkey (3.1)	France (2.1)	Ukraine (2.1)	Turkey (2.5)
10	UK (2.5)	Ukraine (1.6)	Virgin Islands (2.0)	France (1.7)	Romania (2.1)	Belarus (1.7)	Romania (2.8)	Uzbekistan (2.0)	...	...
-	Below 30 / Japan (0.1)		26 / Japan (0.5)		22 / Japan (0.9)		21 / Japan (0.7)			

Source: Committee for Statistics of the Ministry of Economy of the Republic of Kazakhstan, "Foreign trade of the Republic of Kazakhstan for the years 2009-2013" (2014), "Kazakh Statistical Yearbook", annual version, "Economic and social development of the Republic of Kazakhstan in January-December 2014 "(2015).

As a result of these changes which occurred after 2000, the economic relations between Japan and Kazakhstan began to move gradually from a unilateral economic aid to private business which should be the main stream of bilateral relationships. Consequently, Japan came often to appear within the top ten countries in terms of direct investments in Kazakhstan (Table 0-3). On the other hand, the Japanese presence in trade data with Kazakhstan has not changed so dramatically, but has been stable (Table 0-4). Once the above-mentioned joint ventures begin their operations, however, it is expected that both the imports and exports will increase.

Though Kazakhstan has relatively increased her importance to other countries not

only as "a supplier of natural resources", but also as "a market of manufactured goods", her importance for Japan will be apparently the former, at least, for the time being. No matter how her economy develops and how the living standard of her people improves, it is still difficult to assume that Kazakhstan comes to have the same significance as Japanese market like China or the South East Asian countries from the viewpoints of her population scale and density. In addition, the scarcity, in other words, the high "commercial value" of uranium, rare metals and rare earth produced in Kazakhstan, can hardly change for the moment. The high commercial value means there are a large number of consumers, that is, a large number of competitors in the world to acquire such resources. Then, on the other hand, if Kazakhstan chooses Japan as a trade and investment partner from a large number of countries in the world, such as the United States, Europe, Russia, China, and so on, what would be the motivation or merit for Kazakhstan to do so?

A key to the choice will be "expectation to introduce the Japanese high-technology", as many government officials of Kazakhstan often mention with eagerness recently. Kazakhstan regards breaking dependence on natural resources and diversifying industrial structure through innovation as the most important task for economy. Therefore, foreign investments in the future should not work merely on extraction of natural resources, but certainly should accompany high-level processing of extracted raw materials, development of relevant manufacturing industries, and technology transfer with their projects. In this regards, Kazakhstan wishes Japan, who is an Asian nation as Kazakhstan is, and who has highly developed manufacturing technologies, to be a potential partner. Briefly, the way in which both countries can share their interests is to establish a strategic partnership in the form of "mutual complement by resources and technologies". It is not too much to say that stable development of the bilateral economic relations will depend on whether the both sides can establish such a partnership mentioned above.

**Table 0-5 Companies with the Japanese participation in Central Asia**

Country	Company name	Year of foundation	Share of capital	Activities
Kazakhstan	LLP Toyota Tsusho Kazakhstan Auto	Unconfirmed	Japan: 100%	Sales of automobile, spare parts and after sales service. Located in Almaty.
	KOMEK MACHINERY Kazakhstan LLP	Unconfirmed	Japan: 100%	Official distributor of Komatsu. Located in Astana.
	BTA ORIX Leasing JSC	April 2005 (Year of investment from Japanese companies)	ORIX: 35% ORIX Leasing Pakistan Ltd.: 10% BTA: 45% IFC: 10%	The company, together with ORIX IFC, acts as an investor in the leasing subsidiary BTA. The company name has been changed. Capital: 1,100 million yen.
	Kyzylkum	2005	Energy Asia: 40% (Tokyo Electric / Chubu Electric/ Tohoku Electric/ Kyushu Electric /Marubeni/ Toshiba) Uranium One: 30% Kazatomprom: 30%	Development of Kharasan-1 in the Kyzyl-Orda region. 2008 Foundation 2012 Start of production and sales The nominal volume of production: 3000 tons per year.
	APPAK LLP	July 2006 (Year of investment from Japanese companies)	Sumitomo Trading: 25% Kansai Electric: 10% Kazatomprom: 65%	Uranium mining in the "West Mynkuduk" area in South Kazakhstan. June 2008: Start of production.
	Baiken-U	2006	Energy Asia: 40% Kazatomprom: 60%	Development of Kharasan-2 in the Kyzyl-Orda region. 2013: Start of production and sales, 2017: Plans to launch a full production cycle. The nominal volume of production: 2000 tons per year
	Toyota Motor Kazakhstan LLP (TMKZ)	May 2008	Toyota Motor Europe NV/SA: 100%	Imports and sales of Toyota and Lexus cars in Almaty. In February 2013, it announced the they would start of production in the Spring of 2014 CKD Toyota factory "SaryarkaAvtoProm" (SAP) in Kustanai.
	NYK Auto Logistics (Kazakhstan) LLP (formerly: Tranco Terminal)	15 Jan 2014 (investment by Japanese companies in July 2008)	NYK Holding Europe: 100% JSC Tranco (Kazakhstan's largest logistics company: 75%	In 2008, the Japanese logistics company NYK invested 25% in Tranco Terminal company, managing logistics terminal on the transport of finished cars to the business center in Almaty. Partner acted as a major logistics company of Kazakhstan JSC Tranco. Transportation of finished vehicles. At the beginning of 2014 NYK reformed 100%-affiliated company and changed the name of the company (see. On the left) Capital: 513,860,000 tenge (340 million yen).
	SKZ-U LLP	Aug 2007	SAP-Japan Corporation (Marubeni/Tokyo Electric Power Company/Toshiba): 32%, Uranium One: 19%, Kazatomprom: 49%	Production and sale of sulfuric acid in the Kyzyl-Orda region for Kharassan uranium production project. Production started in July 2012.

Japan Select	2010	Senko: 100%	The logistics center in Almaty with cooling and freezing warehouses. Store products in the refrigeration and freezing warehouses and refrigerated transport. Responsible for logistics RTS-Ministop draft 24-hour store "Mini Stop", which was founded in May 2012. The project was canceled in 2014. (See below.)
Summit Atom Rare Earth Company (SARECO)	Mar 2010	Sumitomo Trading: 19% Kazatomprom: 51%	Production of rare earth metals from uranium ore. Located in Ust-Kamenogorsk. Plant opened on 2 November 2012.
Senko – Lancaster Silk Road Logistics LLP	May 2010	Senko: 50% Lancaster infrastructure: 50%	Construction and management of a logistics center at the international border cooperation center Khorgos at the border of Kazakhstan and China.
RISO Eurasia Kazakhstan	Sep 2010	RISO EURASIA LLC: 100% (A subsidiary of RISO Kagaku corporation)	Expanding sales of copiers in the region with the center in Almaty. The authorized capital of 300 thousand Tang.
KT rare metals company	Jun 2010: Agreement. 29 Sep 2011: Foundation press release.	Toshiba: 49% Kazatomprom: 51%	Under the Agreement, it planned to sell the production of tantalum and rare metals (rhenium, dysprosium, neodymium, etc.) of uranium ore. However, the results of pre-investment studies, it was decided that this business does not meet the current market situation, and in April 2014 signed a new "Memorandum on the project in the field of wind energy in the Republic of Kazakhstan" and it is now considered changing the direction of the business.
RTS-Mini Stop	May 2012 Jun 2014 Close business.	RTS: 51% Mini Stop: 39% SENC: 10%	Registered capital: 500 million tenge (about 268 million Yen). Creating a network of "Mini Stop" shops in Kazakhstan. RTS- subsidiary of "Lancaster group" engaged in retail and advertising business. In January 2013, first store opened in Almaty. 23 June 2014 "Mini Stop" announced the closure. It decided to close the business in Kazakhstan and the sale of shares owned by RTS-MS. Sankey also agreed the sale of its stake in RTS-MS.
Kazmiya	Apr 2013	Cokey systems: 49% Kazakhstan party: 51%	Development locus licorice Zhambyl region. In April 2014, the joint venture "Kazma". Construction of the plant for processing licorice. Spring 2015: plans to launch test-mode production.
Fifty Four Media LLP	14 May 2014 (Press release on investment)	Dentsu aegis network: 51% (after the acquisition) President of the company: 49%	Foreign head office Dentsu, Dentsu company Aegis Network, announced its intention to acquire a stake venture media company founded in November 2011 (see. The date of the left). As a shareholder company will control three subsidiaries, advertising companies.
Koktem EA	3 Jul 2014 (Press Release on investment)	Toyota Tsusho: 20% of investments	Toyota Tsusho acquired a 20% stake in agricultural company Koktem EA. Work began in 2007 (in Almaty). Production, storage and sale of grains and oilseeds vegetables. Registered capital: US\$5.5 million.

	Toyota Insurance Management (TIM Kazakhstan)	Nov 2014 (Press release)	Toyota Insurance Management Limited 100% subsidiary TIM (head office-UK)	Aioi Nissay Dowa Insurance Company of Europe Limited (100% subsidiary of Aioi Nissay Dowa) contributes 75% investment in TIM. In 2014, obtained license and entered into an agreement with Toyota, planning to carry out services for motor insurance.
	Makita Kazakhstan LLP	30 Oct 2014 (Starting 1 Feb 2015)	Group of companies "Makita": 100% investment	Founded JSC "Makita", a major manufacturer of power tools as foreign subsidiaries, sells. Sales and warranty electrical, hydraulic tools, garden tools in Kazakhstan and neighboring countries. The authorized capital of US\$500,000. According to the press release of January 2015.
Uzbekistan	Samarkand Automobile factory LLC "Self-car" car factory in Samarkand	Nov 2006	Itochu Corporation of Japan: 8% Uzavtosanoat: 66% Bank "Asahi": 26%	The assembly of buses and trucks, "Isuzu". 2007: the start of production. Before that - a joint car factory with Turkey "SamKochAvto." Registered capital: 24, 8 billion. Uzbeks.sum
	OOO «Markom qurilish texnika»	May 2010 (opening)	Ns (100% Komatsu ??)	Dealer service of Komatsu construction equipment. On the opening of the office was informed in promotional materials.
	ITS Nippon Ltd.	1990	Japan 100%	Logistics and Mediation in foreign trade
Tajikistan	AVALIN	Apr 2009	The Japanese company Cokey: 49% The Tajik side: 51%	Production of medicinal plants of licorice. In September 2011, production started.

Source: May 2014. ROTOBO.

## **I. The system of Special Economic Zones in Kazakhstan**

### **1. The purpose of Special Economic Zones and institutional changes**

#### **(1) The purpose of SEZ**

As of May 2015, the Kazakhstan SEZs are regulated on the basis of "the Law of the Special Economic Zones in the Republic of Kazakhstan" (the SEZ Act 2011) adopted in July 2011 and the amendments made to it later on. According to this law, the purpose of the Special Economic Zone is "to develop the most advanced production environment with high-productivity and competitiveness, to attract investment and new technologies in relevant industries and regions, and to improve the employment." In other words, the introduction of SEZ becomes a mean of achieving the main directions of economic policy of the Republic of Kazakhstan, that are "diversification of the economy," "innovation" and "regional development."

In November 2014, President Nursultan Nazarbayev announced the launch of a new economic policy called "Nurly Zhol" to the people of Kazakhstan. This policy addresses the allocation of funding from the National Fund to the development and improvement of infrastructure in the field of logistics, manufacturing, energy, utilities and housing, provision of support for small- and medium-sized businesses, and creation of new jobs. As a specific measure for developing industrial infrastructure, the government declared the allocation of 81 billion tenge to complete the construction of infrastructure facilities in the existing SEZs, such as Khorgoz. The President emphasized the importance of developing infrastructure of SEZ and noted the necessity for the government and the regional authorities to implement appropriate measures required in order to achieve the national goals.

## **(2) Institutional changes of SEZ**

SEZ is one of the most important factors in the new economic policy. In Kazakhstan, the first SEZs were developed in the regions of Zhezkazgan, Taldykorgan and Kostanai and in Almaty city in the early 1990s, followed by other SEZs in the regions including Atyrau, East Kazakhstan, Karaganda, and Mangistau. As a result, 9 SEZs were established. However, due to the lack of comprehensive legal framework, as well as the fact that the budget was not used in accordance with the objectives because of the spread of government corruption, SEZs were virtually not functioned.

In 1996, "the Presidential Decree of the Republic of Kazakhstan on Special Economic Zones" was enacted. After that, the term "Special Economic Zone" replaced the previously-used term "Free Economic Zone". In July 2007, in order to improve the functionality and efficiency of SEZs, the Law of the Republic of Kazakhstan "Special Economic Zones (SEZ Act 2007)" was enacted as a strict legislative framework for SEZs. Further in July 2011, the current "SEZ Act 2011" was enacted, replacing the "SEZ Act 2007."

Under the SEZ Act 2011, SEZ is defined as a "part of the territory of the Republic of Kazakhstan with precisely-defined boundaries, in which a special legal regime of the special economic zone for the implementation of priority activities is exercised". "Special legal regime" can be described as a set of legal rules that define the conditions for the exercise of SEZ, such as tax, customs, land, labor, employment etc., in addition to the SEZ Act 2011. In other words, SEZ is a special area where special legal system in the fields of taxation, customs, land, and labor relations is applied. In fact, companies that are located in the SEZ have privileges of the exemption from corporate income tax (CIT, usually 20%), land tax (10%), property tax (1.5%), duties on the import of fuel and raw materials, as well as VAT on the sales and exports of goods produced with the raw materials and equipment (VAT, 12%) and payments for land use. However, in order to receive these benefits, companies must meet certain conditions. According to the explanation of the SEZ Management Company, products and services need to conform to the priority sectors of the SEZ, in order for companies to receive the status as the



SEZ resident. In addition, companies should earn at least 90% of their total annual incomes (70% for the SEZ "IT Park") by the sale of goods produced by SEZ priority activities. If a company is proved to be qualified for the above conditions by the government-designated authorities, the company will be exempt from paying the corporate income tax. Moreover, customs duties are exempted in case where the license center operating under the National Chamber of Entrepreneurs of Kazakhstan calculates and proves the proportion of local procurement accounted in the final product.

In Kazakhstan, it is defined that the period of operation of SEZ is 25 years from its foundation. No matter when a company became a resident of the SEZ, that SEZ will be abolished automatically after 25 years from its foundation. After the abolition of SEZ, a company will have the right to repurchase the site of SEZ in accordance with the Land Code.

The government of the Republic of Kazakhstan develops a basic plan of the national policy with respect to the establishment and activities of the SEZs. The main authorized body in the field of development and management of SEZs is the Ministry of Industry and New Technology (now the Ministry of Investment and Development) of the Republic of Kazakhstan. As the implementing bodies, the regional authorities and the cities of Almaty and Astana can also carry out the national policy in the sphere of activities of the relevant SEZ and apply for the establishment of SEZ.

In addition, for better management and operation of the SEZs, a management company has been established in each SEZ. A management company is responsible for the practical operation of its SEZ, such as making direct contacts and arrangements for investors and companies and conducting specific procedures. These management companies are either 100%-owned by the state or regional authorities or partially-owned by private companies. But even in the latter case, the state or regional authority spends its budget for the infrastructure development by holding a certain amount of shares of the management company.

The SEZ Act 2011 defines the functions of the management company as follows:

- 1) Cooperation with the national authorities on the activities of SEZ;

- 2) Lease (sublease) of the land and infrastructure to the companies engaged in ancillary business;
- 3) Conclusion and termination of the business implementation agreement;
- 4) Submission of the report on SEZ, based on the annual reports by SEZ residents;
- 5) Attracting companies to SEZ;
- 6) Attracting investments for developing infrastructure and implementing projects in SEZ;
- 7) Construction of infrastructure for the land not yet transferred to SEZ residents;
- 8) Operation of the public service centers (PSC) on the principle of "one-stop services";
- 9) Confirmation of the actual consumption situation of goods brought in SEZ;
- 10) Monitoring of the execution of the terms of the business agreements;

Additionally, there are various organizations that support companies and attract investment, such as Social Entrepreneur Corporation which promotes supports for small and medium-sized companies and attracts investments, Support Fund for Small and Medium-sized Companies called "DAMU", Chamber of Commerce, and implementing organizations of public-private partnerships. Some of these organizations are, as a part of their duties, involved in attracting companies into the SEZs.

In this manner, because many types of organizations are involved in SEZs in different forms of participation, interest in SEZs seems to be high to some extent. However, there exist many contact points, despite the motto of "one-stop services", resulting in a paradoxical situation where one cannot complete the necessary procedures related to moving-in or post-production start by contacting only with the management company. It is one of the issues with Kazakhstan's SEZ system and special attention needs to be paid.

## 2. Current situation of SEZ

As of May 2015, there are 10 SEZs in Kazakhstan: "Astana New City" in the city of Astana, "Sea Port Aktau" in the Mangistau region, "Innovation Technology Park" in the city of Almaty, "Ontustyk" in the South Kazakhstan region, "National Industrial Petrochemical Park" in the Atyrau region, "Burabay" in the Akmola region, "Khorgos Eastern Gate" in the Almaty region, "Saryarka" in the Karaganda region, "Pavlodar" in the Pavlodar region, and "Chemical Park Taraz" in the Zhambyl region. Chart 2-1 shows the geographical location of these 10 SEZs in Kazakhstan.

Chart 2-1 SEZs in Kazakhstan



**Table 2-1 Features of Kazakhstan SEZs**

	Name of SEZ	Location	Management Company (authority) / shareholders	Priority sectors	Year of foundation	Area (ha)	Number of companies *	The state of infrastructure
1	"Astana New City"	Astana	National SEZ "Astana New City" – Astana city.	Construction, machinery manufacturing and light industry	June 2001	7,634.71	92	Phase1 - 90% Phase 2 - 20%
2	"Seaport Aktau"	Mangistau region	AO SEZ "Seaport Aktau" (Mangistau region.) / 100% by region	Metallurgical industry, machinery and equipment	April 2002	2,000	33*	Subzone 1 - 95% Subzone 3 - 100%
3	"Innovation Technology Park "	Almaty region	AO SEZ " Innovation Technology Park " (Min. Investment and Development) / 100% by Min.	Information technology and innovation	January 2003	163	153	Phase1 - 100% Phase 2 - 30%
4	"Ontustyk"	South-Kazakhstan region.	AO SEZ "Ontystik" (South-Kazakhstan region) 100% by region	Light and textile industry	July 2005	200	24	Completed
5	"National Industrial Petrochemical Park"	Atyrau region.	AO SEZ "Nint" (Min. Energy) / Min. Energy 51%, TOO "United Chemical Company" 49%	Petrochemical industry	December 2007	3,4751.9	21*	10%
6	"Burabay"	Akmola.		Tourism	January 2008	370	3	Completed
7	"Khorgos - Eastern Gate"	Almaty region.	AO SEZ "Khorgos - Eastern Gate" (KTZh: Kazakhstan Railway) / KTZ Express100%	Logistics	November 2011	5,740	71	40%
8	"Saryarka"	Karaganda region.	AO "Karaganda Invest" / Karaganda region 51%, TOO «Total Quality Service» 49%	Metallurgical industry and metal processing	November 2011	534,9	17*	Completed
9	"Pavlodar"	Pavlodar region.	AO SEZ "Pavlodar" (Pavlodar region) / 100% by region	Chemical and petrochemical industry	November 2011	3.300	25*	15%
10	"Chemical Park Taraz"	Zhambyl region	AOI SEZ "Chemical Park Taraz" / TOO "United Chemical Company"	Chemical industry	November 2012	505	3	40%

Source: KAZNEX INVEST March 2015 (information of Sep 2014)

\*Information that we obtained by hearing in each special economic zone when 1st sight visit of this survey in February 2015.

