Strategies for Chinese Enterprises to Overcome Investment Obstacles in Kazakhstan in the New Era

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Abstract: In the new era, Kazakhstan's successful accession to the WTO, the introduction of new economic policies such as the "Bright Path" and the 2050 Strategy, and China's proposal for the construction of the "Silk Road Economic Belt" have drawn significant attention from investment enterprises of both countries. Undoubtedly, these developments provide opportunities for Chinese enterprises investing in Kazakhstan. However, in the process of investment, Chinese enterprises in the new era also encounter obstacles such as the underdeveloped infrastructure in Kazakhstan, strict foreign exchange controls, weak financial risk resistance, overly concentrated investment areas, and competition pressure from well-established enterprises in developed countries. Finally, strategies are proposed for Chinese enterprises in the new era to address these obstacles.

Keywords: new era, Chinese enterprises, Kazakhstan, obstacles, strategies

1. Introduction

In 2013, China proposed the grand initiative of constructing the "Silk Road Economic Belt". In 2014, Kazakhstan formulated and implemented the "Bright Path" new economic plan and the 2050 development strategy. In 2015, Kazakhstan successfully joined the World Trade Organization (WTO). In the new era, China and Kazakhstan are actively aligning the "Silk Road Economic Belt" with the "Bright Path". The implementation of this strategy has sparked extensive discussions among scholars of both countries and has garnered significant attention from investment enterprises of both nations, making it a focal point of current bilateral relations. The economic structures of both countries are complementary, providing a solid foundation for joint consultation, cooperation, and mutual benefits for investment enterprises of both nations.

2. Chinese Enterprises in the New Era Should Seize New Opportunities for Investment in Kazakhstan

2.1 Kazakhstan's Accession to the WTO in the New Era

Kazakhstan's accession to the WTO involved protracted negotiations spanning over 20 years. Finally, on July 27, 2015, in Geneva, Switzerland, Kazakhstan successfully signed the accession agreement, becoming a member of the WTO. It was the country that had endured the longest negotiation period to join the WTO to date. Before joining the WTO, Kazakhstan frequently changed domestic policies, lacked a sound economic system, and presented various trade barriers, all of which hindered Chinese enterprises from investing in Kazakhstan. Kazakhstan's successful accession to the WTO means it will adhere to the written rules and standards of the WTO and engage in economic cooperation with countries worldwide. This not only eliminates the barriers stemming from its imperfect policies and systems before accession but also standardizes its investment and trade standards. Once economic disputes arise in Kazakhstan involving Chinese enterprises, they will be resolved in accordance with international standards. This naturally reduces the risk coefficient for Chinese enterprises investing in Kazakhstan, thereby reducing economic losses, increasing profits, and ensuring their investments. Kazakhstan's accession to the WTO undoubtedly presents significant development opportunities for Chinese enterprises investing in the country.

Kazakhstan's accession to the WTO has raised its market access threshold, facilitating direct investment by Chinese enterprises. Currently, Chinese enterprises from various industries are investing in Kazakhstan, including telecommunications, international transportation, import and export insurance, international tourism, multinational banking, processing industries, and import-export trade. These industries also attract investment from multinational enterprises of other countries. Meanwhile, Kazakhstan will eliminate subsidies related to imports and conditions limiting foreign enterprises' stakes in Kazakhstan to...
below 49%, not only increasing the opportunities for fair competition for Chinese enterprises investing in Kazakhstan but also enhancing their share of investment equity. All of the above indicates that Kazakhstan's accession to the WTO is conducive to Chinese investment enterprises entering multiple sectors in Kazakhstan.

Kazakhstan's accession to the WTO benefits Chinese enterprises investing in Kazakhstan by facilitating the purchase of equipment and services from their home country. Since joining the WTO, Kazakhstan has gradually reduced its import tariffs and investment barriers, with the average tariff decreasing from the previous 10.4% to 6.5%. This not only reduces the import costs for Kazakhstani enterprises but also promotes more Chinese goods and services to be exported to Kazakhstan. It is more favorable for Chinese enterprises investing in Kazakhstan to purchase equipment and services from their home country because the reduction in import tariffs leads to corresponding reductions in purchasing costs and increases in profits. Therefore, Kazakhstan's accession to the WTO can reduce investment costs and increase returns for Chinese enterprises investing in Kazakhstan.

