

Eurasia - An Emerging Business Platform



Presented to the US Chamber of Commerce, Washington, DC
on the occasion of the visit by President Nursultan Nazarbayev
Dmitriy Grigorenko, grigorenkod@schneider-group.com
January 2018

This paper seeks to outline current developments that influence international companies doing business in the greater region of the Eurasian Economic Union (EEU), with a special focus on Kazakhstan, as this country can serve as an efficient entry point to the whole region.

The EEU was formed in 2015 by Russia, Belarus and Kazakhstan; Armenia and Kyrgyzstan joined later. As a result of Eurasian integration processes, a new EEU Customs Code modernizing and harmonizing customs procedures and regulations entered into force on January 01, 2018.

Why do business in Eurasia and Kazakhstan?

- The Eurasian Economic Union member states are attractive to U.S. investors for the following reasons:
 - Growing purchasing power based on a significant oil and gas industry
 - Kazakhstan's proximity to all Caspian Sea states, as well as Russia, China, and India, and its key as a founding member and driver at the heart of Eurasian economic integration processes
 - Commitment to International trade development and World Trade Organization (WTO) membership of Russia and Kazakhstan
 - Proven management capacity to execute large infrastructure projects such as the construction of the new capital, city of Astana and the Expo 2017 (Kazakhstan) or the Olympics in Sochi and the FIFA World Cup (Russia)
 - Increasing openness to global finance through the planned Astana International Financial Center

- The integrated single market of the Eurasian Economic Union includes 185 million people.

- Member-states coordinate respective industrial policies in order to build technological chains, establish joint production and avoid duplication of manufacturing capacity.

- EEU member-states have equal access to the services of natural monopolies, public procurement and single competition rules, allowing cross-border participation in public procurement of goods, works and services.

- The recent accession of Kazakhstan and Russia to the WTO opens doors to more Foreign Direct Investment (FDI), not only through improved policies, but also through the constant adaptation of legislation in compliance with international standards and best practices.

- Throughout its relatively short history, Kazakhstan has proven to be a stable country where long-term economic goals are prioritized over short-term political gains. As a result of the multi-directional foreign policy announced by the President of Kazakhstan during the country's early years of independence, all major economies of the world have invested in strategic areas of the Kazakh economy, hence reaching a balance in terms of regional influence.

- All EEU countries are members of the International Center for the Settlement of Investment Disputes (ICSID). In 1995, Kazakhstan ratified the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). As a result, all international arbitration rulings rendered by the ICSID, the Stockholm Chamber of Commerce, the London Court of International Arbitration and the Arbitration Commission at the Kazakhstan Chamber of Commerce are enforceable in Kazakhstan.

- So far, the securities and financial markets in most of the region are underdeveloped. To counter this, the Astana International Financial Center (AIFC) is in the process of being established. The AIFC jurisdiction status is protected by Kazakhstan's Constitution and allows its courts to operate in accordance with common law. AIFC courts are independent of the judicial system of Kazakhstan.

Economic Model: export driven or based on local demand?

- As part of the Economic Development plan of the EEU through 2030¹, Kazakhstan is actively promoting diversification of exports to reduce dependence on commodity prices. In parallel, the National Export Strategy of Kazakhstan for 2018-2022² is being implemented through the participation of KazakhExport, a government entity which is supervising the National Export Strategy. A basket of priority products was identified to include one hundred sixteen goods (e.g. agricultural products, glass, construction materials) among which Kazakhstan can have a competitive advantage. Twenty-seven countries have been targeted as export destinations, including the U.S., China, Russia, and the Netherlands.
- The Government of Kazakhstan established The National Company for Investment Support and Promotion (KazakhInvest). With its wide network of representatives abroad, KazakhInvest represents the Government in negotiations with domestic and foreign investors and provides government services to investors, including granting investment preferences and permissions.

Free Trade in the EEU? Kazakhstan as an example of how to drive domestic economic reforms

- The larger Eurasian countries (Russia and Kazakhstan) built their traditional economies on the export of raw materials, while Belarus functions as a manufacturing and IT hub, and Armenia and Kyrgyzstan have more of an agricultural focus. All countries have to modernize and they will do this both through concerted policies in the EEU and national policy programs. Kazakhstan's Modernization 3.0 Program³ is aimed at systematically modernizing the economy with five priorities:
 - 1) Accelerated modernization of the economy
 - 2) Improved business environment
 - 3) Increased macroeconomic stability
 - 4) Enhanced quality of human capital
 - 5) Strengthened institutions, security and anti-corruption efforts
- To promote the non-mining sector, Eurasian countries use cheaper financing opportunities, tax incentives, and state grants in kind to the extent that they are in line with WTO requirements. Kazakhstan focuses on the following priority industries:
 - 1) Agriculture
 - 2) Consumer Goods
 - 3) Infrastructure, logistics, communications, and transportation
 - 4) Manufacturing of building materials
 - 5) Tourism

¹ Ruling of the EEU Supreme Council dated October 16, 2015

² Resolution of the Government of the Republic of Kazakhstan No. 511, dated August 26, 2017, On the Approval of National Export Strategy Program.

³ The President's address to the nation of Kazakhstan. January 31, 2017.

One of the best examples for successful cooperation in Eurasia is the joint venture between General Electric and the National Kazakhstan Railway Company for the assembly of locomotives, which are successfully exported to neighboring countries. The level of trade between the U.S. and Kazakhstan is backed by the U.S. Chamber of Commerce, which has provided continuous support for legislation⁴, extending the status of Permanent Normal Trade Relations with Kazakhstan.