\*\* Though old organization name (the Ministry of Industry and New Technology and the Ministry of Oil and Gas) have been described in KAZNEX INVEST materials, it does not exist at the time in September 2014. So we fix to the new organization name.

Among the above-listed SEZs in Kazakhstan, some SEZs have existed as technological or industrial parks even before the SEZ Act of 2007, and the levels of development vary from SEZ to SEZ. For example, infrastructure works are 100% completed at "Ontustyk" and "Burabay", but have just begun in "Pavlodar" and "Chemical Park Taraz". While operation and manufacturing in "Astana New City" and "Saryarka" have already been started, "Burabay" and "Seaport Aktau" are still under construction and the start of their production will be still to come.

For the SEZs in Kazakhstan, it is determined not only the compartment but also the priority activities taking into account the advantages and characteristics of each region. So, in Atyrau, a district rich in underground mineral resources, there is "National Industrial Petrochemical Park" established to make use of its natural resources (oil). "Khorgos - East Gate", where logistics project in cooperation with China has been implemented, is determined as the SEZ specialized in the field of logistics.

As of March 2015, there are 467 companies already registered in 10 SEZs in Kazakhstan. However, the number of registered companies varies a lot from SEZ to SEZ. While one third of these companies are located in "Innovation Technology Park", only 3 companies are registered in each of "Burabay" and "Chemical Park Taraz". Although the companies associated with certain types of business such as gambling, or the users of underground resources are not allowed to register as SEZ residents, both domestic and foreign company can apply and become a resident of SEZs.

The differences in characteristics of each SEZ are provided below.

## **(1) SEZ "Astana New City"**

Astana became the new capital of Kazakhstan in December 1997 (before that the capital was Almaty). The city has a population of 853 thousand people and the area of 700 sq. km. Since the transfer of capital to Astana, the city has been actively developed and its development still continues even today. As part of such urban development, the SEZ "Astana New City" was established by the Presidential Decree of Kazakhstan in June 2001. This was the first project among all existing SEZs. "Astana New City" is located on the left bank of the Yesil River, with the total area of 7,562.3ha, consisting of 6,531.1ha of the new administrative and business center, 598.1ha of the first industrial zone, 433.1ha of the second industrial zone, and 72.41ha covered by light rail system.

The main purpose of establishing the SEZ in Astana is to accelerate the development of Astana through attracting investments and introducing advanced technologies in the field of construction, infrastructure development, creation of competitive industries and development of new products. The establishment of the SEZ is expected to contribute to improve the investment climate and benefit for both the state and investors. The priority sectors for this SEZ include construction, machinery manufacturing and light industry.

According to a report of the responsible representative of the SEZ "Astana New City" presented at the Fifth Meeting of the "Joint Commission, the government and private sectors of Japan and Kazakhstan for Economic Cooperation, " held in October 2014, the 50 planned projects will reach \$1.18 billion in total, of which 19 projects have already been in operation, 17 are under construction, 5 have launched in 2014, and 9 are currently at the stage of planning and design. The industrial fields of these projects are very diverse including machinery manufacturing, metal, chemical, electrical instruments, pharmaceuticals and logistics.

The following examples are the currently ongoing projects in the SEZ. ALSTOM, a French firm which invested US\$61 million in the construction of the plant, is producing electric train cars. U.S. firm, GE invested US\$117 million on the plant to produce diesel locomotives. The opening ceremony of the assembly plant was held in

July 2009 and the first new-generation diesel locomotive applied to the standard of "Euro-3" was produced in December. The new diesel locomotives are able to save 17% fuel and oil to the previous type, and are more environmentally friendly.

The residents of the SEZ "Astana New City" are not only foreign companies. A subsidiary of Kazatomprom, "Astana Solar," has installed the latest production equipment from Europe and is implementing a project to produce PV modules with the domestically-produced silicon. This project is highly expected to draw attention as it represents the main theme "green economy" of the EXPO 2017 to be held in Astana in 2017. In addition, for the second industrial area where infrastructure development has been currently underway, it is said that there is a plan to give high priority in the field of energy efficiency and renewable energy, in relation to the EXPO 2017. Both management side and investors of SEZ seem to turn their eyes to the potential for a new industry field.

## **(2) SEZ "Innovation Technology Park"**

The SEZ "Innovation Technology Park" is located in a village called Alatau which is far from the center of the city of Almaty. It was determined to be established in August 2003, before the enactment of the Acts of SEZ in 2007 and 2011. The opening ceremony was held in September 2006, and this SEZ is one of the oldest among existing SEZs in operation in Kazakhstan. It was called "Information Technology Park" at the time of foundation, and then renamed the "Innovation Technology Park" in 2011.

In the area of 163ha, companies in the fields of IT, telecommunication instruments and electronics are primarily attracted to the SEZ. Infrastructure was developed in the first stage during 2003-2011, and production facilities were established at the same time. In 2011, only 30% of the SEZ was occupied by the resident companies. However, a master plan for the development of "IT Park" was created in 2010 as a result of the initiative of the President, and the President Nursultan Nazarbayev visited the "Innovation Technology Park" in May 2011. As a result, the number of companies registered in the SEZ was increased, reaching more than 150 as of May 2015. Among

those companies, 70% of them implements the IT-related projects, and 10% is the foreign companies.

The Head of the Management Company showed the following perspectives. The SEZ "Innovation Technology Park" aims to increase the number of foreign companies to 60 and the total resident companies to 250 by 2020. In addition, one of the most important issues for the SEZ is to increase the number of manufacturing companies that can produce the exportable goods and earn 40% of revenues from the exports in the future.

As the second development stage of the SEZ "Innovation Technology Park" during 2013-2015, infrastructure development will cover the area of 165ha, and expect to cost 46 billion tenge in total. The main project of the second phase is the construction of the oil and gas research center of information technology of the Kazakhstan-British Technical University. It is a private research center to be established at the expense of an oil company, and will primarily conduct researches, development and engineering. The research center will be constructed in the area of 7ha, and is planned to have an office building of 1,700 sq. m, including 7 research laboratories and 3 residential buildings. Many of the employees of the resident companies of "Innovation Technology Park" are commuting from the city of Almaty, which is quite far away, so they often spend only a few hours a day in the office or come to work only a few days a week. To solve this situation, development of housing for workers is a critical issue for the SEZ as a whole.

In addition to the above, two construction projects are planned in the SEZ "Innovation Technology Park": A production plant of LG, and a service center for innovation with a joint venture of Hewlett-Packard and the government of Kazakhstan. These projects, as the second phase, are scheduled to be completed in 2015.

### **(3) SEZ "National Industrial Petrochemical Park"**

The SEZ "National Industrial Petrochemical Technology Park" is established in the Atyrau region, which is located in the western part of Kazakhstan by the Caspian Sea, and has a population of 567,900 people and an area of 118,600 sq. km. The Atyrau



region, called "the Oil Capital of Kazakhstan" from its richness in natural resources, accounts for about 40% of the total oil production in Kazakhstan. Thanks partly to geographical conditions; this region has been ranked the highest in the ranking of investment attractiveness of Kazakhstan by region in recent years. It has two of the world-class oil reserves, Tengiz and Kashagan, with the oil reserves estimated to be 4 billion tons.

The SEZ "National Industrial Petrochemical Technology Park" was established by the Presidential Decree in December 2007, to promote investment into the region by taking advantage of the geographical and economic features of the Atyrau region. The Ministry of Energy of Kazakhstan holds a 51% share of the Management Company of the SEZ, and the "United Chemical Company" holds the remaining 49%.

The total land area of the SEZ "National Industrial Petrochemical Park" is 3,476ha. From the results of feasible studies, an estimated cost of 250 billion tenge (about US\$1,300 million) will be required for infrastructures development, such as basic infrastructures including water supply and sewerage, gas and electricity, and buildings for local governments, as well as a 310MW gas turbine power plant, wastewater treatment plants, and other industrial infrastructure such as a complex facility of producing gas for industrial purposes. The decision has been made to allocate the amount of 93 billion tenge (about US\$500 million) from the state budget 2014-2015.

According to the materials of February 2015, 32 companies have registered in the SEZ and the total investment has reached 1,750.6 billion tenge. 4 projects are already in progress, which "United Chemical Company" is involved in the management of each project as a shareholder. The project for polypropylene production is planned to have a budget of US\$2.6 billion and annual production of 500 thousand tons. The investment and design of the project are expected to be completed by the end of the third quarter, and the construction will be started by the end of this year. For this polyethylene production project, the total investment is about US\$5 billion, and the construction of a plant with the production capacity of 800 thousand tons per year will be completed by 2019. The volume of investment project for the butadiene production project, the total investment is US\$1.6 billion, and a plant with the production capacity of 250 thousand

tons per year is planned to start the production by 2019. The fourth project is the construction of a plant for the production of polymer products (plastic bags and films), using the basic products produced within the SEZ – mainly polypropylene and polyethylene, with estimated investment of about US\$90 million. For the production plant of polymer products, construction already started in September 2014 and will be completed in September 2015, followed by the start of operation in December. Due to the fact that the operation of this plant for producing polyethylene and polypropylene as raw materials for making plastic products will be still to come, the plant will need to use raw materials that are imported from abroad at the start of operation, but will shift to raw materials produced within the SEZ in the future.

#### **(4) SEZ "Pavlodar"**

The SEZ "Pavlodar" is established in the Pavlodar region located in the North-Eastern part of Kazakhstan, sharing borders with Russia. The region has an area of 124,800 sq. km and a population of 746,200 people. In the Pavlodar region, fuel energy, metallurgy and chemical industries have been well-developed, and the processed products of these industries are exported to Russia, Italy, China, Turkey, Japan, etc. Currently, 169 industrial-related projects are currently implemented in the SEZ "Pavlodar" with the total of US\$8.9 billion, within the framework of the "State Program for Accelerating Industrial-Innovative Development of Kazakhstan in the 2010-2014".

As one of these projects, the SEZ "Pavlodar" was established in 2011, focusing on chemical and petrochemical industry as a priority sector. In the Pavlodar region, which is rich in both salt (raw material necessary for the development of the chemical industry) and water, several chemical plants were already built during the Soviet era. There are also oil refineries in operation since the Soviet era, refining the petroleum imported from Siberia of Russia. In the Pavlodar refinery, they refine Siberian oil, containing a large amount of sulfuric acid, use the extracted sulfuric acid for building materials and produce polymers, octane products and petroleum cokes. Thus, the

foundation for the development in the petrochemical and chemical industries is already established in this region.

The SEZ "Pavlodar" covers a total area of 3,300ha. While 1,200ha are provided for the resident companies, infrastructures will be developed in the remaining 2,100ha. In April 2012, a feasibility study was conducted on the planned site of the SEZ, and as a result the total budget necessary for developing infrastructure of the SEZ was calculated to be 28 billion tenge. In 2013, designing and various registration procedures were carried out and the state budget of 3.5 billion tenge for constructing infrastructure was planned to be allocated starting from 2014. However, the areas to be used for development and construction of infrastructure were reduced and the total budget was also reduced to 12 billion tenge since the management company came to the conclusion that such an expansive infrastructure would not be necessary. The infrastructure development is planned to expand once the numbers of investors and resident companies gradually increase in the future.

As of May 2015, three companies have started their production in the SEZ "Pavlodar": CAUSTIC, a company (produces caustic soda and chlorine) which started its production in the area before establishment of the SEZ; TOO Belinza (produces household chemicals such as bleach); and TOO BO-NA (produces disinfectant liquid). Additionally, there are three companies, TOO "Kazakhstan Chemical Company", TOO "AgroKhim Progress" and TOO "UPNK-PV", scheduled to complete their plants construction by the end of 2015. 25 companies have been registered in the SEZ including 6 companies mentioned above. All of these residents are Kazakhstan companies. Although the number of resident companies was 45 in November 2013, 20 of them were deregistered due to failure to meet the written conditions of the investment agreement signed at the time of registration, leaving the number of resident registered today to be 25 residents.

The main company of the SEZ "Pavlodar" is "CAUSTIC". Based on the chemical plant constructed in the Pavlodar region in the Soviet era, the company inherited all the existing infrastructure and facilities, including electricity, piping system, driveways, fire facility, research center, office building, etc., and started the

construction of a new plant in 2001. After that, AO "CAUSTIC" was established in 2002 and actual funding for the project started in 2008. As the plant construction was finally completed, the production of caustic soda was started in 2011.

This company produces various kinds of caustic soda and has production capacity of 100 thousand tons. The clients include "Rusal," "Eurasian Natural Resources Corporation," and "ArcelorMittal." However, because actual demand for the products has been far lower than its potential production capacity, the company currently only produces a total of 30 thousand tons per year. To the contrary, according to the material provided by "CAUSTIC," the annual domestic demand for caustic soda in Kazakhstan is estimated more than 60,000 tons and Kazakhstan is importing it mainly from Russia, at more than 44 thousand tons every year (figure for 2012, provided by CAUSTIC). The company hopes that demand for their products will increase, along with the development of the SEZ and the increase in the number of chemical and petrochemical companies registered in the SEZ. In fact, the aforementioned resident companies of the SEZ "Pavlodar" that have started their production, TOO Belinza and TOO BO-NA, are both built next to the facilities of "CAUSTIC". In June 2013, "CAUSTIC" signed a partnership agreement with "Kazatomprom", a company in need of caustic soda for the development of new mines, to launch a joint project to expand production. In anticipation of the growth of the SEZ, "CAUSTIC" has a plan to increase its production capacity during the period from 2014 to 2017, to 60 thousand tons of caustic soda and 50 thousand tons of chlorine annually. In order to improve the capacity, or in other words, to achieve modernization of production facilities, the company is currently looking for a strategic investor.

In addition, "Khimprogress," a joint-venture company with a Chinese partner engaged in producing petroleum coke for the aluminum industry, is planning to have an annual production of 205 thousand tons. The construction of its plant in the SEZ is scheduled to be completed by the first quarter of 2014.

Previously, the management company of the SEZ "Pavlodar" had its office located in the city of Pavlodar. When the current president succeeded as a head of the company in 2014, as he believed that "unless staying on-site, it would be difficult to accurately

understand the present conditions", the office was moved to the office building closely located in the SEZ and managed by "CAUSTIC". The current president of the management company of the SEZ stated about SEZs in Kazakhstan as follows. The country is exposed to fierce competition with the neighboring regions such as Russia and China, where there are many SEZs and industrial parks, and attracting investment will be difficult unless we deliver better services. I personally do not agree with the idea of attracting companies into the SEZ by limiting the sectors. For example, it would be a waste of opportunity, if a Russian company engaged in metal manufacturing or machinery building shows interest in the SEZ "Pavlodar" that is very close to Russia, but finds out not being able to earn privilege because the machinery building is not a priority sector.

#### **(5) SEZ "Saryarka"**

The SEZ "Saryarka" is established in the Karaganda region, which is located in the eastern part of Kazakhstan, and has a population of 1,360,000 people and an area of 428,000 sq. km. The Karaganda region positions manufacturing, mining, agriculture, electric power, construction and building materials as strategically important sectors for the achievement of economic growth in the region over the next 10 years. Priority industries in this SEZ are iron and steel, metalworking. They are especially interested in the production of rare metals such as tungsten, vanadium and molybdenum as well as attracting investment from Japan.

The gross area of "Saryarka", established in November 2011, is 534ha of which 294ha are allocated for the infrastructure development and the rest of it, 240ha for projects. 13 projects have been implemented and the only 40ha of unused space were left as of November 2013. To prepare for shortage of the space due to the increase in the number of resident companies in the future, a development plan of surrounding areas as sub-zones as well as the expansion of the land was under consideration. However, 280ha remains vacant now due to non-fulfillment of contractual obligations of the registered companies or the area of infrastructure development has been

reduced.

Infrastructure development in the SEZ "Saryarka" is already underway; Installation of power supply equipment, establishment of the control center, opening railway and roads and provision of communication network were completed as Phase 1 and Phase 2 with the cost amounted to 18.9 billion tenge totally. The project is currently in Phase 3, and constructions of the railway and the bridge, as well as water treatment plants are being completed.

In the case of the construction of plant in the SEZ "Saryarka", the water and gas supply can be completed in only 1 day (in the case of outside of SEZ, it will take over a month, sometimes a few years). On the other hand, since there are many plants besides the SEZ in the Karaganda region, power shortage become routine there. Nevertheless, electricity is not produced yet within the SEZ so the resident companies have to get it from outside. This situation entails additional costs upon them. Building a power plant in the SEZ is a critical agenda from now on.

The management company of the SEZ "Saryarka", "Karaganda Invest" conducts operation management of the SEZ, but as mentioned above, a Social Entrepreneur Corporation "Saryarka" in the Karaganda region provides the fund for infrastructure development including the state budget.

"Böhmer Armatura", one of the resident companies, owned by German capital invested 1.05 billion tenge on a plot of 4.3ha in the SEZ, is under construction for valves plant there. The plant with a production capacity of 15 thousand tons (1.5 billion tenge) commenced operation in the first quarter of 2014. The company became resident of the SEZ in December 2011, and they have already invested 7 million tenge by 2013. The plant was constructed by Kazakh contractors and almost all of them were from the Karaganda region. Consequently, it was cost-saving. The technological levels of construction companies in the Karaganda region are quite high, and a delegation from the parent company in Germany coming to Kazakhstan inspects construction and evaluates their capabilities. Valves, which are manufactured in the plant of "Böhmer Armatura", mainly go to the domestic market of Kazakhstan and are used for industry. As of May 2015, "Böhmer Armatura" employs 35 workers, and with the exception of

the chief engineer, all of them are citizens of Kazakhstan, mostly natives of the region. It is planned to produce about 10 thousand pieces of valves annually. The raw materials and parts are imported from Germany, Italy, Spain and Taiwan. Even though the valves are on the market of Kazakhstan at present, it is planned to start exports to Russia and Belarus in the near future.

Next to the "Böhmer Armatura", described above, the company "Izoplus - Central Asia" (with German capital) built their plant in the SEZ for the production of thermal insulation of pipes. The total area is 12.3ha, and the expected volume of investment is 1.5 billion tenge. The products are used for water and heating systems, oil and gas transportation. "Izopyus - Central Asia" completed construction of the plant in the first quarter of 2014 and start productions from September in the same year. Planned production capacity is about 20 thousand tons per year. (2.25 billion tenge). Iron, which is a raw material for production, is supplied from Kazakhstan, Russia, Germany and so forth. On the other hand, all the production equipment is imported from Germany. Almost all the products are sold in domestic market at the moment but they are planned to be exported to Russia in the future. Hiring the same number of foreign and local workers is required as the condition for receiving various special privileges.

The company "Hyunwoo Central Asia", a joint venture between Kazakhstan "ISS Finance" and the Korean company, plans to invest 3.182 billion tenge in a project on a plot of 4.3ha in the SEZ. In total 4 plants are supposed to be built, including one plant for the production of pipes with insulation which is under construction. It was scheduled to produce the prototype at the end of December 2013, and to begin production in the spring of 2014. Although the production has not yet started as of the beginning of 2015, the producing capacity is designed for 29 thousand tons per year (969 million tenge) once it goes into full-scale operation. The production equipment is imported from Germany, Japan and South Korea and ensuring employment of 130 workers is expected there. In addition to steel pipes, it is also planned to produce plastic products and parts of thermal insulation materials for fixing the pipes. For this reason, 4 plants will be constructed totally.