2.2 Kazakhstan's New Economic Plan "Bright Path" and the 2050 Strategy in the New Era

The new economic plan "Bright Path" in Kazakhstan has served as a catalyst for Chinese enterprises to invest in the country, particularly meaningful for improving Kazakhstan's infrastructure. The main purpose of Kazakhstan's "Bright Path" new economic plan is to attract foreign enterprises to invest in the country, effectively utilize its abundant funds, strengthen the improvement of domestic infrastructure, promote rapid and stable economic growth, and alleviate domestic employment pressures. Kazakhstan's investment mainly focuses on transportation and energy infrastructure construction. To smoothly implement the new economic plan, Kazakhstan has been increasing infrastructure funding annually since 2015, providing more opportunities for Chinese enterprises to invest in the country and attracting an increasing number of them. The new economic plan not only improves Kazakhstan's infrastructure construction but also drives the development of related industries such as steel, cement, equipment manufacturing, and related services, thereby promoting the economic development of various industries in Kazakhstan and attracting more diversified investments from Chinese enterprises.

The introduction of the "Kazakhstan-2050 Strategy" provides opportunities for Chinese enterprises investing in Kazakhstan. The implementation of the 2050 Strategy not only focuses on improving Kazakhstan's investment environment and stimulating its economic growth but also ensures the stability of Chinese enterprises' investments in Kazakhstan. The results of the 15-year period of the 2030 plan proposed and implemented by Kazakhstan from 1997 to 2012 were significant, sparking a domestic investment boom and attracting more foreign enterprises to invest in Kazakhstan, leading to a gradual increase in the number and amount of Chinese enterprises investing in Kazakhstan. Therefore, Kazakhstan proposed the 2050 Strategy in 2012, aiming to promote domestic economic development. The strategy aims to elevate Kazakhstan's economy into the top 30 countries in the world, focusing on improving national planning, decentralizing power, enhancing efficiency, and refining national institutions in terms of institutional reforms. In terms of economic development, it aims to efficiently construct infrastructure and promote rapid economic development. The introduction of the Kazakhstan-2050 Strategy presents an opportunity for developed country enterprises investing in Kazakhstan and holds profound significance for neighboring China, the world's second-largest economy. By providing preferential and convenient conditions for Chinese enterprises investing in Kazakhstan, the strategy not only attracts them to invest but also enhances their competitiveness and profits by deepening their skills and enriching their management experience during the investment process. The proposal of the Kazakhstan-2050 Strategy is conducive to improving its domestic investment environment to attract foreign investment. Only when domestic infrastructure is improved and agricultural levels are enhanced will it bring convenience to local residents and foreign investors. Therefore, vigorously supporting the development of these two areas of basic material economy is crucial. China has a comparative advantage in these two areas, which is why Kazakhstan has successfully attracted more Chinese enterprises to invest in the country. The ambitious goals of the Kazakhstan-2050 plan prompt China and Kazakhstan to cooperate mutually beneficially and rapidly develop their national economies together.

2.3 China's Advocacy of the "Silk Road Economic Belt" Construction in the New Era

The construction of the "Silk Road Economic Belt" was proposed by China in 2013, which is precisely what Kazakhstan has been looking forward to, as it aligns with its goal of achieving economic development by leveraging China's abundant funds and technological advantages.

The initiation of the "Silk Road Economic Belt" has attracted a large number of Chinese enterprises to invest in Kazakhstan. Kazakhstan serves as a key node of the "Silk Road Economic Belt", being the first stop from the northwestern Chinese province of Xinjiang to Europe. Kazakhstan's support is instrumental in the successful construction of this economic corridor. Firstly, the "Silk Road Economic Belt" attracts a large amount of foreign capital, promoting economic development and addressing local employment needs while enhancing labor skills. This aligns with Kazakhstan's government's aspirations.
for economic development and presents opportunities for the country. Secondly, the proposal of the "Silk Road Economic Belt" provides rare opportunities for investors from various countries. The governments of China and Kazakhstan offer favorable and convenient policies for Chinese enterprises investing in Kazakhstan, reducing invisible costs for investing enterprises and increasing profits, thereby facilitating the development of Chinese enterprises in Kazakhstan.