Permits Regulation Procedure:

What sort of legislative and/or technologic initiatives currently exist within the EEU and in particular in Kazakhstan, to promote government notification, thereby removing or significantly decreasing licensing procedures?

- The Eurasian Economic Union works to harmonize its regulation and technical standards, including permits, by using EEU-wide online systems. The completion of this process will, however, take time and no deadline is set yet. One positive example is the import permit, which after January 2018 (as a result of the new Customs Code coming into force) will be issued automatically after the e-declaration is checked successfully. Once a good is permitted, it can be reimported faster without being fully checked again.
- Kazakhstan has already reformed its permit system⁵, and almost all licenses are currently applied for and issued electronically through the government portal, e-license.kz. The timeframe for receiving a permit is generally 15 days; however, some activities are subject to stricter control and the process may take longer (such as the import or export of goods).
- In April 2016, the Law on Shortening the List of Permissions and Simplification of Procedures⁶ came into force, thereby eliminating 152 permits, while numerous others were simplified to a regime of notifications.

Infrastructure: connecting the region to global markets

- A top priority for the Eurasian Economic Union is the creation of a common transport services market based on 97 measures defined by the EEU commission and to be implemented in the next three years. Work has started with the Program for Liberalization of Cabotage Transportation, expansion of air services, transportation processes digitization and various other projects.
- The EEU also sees the One Belt One Road (OBOR) initiative as an impetus for developing and modernizing its transit infrastructure. Kazakhstan has made this a priority of its national economic policy, in cooperation with its fellow EEU member countries and China. State programs to support this effort include the Strategic Development Plan of the Republic of Kazakhstan through 2020⁷, the State Program for the Development and Integration of the Transport System of the Republic of Kazakhstan through 2020⁸ and the Transport Strategy of the Republic of Kazakhstan through 2020⁹.

⁴ H.R. 4067

⁵ Law on Permissions and Notifications No. 202-V, dated May 16, 2014.

⁶ Law No. 479-V, dated March 29, 2016, On Amendments and Additions to Some Legal Acts of the Republic of Kazakhstan on the Reduction of Permits and Simplification of Licensing Procedures.

⁷ Presidential Order of the Republic of Kazakhstan No. 922, dated February 01, 2010, On Strategic Development Plan of the Republic of Kazakhstan through 2020.

⁸ Government Resolution of the Republic of Kazakhstan No. 1263, dated November 29, 2013.

⁹ Presidential Order of the Republic of Kazakhstan No. 725, dated January 13, 2014.

- Eurasian countries aim at simplifying customs procedures via the so-called “Green Corridor” for companies with exceptional track-records, which will have priority or might even bypass customs control.

Risk factors for investors in the region

The foreseen risks for U.S. companies looking to do business in the greater Eurasian region are:

- Currency Control and Financing – Success of national banks in stabilizing currencies (dependence on oil prices) differ; no single EEU currency is planned. Currency regulations reform (, expected to go into effect in Kazakhstan in mid-2019): branch and representative offices of foreign companies will be regarded as residents for currency regulation purposes and will have to transact with local companies only in national currency;
- Transfer Pricing Legislation – Transfer pricing law in Kazakhstan is based on OECD guidelines, but differs in application (historically developed to scrutinize the oil and gas sector, now also used in other sectors);
- Corruption – The Transparency International Corruption Perceptions Index ranks the region still among the highest in the world (last third), with shadow economies often estimated at more than 15% of GDP.

Kazakhstan, in particular with the creation of the Eurasian Economic Union, is undergoing a very vibrant period of development. Situated in the heart of Eurasia, it is a natural hub for doing business in the region. However, there is ample room to grow. The country is in dire need of high quality products and technological advancement. Western companies looking to do business in the region will find the business climate to be much more favorable than expected. Accounting standards, customs issues and general matters of compliance are becoming more and more business friendly, while the country is further integrating into the global economy. The Eurasian Economic Union, led by its Commission, is engaging in wide-ranging reforms, as well as modernizing procedures and harmonizing technical regulation. A major step forward to closer, more effective integration is the introduction of the Single Window Principle within the EEU in the framework of the new Customs Code.

**Aktau**

Business Centre Grand Nur Plaza, Office 46
Microdistrict 29 A
130000 Aktau, Kazakhstan
T +7 / 7292 / 201 151
aktau@schneider-group.com

Almaty

Tole Bi Street 101, Block 9 B
050012 Almaty, Kazakhstan
T +7 / 727 / 355 44 48
almaty@schneider-group.com

Astana

Business Center St.-Petersburg
Office 1407, Dostyk Ave 20
010000 Astana, Kazakhstan
T +7 / 7172 / 425 822
astana@schneider-group.com

Minsk

ul. Surganova 29
220012 Minsk, Belarus
T +375 / 17 / 290 25 57
minsk@schneider-group.com

Kyiv

Horizon Office Towers
vul. Shovkovychna 42-44
01601 Kyiv, Ukraine
T +380 / 44 / 490 55 28
kyiv@schneider-group.com

St. Petersburg

Business Center Petrovskiy Fort
Office 801-803, Finlyandskiy pr. 4 A
194044 St. Petersburg, Russia
T +7 / 812 / 458 58 00
spb@schneider-group.com

Moscow

ul. Bakhrushina 32/1
115054 Moscow, Russia
T +7 / 495 / 956 55 57
moscow@schneider-group.com

Warsaw

ORCO Tower, Office 17.02.
Al. Jerozolimskie 81
02-001 Warsaw, Poland
T +48 / 22 / 695 03 10
warsaw@schneider-group.com

Berlin

Ritterstrasse 2 B
10969 Berlin, Germany
T +49 / 30 / 615 08 918
berlin@schneider-group.com