President of the Management Company, Mr. Ivanov emphasized that the most

distinctive feature of the SEZ "Saryarka" is that the basic infrastructure is almost completed. Only central heating and customs post are not installed yet, but it would be done in 2015. The advantage of the SEZ is the location, not only easy access to central road "Almaty-Astana" which is one of the National Projects but also the main route of railway passing through the Karaganda region.

Mr. Ivanov said that the development of the SEZ "Saryarka" appears to be successful, but a problem is that the number of investors is declining to 17 from 51 as of November 2013, because of the lack of activity. Some foreign companies are still operating there, but most of the resident companies are Kazakh firms. Only Chinese companies are showing interest in the SEZ "Saryarka" at present.

## **(6) SEZ "Seaport Aktau"**

The SEZ "Seaport Aktau" is established in the Mangistau region, which is located in the south of Atyrau, and at the coast of the Caspian Sea in the western part of Kazakhstan. The region has a population of 587,400 people and an area of 283,200 sq. km. It produces approximately 25% of all oil production of Kazakhstan, and this region is the center of the oil and gas industries which is important for the socio-economic development of the country. Aktau sea port, which consists of 4 oil ports and 3 dry cargo berths, can access to Iran in the south, Russia in the north, and Azerbaijan in the West through the Caspian Sea, as the port of reshipment

The decision to establish the SEZ "Seaport Aktau" was made by the Presidential Decree in April 2002, and it started in January 2003. Total area of the SEZ is currently 2,000ha, but in 2003, at the beginning of the development, the area was only 227ha of the coast of the Caspian Sea. Only 3 companies, KEPPEL, plant for the production of pipes (pre-insulated pipes) and AGST (fiberglass and plastic pipes), were in operation in this coastal zone. The SEZ has been expanded to 2,000ha by the decision of the President in 2007 due to the successful implementation of the three companies. Originally this area was used for industrial zone of Aktau city. Even though the authority searched unused industrial land within a radius of 15 km, not a single plot of



land was found. As a result, the SEZ consists of 6 separate sub-zones and the coastal zone. Infrastructure development in the SEZ "Seaport Aktau" started in 2008. Sub-zone 3 completed in 2009-2012 and sub-zone 1 finished in 2013-2014 subsequently. It is planned to complete the infrastructure development of sub-zones 2 and 4 by the end of 2017, as well as sub-zones 5 and 6 by the end of 2020.

The number of registered companies of the SEZ is 33 at present. The total amount of investment is 29 billion tenge (US\$158 million). When all the registered companies are in operation, the total production will be 223 billion tenge (US\$1.2 billion) and it will create about 1,000 jobs.

According to KAZNEX INVEST, the priority sectors for the SEZ "Seaport Aktau" are metallurgy, mechanical engineering and plant construction. However, it turned out by the interview in Kazakhstan that oil related industry (rich in oil production), construction industry (many national programs such as the construction of housing, schools, etc.), chemical industry (especially petrochemicals), and pharmaceutical industry, transport industry and logistics industry (scheme for building a new logistics center) are included as the priority sectors.

Nine projects are now in progress, 8 projects are planned to start in 2015 and 14 other projects to be launched until 2018 in the SEZ. Foreign companies from India, the UK, France, Azerbaijan, Norway, Singapore, South Korea, Spain, Italy, etc. are already located in the SEZ.

Arselor Mittal Tublar Products Aktau under the umbrella of an affiliation with "ArcelorMittal" producing iron and steel products in 60 countries around the world, produce large diameter spiral seam pipe from 500 to 1420 mm in sub-zone 1 since 2006. There is no other plant that produces such kind of pipes in Kazakhstan. The raw materials are purchased from Arcelor Mittal Temirtau which is a subsidiary company of "ArcelorMittal" in the same way. Produced pipes are used in Kazakhstan for oil pipelines, water supply systems, heating, etc. A person in charge of marketing in the company stressed that good location and logistics conditions are the reason for the choice of "Seaport Aktau", which oil and gas companies as well as ports and railways are located near or surrounding the SEZ. In addition, he noted that they have a good

relationship with the Management Company and receive strong support from the company.

The company "KIS Aktau" produces cement and cement products, which are used for housing and schools, etc. in sub-zone 3. They invested US\$3.4 million into construction of the plant in March 2014 and the plant was built six months later.

Even though the production commenced on December 1, 2014, the plant was still in trial operation at the time of the site visit in February 2015. The factory's production capacity of concrete slabs for the construction is 4-5 thousand sq. m per month, 100 thousand of sq. m per year. Production techniques of monolithic method were used in Kazakhstan for the first time. Since the production has just begun, development and maintenance of the plant is needed continuously, but they already have a plan to expand production of concrete aggregate in the future.

The company "Caspian Offshore & Marine Construction (COMC)" started production of metal structures, which are used as offshore platforms for the oil & gas companies, as their Kazakhstan branch office of Singaporean company, KEPPEL, in 2003. Currently, COMC is one of the subsidiary companies of "KazStroyService" and has no more relation to KEPPEL. They hire about 300 employees including 50 foreign workers on the site of 240ha and they are utilizing both domestic and foreign raw materials and provide the products for Kazakhstan and the Caspian regional market.

It was reported that the President of Kazakhstan Nursultan Nazarbayev visited the factory and made an inspection in October 2014.

## **(7) SEZ "Khorgos - Eastern Gate"**

The SEZ "Khorgos - Eastern Gate", located on the border with China, was established by the Presidential Decree dated November 2011. The Management Company of the SEZ "Khorgos - Eastern Gate" was set up as a wholly-owned subsidiary of KTZ Express ("National Logistics Development Center" at that time) in December 2011. KTZ Express itself is a 100%-owned subsidiary of Kazakhstan National Railway "Kazakhstan Temir Zholy (KTZ)." The SEZ "Khorgos - Eastern Gate," with its site area of 5,740ha, consists of the International Center of Boundary Cooperation "Khorgos" (ICBC), the dry port, logistics zone and industrial zone.

Dry port is operated by KTZ Express in close cooperation with the DP World, a Dubai-based experienced logistics management company. DP World also provided consulting support when KTZ Express set up a management company of the dry port. According to a staff of the Management Company, not a few companies from all over the world show a positive interest in the dry port. Since the width of rails between the railways in Kazakhstan and China is different, there are three broad and narrow gauges each in the dry port, which make it possible to transport 2 million tons per year. In addition, container terminal(s), container yard(s), temporary storage warehouse(s) of broad and narrow gauges are under construction due for completion in June 2015, when the dry port is expected to start its operation. However, additional facilities, such as transshipment cranes for bulky cargoes, are scheduled to be purchased and installed in June 2016.

Priority industrial areas of this SEZ are logistics and transport. Logistics zone of 162ha is located neighboring the dry port. Basic infrastructure of this area will be completed by November 2015. Not a few Kazakhstan and foreign companies show interest in the SEZ. In fact, Hewlett-Packard and DHL visited the site and decided to start their operation in the SEZ. In addition, an industrial zone of 227ha is located near neighboring the logistics zone, and the construction of basic infrastructure there is planned to be completed by the end of the year 2015. Apart from logistics, there are 9 priority areas in the Presidential Decree such as production of foods, textile, metals,

chemicals, machinery and equipment. Some companies are seeking the possibility of doing manufacturing business utilizing raw materials produced in Kazakhstan and China. According to the website of the Management Company, there are currently 82 registered companies in the SEZ.

Exemption of taxes and customs is the common benefit to all SEZs. Besides this, the SEZ "Khorghos - Eastern Gate" is located on the Silk Road, a strategic distribution channel between the East and the West. International project of constructing road between the Western Europe and the western region of China is under way, with estimated completion by August 2016. Anticipating the traffic volume increase as a consequence of the international highway construction, an idea to create a center for customs and transit services is also discussed.

There are two stations already built in this SEZ. At Altynkol ("Golden Spring") station, located near the border with China, 2.5 million tons of freight is transshipped per year. At this station, there are not only freight shipments, but also passenger train services to Almaty are provided.

## **(8) SEZ "South"**

The SEZ "South (Outustyk)" was established by the Presidential Decree dated July 2005. The size of this SEZ is about 200ha, and it is located in the Sairam district, a district which is relatively close to Shymkent (the second big city next to Almaty with a population of 858 thousand) - the center of the South Kazakhstan region, the biggest region of the country with the highest population of 2,733,300 people. The purpose of the SEZ is to develop and strengthen competitiveness of cotton processing, textile, spinning and garment industries, attracting world-famous textile manufacturing companies, and introducing advanced technologies to improve productivity. The priority sectors of the SEZ besides cotton processing and textile are carpets, leather products and paper manufacturing.

This SEZ Management Company "South (Ontustyk)," a company 100%-owned by the South Kazakhstan Regional government, was actively promoting investment in the

SEZ, and some of the Kazakhstan as well as foreign companies showed considerable interest in the SEZ. However, the construction of infrastructure was not completed by the expected completion time of 2007, and those companies wishing to move in the SEZ had to wait until December 2009 when infrastructure such as gas, telecommunications, roads and railways, electric power substation, water supply and sewage were finally completed with the state budget of 8.2 billion tenge, and 3 companies started their business operation then.

One of the three companies named "Khlopkoprom-Cellulose" has been successfully doing its business since then, and their annual production of cotton cellulose, carboxymethyl cellulose, etc. is amounted to about 600 million tenge. Their products are available not only in the Kazakhstan market, but also exported to Russia, Ukraine, Turkey, etc. At the end of 2009, a yarn-making company named "Yuteks-KZ," completed the construction of a textile factory and started production in 2010. The company named "Okhu-Textile" started operating with automated spinning factory.

The number of occupant companies of the area has been steadily increasing, and now it is 24 companies. As of 2014, apart from those projects stated above, 18 more projects are in progress, including "Shymkent Cashmere" project, producing quilts from camel and "Kagaz Shahary SEZ," a paper and pulp producing project. Among these 18 projects, 7 projects have already started production.

## **(9) SEZ "Chemical Park Taraz"**

The SEZ "Chemical Park Taraz" is the newest SEZ, which was proposed by the Sovereign Wealth Fund "Samruk-Kazyna" and established by the Presidential Decree dated November 2012. The Management Company of the SEZ "Chemical Park Taraz" is 100%-owned by "United Chemical Company," one of the affiliated companies of "Samruk-Kazyna".

The purpose of the SEZ is the development of the chemical industry, one of the priority issues indicated in the national strategic initiatives "Kazakhstan 2020". The size of this SEZ is 505ha, and it is located in the Zhambyl region. It is expected to

develop the necessary industrial base for producing chemical products such as rubber and plastics as well as machineries and equipment for producing chemical products. At the time of the SEZ establishment, it was reported that 16 companies of the chemical – related industries were planned to construct their plants in the SEZ. However, infrastructure construction has just begun, and there are only 3 occupants by now.

Apart from those incentives such as the exemption of taxes and customs, attractiveness of this SEZ would be found in the point that "Chemical Park Taraz" is located close to the production area of natural gas and other resources of the chemical products, as well as the good accessibility to the major potential markets - such as neighboring Russia, China, Uzbekistan, Kyrgyzstan, and so on.

#### **(10) SEZ "Burabay"**

The SEZ "Burabay" was established by the Presidential Decree dated January 2008. Although the term of operation of other SEZs is 25 years, the term of this SEZ is exceptionally defined as until December 2017.

The size of this SEZ is 370ha and it is located in the National Natural Park in the south-eastern area of Lake Shchuchye of the Burabay district of the Akmola region. It consists of the planned projects area of 33ha, open area of 69ha and forest of 268ha. The purpose of the SEZ is the development of competitive tourism infrastructure which attracts local and foreign tourists, utilization of environmentally friendly transportation (small aircraft, for example), and the creation of a common information base for tourists.

The Management Company of the SEZ "Burabay" is the "Department of Regional Committee of Tourism Industry of the Ministry of Industry and New Technologies of the Republic of Kazakhstan - the administration of SEZ "Burabay," supervised by A. Issekeshov, the Minister of Industry and New Technologies of Kazakhstan (now the Minister of Investment and Development).

For the infrastructure development of the "Burabay," the state budget has been

allocated in total 15.2 billion tenge during the period 2007-2012. As a result, in the SEZ the necessary infrastructure development such as electric power substation, roads, water supply facilities, sewage, telecommunications, etc. were completed.

As of May 2015, three companies registered to the SEZ. TOO "Borovoe Tourism City" started to construct "Burabay Lakes Resort Hotels" with world-class 200 rooms in July 2012 under the initiative of the world-famous hotel management company named "Rixos". The hotel already started its operation. Educational organization "Nazarbayev University" is running a training complex where they provide accommodation and capacity development services for sports and tourism specialists. Borovoe Country Club operates a cottage village of the same name.

In addition to these, the company "Kaz Trans Oil Service" has a plan to build a golf course and expansion of the SEZ (103.4 ha). "R & B City" has a plan to open a restaurant and accommodation facilities in the "Burabay Lakes Resort Hotels" project.

### **3. Issues of SEZs in Kazakhstan**

From the results of analyzing the materials on SEZs in Kazakhstan and information gathered during a visit to each SEZ and reviewing the current situation, the issues with regard to the system of SEZ in Kazakhstan are summarized as follows.

#### **◆ Limitation of sectors :**

It is a common and general understanding that a SEZ is geographically limiting the areas from the very beginning, in terms of offering incentives only to those companies registered in a specific region. However, in Kazakhstan, there is also a limitation of applicable sectors to earn incentives, in addition to the limitation of areas. This leads to the fact that an investor who has some kind of project or investment proposal may not be able to freely choose which SEZ to invest, but rather a SEZ chooses its investors. For this reason, intents of investors are not taken into account, resulting in less incentive, less attractive situation for investors to start a business in a SEZ.

#### **◆ Limitation of application of incentives :**

Under the current system of SEZ in Kazakhstan, a company cannot get tax free or other benefits only by becoming the resident of SEZ. To earn such benefits, a company needs to have the project consistent with the priority sectors. Moreover, a company must follow several prerequisites, such as the local supply rate of products must exceed the predetermined level, the proportion of revenue from the products related to the project to the company's total revenues must meet a certain level, etc. Fulfilling such conditions is not only a big obstacle for investors but also time-consuming. Since there is no information or material which clearly and simply explains such implementation criteria, investors often have to read the legal documents in original text on their own and try to understand the relevant incentive system, which is very time-consuming and tough works. Along with the language barrier, it is considered as an obstructive factor for reducing the incentives of investors.



◆ **Functions and roles of management companies :**

In Kazakhstan, there are some regions where there are various organizations, such as SEC, Damu, regional organizations to attract investment, local administrative offices, involve in attracting investment or supporting businesses in a manner similar to the management companies of SEZs. In these regions, the relationships between the management companies and those similar organizations are not clear, and it is difficult to figure out who to contact in some situation. For investors, the presence of a large number of supporting organizations (windows where they can apply) will be not necessarily a negative factor. However, in the case where coordination between these organizations is poorly managed, investors must individually communicate. In some cases, it might lead to duplication of effort or work and is not a good tendency.

Furthermore, if you look at the cases of other countries, it is not too much to say that one of the greatest appeals of special economic zones is the management company's functions, such as accommodating all kinds of procedures, and overcoming various types of problems that arise after the start of the project. The investors' interests to the SEZ and investment incentives will change depending on the functions and ability of a management company of the SEZ.

◆ **Limitation in obtaining uniform and consistent information :**

As the situation of SEZ, where development is still ongoing, and fast-changing, it is very important to be able to acquire the latest and most accurate information at the moment. For investors who cannot periodically visit the relevant management companies to receive important information without visiting them, one of these sources of information is the websites. However, not all of the SEZs have their own websites, and even if the website exists, it might not be always updated.

In a case where one needs to compare or review one of the SEZs in comparison with others, then it will be necessary to obtain consistent information. The National Agency for Export and Investment, called "KAZNEX INVEST," which is able to administer and operate all SEZs in Kazakhstan, and responsible for the management of such a consistent, organized information. But unfortunately, information available on the

website of "KAZNEX INVEST" is still limited, and investors might find it difficult to gather all the necessary information to use for consideration. Such situation must be improved for the future.

## II . A comparison of SEZ systems in other countries

### 1. SEZ System in Southeast and South Asia

#### (1) Incentive of SEZ in Southeast and South Asia

In Southeast and South Asia, SEZs are established for the purposes of attracting capital and technology transfer from developed countries and development of their industry and so on. Each SEZ provides various incentives for foreign capital investment. An overview of the SEZs in Southeast and South Asia is shown below.

There are many countries that provide incentives such as reduction and exemption of corporate tax, import tax, VAT and consumption tax. However, the contents of the incentives are different by the region. For example, in Vietnam, SEZs provide incentives of reduction of personal income tax.

In Thailand, it is characteristic that the political intention of the country is reflected in incentives. The country are divided into 3 zones which provide different types of incentives for the purpose of decentralization of industry, promotion of local industry and narrowing income gaps among people.