3. Obstacles Faced by Chinese Enterprises in Direct Investment in Kazakhstan in the New Era

3.1 Kazakhstan’s Underdeveloped Infrastructure in the New Era

Transportation primarily includes railways, highways, pipelines, and aviation. Due to the underdeveloped infrastructure in Kazakhstan in the new era, railways and highways remain the primary means of transportation within the country. Among all the CIS countries, Kazakhstan ranks second in the development of its highway network, second only to Russia. Kazakhstan has six international highways, providing convenience for transit transportation. Regarding its railway network, in December 2011, China's Train No. 2001 and Kazakhstan's Train No. 3602 passed through the Khorgos Port, marking the second international railway passage extending from Central Asia to West Asia and finally to Europe. Despite Kazakhstan being located in the heartland of the Eurasian continent and the close economic cooperation between China and Kazakhstan facilitated by highways and railways, the country's significantly underdeveloped domestic infrastructure poses inconvenience to both domestic and foreign investors. This severely affects the efficiency of investors' work and serves as a major obstacle for foreign investors.

3.2 Strict Foreign Exchange Controls and Weak Financial Risk Resistance in Kazakhstan in the New Era

In the new era, Kazakhstan's foreign exchange control system is stringent, coupled with the fact that its national currency, the tenge, is heavily dependent on fluctuations in the US dollar exchange rate, which weakens its financial risk resistance and increases the risk of economic returns for investing enterprises in Kazakhstan. Among the five Central Asian countries, Kazakhstan has the strictest foreign exchange control system, especially with regard to large-scale foreign exchange transactions. Foreign investors wishing to transfer funds from their home countries to Kazakhstan or repatriate investment profits from Kazakhstan to their home countries must apply to the relevant department of the Kazakhstan central bank and provide relevant supporting documents for approval. On February 29, 2016, the Kazakhstan central bank approved the decision on the "Supplement and Amendment to the Guidelines for Foreign Exchange Cash Transactions within Its Territory". The decision stipulates that foreign currency exchange points within Kazakhstan must reach agreements with authorized banks for foreign exchange transactions and currency provision, and this agreement must be completed within one month after the decision is officially promulgated. Furthermore, individuals exchanging foreign currency at exchange points for amounts exceeding 1 million tenge are required to provide valid identification. These regulations indicate the strictness of Kazakhstan's foreign exchange control system. Complex foreign exchange procedures, significant foreign exchange policy interventions, and stringent loan regulations are factors contributing to the financial risks and obstacles faced by Chinese investors.

In recent years, the Kazakhstani currency, the tenge, has experienced frequent and mostly depreciating fluctuations in its exchange rate, posing increased investment risks for Chinese enterprises investing in Kazakhstan. The tenge has undergone five significant depreciations, occurring in 1999, 2009, 2014, 2015, and 2016. For instance, in 2016, the tenge-to-US-dollar exchange rate decreased by 54.31% compared to 2015 (from 221.7 to 324.1), primarily influenced by the appreciation of the US dollar. However, in 2017, the tenge-to-US-dollar exchange rate slightly appreciated, rising by 4.69% compared to 2016 (from 324.1 to 326.0). In 2018, the tenge-to-US-dollar exchange rate decreased by 5.74% compared to 2017 (from 326.0 to 344.7). In 2019, the tenge-to-US-dollar exchange rate decreased by 11.04% compared to 2018 (from 344.7 to 382.75). Although Kazakhstan began implementing a freely floating exchange rate system on August 20, 2015, to ensure the domestic economy's stability, some experts believed that the new exchange rate policy would be effective. However, from 2015 to 2016, the tenge depreciated by 54.31% against the US dollar, resulting in significant economic losses for various sectors investing in Kazakhstan. As of 2019, the tenge's exchange rate has remained highly volatile and subject to frequent fluctuations, indicating its weak resilience against financial risks. This increases the investment risks for foreign enterprises investing in Kazakhstan.