**Table 1-1 Incentives for SEZ in Southeast and South Asia**

Country	Name of SEZ	Conditions	Incentives
Vietnam	Areas of investment promotion	New investment projects in the region, and so on.	· Corporate tax: reduced rate 20% for 10 years. · Duty-free for 2 years and tax cut of 50% for 4 years for new residents only.
	Special areas of investment promotion		· Corporate tax: reduced rate 10% for 15 years. · Duty-free for 4 years and tax cut of 50% for 9 years for new residents only.
	Special economic zones		· Import tax free on imported goods of fixed asset.
	High-Tech Park		· Free consumption tax and VAT on goods in free trade zones of some SEZ. · Private income tax cut of 50% in some SEZ.
Thailand	IEAT Free zone "Free zone by Industrial Zone of Thailand"	Projects in the field of industrial production, services, etc., as well as projects of their	· Exemption from taxes, if the products are used or consumed in the domestic market from IEAT Free Zone. · Exemption from taxes on exports of

		support.	industrial equipment, machinery, and raw materials, import tax, VAT and excise duties.
	BOI Zone	First	Companies located in 6 regions around Bangkok. <ul style="list-style-type: none"> <li>· 50% reduction of the import tax for certain machinery and equipment.</li> <li>· Exemption for 1 year from import tax of raw materials for export production.</li> <li>· Exemption from corporate income tax for 3 years under certain conditions from projects located in industrial zone, as well as projects located in a supported industrial area.</li> </ul>
		Second	Companies located in 12 areas around Bangkok and Phuket. <ul style="list-style-type: none"> <li>· 50% reduction of the import tax for certain machinery and equipment.</li> <li>· Exemption from import tax of raw materials for export production for 1 year.</li> <li>· Exemption from corporate income tax for 5 years under certain conditions from projects located in industrial zone, as well as projects located in a supported industrial area.</li> <li>· For the remaining areas – exemption from corporate income tax under certain conditions for 3 years.</li> </ul>
		Third	Companies located in the 58 regions with low incomes and less infrastructure. <ul style="list-style-type: none"> <li>· Exemption from import tax for certain machinery and equipment.</li> <li>· Exemption from corporate income tax for 8 years.</li> <li>· Exemption from the tax on the import of raw materials for export production for 5 years.</li> <li>· For projects located in industrial zones and supported industrial areas of 36 regions, after the expiration of the withholding of corporate income tax - 50% reduction of the tax for a period of 5 years.</li> </ul>
Malaysia	Multimedia Super Corridor (MSC)	Companies selected by the Government	<ul style="list-style-type: none"> <li>· 100% tax exemption on statutory income.</li> <li>· Exemption from import tax for multimedia devices.</li> <li>· Grants for research.</li> </ul>
	Huge Development Plan (5 regions)	Companies that have received this status in selected regions	<ul style="list-style-type: none"> <li>· 100% tax exemption on statutory income for 10 years.</li> <li>· Tax exemption non-resident royalty and payments of technology fees for 10 years.</li> </ul>
Philippines	PEZA export processing zone (ecozone)	Companies defined by the Department of SEZ (PEZA) for registration in the SEZ.	<ul style="list-style-type: none"> <li>· Exemption from corporate income tax (3-6 years)</li> <li>· Granting of special taxes.</li> <li>· Exemption from customs duties, tax on the annual income of the country and local taxes.</li> <li>· Exemption from berth dues, export taxes, charges and fees.</li> </ul>
	Subic Bay Free Port	Registered companies in Subic Bay Free Port	<ul style="list-style-type: none"> <li>· Exemption from customs duties and taxes (VAT)</li> <li>· Exemption from state and local taxes.</li> <li>· Exemption from VAT.</li> </ul>
	Clark Special Economic Zone	Registered companies in Clark Special	<ul style="list-style-type: none"> <li>· Exemption from customs duties and taxes (VAT).</li> </ul>

		Economic Zone	<ul style="list-style-type: none"> <li>· Exemption from state and local taxes.</li> <li>· Exemption from VAT.</li> </ul>
	Aurora Special Economic Zone	Registered companies in Aurora Special Economic Zone	<ul style="list-style-type: none"> <li>· Exemption from state and local taxes (corporate income tax, excise tax, tax deductible). But the tax on the gross national income of 5% will be charged.</li> <li>· Raw materials, spare parts and equipment imported into the territory for sale, exempt from customs, tax code and local tax regulations.</li> </ul>
Indonesia	Free Trade Zone and Free Trade Port	Enterprises located in the area of economic integration (KAPET)	<ul style="list-style-type: none"> <li>· Exemption from import duties, VAT and other taxes associated with imports.</li> </ul>
	Economic Integration Area (KAPET)	Residents of the Economic Integration Area	<ul style="list-style-type: none"> <li>· Exemption from income tax (corporate tax prepayment, PPh22) on imports of fixed assets directly related to production, raw materials and equipment.</li> <li>· Reducing the time for amortization and depreciation in the calculation of income tax.</li> <li>· Increase of loss carries forward from the previous financial year (maximum 10 years).</li> <li>· 50% reduction of income tax on dividends.</li> </ul>
	SEZ	Residents of SEZ	<ul style="list-style-type: none"> <li>· Facilitation of corporate income tax, the freezing of import duties, withholding of various fees on imports, reduction of local taxes and fees, assistance in obtaining licenses and documents on the ground, etc.</li> </ul>
India	SEZ	Residents of SEZ	<ul style="list-style-type: none"> <li>· 100% tax deduction on corporate income tax for 10 years.</li> <li>· Exemption from tax on dividends</li> <li>· Exemption from customs duties, excise taxes and service charges.</li> </ul>

Source: Compiled from various materials of each country.

## (2) Measures to attract companies in Southeast and South Asia

Southeast and South Asia countries enacted their own measures to attract foreign companies in addition to the establishment of SEZ and setting incentives. Especially on the occasion of the attracting Japanese companies, they developed industrial park exclusively for Japanese companies in cooperation with Japanese trading corporations.

There is a strong need for industrial park exclusively for Japanese companies, which have been developed in each country. In this background, Japanese companies seem to have experiences that they faced the inadequate infrastructure when they became residents of industrial parks or the inadequate support of the management company of

industrial parks when some kind of troubles occurred. It is expected to address to these issues adequately through developing industrial parks by private companies. Moreover, it is also expected to improve the quality of service by providing detailed information for companies who consider to be residents of industrial park of overseas. As a result, it is also expected that industrial developer can recover the investment easily. Table 1-2 shows the industrial parks exclusively for Japanese companies that Japanese trading corporations were involved in its design, development and sale.

**Table 1-2 The development of industrial park exclusively for Japanese companies**

Country	Japanese trading corporation involved in the creation of a zone or sales	Area Name
Vietnam	Mitsubishi Corporation	• VSIP-Vietnam Singapore Industrial Park
	Sumitomo Corporation	• Thang Long Industrial Park • Thang Long Industrial Park II
	Itochu Corporation	• AMATA VIETNAM Industrial Park
	Sojitz Corporation	• Long Duc Industrial Park • LOTECO Industrial Park
Thailand	Sumitomo Corporation, Itochu Corporation	• Amata Nakorn Industrial Park • Amata City Industrial Park
	Toyota Tsusho Corporation	• Eastern Seaboard Industrial Park
Malaysia	Mitsui Corporation	• Iskandar. Malaysia Industrial Park
Philippines	Mitsubishi Corporation	• Laguna Techno Park
	Sumitomo Corporation	• First Philippine Industrial Park (FPIP)
	Marubeni Corporation	• Lima Industrial Park
Indonesia	Sumitomo Corporation	• East Jakarta Industrial Park (EJIP) • Suryacipta Industrial Park
	Marubeni Corporation	• MM2100 Industrial Park
	Itochu Corporation	• Karawang International Industrial City (KIIC)
	Sojitz Corporation	• Greenland International Industrial Center (GIIC)
	Toyota Tsusho Corporation	• Mitrakarawang Industrial Park
India	Sojitz Corporation	• Sojitz Motherson Industrial Park(SMIP)
	Toyota Tsusho Corporation	• Bidadi Industrial Park
Myanmar	Mitsubishi Corporation, Sumitomo Corporation, Marubeni Corporation	• Thilawa Industrial Park
Cambodia	Sumitomo Corporation	• Phnom Penh Special Economic Zone

Source: Compiled from various materials of each country

In addition to the above industrial parks, there are industrial parks exclusively for Japanese companies developed by state agencies of these countries. For example, the Neerana industrial park exclusively for Japanese companies in India was developed

by RIICO (Development Company of Industry and Investment Rajasthan) and its sale in lots began in 2007. The characteristic of this industrial park is attractive policies: inexpensive land value, various incentives and soft infrastructure development. As a result, at present there are 46 resident Japanese companies in the zone, and the number of employees has increased to 9,100. Next to the Neemrana industrial park, second industrial park exclusively for Japanese companies, Griot industrial park was developed. Its sale in lots began in April 2015.

**Table 1-3 Summary of Neemrana Industrial Park exclusively for Japanese companies**

Characteristics	Contents
Low land prices	<ul style="list-style-type: none"> <li>● Land value: 3,000 rupees per 1sq. m. (rent for 99 years).</li> <li>● Put on sale in 2007. The industrial park is located along the state road number 8. It is quite full, and land value is increasing.</li> <li>● Opportunity to purchase lands at a reasonable price in the state of Rajasthan.</li> </ul>
Incentives	<ul style="list-style-type: none"> <li>● Due to MOU between JETRO and state-owned companies, it can be hassle-free to pass complicated procedures for obtaining permits for the construction phase.</li> <li>● Reduction of the state sales tax on products in another states of India (from 2% to 0.25% of the value of goods).</li> <li>● Reduction of tax on electric energy consumption by 50%, reduction of land tax by 40%.</li> </ul>
Soft infrastructure –	<ul style="list-style-type: none"> <li>● Regular liaison meetings for resident companies of Neemrana Industrial Pak → JETRO collect opinions and suggestions from resident companies and transmits them to state-owned companies for improvement. Resident companies have the opportunity to share their views.</li> <li>● Model district of "smart community".</li> <li>● Good living environment for Japanese, the presence of Japanese cuisine, service apartment etc.</li> </ul>

Source: Compiled from JETRO data of industrial park specially for Japanese companies in India

**Table 1-4 Summary of Girot Industrial Park exclusively for Japanese companies**

Characteristics	Contents
Low land prices	<ul style="list-style-type: none"> <li>● The total area of 500 acres (according to plan).</li> <li>● Land value: Rs 3,000 per sq. m. (rent for 99 years) (according to plan)</li> <li>● Schedule: Waiting for the completion of access roads. It is planned to put on sale of land from beginning of 2015.</li> <li>● Location: Drive 10 minutes from Neemrana towards Delhi on the national road №8, and drive 7 km further to inland.</li> <li>● The rate of occupancy of Japanese companies in Neemrana industrial park is 90%, and JETRO and the state company for the development of the State signed a new agreement in 2012.</li> </ul>
Incentives	<ul style="list-style-type: none"> <li>● Due to JETRO and regional state-owned MOU, it can be hassle-free to pass complicated procedures for obtaining permits for the construction.</li> <li>● Reduction of the state sales tax on products in other states of India (2% of the</li> </ul>

	value of goods → 0.25%) ●Reduction of the tax on electrical energy consumption by 50%, reduction of land tax by 40%
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Source: Compiled from JETRO data of industrial park specially for Japanese companies in India

When Japanese major companies decide to invest abroad, they set more than 100 evaluation indexes and evaluate industrial parks of each country in the world. The main criteria for evaluation are: market size, location (distance to the target market or to Japan), availability of skilled labor, wage level, existing suppliers, infrastructure, permission and authorization service such as "one-stop service", incentives for investment, living environment in the area, etc.

It is believed that industrial park exclusively for Japanese companies is superior to other SEZ in terms of the infrastructure, permission and authorization service such as "one-stop service", incentives for investment, and living environment in the area.

In addition, Viet Nam, Thailand and many other countries in Southeast Asia have attracted foreign companies by setting up so-called "Rental Factories". The demand is high especially for small and medium-sized companies, as it allows to reduce the initial investment and they can start production in the short term.

For example, the industrial park Tanlong (Vietnam) described above as an industrial park exclusively for Japanese companies has factories for rent, and hence, there are many Japanese resident companies. Only in the northern and central parts of Vietnam, there are 31 industrial parks with factories for rent, and the number of resident companies was 104 as of 2012.

In addition, there are Japanese companies providing "Rental Factories" which develop infrastructure similar to industrial park exclusively for Japanese companies.

"Rental Factories" for Japanese companies have the following features:

- They have small-sized rental factories, especially suited for small and medium-sized businesses. Some of them have various sizes of Rental Factories.
- They developed substantial infrastructure which enables resident companies to start production in the short term, and to reduce the initial investment.
- They have full-time Japanese staff and provide support desk for the resident companies.



- There are administrative agents who take care of paperworks before and after setting the operation.
- Backup by government agencies or management companies of industrial parks.

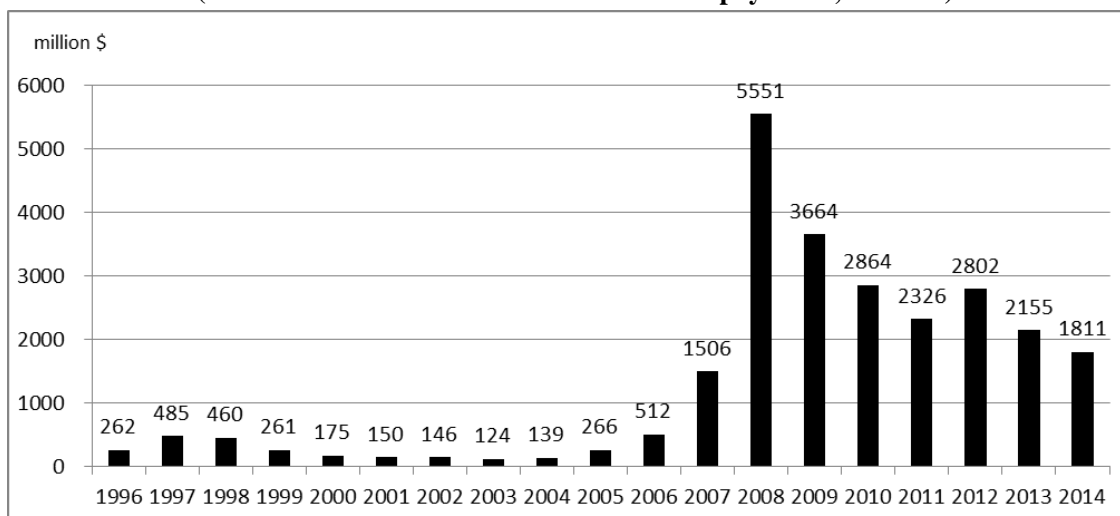
### **(3) The difference with Kazakhstan**

As for incentives, both Southeast and South Asian countries and Kazakhstan have incentives for reduction of corporate tax, VAT and so on. Although there is a difference in rate and applicable period, it is considered they take the same basic approach.

There is a limit to what the state, regional authorities and management companies can support for the resident companies in SEZ. It may take time or may be difficult to deal with size of the market, location (proximity to the target market and to Japan), the availability of skilled labor, wage level and the existing suppliers. Excluding these surrounding environment factors, in order for Kazakhstan to increase its attractiveness, it is necessary to have a stronger advantage in infrastructure development, introduction of permission and authorization service such as "one-stop service", good living environment in the area in addition to the incentives. However, in this point as well, Kazakhstan is inferior to the countries in Southeast and South Asia.

Since the number of Japanese companies expanding into Kazakhstan had been limited, Japanese companies' needs and expectations were not well understood in Kazakhstan. Nevertheless, in order to attract Japanese companies, it needs to continuously take measures both in terms of hard infrastructure and soft information services.

**Chart 1-1 direct foreign investment to India from Japan  
(on the basis of the international balance of payments, net flow)**



Source: Compiled according to JETRO, prepared on the basis of "international balance of payments" (the Ministry of Finance), "Quotations of currencies of foreign countries" (Bank of Japan)

Foreign direct investment to Kazakhstan from Japan remained at the level of 500-600 million dollars in recent years. As viewed from the perspective of direct investment, it is almost the same amount that was invested in India in the period of construction of Neemrana Industrial Park exclusively for Japanese companies. However, in the case of India, based on the fact that in 2007, more than 300 Japanese companies have already had its subsidiaries, it can be assumed that there was strong demand for the industrial park exclusively for Japanese companies, and Japanese manufacturing companies already had much experience of local production. On the other hand, not many Japanese manufacturing companies have invested in Kazakhstan. Therefore it should be noted that the possibility of establishment of new SEZ in Kazakhstan exclusively for Japanese companies is extremely low.

At the moment, it is realistic to attract Japanese companies to the areas such as the existing industrial parks by the development of basic infrastructure and permission and authorization system such as "one-stop service" and the improvement of living environment in the surrounding area.

## **2. The system of SEZs in Russia**

In Russia, there are three kinds of institutions to attract investment: 1) industrial parks, 2) special economic zones (SEZs), and 3) technoparks. The institutional differences among them are difficult to understand. In addition, there are so many parks and zones and their details vary widely. However, there exist SEZs or industrial parks where foreign investments were successfully invited, for example, the industrial parks in Kaluga region "Vorsino", which is known as the "Economic Miracle of the Kaluga region," and "Rosva" (where Peugeot-Citroen-Mitsubishi has moved in), and foreign companies including Japanese makers expanded their business.

This section will summarize the system of SEZs, industrial parks and technoparks in Russia, and will introduce the "Association of Industrial Parks of Russia" which plays an important role in these developments. Then, we will show examples of projects in Russia, and attempt to compare them with the system of SEZs in Kazakhstan. Because Russian projects serve as a precedent of attracting Japanese companies to "special district" in transitional economy there may be some "tips" for the development of SEZs in Kazakhstan.

### **(1) Overview of industrial parks and SEZs in Russia<sup>1</sup>**

In 2012, V. Putin was re-elected as President of Russia, and the challenge of modernizing the country became more prominent. It was emphasized that foreign investment would be needed for the modernization of the country and for that the improvement in the investment climate would be necessary. Accordingly, the federal government had the regions compete each other in improving their investment climate for attracting foreign investment. "Industrial parks" is one of the key instruments of this policy.

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<sup>1</sup> This chapter is summarized and edited on the Report on the work of promotion and trade and investment in Russia in 2014, the Japan Association for Trade with Russia and the Newly Independent States. "Industrial parks and special economic zones in Russia and the CIS" (03.2015) / M. Hattori "Overview of industrial parks and special economic zones."

In Russia there are about 560 areas which could be used as industrial site. It is broadly interpreted that there are more than 500 industrial parks. However, the number of industrial parks that are in good conditions for foreign investment is limited. Number of industrial parks listed in the report released by the Association of Industrial Parks (Association of Industrial Parks, Sector Overview: Industrial Parks of Russia, Issue 2, 2014) is 101.

Based on the said report and the information from the other sources, in Table 2-1, we compiled information about industrial parks where Japanese companies started their operations: name, status (in operation or in preparation), type (Green Field=GF or Brown Field=BF), member or non-member of the Association of Industrial Parks, certified by the Association of Industrial Parks or not, year of establishment, site area, ownership: private or public, location, website, etc.

According to the information from the Ministry of Industry and Trade of Russia as of November 2014, the number of industrial parks in operation then was 45, and their share in the total production of the processing industry in Russia was only 0.5%. According to the Ministry's plan, by 2020 the number of industrial parks in operation will reach 127, the annual investment will reach 100 billion rubles, while the share in the total production of the processing industry will be 4%. To promote industrial parks, the federal government plans to subsidize 20-30 billion rubles in the period of 2015-2017, and the candidate areas are being selected by public invitation.

The current system of SEZs in Russia was established by the Federal Law of 2005 (later it was amended several times). According to this law, SEZs of Russia are divided into 4 types: 1) industrial and production zones, 2) technology and innovation zones, 3) tourist and recreation zones and 4) port zones.

Every September, the Ministry of Economic Development, which supervises the SEZs, releases an overview of the establishment and operation of SEZs of the previous year. Based on this information, we have compiled Table 2-1, which shows the establishment and activities of the SEZs by the end of 2013.

The table shows that two industrial and production zones developed earlier, SEZ "Alabuga" in Tatarstan and SEZ "Kazinka" in the Lipetsk region, have achieved

certain results. In both of these zones, more companies have moved in and employment and sales have increased. Lipetsk SEZ is known for the tire production plant constructed by Japanese company "Yokohama Rubber" and received the Award for "fDi Global Free Zones of the Year", in the category of "Attracting big companies in the Europe 2014" which was organized by "fDi Intelligence", a division of "Financial Times". It is a good example showing that investment climate can be improved even in Russia. In the same industrial manufacturing zones, Togliatti, where number of Japanese and other foreign companies starting operation is also steadily increasing and catching up with Alabuga and Kazinka. Technology and innovation zones have also achieved a certain result in attracting businesses and creating jobs.

**Table 2-1 Russian industrial parks in which Japanese companies operate**

The name of the industrial park	Condition	Type	Membership of industrial park association	Certification of industrial park association	Notes
Central Federal District					
Kaluga region					
Industrial Park Rosva	started production	GF	Yes	Yes	Founded in 2008, 755 ha. Private. Located in the city of Kaluga. Some of residents are Peugeot-Citroen-Mitsubishi, Continental. <a href="http://www.investkaluga.ru">http://www.investkaluga.ru</a>
Lipetsk region					
SEZ Lipetsk PPT	started production	GF			1024 ha. Public. Located in the suburbs east of Lipetsk. Machinery and furniture. One of residents is Yokohama Rubber. <a href="http://www.russez.ru/oez/industrial/lipetsk_region">http://www.russez.ru/oez/industrial/lipetsk_region</a>
Tver region					
Industrial Park Raslovo	preparation stage	GF			90 ha. Private. Located in a suburb south of Tver. Diversified. One of residents is Hitachi construction machinery. <a href="http://www.tverinvest.ru">http://www.tverinvest.ru</a>
Yaroslavl region					
Industrial Park Novoselki	started production	GF	Yes	Yes	Founded in 2010. 405 ha. Public. Located in the suburbs north of Yaroslavl. Machinery, pharmaceuticals, food. Some of residents are Komatsu plants, Takeda pharmaceutical. <a href="http://yarip.ru">http://yarip.ru</a>
Volga Federal District					
Samara Region					
SEZ Togliatti	preparation stage	GF			660 ha. Public. Located in a suburb of Tolyatti. Automotive, construction materials, consumer goods. Some of residents are Sano Atsumitek, Hilux. <a href="http://oeztilt.ru">http://oeztilt.ru</a>
Ulyanovsk region					
Industrial Park Zavolzhye	started production	GF	Yes	Yes	Founded in 2009. 706 ha. Private. Located in the suburbs west of Ulyanovsk. Diversified. Some of residents are Bridgestone, Takata. <a href="http://ulregion.ru">http://ulregion.ru</a>

Source: Compiled from various materials.

**Table 2-2 Russian SEZs and the state of their development (as of the end of 2013)**

Name of SEZ	Date of foundation	The number of resident companies	Among them: with the participation of foreign companies	The number of companies that have lost their "resident" status	The number of jobs	The total investment by resident companies (in Rubles million)	Total sales of resident companies (in Rubles million)	The total amount of tax revenues from resident companies (in Rubles million)
Republic of Tatarstan, the Yelabuga district, "Yelabuga (alabuga)"	21 Dec 2005	36	20	1	4,169	58,669	95,647	5,822
Lipetsk region, Kryazhskaya district, "Kazinka"	21 Dec 2005	29	10	2	2,450	23,356	20,813	1,564
Samara region, Stavropol district, "Togliatti"	12 Aug 2010	13	8	0	209	351	0	135
Sverdlovsk region, Verkhnyaya Salda, "Titanium Valley"	16 Dec 2010	4	1	0	8	3	0	0
Pskov region, Pskov, "Mogilno"	19 Jul 2012	1	0	0	0	0	0	0
Kaluga region, Lyudinovsky district, "Lyudinovo"	25 Jan 2013	0	0	0	0	0	0	0
Total special industrial-production zones	-	83	39	3	6,836	82,379	116,461	7,520
St. Petersburg, district Neudorf, Novoorlovsky borough	21 Dec 2005	32	2	21	633	5,775	802	1,032
Moscow "Zelenograd"	21 Dec 2005	32	1	12	849	3,388	6,926	1,002
The Moscow region Dubna	21 Dec 2005	96	6	18	1,320	4,068	4,912	465
Tomsk region, Tomsk	21 Dec 2005	60	11	17	1,182	4,595	4,291	817
Republic of Tatarstan, Verkhneuslonsky district, Laishevskij district, Innopolis	01 Nov 2012	0	0	0	0	0	0	0
Total special technology zones	-	220	20	68	3,984	17,827	16,931	3,316
Altai Territory "Turquoise Katun"	03 Feb 2007	17	0	0	47	304	64	9
Republic of Altai, "Altai Valley"	03 Feb 2007	5	0	6	78	77	53	1
Republic of Buryatia "Baikal harbor"	03 Feb 2007	10	0	2	19	105	0	2
Irkutsk region "Gate of Baikal"	03 Feb 2007	2	0	0	9	126	0	2
Primor "Russian Island"	31 Mar 2010	0	0	0	0	0	0	0
North Caucasian autonomous region "North Caucasus tourism cluster"	14 Oct 2010	1	0	0	0	0	0	0
Total special recreational and tourist areas	-	35	0	8	153	611	117	15
Ulyanovsk region, "Airport East"	30 Dec 2009	6	2	0	23	12	0	7
Murmansk region, "Sea Port of Murmansk"	12 Oct 2010	0	0	0	0	0	0	0
Khabarovsk region, "Port of Sovetskaya Gavan"	31 Dec 2009	0	0	0	0	0	0	0
Total port zones	-	6	2	0	23	12	0	7
Total for all zones	-	344	61	79	10,996	100,829	133,508	10,858

Source: Compiled from various materials.



The problem lies in the remaining two types of zones: tourist and recreational zones and port zones. Indeed, these types of areas have been established later, but there is almost no business activity in these zones and in fact there are some SEZs where no company moves in.

In general, the system of SEZs in Russia, based on the Law of 2005, is successful to some degree in terms of creating industrial parks, but has difficulties in the achievement of the original goals to improve and diversify the economy through the promotion of research and development, tourism and logistics.

Russia has special economic zones in the Kaliningrad and Magadan regions apart from those of the Law of 2005. A new type of SEZ promoted currently in the Far East is not under the Law of 2005 and regulated by other legislation.

In addition, as a result of the inclusion of Ukrainian peninsula of Crimea to Russia (this is not approved by Japan and the other countries), the Federal Law on Free Economic Zone (FEZ) of Republic of Crimea and Sevastopol city was enacted as of November 29, 2014 and came into force as of January, 2015. FEZ is not a zone developed under the Federal Law of 2005, but we call it Crimean SEZ for convenience in this report. SEZ activity in Russia is under control of the Ministry of Economic Development, but Crimean SEZ is under control of the Ministry of Crimea, not of the Ministry of Economic Development. This SEZ is to operate for a period of 25 years with possibility of extension. Resident companies of SEZs are provided with the construction and property-related special benefits, tax benefit and subsidies. Types of industry appeared on the company list of this SEZ are tourism and recreational, agriculture, manufacturing, high-tech industry and logistics (port and transport infrastructure). To be certified as a resident of the SEZ, it is needed to invest more than 30 million rubles in the first three years. As for small and medium businesses they need to invest more than 3 million rubles.

Industrial parks have been developed according to the program "Creation of technoparks in the Russian Federation in the field of high technology" which was approved by the Order of Federal Government of March 10, 2006. Table 2-3 shows the list of technoparks developed under the program. It is possible to say that technoparks

in the narrow sense in Russia are the ones included in this program only.

Of course, the term "industrial park" can be more broadly interpreted as business area where research and development in the field of high technologies are carried out. In a broader sense, thus, Innovation Center "Skolkovo" located in the suburbs of Moscow and a SEZ for introducing foreign technologies can be also called a technology park.

**Table 2-3 List of Russian technoparks**

The name of the Technopark	Short description
"Technopolis Himgrad"	Republic Of Tatarstan. Kazan, area 131 hectares. Major industries: chemical industry, processing of polymers, energy-saving technologies, nanotechnology, new materials, medical devices.
"IT Park"	Republic Of Tatarstan. Kazan, area 3.2 hectares. The data center of high power, including infrastructure with high-speed internet. Industry specialization - technical developments in the field of information communications.
"IT Park"	The Republic of Kazakhstan, the city of Naberezhnye Chelny. 7.6 hectares. Department of IT park in Kazan (from the previous row) in Naberezhnye Chelny. The goal is to meet the needs of information technology local automakers, etc.
"West-Siberian Innovation Centre"	Tyumen region, Tyumen. 1.2 hectares. The complex of buildings, including a business incubator, offices, conference rooms, etc. Industries of specialization - innovative projects related to the oil and gas industry.
"Technopark Novosibirsk Akademgorodok"	Novosibirsk Oblast Akademgorodok, 0.9 hectares. Areas of specialization - information and communication technologies, biotechnology, biomedicine, instrumentation, nanotechnology and new materials.
"Kuzbass technopark"	Kemerovo region, Kemerovo. (to the end of construction - 6.0 hectares). The complex houses a business incubator, offices, public buildings, conference rooms. Industries of specialization - energy conservation, IT, ecology.
"Technopark of Mordovia"	Republic of Mordovia, Saransk. 5.0 hectares. Industries of specialization - production of electronic equipment, electronic engineering, fiber, energy-saving lighting, IT, nanotechnology.
"Obninsk"	Kaluga region, Obninsk. About 10 hectares. Industries of specialization - IT, biotechnology, pharmaceuticals, nanotechnology, radiation technology in the field of medicine, new technologies, new materials.
"IT Park Ankudinovka"	Nizhny Novgorod region. Nizhny Novgorod. 7.3 hectares. Industries of specialization - information and communication technologies, bio - and medical technology, instrumentation and mechanical engineering, electronic instrumentation, chemistry, new materials.
"Ingria"	St. Petersburg. 32.1 hectares. The ambitious project includes the involvement of 200 companies and 14,000 jobs. It is planned to build a complex of buildings, including offices, shops, hotels, conference halls. It is planned to be the center of the St. Petersburg's ICT cluster.
"High Technology Park"	Penza region. Penza. Industries of specialization - information and communication technologies, development and production of high-tech medical equipment, instrumentation.
"Zhigulevskaya Valley"	Samara region, Tolyatti. 5.0 hectares. Industries of specialization - information and communication technologies, transport space research, chemistry and new materials, energy saving machinery. This park serves as diversifikatora industry Togliatti - monotown AvtoVAZ.
Green Valley	Tambov region. Michurinsk. Unique industrial park engaged in the development of biotechnology in agriculture.

Source: Compiled from various materials.

It should be noted that in the government of the Russian Federation, the industrial parks are administered by the Ministry of Industry and Trade, and the SEZs are under the Ministry of Economic Development. On the other hand, the Ministry of Communications is responsible for the policies of the above mentioned technoparks in the narrow sense. Hence, the policies of the technoparks in the narrow sense in Russia put much emphasis on the area of information and communications.

The system of technoparks in Russia is very close to technology and innovation zones. The essence of technology parks is that the relevant government agencies provide the budget for land, construction of buildings, infrastructure, and then projects related to scientific developments or high technology are implemented by the resident companies. Usually, large open space is not provided in technoparks and the companies move in the existing building or office. Therefore technoparks are not suitable for the business which requires construction of mass-production plants.

The above mentioned program for the development of technology parks expired in 2014, and the Ministry announced the completion of all construction works by the end of 2014. The total area of technology parks is 450,000m<sup>2</sup>, 750 high-tech companies are there, and 18 thousand of jobs were created. In 2014, sales amounted to 39.99 billion rubles, a 25% increase from the previous year (<http://minsvyaz.ru/ru/events/32547/>). The Russian Federation government subsidizes technoparks as well as industrial parks according to certain criteria to stimulate further development.

## **(2) Association of Industrial Parks of Russia: the structure and activities<sup>2</sup>**

In the middle of 2000s, when Russia's economy was booming and the market of consumer goods expanded rapidly, Japanese companies, especially automakers - Toyota and Nissan, have increased interest in the investment in Russia. However, at that time there were no good conditions for foreign companies to start business in "usual way" in Russia. Not only Toyota and Nissan had to get a plot of land in the wilds and forests from the regional authorities, but also they had to prepare the ground maintenance and draw utilities (electricity, water supply and sewage etc.) from the surrounding areas at their own expense. In addition, in order to obtain all the permits to develop a site and utilities, huge costs and complicated procedures with the lack of transparency were required.

In order to improve such bad conditions and promote plant construction in Russia, the Federal Law on Special Economic Zones was adopted in 2005. For the first time, industrial and production zones with the specific management companies, where the federal government allocated plots and developed utilities, were created in the Republic of Tatarstan and the Lipetsk region. These SEZs have become pilot models for the establishment of regional development corporations in different regions of Russia. After that, even though that is not classified as SEZs, the regional authorities started to provide areas, develop infrastructure, create industrial parks and offer one-stop services for various procedures. In 2006, a Swiss private construction company opened the first industrial park in the Noginsk of Moscow region.

The Association of Industrial Parks Russia was founded in 2010. Founders of the organization were the regional development corporations, which have become the driving forces of development of industrial parks in the initial stage (particularly the Development Corporation of Kaluga region), private developers of industrial parks and consulting companies specializing in real estate and construction and so on. "Business

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<sup>2</sup> This chapter is summarized and edited on the Report on the work of promotion and trade and investment in Russia in 2014, the Japan Association for Trade with Russia and the Newly Independent States. "Industrial parks and special economic zones in Russia and CIS countries" (March 2015) / Ohashi I., Advisor Moscow office references. ROTOBO Association. head "structure and activities of the Association of Industrial Parks of Russia".

Russia", a business association headed by the co-chairman Alexander Galushka (now the Minister for Development of the Far East), played a main role in establishing the association.

According to the data of the last year, there are about 560 areas that can be used for plant construction under various conditions in Russia, Among these areas, industrial parks are 101 (61 private, 40 public ). Among them, 57 industrial parks are members of the Association (at the beginning of 2015, 65 industrial parks of the 43 regions are members of the Association). Including design companies for developing industrial parks and plant construction for resident companies, construction companies, real estate companies and consulting companies (including foreign companies), total number of the members are more than 90.

The Board of the Association consists of 14 people, including representatives of the regional development corporations, such as the Ulyanovsk region, representatives of private corporations for the development of industrial parks, real estate and consulting companies, representatives of the Secretariat of the Association. In addition, from the federal government Director of the Investment Policy Department of the Ministry of Economic Development, Director of the Regional Industrial Policy Department of the Ministry of Industry and Trade, First Deputy Minister for the Development of the Far East, Mr. Osipov serve as a member of the Board. The Secretariat of the Association consists of 7-8 people, the Executive Director is Mr. Denis Zhuravsky, who was born in 1977 and all association staff are in their 20's and 30's.

First focus of the Association of Industrial Parks Russia is to expand and establish the domestic awareness of the need for promotion of "industrial park" in economic and industrial development of Russia. It is also their activities to emphasize the importance of the industrial and regional development through the industrial parks development, to assist government in formulating relevant policies and to give specific recommendations to the government.

Regarding the development of industrial parks, the Ministry of Economic Development has initiated and developed a system of support as one of the policies in the field of small and medium-sized businesses from the point of view in the formation

of industrial clusters, and the Association cooperates with the ministry in the process of policy making. The Association played a major role in supporting the Ministry of Industry and Trade in the decision of changing policy from industrial sectoral support to the development of important industrial infrastructure regardless of any industrial sector. Industrial policy act was made at the end of 2014, and support measures of the development of industrial park were also stipulated legally.

The second activity of the Association is defining the term "industrial park" and certifying the areas that meet certain standards among various kinds of industrial sites as an industrial park. In Russian language there are many terms that represent the different forms of industrial zones for factories. The Association provides certification as "industrial park" based on the objective evaluation by the certification committee according to the most basic standards: 1) The land is gathered in one place and not scattered, 2) The land is registered as land for industrial use, 3) Electricity, water supply, and sewage, etc. have already been developed, 4) The area has been developed on the basis of concept, 5) Everyone can access to transportation easily, and 6) There is the management company. This system was launched in 2011, and 33 sites across the country received certificates of the status of the industrial park until October 2014.

Last year, under the support of the Association of Industrial Parks Russia, the Federal Agency on Technical Regulation and Metrology (Rosstandart) set a national standard for industrial park in Russia. It is the official definition of "industrial park" and industrial parks that are certificated to have complied with the official standards of Rosstandart will get the government support and funding from state-owned banks after 2015.

The third activity of the Association is the enlightenment activities which aim at the development of industrial parks in Russia. In 2014, the Association released reference books for developers and administrators of industrial parks: "Guidelines for the establishment of the industrial park" and "Guidelines for the planning of masterplan for the establishment and operation of the industrial park". At the same time, the Association held workshops on similar topics in the regions. These activities of the

Association contributed greatly to the development and sustaining the quality of industrial parks in Russia.

The fourth activity of the Association is the improvement of the popularity of industrial parks and the promotion for attracting companies. The Association analyzed the trends in the development of industrial parks in Russia and started to publish the annual edition of "Handbook of Industrial Parks of Russia" in Russian and English languages in 2013, which includes a list of almost all industrial parks. As it has just been released in 2013, it is undeniable that the contents are not substantial compared with similar materials of Asia. Nonetheless, if the release of this annual publication continues in the future, it will be easier for investors to access detailed and specific information of the industrial parks of Russia.

In addition, the Association holds an annual forum of Russian Industrial Parks in Moscow every summer, in which they discuss various issues of development and management of industrial parks by inviting experts and specialists from both domestic and foreign countries and hold an exhibition of industrial parks of the Association. Moreover, the Association conducts sessions of the industrial parks in various major economic forums conducted periodically by the government of the Russian Federation such as the International Investment Forum in Sochi, Yekaterinburg Industrial Forum (Innoprom), Krasnoyarsk Economic Forum, etc. In the sessions, the Association leads discussions on current topics and summarizes the recommendations.

Also, biannually or triannually, the Association sends delegations to major countries to conduct seminars of the industrial parks in Russia to attract companies to industrial parks of the members of the Association. At first, the delegations were sent to Germany and Turkey. The Association started to send the delegation to Japan and hold seminar of Russian Industrial Park for Japanese companies three years ago. This year, the Association planned to hold a seminar in Seoul as well as in Tokyo. At these seminars, participants can receive not only general information of the industrial parks in Russia, but also the materials and information about the major industrial parks and practical information on plant construction there and talk directly to the representatives of the Russian side.



The Association considered that the delegation to Japan for the first time in 2013 was a great success. This is because both the Association and the delegation members deeply felt Japanese companies' higher interest in promoting business in Russia than in the visits to Europe or Turkey. Based on this experience, the Association decided to set the post of Adviser for Japan and Asia-Pacific countries.

Japanese companies that are considering plant construction in Russia may consult with the Association and get information for choosing an industrial park in accordance with their needs. Also, the Association can provide information or advice from an objective standpoint based on their knowledge in terms of various problems arising in the process from site selection to plant operation. The Association can directly introduce consulting company, lawyer's office, architect office, construction and engineering company of members of the Association. In addition, it is also possible to report the problems to industrial park management companies, local government and federal authorities concerned and ask them to solve the problems.

At present, because of the decline in oil prices and the deteriorating political relations with the United States and Europe caused by the Ukraine crisis, Russian economy has slowed down and consumer market has decreased significantly as well. In this situation, it seems difficult for Japanese companies to decide to construct plant in Russia for the time being at least. However, industrial diversification through the promotion of manufacturing and development of infrastructure is indispensable for further growth of the Russian economy. In recent years, Russia has steadily progressed not only in the development of industrial parks, but also in improving the quality of activities to attract companies and related policies and systems. Compared to the industrial parks of Southeast Asia or Central and Eastern Europe where many Japanese companies invested, improvement of industrial parks of Russia is needed from the view point of both hard and software. The Association sincerely desires the improvement of business environment and development of industry infrastructure for attracting Japanese companies by continuing dialogue and the exchange of information with stakeholders in Japan.

### **(3) The difference with Kazakhstan**

What are the differences between SEZs and industrial parks in Russia as described before and SEZs in Kazakhstan? Of course, the differences at present have a lot to do with the so-called "time difference" as the development of SEZs in Kazakhstan started more than 5 years later than Russia. However, if you dare try to compare the two systems in spite of the time difference, the most significant difference in the current situation seems to be the "presence or absence of the sense of competitiveness".

In Russia, there are at least 3 types of the system: "SEZ", "industrial park" and "technopark", and predominantly large number of these parks exist. Ownership and management style is also diverse, including federal (central) government, local governments, and private. The Russian government strongly promotes the competitions among them in the field of investment. It seems that the competitions for attracting investors and improving investment climates among SEZs and industrial parks within a country have contributed to the enhancement in the overall level. This is a significant contrast to Kazakhstan, where only ten SEZs have been established by the law, and control and management of the SEZs are still virtually in the hands of the central government. It is difficult to assume that the SEZs, which are all controlled by the orders of the central government, would compete with each other.