3.3 Overly Concentrated Investment of Chinese Enterprises in Energy Extraction in Kazakhstan in the New Era

In the new era, the primary sector for Chinese enterprises investing in Kazakhstan is energy development. Among the
five Central Asian countries, Kazakhstan has relatively fast and stable economic development and a relatively favorable social environment. With its advantageous geographical location and abundant mineral resources, including oil, coal, natural gas, and non-ferrous metals, Kazakhstan attracts investments from Chinese enterprises mainly in sectors such as minerals, oil, infrastructure, and financial insurance.

Analyzing the attraction of foreign investment to Kazakhstan, it is evident that the country primarily focuses on the development of the energy-related industries. This highlights Kazakhstan's emphasis on leveraging its comparative advantage in energy and its over-reliance on the development of the energy sector. Consequently, most Chinese enterprises investing in Kazakhstan also concentrate their funds in the energy sector. Despite China's relatively abundant energy resources, its per capita ownership is relatively low. Additionally, rapid technological and economic development in China has led to an increasing demand for energy. Therefore, Chinese enterprises invest in the energy industry in Kazakhstan to export resources back to China to meet domestic energy demands. However, the concentration of Chinese investment in Kazakhstan's energy sector increases economic risks. Firstly, there is intense competition in Kazakhstan's energy sector, with competition between Chinese and Kazakhstani enterprises as well as competition from investment enterprises from developed countries such as the European Union and the United States. Secondly, Kazakhstan has realized the risks associated with relying solely on energy extraction and export to boost economic growth, which can lead to the "Dutch disease". While Kazakhstan has implemented a series of control measures for investments in the energy sector, the effectiveness of these measures remains limited due to the gap between policy formulation and implementation. If Chinese enterprises investing in Kazakhstan focus solely on energy extraction and face significant fluctuations in energy prices, the risk factor for Chinese investors will increase.

3.4 Competition Pressure from Investment Enterprises of Developed Countries for Chinese Enterprises in the New Era

Central Asia, located east of China and at the intersection of Europe and Asia, particularly positions Kazakhstan in a vital geographical location. With abundant oil reserves and rich mineral resources, Kazakhstan has attracted many renowned enterprises from developed countries to invest, thereby increasing competition pressure for Chinese enterprises investing in Kazakhstan. Among these formidable competitors are prominent enterprises from the Netherlands, the United States, and Russia. For Russia, Kazakhstan has historically been regarded as its backyard, emphasizing its economic growth and continuously expanding investments in Kazakhstan. Russia closely monitors investment trends of Chinese and other foreign enterprises in Kazakhstan to assert its significant position in the country. In 2014, China's investment flow into Kazakhstan amounted to $1.861 billion, surpassing Russia's $1.58 billion. However, in 2015, Russia's investment flow into Kazakhstan increased to $527 million, exceeding China's $504 million. The United States has sought to dominate the Central Asian market since the dissolution of the Soviet Union. Its investments in Central Asia primarily target Kazakhstan, aiming to seize advantage of Kazakhstan's abundant resources and contain the economic development of Russia and China by adopting encirclement strategies. In 2015, the United States' investment flow into Kazakhstan was 5.5 times that of China's. In addition to competition from Russia and the United States, other developed countries have also intensified their investments in Kazakhstan, significantly increasing pressure on Chinese enterprises. This increased competition will likely affect Chinese enterprises' investment strategies in Kazakhstan. From 2005 to 2016, the Netherlands ranked first in investment in Kazakhstan, with a total investment of $128.744 billion, followed by the United States with $47.704 billion. Furthermore, in the first half of 2017, Belgium's investment in Kazakhstan exceeded that of China. In conclusion, the intensified competition poses greater pressure on Chinese enterprises.

4. Recommendations for Chinese Enterprises' Investment Strategies in Kazakhstan in the New Era

4.1 Expansion of Investment to Improve Infrastructure Construction in Kazakhstan

In the context of the "Belt and Road" initiative, infrastructure construction projects primarily focus on three major areas: energy and mineral resources, transportation, and communication industries. Chinese enterprises possess superior expertise and technology in these industries compared to Kazakh enterprises. Moreover, with the increasing presence of Chinese banks and financial institutions in Kazakhstan, the Kazakh government offers favorable conditions to attract Chinese investment, such as reducing taxes and providing convenient loan policies. These measures are conducive to attracting more Chinese enterprises willing to expand their capital investment to improve Kazakhstan's infrastructure environment.

Transportation Construction in Kazakhstan. Currently, the number of main railway lines within Kazakhstan is limited,
and their distribution is highly uneven, resulting in limited transportation capacity, which impedes the country's economic development. The Kazakh government places high importance on this issue. Given the lack of sufficient funds for railway construction in Kazakhstan, Chinese enterprises bring substantial investment. As the implementation of the "Belt and Road" initiative progresses, the number of Chinese enterprises investing in Kazakhstan's transportation infrastructure is increasing, as the Chinese government has prioritized it as a key investment project. Since transportation construction investment requires significant funds, the government should provide financial and technological assistance to investment enterprises.

Communication Infrastructure Construction in Kazakhstan. Kazakhstan's communication infrastructure is poor, severely affecting the quality of life for residents. The extremely outdated network conditions hinder the efficiency of both domestic and foreign investors and enterprises. When Chinese enterprises invest in Kazakhstan, they should first cooperate with local Kazakh companies to improve information connectivity. The government should strongly support Chinese enterprises entering the Kazakh market and accelerate cooperation in the construction of communication facilities between the two countries. Due to Kazakhstan's economic and technological backwardness, it lacks the capability to rapidly improve its communication infrastructure. Therefore, when Chinese enterprises invest in communication infrastructure construction in Kazakhstan, they will prioritize densely populated areas and regions with better economic development to achieve the highest efficiency in communication technology facilities. With joint attention from China and Kazakhstan, Chinese enterprises will increase their investment in the construction of communication infrastructure in Kazakhstan.

4.2 Accelerating Renminbi Exchange in Kazakhstan in the New Era

China should accelerate the promotion of Renminbi (RMB) settlements in Kazakhstan. With the operation of the "Belt and Road" initiative, the Silk Road Fund, Asian Infrastructure Investment Bank (AIIB), China Development Bank, and other financial institutions are channeling increasing amounts of funds into Kazakhstan. To facilitate this, an economic and financial services center should be established in Kazakhstan. This will allow Chinese enterprises investing in Kazakhstan to capitalize on their financing advantages, enabling efficient settlement of RMB in Kazakhstan. Researching the mechanisms for RMB and Kazakh tenge flow in Kazakhstan, expanding and accelerating RMB exchange operations in Kazakhstan, can help reduce reliance on the US dollar. This can prevent serious economic crises in Kazakhstan caused by fluctuations in the US dollar exchange rate, thereby safeguarding the income of Chinese investment enterprises. Chinese financial institutions can establish financial centers in Astana, the capital of Kazakhstan, to facilitate the exchange of RMB and Kazakh tenge, thereby improving the efficiency of RMB and tenge exchange rates.

Furthermore, the Chinese government should work with insurance institutions to promote investment insurance systems for Chinese enterprises in Kazakhstan. The "Belt and Road" initiative calls for the vigorous development of investment insurance for Chinese enterprises in Kazakhstan. Specific implementation measures could involve the participation of the Chinese Ministry of Commerce and the Ministry of Finance in insurance project approvals, further expanding the scale of investment insurance for Chinese enterprises in Kazakhstan, increasing the types of insurance products available, and reducing the financial risks for Chinese enterprises investing in Kazakhstan. All of these efforts require China to accelerate the efficiency of RMB exchange in Kazakhstan.

4.3 Diversification of Investment Trends for Chinese Enterprises in Kazakhstan in the New Era

Energy investment has become the preferred area for Chinese enterprises to invest in Kazakhstan. Strengthening investments in energy in Kazakhstan not only addresses China's energy shortages but also promotes the economic development of Kazakhstan.