The second difference can be called "the way of competition" among SEZs. As mentioned above, SEZs in Kazakhstan have a lack of sense of competitiveness among them. Kazakhstan's selling point for attracting investors is only the institutional incentives, such as tax benefit. Indeed, it is a big advantage for investors to have incentives of reduction in corporate taxes and customs duties. However, for example, if the income tax were reduced to 0%, then there would be no further benefit. So, there are limitations in the Kazakhstan's institutional incentives to make a difference with rivals by setting incentive, particularly tax benefits. Therefore, it is quite difficult for SEZs to compete with each other in a similar circumstance.

In contrast, SEZs and industrial parks in Russia compete in the field of services provided to investors. For example, the Development Corporation of the Kaluga region

carries out all the necessary registration procedures and documents relating to the plant construction on behalf of the investors who had agreed with the regional government. It is interesting that the Corporation acts on behalf of the investors, instead of serving as a mediator which explains the system or mediates the procedures for them. Also, there is another advantage - the investor can proceed the plant construction even when those procedures are ongoing. In other words, procedures and construction can be carried out in parallel, enabling the investors to start their production with extraordinary speed.

Strictly speaking, it is against the law to start construction before obtaining a permit. But it is not too much to say that it is one of the reasons why the Kaluga region has achieved a remarkable success for attracting companies to the region by the persistent initiative of the regional government. Leaving aside with the illegality, it can be said that the idea of "increasing competitiveness in the services to be provided for investors" should be learned.

The third difference is the presence of "Association of Industrial Parks of Russia" which allows each SEZ to make institutional and strategic improvements from bottom up. This Association was not founded by the government, but by the initiative of the business association "Business Russia" and the regional development corporations. The Association is active in the following areas: 1) Establishment of the institutional system and quality improvement; 2) Lobbying activity to the government; 3) Provision of services for investors from an objective and neutral position; and 4) Promotional activities in both inside and outside of the parks. In Kazakhstan, where there are ten SEZs approved by the government, there is probably no basis for the creation of such a structure, but at least there are many things that should be adopted in the functions of the Association.

The fourth difference is the high awareness of promotion in relation to foreign investors including Japanese. As stated above in (2), the Association of Industrial Parks of Russia has already held seminars three times in Japan together with ROTOBO by 2015.

In addition to this Association, many of the local governments have held seminars in Japan with the aim of advertising their industrial parks and SEZs. During the last 2-3 years alone, the regions of Ulyanovsk, Sverdlovsk, Voronezh, Pskov, Kaluga and the city of Moscow held the investment-related seminars. Leading in all three of the above-stated differences, the SEZs and industrial parks in Russia, which had been exposed to competitive environment from an early stage, have long been realized that they cannot attract investors without making active effort.

### **III. Recommendations for improving the SEZ system of Kazakhstan and strategy for attracting Japanese companies**

#### **1. Recommendations for improvement of the SEZ system**

In this section, summarizing the issues of SEZs in Kazakhstan mentioned in the previous sections, we try to make recommendations for improvement.

The issues referred to in Chapter I *"The system of Special Economic Zones in Kazakhstan"* are summarized in the following four points:

1. Conditioning priority sectors in each SEZ constrains free investment activities.;
2. Lack of transparency and complexity in scope and criteria for application of preferential treatments (particularly, as for reduction of income tax and customs duties) from the view point of investors;
3. Powers and functions among the structures concerned, such as the central government, regional authorities, organizations engaged in attracting investment under central or regional authorities and the management companies of the SEZs, are duplicated and conflicted one another.;
4. Because of lack of efforts for advertisement and promotion, comprehensive and consistent information about SEZs is not provided for potential investors.

On the other hand, as mentioned in the previous section, the issues identified by comparison with the SEZ system in other countries, especially with that in Russia, are as follows:

- A. Because of the lack (of awareness) of competition among SEZs, the SEZs have no willingness to voluntarily improve their own conditions;
- B. SEZs have no idea to compete with other SEZs in offering better services to investors, because the SEZs in Kazakhstan are satisfied with the provision of tax incentives and institutional conditions;
- C. Lack of will to undertake promotion activities of SEZs to foreign investors.

Regarding item C, it duplicates item 4 above. In addition, the item A, "lack of competition", can be regarded as a common background for all the issues from 1 to 4.

Based on the above understanding of the current situation, recommendations for improvement of the SEZ system are concluded as below.

#### **1) Elimination or mitigation of restrictions of priority sectors**

It is desirable to eliminate or mitigate restrictions on the priority sectors of SEZs, which limit investments at the moment. In principle, the project fields should be chosen freely by investors' own decision, and it is desirable that the range of preferential treatments can be changed flexibly to match investor's needs.

According to KAZNEX INVEST, however, the Kazakh side has been already working on to solve this issue mentioned above (referring to statements of KAZNEX INVEST at the meeting during the 2<sup>nd</sup> field work visit). Although, currently, the priority sectors of each SEZ are provided by related laws (concrete sectors to obtain preferential treatments are provided by the Tax Code), the Kazkh side has been considering the law revision so that those priority sectors will be changed only by a resolution of the Cabinet of Ministers. If such a revision is passed, the priority sectors of each SEZ can be changed much faster by skipping consideration of the Parliament. Such a revision itself may take time to be materialized since it requires amendments of several related laws, but it should be done sooner as a great improvement to expand choice of freedom for investors.

However, even if modification of priority sectors can be provided by a resolution of the Cabinet of Ministers, it will take several months until its implementation. From the point of view of attracting investments under global competition, it is not quick enough. It is advisable to consider further institutional improvements in order to make it possible to react investors' need faster and more flexible.

## **2) The implementation of a system of "one-stop services"**

Currently there are many organizations at all levels related to SEZ in Kazakhstan: central, regional, and SEZ, responsibilities and powers of which are duplicated. First of all, in terms of improving management, it is needed to conduct adjustment and systematization of powers and responsibilities of all organizations related.

However, the most important point in such adjustment and systematization is to realize the system of "one-stop services" for investors. This recommendation is attributed to the fact that the government tends to pay more attention to "controlling activities of organizations" rather than "providing services to investors", since there are such many organizations concerned with SEZ at every level which the government needs to supervise. Even if there are a lot of Kazakh organizations related to SEZ, it is desirable to create such a system that the investor can get all the coherent and consistent information and services through the unified "one-stop services".

## **3) Improvement of access to preferential treatments for investors**

In the currently existing SEZ system in Kazakhstan, SEZ residents cannot enjoy preferential treatments automatically. In order to receive benefits provided by the system, they must meet various conditions, including fitting own activities into the priority sectors. With regard to these conditions, certainly there are brochures, leaflets and packages of laws and regulations for introducing the relevant legislation to investors, which were prepared by KAZNEX INVEST, SEZ management companies and so on. However, in consideration of complexity of the system itself, regrettably, such measures are not enough.

Indeed, all existing materials are effective for reference. However, if a company interested in making an investment and wants to know more in detail, it will be forced to turn to the text of the law itself. As a result, the potential investor can not fully understand the system of privileges and will hesitate to make an investment into SEZs.

In order to make a breakthrough in the current situation, in other words, in order to improve access to information about preferential treatments for investors, what should be changed? Specifically, first of all, there is a need to make more informative materials than existing ones. Further, in connection with the recommendation No.2. *The implementation of a system of "one-stop services"* mentioned above, it would be effective to assign an advisor for investment at the organization of "one window", who can answer detailed questions of investors. Moreover, it will make sense to consider to introduce agent services by SEZ management companies for their potential residents. Those services include not only institutional instruction or mediation among related organizations offered by management companies of SEZs to their investors, but also direct services of relevant paperwork on behalf of the investors, which would reduce investors' labor significantly.

The recommendations mentioned above are just several examples among possible measures. Those who want to attract investors should realize that any preference will fall through, if the conditions enough for investors to utilize are not provided.

#### **4) Strengthening promotional activities**

Appendix "The results of the questionnaire on investment climate in Kazakhstan for Japanese companies" is attached at the end of this report. The questionnaires were sent to 170 companies including ROTOBO members and other companies concerned. Only 25 companies out of 170 answered it. It could be regarded that these 25 companies have knowledge and interests about Kazakhstan more than average in Japan. Seven of them, or almost one-third of them, however, answered that they either "do not know" or "do not know so much" about SEZs in Kazakhstan. In short, most of Japanese companies are even not aware of the existence of Kazakh SEZs, and the fact clearly shows that efforts for promotion of SEZs are seriously lacking.

First of all, it is requested for KAZNEX INVEST and management companies of SEZs to prepare and improve their web sites. As for the site of KAZNEX INVEST, only general information is available. Regarding the websites of SEZs, some SEZs do not even have their own sites, and some do not have sites in English. That is, the level of



their websites is far lower than the level required by foreign investors to gather the necessary information. A system should be created, by which the potential investors can easily and quickly obtain consolidated and consistent information about a SEZ, including its location (distance from major cities and main roads, availability of labor force, etc.), the state of its infrastructure, the number of companies-residents and their fields of activities, etc.

Also, in parallel with this, an important measure to increase the level of recognition of SEZs is to carry out investment presentations for introducing the SEZ system as well as to organize business meetings at home and abroad.

#### **5) Introducing of the principle of competition**

All the above recommendations for improving the system of SEZs can be summarized as "improving the quality of services to be provided to investors". In other words, it can be concluded that the SEZs in Kazakhstan do not provide enough services to investors, and the reason for that is "lack of competition" among the SEZs.

In the given situation, the SEZ management companies, who just follow the decisions of the central government including setting incentives, allocating budget, etc., hardly have a will to compete each other to attract investments, therefore they can hardly have a motivation to improve their services for invertors or to make an action voluntarily for improvement of foreign investment climate. When the SEZ management companies get used to the position of "waiting", an idea of carrying out promotions at home and abroad is unlikely to appear to their minds.

The system of special economic zones, which means settling some territory, preparing infrastructure and providing preferential taxation, etc., to attract foreign companies, exists in many countries in the world, including the countries mentioned in this report such as neighboring Russia, Southeast Asia and South Asia. In terms of attracting investments, all these countries or areas are in a rivalry relationship. Though the SEZs in Kazakhstan are also involved in this competition, under the current situation, it is less likely that they spontaneously recognize that. As all the SEZs in Kazakhstan are still young and still under strong control by the central

government, it will be reasonable that the principle of competition should be introduced also by the initiative of the central government on the purpose of improvement of SEZs' performance.

Then, the issue is how to create incentives for competition among SEZs. One possible answer is to set some "remuneration" for achievements in attracting investments. Taking account of that one of the purposes of SEZs is development of the regions, a regional administration can be a recipient of the "remuneration". There will be some possible options of "remuneration" as follows: the SEZ who succeeds in attracting investments can ensure a bigger budget allocation from the central government; the local administration who succeeds in attracting investments through their SEZ can increase their share in tax revenues from the SEZ; the successful SEZs or local governments are allowed to set some additional preference for their potential investors by their own initiatives, etc. Rewarding SEZs or local governments with additional revenue or competence would work as a quite effective incentive for competition to improve investment climate or to attract investments.

In addition, to promote competition among SEZs in the country, it is worth considering an alternative that the government actively supports to establish private industrial parks. By establishing, especially, small or medium sized private industrial parks by providing loans from government financial institutions for infrastructure development, or for project financing for target companies, many positive ripple effects on Kazakh economy as a whole are expected, including activation of private sector and development of SMEs.

## **2. Strategies to attract Japanese companies: the need for specific objectives and comprehensive measures**

In the previous section, the issues that exist in the SEZs in Kazakhstan were pointed out and some recommendations for improvement were made. Improving SEZ system aims at attracting investors to SEZs, and such investors naturally can include Japanese companies, too. However, as the title of this report shows, if its focus is to attract the Japanese companies rather than others, the improvement of the SEZ system is not sufficient measure at all.

As the fact that only 25 companies made answers to the Questionnaire survey, the result of which is attached to this report, clearly shows, the level of recognition of Kazakhstan among Japanese companies is quite low, to say nothing of her SEZs. In addition, most Japanese companies working with Kazakhstan are engaged in trade, i.e., import of metals or exports of automobiles, automobile components, construction machinery, and so on. The Japanese investments in manufacturing industry are very exceptional. This is presumably because some characteristics of Kazakhstan as an investment target country, such as small domestic market, remoteness from world markets, relatively high labor and transportation cost, are the conversely well-known disadvantages among the Japanese companies familiar with Kazakhstan, compared with other rivalry countries like Russia, China and Southeastern Asia that are in a “closer” position from Japan.

Based on this situation, what kind of measures can be considered as a strategy to attract Japanese companies?

First of all, taking into account of the fact that the number of Japanese companies making investment in Kazakhstan is quite limited as mentioned above, it should be realized that investment in SEZs with the purpose of developing manufacturing industry in rural area of Kazakhstan is too high hurdle for Japanese companies. If Kazakhstan really wants to attract Japanese companies, in addition to overall improvement of the SEZ system, Kazakhstan must consider a strategy that focuses on attracting Japanese companies. In other words, regarding SEZ just as "one of the tools

to attract Japanese companies" for the time being, it will be probably the most realistic approach for Kazakhstan to work on "improvement of SEZ system" and "a strategy to attract Japanese companies" in parallel.

Though it may seem too general, an indispensable approach is **"strengthening of promotion activities targeting Japan"**, which is common to the strategy to improve the system of SEZs. The state, in which only about 20 Japanese companies could answer to the questionnaire about business in Kazakhstan, must be drastically improved. For this purpose, Kazakhstan should increase the number of opportunities for comprehensive information exchange, including organizing investment seminars or various business meetings as mentioned above, receiving and sending of delegations or trainees, etc.

Then, while strengthening promotion activities aims at raising the level of recognition about Kazakhstan among ordinary Japanese companies, what kind of measures could be taken to create incentives for Japanese companies who already have a certain interest in Kazakhstan to make investments?

Before considering this issue, the following point should be clarified: **why does Kazakhstan need to attract Japanese companies? (Why Japan?)** Kazakhstan enjoying high economic growth has already had plenty of investments from Europe, the United States, China, Russia, India, and so on. On the other hand, as shown in Table 0-3 and 0-4 of the introduction of this report, the level of Japan's presence is quite low both in investment and trade. It should be pointed out that one of the major factors of such a situation is the low awareness of Kazakhstan by Japanese companies as mentioned above. Moreover, small demand and low competitiveness of Japanese products in Kazakh market as well cannot be overlooked as quite important factors.

In general, Japanese products are evaluated as products with "good quality and high value". Japanese products "galapagosized" by being too adapted to the specific preference of the Japanese market tend to lose competitiveness in the world market. Especially, in the market where people pay more attention to price of a product than its quality, Japanese products yield to other countries' products with "average quality and low price". It is quite a small number of Japanese products that can get a certain share

in Kazakhstan as one of such markets. Those are high value-added automobiles which people are eager to buy regardless of high price, machines for mining and special construction machinery or high quality steel pipes. In other words, Kazakhstan needs only limited kinds of Japanese products and the Japanese companies have been making efforts to keep a certain volume in the niche market.

There should be a good reason why Kazakhstan really wishes to step up from the plateau of current bilateral economic relations limited to trade, and why dares to set herself a task to promote Japanese investments, though there are so many other countries like China at the head of the list, which are quite active to make investments in Kazakhstan. The consideration of the said reason leads to a question of **“What kind of Japanese companies does Kazakhstan need to attract?”**, because in order to secure high-effectiveness of measures, additional investment incentives should be selective, focusing on "Japanese companies necessary for Kazakhstan". In other words, Kazakhstan needs to develop **a strategy to attract the targeted Japanese companies selected by their business sectors or activities.**

Of course, "incentives for investments" mentioned here do not mean a kind of tax preference for some particular Japanese products. Kazakhstan, already scheduling the accession to the WTO soon, cannot settle such preferences, and Japan as a member of the WTO cannot recommend Kazakhstan to take such measures, either. What is supposed here is to make full use of a package of general existing laws and regulations of Japan and/or Kazakhstan under a strategic intention of the Kazakh side in order to attract Japanese companies.

What kind of Japanese companies does Kazakhstan need to attract? It is the Kazakh side who should answer to this question in principle. However, figuring out the answer in terms of contribution to the solution of important issues in the ongoing economic policies of Kazakhstan, it will be the Japanese companies that can contribute to "reduction of dependency of Kazakh economy on natural resources by introducing high technology and promoting innovation". In fact, recently the Kazakh high officials often mention their expectation of introducing Japanese advanced technologies on their exchange visits.

The word "high technology", however, is too vague and lacking concreteness. If Kazakh side intends to suggest the strategic direction, it should be very specific and selective in order to secure its effectiveness and to convey a clear idea to potential investors. Some examples of the potential priority sectors to attract Japanese companies are provided as follows: 1) energy saving, 2) renewable energy, 3) technology for water usage, 4) waste treatment and contamination removal, 5) medical care and equipment, and so on. Those are not only high technologies appropriate for Kazakhstan to introduce, but also the spheres where Japan has competitiveness, related to "sellable products even at high price". In other words, developing a strategy to attract Japanese companies to these economic spheres of Kazakhstan will be, arguably, the most promising way to secure mutual benefit of Japan and Kazakhstan in the future.

## Appendix: The results of the questionnaire on investment climate in Kazakhstan for Japanese companies

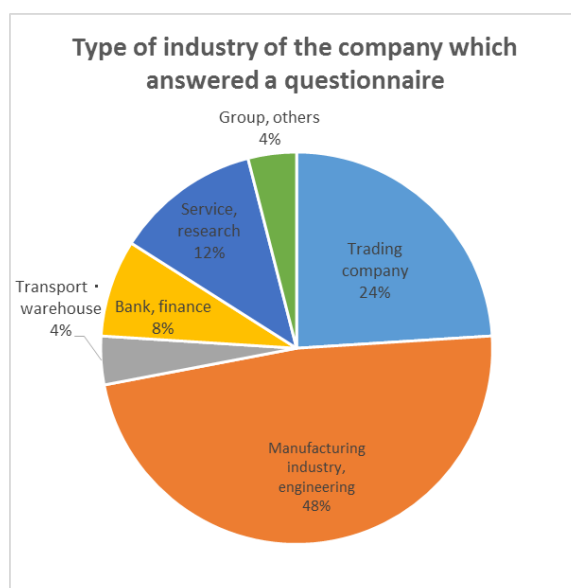
### The results of the questionnaire on investment climate in Kazakhstan (March 13, 2015)

Japan Association for Trade with Russia & NIS  
(ROTOBO)

#### I. Information of Respondents

Number of respondents: 25 companies.

10 companies are members of the Japan-Kazakhstan economic committee.



#### II. The situation of investment to Kazakhstan

##### Does your company have business in Kazakhstan?

A. Yes, we have. → 18 companies (To the cluster A)

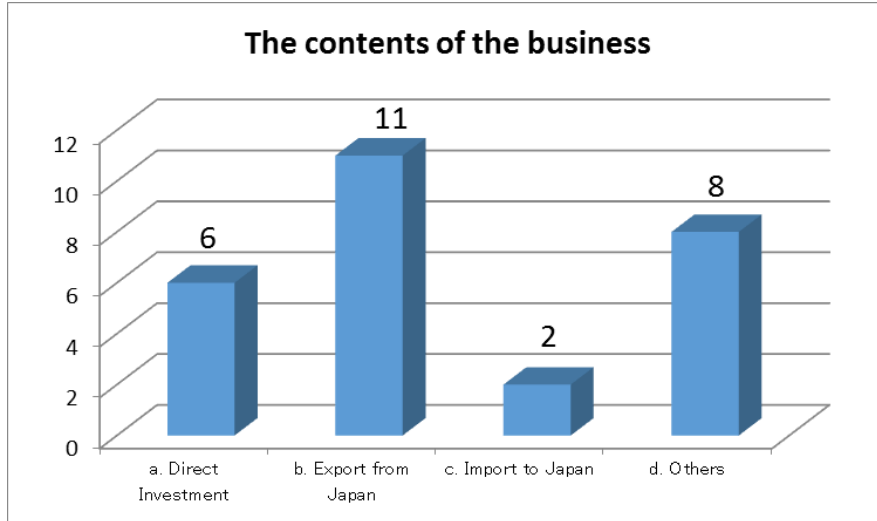
B. We have the experience of business in the past. → 3 companies (To the cluster B)

C. No, we don't. (We neither have experience.) → 5 companies (To the cluster C)

Note: Multiple answers are allowed in case of A and B.