Chinese enterprises should enhance investments in other resource sectors in Kazakhstan. This will not only help Chinese enterprises reduce the risks associated with concentrating investments in a single sector but also enable them to expand their profits through diversified investments. Currently, most Chinese enterprises primarily invest in energy extraction in Kazakhstan. While continuing to invest in the energy sector, they should also increase investments in other sectors. Presently, very few Chinese enterprises invest in manufacturing in Kazakhstan, which may be due to the backwardness of Kazakhstan's manufacturing industry and shortage of skilled workers. However, this presents both a challenge and an opportunity for investing enterprises. Chinese enterprises have relative advantages in certain industries such as agricultural production and processing, pharmaceutical research and production, building materials production, transportation infrastructure construction, and electrical appliance manufacturing. These industries are areas where Kazakhstan's technological level is significantly behind, and the Kazakh government is eager to improve them. Therefore, Chinese investing enterprises should seize the opportunity and leverage their comparative advantages to expand investments in these sectors. Strengthening diversified investments in Kazakhstan has several advantages. Firstly, it can alleviate China's overcapacity problems and expand its international market share. Secondly, Kazakhstan's agricultural production sector has great development potential, and
Chinese enterprises can collaborate with local partners to develop agricultural resources and production bases in Kazakhstan. This not only effectively addresses Kazakhstan's shortage of agricultural resources but also allows Chinese enterprises to take a leading position in agricultural investments in Kazakhstan. Finally, Chinese enterprises may consider investing in Kazakhstan's service industry. As neighboring developing countries, the geographical advantages are conducive to the development of the service industry. Kazakhstan's service industry is relatively underdeveloped but has significant growth potential, including transportation, finance, education and training, information services, and tourism. Chinese enterprises should opt for diversified investments to realize the trend of diversified investment in Kazakhstan.

Given Kazakhstan's abundant energy resources and its emphasis on energy development, it has become evident that relying solely on the development and export of basic energy resources cannot guarantee sustained economic growth domestically. The Kazakh government's 2050 Strategy and the "Bright Path" new economic plan aim to promote balanced development across various industries in Kazakhstan. In light of this, Chinese enterprises should familiarize themselves with the preferential policies in different sectors of Kazakhstan and expand investments in sectors beyond energy. This approach ensures effective investment that not only facilitates cultural exchanges between the Chinese and Kazakh peoples but also fosters economic cooperation between China and Kazakhstan. Additionally, it strengthens the competitiveness of Chinese enterprises investing in Kazakhstan while reducing investment risks.

4.4 Enhancing Investment Quality and Competitiveness in Kazakhstan

Chinese enterprises planning to invest in Kazakhstan should have a thorough understanding of the country's laws and policies beforehand. While the Kazakhstani government encourages Chinese investment, it requires that such investments do not disrupt the country's economy and align with its development goals. Kazakhstani policies restrict foreign investment in certain sectors and vary across different investment fields, controlling the scope of investment. For Kazakhstan, implementing laws to regulate foreign enterprises aims to protect its own economic development. Chinese enterprises planning to invest in Kazakhstan should familiarize themselves with Kazakhstani laws and policies to ensure compliance and make the most of the investment environment, thereby enhancing the quality of their investments and competitiveness in Kazakhstan.

Due to severe funding shortages, Kazakhstan vigorously promotes attracting foreign investment to develop its economy, lowering market access standards in the process. However, Chinese enterprises planning to invest in Kazakhstan will encounter Kazakhstani legal systems at every turn. Therefore, prior familiarity with the investment environment, especially for large state-owned enterprises, is essential. Although the state provides strong support, adherence to laws and regulations is necessary for investment and operations in Kazakhstan. To improve investment quality, Chinese enterprises should first thoroughly understand Kazakhstani investment laws, organizational structures, tax policies, and local employee hiring policies. This ensures that economic activities comply with regulations and protects their interests. Second, before investing in other sectors, detailed market research, expert consultation, or participation in seminars should be conducted to enhance compliance and avoid asset losses in Kazakhstan. This will increase the efficiency of Chinese enterprises' investments in Kazakhstan and enhance their visibility.

Kazakhstan's investment policies are one of the influencing factors in the cross-border business environment. Since different provinces in Kazakhstan have varying policies for attracting foreign investment, Chinese enterprises should regularly monitor policy information released by Kazakhstan and effectively utilize this information to manage their operations. Actively participating in policy seminars, engaging in effective communication, and familiarizing themselves with labor, employment, and industry-specific policies will contribute to enhancing investment quality, strengthening competitiveness, and promoting rapid economic development in China.

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