**Cluster A: Please answer the following questions about your company's business in Kazakhstan now.**

**1. The contents of the business (Multiple answers are allowed.)**

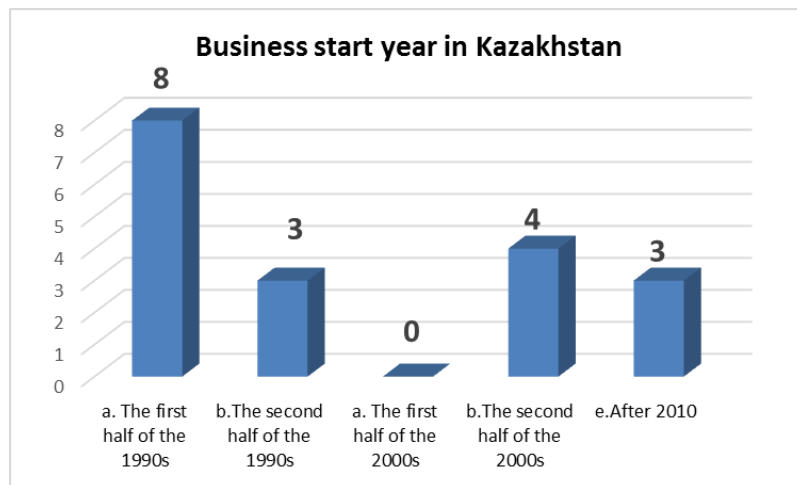


※ For reference, specific activities

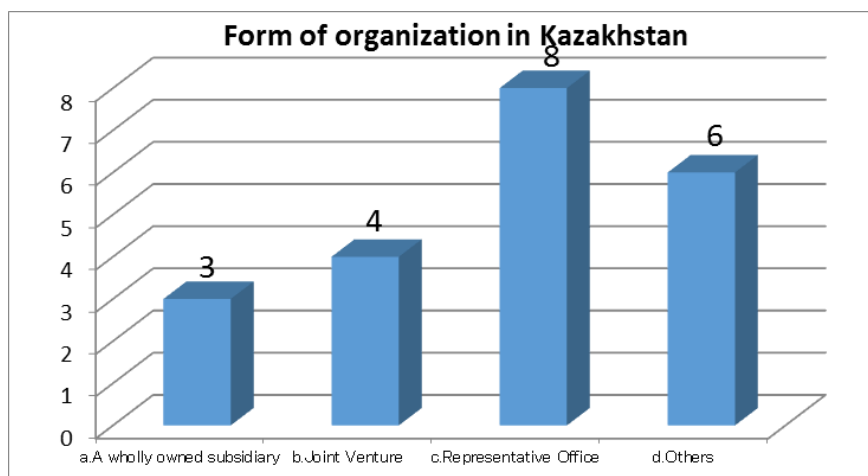
- Export from Japan: vehicles, construction machinery, machinery for mining, medical and diagnostic equipment, computer equipment and photocopiers, telecommunications equipment, steel pipes, chemicals and so on.
- Direct investment: exploration and development of oil, gas and uranium, the production of rare earth elements, production and marketing of tobacco products, sales and after-sales service of vehicles, construction machinery and so on.
- Other: Logistics, finance, and so on.



## 2. Business start year in Kazakhstan

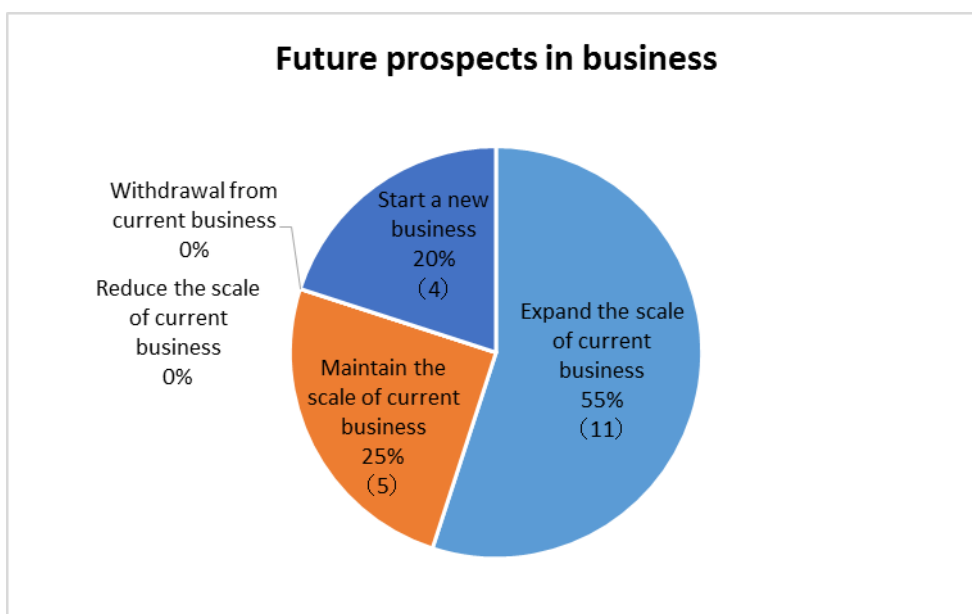


## 3. Form of Organization of the company

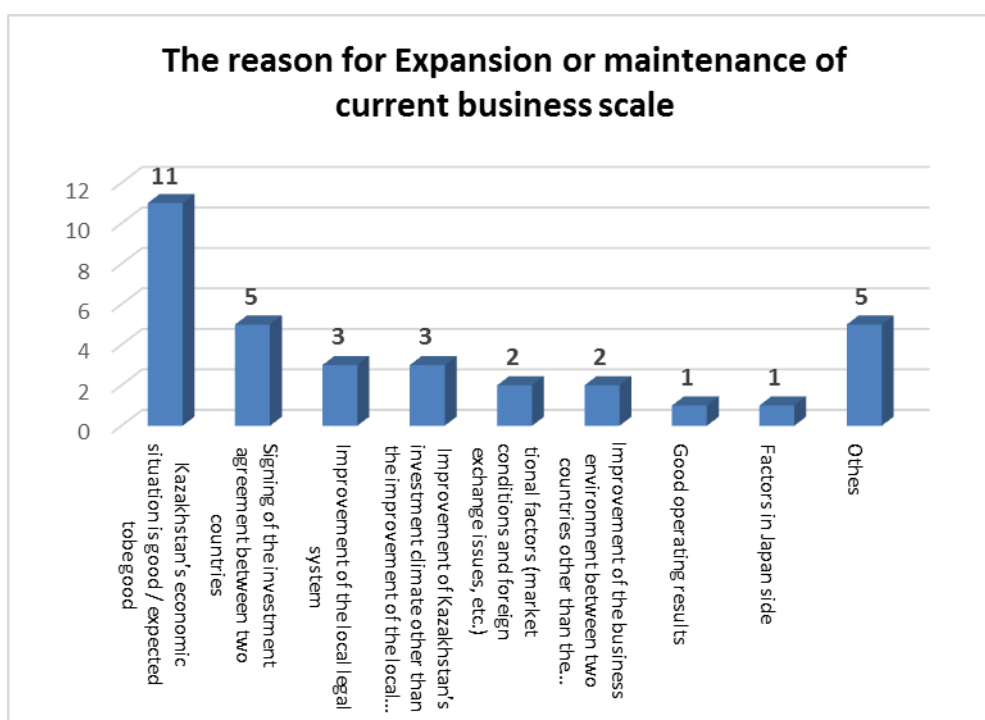


※ Note : "Other" means companies that do not have local office.

#### 4. Future prospects in business



→ If the answer is "Expand the scale of current business" or "Maintain the scale of current business"), please select the reason (Multiple answers are allowed.):



○ **"Improvement of Kazakhstan 's investment climate other than the improvement of the legal system" means**

- No need of visas for short stays, and so on.

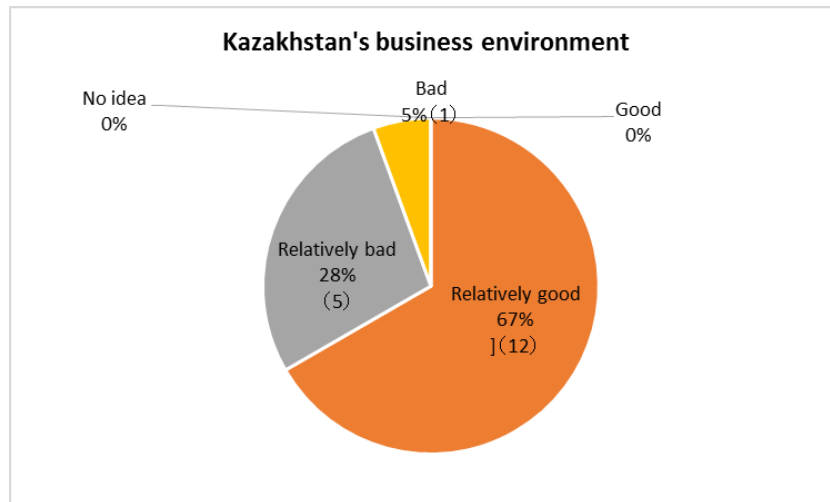
○ **"Others" means**

- Expanding with Kazakhstan partner companies.
- After tightening the Russian legislation our company has become easier to do business in the neighboring country.
- Increasing the financial needs of public enterprises.
- Instead of Russia which might face economic stagnation, it is preferable to do business on "Russian + 1".
- The exhibition "Astana EXPO 2017".

※comment:

- ✧ In total, 75% of respondents chose "Expand the scale of current business" or "start a new business". On the other hand, no one answered for "Reduce the scale of current business". This result suggests the bright prospects in Kazakhstan business.
- ✧ The reasons are as follows: ① The high evaluation of the current economy and future prospects in Kazakhstan, ② Improvement of the investment climate as represented by the signing of the Japanese-Kazakh agreement on investment.

5. How do you evaluate the business environment in Kazakhstan?



※Comment

- ◇ Despite the large proportion of respondents who answered bright prospects in Kazakhstan business in the previous question, no company answered the business environment as "Good". It is interesting that over 30% answered "Relatively bad" or "Bad".

6. What are the good points that you can evaluate in business environment of Kazakhstan?

(Multiple answers are allowed.)

	Number of respondent companies
Rich natural resources	12
Visa exemption for Japanese	8
The favorable attitude towards Japan	6
Big Market	4
Diligence and skilled workforce	4
Low crime rate	4
Transport, communications and other industrial infrastructure	3
Access to the markets of neighboring countries	2
The presence of promising enterprises	2
Industrial policy and government measures to attract foreign investment	2
Others	2
Cheap and abundant labor force	0
High technology	0
Legal system	0
Special economic zones	0
The measures of economic support from the Japanese government	0
Nothing special	0

○ " Rich natural resources" means

- Oil (10 answers)

- Natural gas, associated gas (5 answers)
- Uranus (2 answers)
- Mineral resources, including rare metals, rare earth elements, and so on. (4 answers)
- Cereals resources (1 answer)

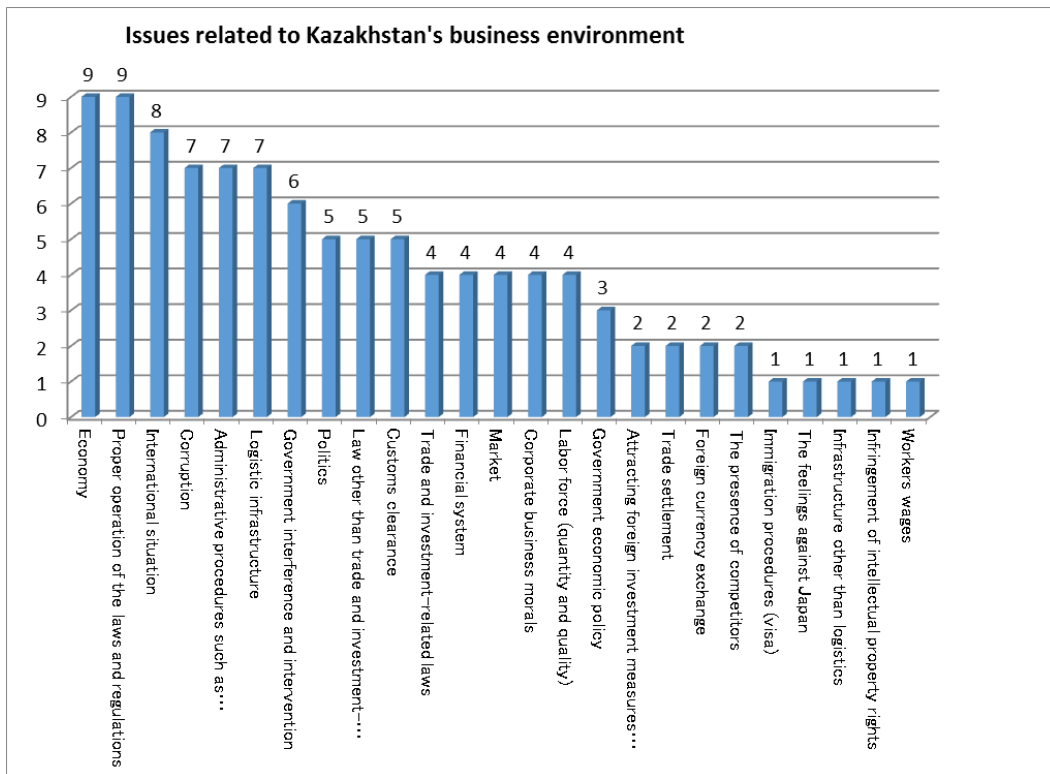
○ "Others" means

- Free financial, political stability
- Economic prosperity

※ Comment

- ◇ The answer "Rich natural resources" is extremely large. However, it should be noted the answer "Visa exemption for Japanese" is second place.

**7. What do you feel the "problem" or "anxiety" in business environment of Kazakhstan?  
(Multiple answers are allowed.)**



→ Specific contents of the answers

Remarks: It shows a summary of the answers or extracts of the answers in the following.

#### ◇Dissatisfaction with the Policy and Institution and their management.

- It is difficult to understand the specific strategies to attract foreign investment. The tax incentives that the Government determined have not been applied to the local government. As a result, there are examples when foreign companies were forced to pay import tax and value added tax, although initially this was not necessary to pay. This fact causes anxiety to invest.
- Procedures for the receipt and transmission of various permits and licenses, including licenses for subsoil use are very confusing and time consuming. Between ministries and agencies there is no cooperation in the interpretation and application of laws, horizontal cooperation has been extremely bad.
- In some cases, it takes a long time for obtaining various permits. (including the updating of long-stay visas, and so on.) We hope to simplify the process of issuing permits and licenses.
- It is an issue that government changes the rules frequently, which causes unstable operation. Even the responsible person of government does not know the changes.
- There are so many issues as shown in the following. A sudden change in the stipulated time of meetings. Differences in the interpretation and operation of laws and regulations. Bad communication between ministries and agencies. Banks do not perform the function of long-term loans. Blurred responsibilities.

#### ◇The fear of influence of the Eurasian Economic Union, falling oil prices, etc. and the influence of the international situation

- As a result of fiscal austerity caused by falling oil prices, budget reduction, scale reduction, and postponement of some projects are concern.
- There is concern about the business in future because of a large number of ambiguities in the legal system of Kazakhstan (in particular with regard to the interpretation of tax incentives for the automotive industry, the trend of further changes to the tax system due to the Eurasian Economic Union and so on..).
- In connection with the start of the Eurasian Economic Union, it causes inevitably a large impact to the economic situation of countries that are members of the union.
- In the field of business related to resources and energy, there is the influence of Russia as a competitor. The most important issue here is the improvement of logistics infrastructure in this landlocked country.

#### ◇Others

- It takes about 2 months to deliver airmail from Japan. EMS cannot be used. Courier delivery sometimes takes more than a week due to customs inspection.
- Many of the problems that were in the Soviet Union, continue to exist until now. On the other hand, a lot of positive features that were in the Soviet Union, continue to exist until now.
- Due to the elderly age of the President, there is a risk of confusion if he cannot continue to do his duties for health reasons.
- We were harassed by the tax police and migration police 2 years ago.

8. What is the effective strategy for the development of business between two countries?

(Multiple answers are allowed.)

	Number of respondent companies
Visa exemption for Japanese and Kazakhstan	10
Special incentives for Japanese companies	9
Opening of direct flights between two countries	9
Relaxation of work permits to foreign people in Kazakhstan	8
Activation of visits of government officials	4
Others	2

○ "Others" means

- Enhancing cooperation in education, science and culture, and human exchanges.

※ Comment:

- ◇ Due to the high evaluation of the introduction of "Visa exemption for Japanese", the answer "Visa exemption for Japanese and Kazakhstan" gained highest number of points.

**Cluster B: Please answer the following questions about the business that your company was doing business in Kazakhstan**

**1. The contents of the business (Multiple answers are allowed.)**

a. Direct investment	b. Exports from Japan	c. Imports to Japan	d. Other
0	2	1	0

**2. Business start year in Kazakhstan**

- 2003 - 2007 (export from Japan)
- 2010 - 2013 (export from Japan)

**3. The reasons for the withdrawal or discontinuation of business**

※ Comment:

- ◇ For export, all cases were associated with the completion of construction. For import, it was the imports of grain by trial deliveries. Whatever it was, there was no problems in each case.

**Cluster C: Please answer the following questions (for companies which are not currently doing business with Kazakhstan and have no experience of business in the past either).**

**1. What are your plans for the business in Kazakhstan?**

	Number of respondent companies
a. We plan to start a business in the near future.	1
b. We are considering the possibility of starting a business in the future.	3
c. We do not intend to start a business in the future.	1



→If the answer is a. ("We plan to start a business in the near future"), or b. ("We are considering the possibility of starting a business in the future"), the contents of the business are

- Exports and sales of generating equipment, machines and tools, building materials and so on.
- Business related to the environment, including by-products, waste disposal and so on.

**2. What kind of business in Kazakhstan are you interested in? (Multiple answers are allowed.)**

	Number of respondent companies
Chemistry and Petrochemistry	2
Transport, logistics	1
Mining and processing of coal	1
Electric power generation (Exclusion of uranium mining and nuclear industries)	1
Uranium mining and nuclear industry	1
Machinery and equipment other than automobiles and consumer electronics	1
Construction business	1

**3. What are the effective measures for the development of business between two countries?**

**(Multiple answers are allowed.)**

	Number of respondent companies
Special incentives for Japanese companies	3
Opening of direct flights between two countries	2
Activation of visits of government officials	2
Visa exemption for Japanese and Kazakhstan	1
Others	1

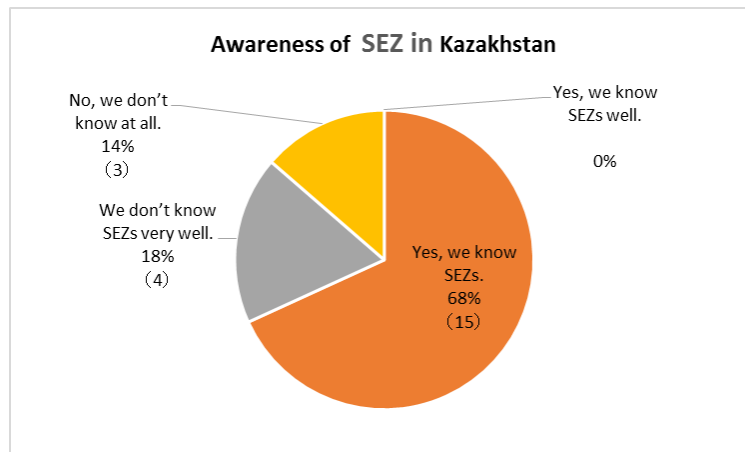
**"Others" means**

- Activation of missions by the representatives of private companies.

### III. Special Economic Zones in Kazakhstan

#### 1. Do you know SEZs in Kazakhstan?

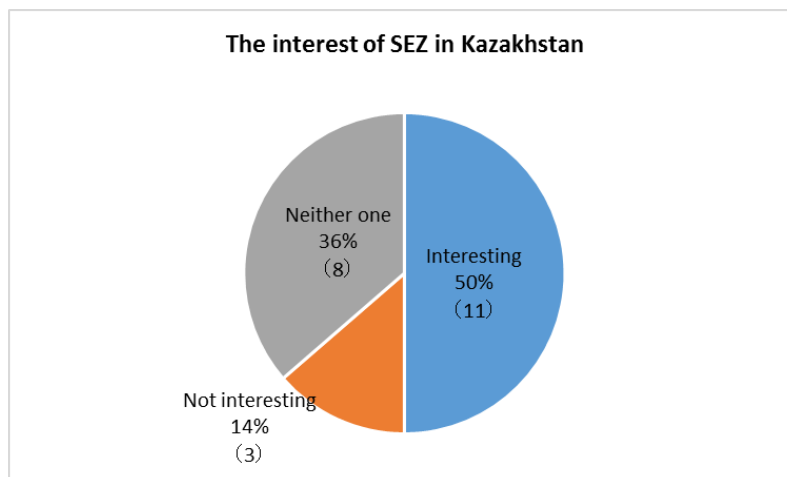
a. Yes, we know SEZs well.	b. Yes, we know SEZs.	c. We don't know SEZs very well.	d. No, we don't know at all. / We don't know their existence.
0	15	4	3



※Note : 3 companies did not answer. The above are proportions of the 22 companies which response.

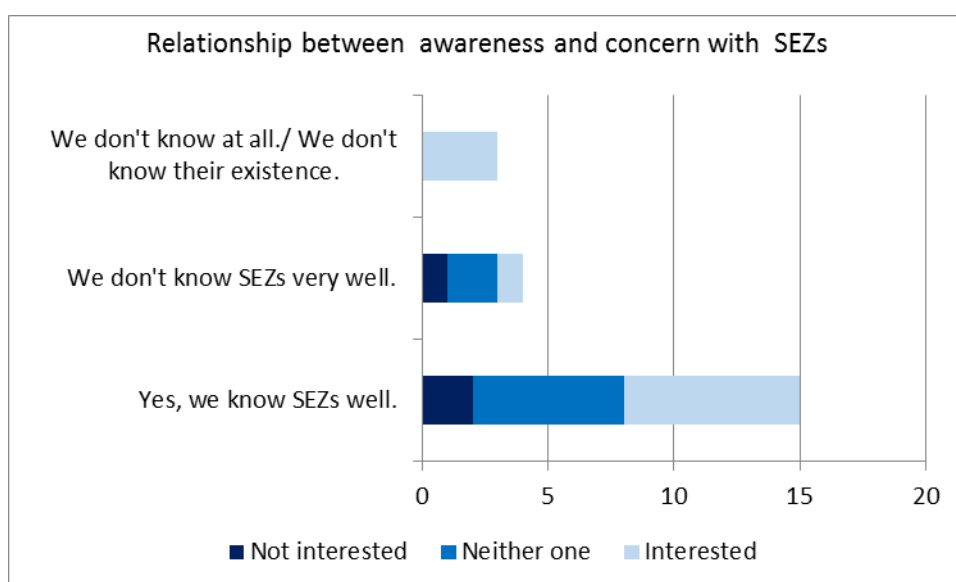
#### 2. Is your company interested in Kazakhstan's SEZ?

a. Interested	b. Not interested	c. Neither one
11	3	8



※ Comment:

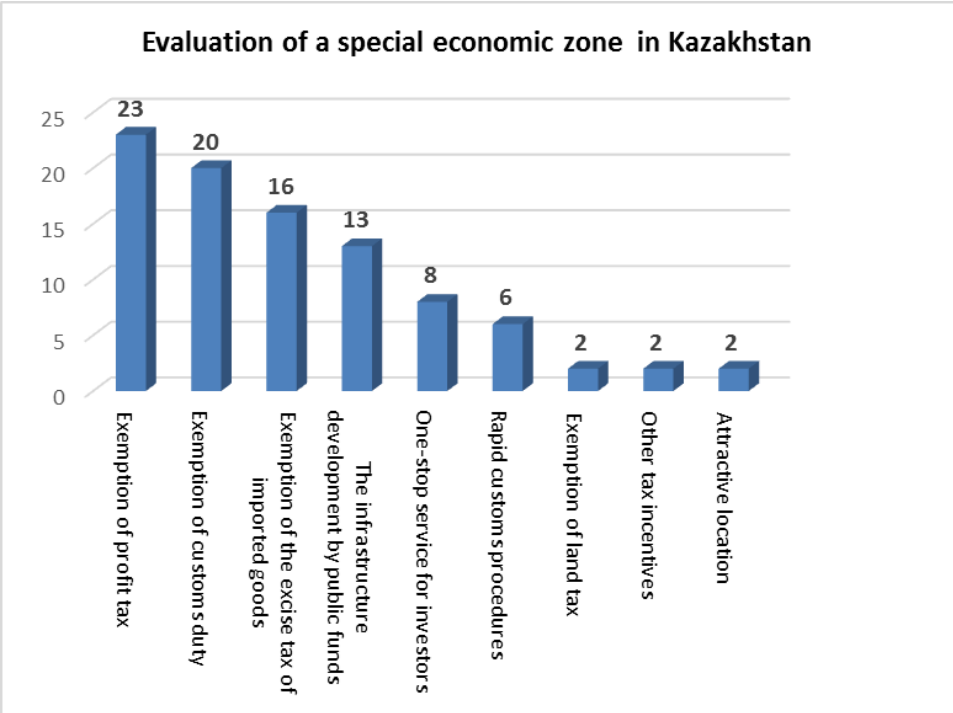
- ◇ There is the following relationship between the answers to questions 1 and 2. Half of the companies, who "know" SEZs in Kazakhstan, said that they are "Not interested" or "Neither one". Moreover, all the companies that answered "don't know", said that they are "Interested".
- ◇ As a result, we can draw the following conclusions. Firstly, it is possible to say that there are other companies that "don't know" SEZs in Kazakhstan but interested in SEZs. In other words, it is worth doing for public relations activity of SEZs.
- ◇ Secondly, almost half of the companies which have information of SEZs to some extent don't have interest in SEZs. It is necessary to analyze the reason.



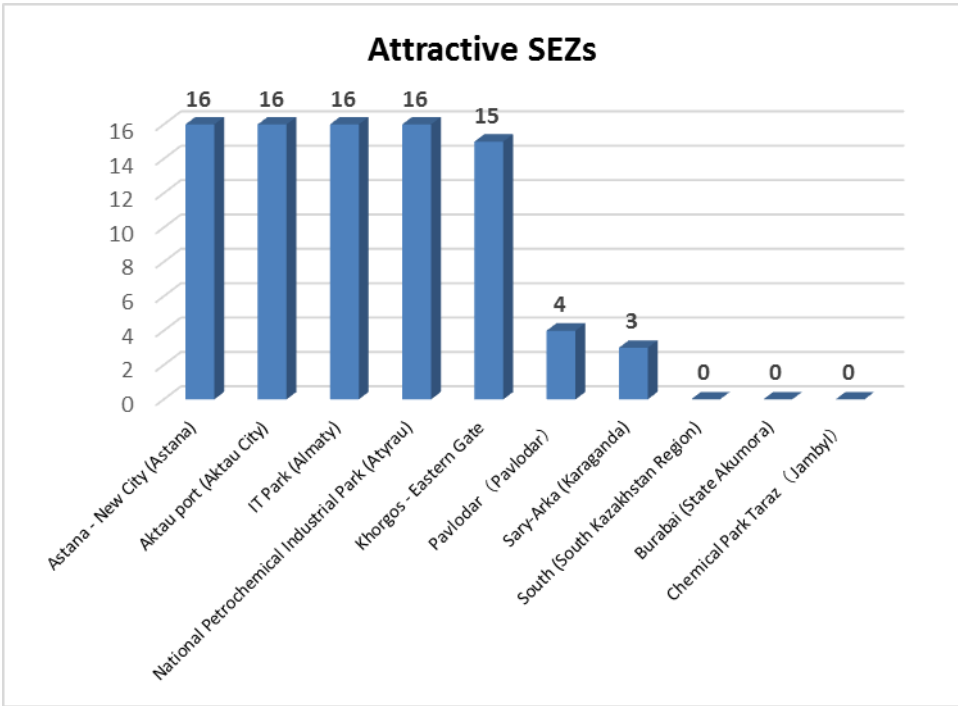
→ Please answer the questions below if you responded to the previous question (a) ("Interesting").

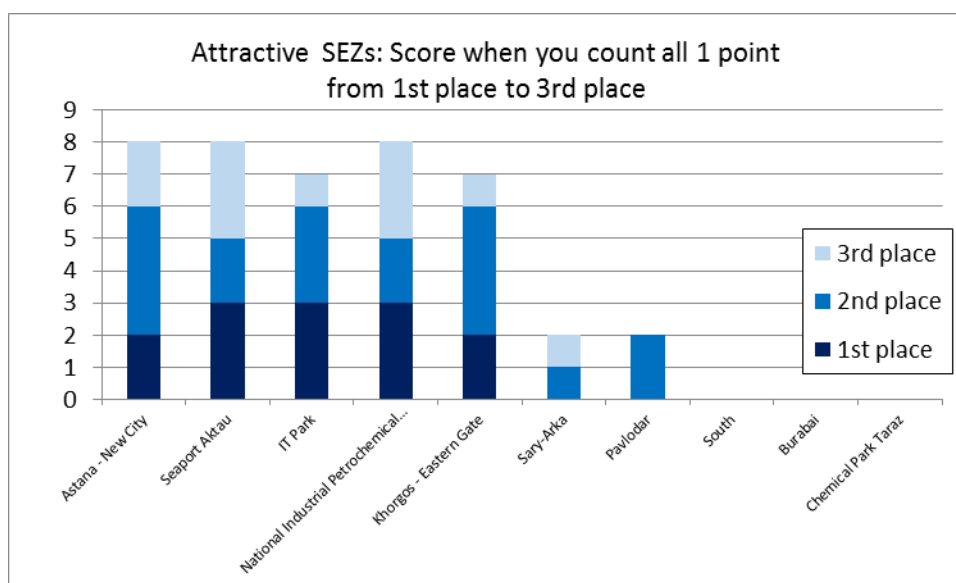
3. Please choose the top three of good points that you can evaluate SEZs in Kazakhstan from the point of view of investor. (1st place = 3 points, 2nd place = 2 points, 3rd place = 1 point)

	Remarks
Exemption from income tax	23
Exemption from customs duties	20
Exemption from excise duties on imported products	16
The infrastructure development by public funds	13
Provision of services to investors through the "one-stop services"	8
Rapid customs clearance	6
Exemption from land tax	2
Other tax incentives	2
Attractive location	2
Others	0



4. Please choose the top three of existing SEZs in Kazakhstan that you find most attractive from the point of view of investor (1st place = 3 points, 2nd place = 2 points, 3rd place = 1 point)





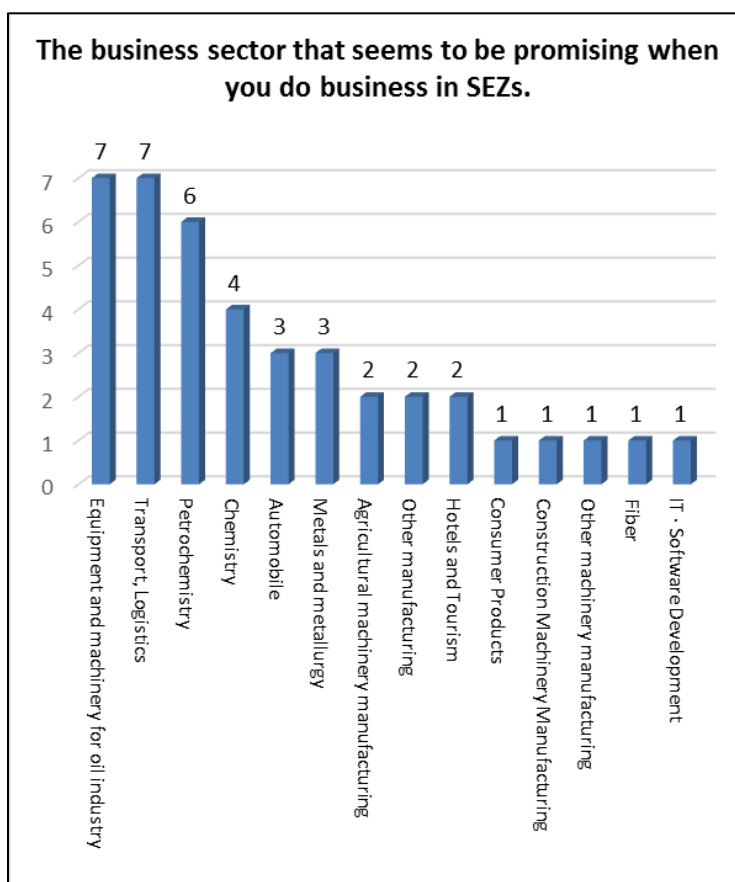
※ Comment:

- ◇ If you count by inclination points, the SEZ with the 1st to the 3rd place is the same result with simple sum of the scores: ① "Astana - New City", ② " Seaport Aktau", ③ "IT Park" (Almaty), ④ " National Industrial Petrochemical Technopark "(Atyrau), ⑤ "Khorgos". They are almost same score. "Saryarka" and "Pavlodar" are following. They are not interested in the SEZ in the southern part of Kazakhstan, "South", "Chemical Park Taraz" and tourist SEZ "Burabay" at all.
- ◇ Almost of SEZs who have high score can access to the big city easily, or main theme of SEZ is logistics.
- ◇ Three SEZs, which no one is interested in, were not included for sight visit in the 2 missions organized by ROTOBO. As lot of companies responding to this questionnaire joined missions, the influence of this factor cannot be excluded.

→Reasons to be noted

- SEZ "Aktau" has advantages in terms of logistics. In addition, (during the sight visit) person in charge of the SEZ held a presentation based on experience that gave us confidence. Almaty is the economic center of the country, so expansion to this SEZ is quite possible. As we have not visited the rest of the SEZ, we cannot comment.
- SEZ "Khorgos - Eastern Gate" is located in the vicinity of Almaty and near developing China. SEZ "Seaport Aktau" has already residents from foreign countries. "Saryarka" also has the potential due to the large number of domestic tourists.

5. Please choose the business sector that seems to be promising when you do business in SEZs. (Multiple answers are allowed.)



#### 6. What do you expect SEZ Management Company for?

◇ Coordination with the central government and local government.

- We expect SEZ Management Company to coordinate so that incentives are properly implemented in accordance with the law.
- We expect SEZ Management Company to provide all possible assistance in order to improve cooperation between local government and central government.
- We expect SEZ Management Company to be the arbitrator and consultant, standing on the side of the resident company in SEZ, in case of trouble with the central government, local government, customs, tax authorities and other government agencies.
- We expect SEZ Management Company to supply utility such as a mediation of labor force, assistance in obtaining some kind of permits or licenses, support for communication with central government and local government.

◇ Watching whether rules are carried out appropriately.

- We expect SEZ Management Company to watch whether rules are carried out appropriately by tax authorities, or the organization which performs authorization.
- We expect SEZ Management Company to ensure observance laws and rules, and keep promise.
- We expect SEZ Management Company to ensure observance laws and rules. Also we expect them to

develop and operate infrastructure appropriately and effectively.

- We expect SEZ Management Company to develop infrastructure, and to provide a service which can support for communication with central government, Customs, and so on. Also we expect them to modernize living and working environment, and to adapt to the needs of Japanese people.

#### ◇Others

- Services on the principle of "one-stop services "
- Disclosure of information.

## **IV. Others**

**Please write your opinions, impressions or suggestions related to the issues of this questionnaire.**

#### ◇Request to the Kazakh side and issues to be solved

- We hope to extend the term of 15-day visa-free staying (July 2015), as well as the implementation of visa exemption for Japanese and Kazakhstan.
- Despite the government of Kazakhstan encourages to attract foreign companies for the purpose of increasing employment and training local people, the government of Kazakhstan has been operating a policy which is disadvantage to foreign companies and joint ventures. For example, they impose restrictions on the issuance of work permits, or they complicate the system of issuing permits and licenses, or they allow cases of illegal levies. If the situation won't change, many companies that are aware of all the risks and invested in Kazakhstan, will not be able to keep business in Kazakhstan in future. The development of industry and human training take time. Unfortunately, in Kazakhstan it takes longer time than expected. We would like to expect the government of Kazakhstan to understand these facts and make efforts for the proper resolution of the existing issues.
- Joint ventures are exposed to illegal levies. It's hard to put up with the tax authorities who try to collect levies from the companies by utilizing the fact that laws are not sufficiently developed.
- We believe it is necessary to abolish the system of taxation of retained earnings as a pre-pay tax on the repatriation of earnings, which will be charged in case of future dividend payments by legal entities or subsidiaries companies. In addition, it seems that current system of planned income tax for joint ventures is issues to be solved. The point that calculated according to the same high profit shown in the past is also big issue.

#### ◇Others

- In order to determine how the Kazakhstan market is attractive for Japanese companies as well as calculate the prospects of accommodation facilities, we first need to know the structure of Kazakhstan's population. Looking for aggregated data on investment climate, including the population of the major cities, the level of income, the demand and supply of labor, labor costs, and data on general education, technical education, as well as scientific and technical potential. In addition, information of transport infrastructure between the cities, ICT infrastructure and access routes from abroad are also important.
- I participated in this mission in Kazakhstan, and this experience gave me a good opportunity to understand this country much better. On the other hand, it seems that there is not so much possibility to receive

information of Japanese products in Kazakhstan. In order to provide opportunities for business, it is necessary with the support of the Japanese government's efforts to promote Japanese products in Kazakhstan.

- Many people of Kazakhstan respect for Japan and appreciate its high technical level. However, in recent years, young people prefer to learn Chinese and Korean, and the number of students who learn Japanese declines because it is hard to find work even after learning Japanese in Kazakhstan. Proportion of the number of students who study Japanese, Korean, and Chinese are 1:3:4. This means big difference. I feel that presence of Japan has been decreasing gradually.