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FOREIGN DIRECT INVESTMENT IN KAZAKHSTAN[1]

KAZAKHSTAN: ENTERING THE 10TH ANIVERSARY AS A MARKET ECONOMY AND WITH REFORMS AIMED AT STIMULATING FOREIGN DIRECT INVESTMENT

I. INTRODUCTION

Since its independence from the former Soviet Union in 1991, the Republic of Kazakhstan has made remarkable progress in achieving market-oriented economic reforms and macroeconomic stabilization. Today, measured by any of a variety of yardsticks, Kazakhstan should be rewarded for its progress during ten years of independence and recognized by the world community as a market economy. Market-oriented reforms achieved by Kazakhstan include: a freely convertible, and now more stable, currency, the *tenge*; legal guarantees to workers of the rights to organize in trade unions and collectively bargain as well as the reality of rising real wage rates (and declining unemployment); price and interest rate liberalization; substantial privatization of small- and medium-scale enterprises and of many of the largest enterprises; the elimination of trade distortions such as quantitative restrictions and pronounced integration into the international trading and investment systems; the introduction of new laws, including a tax code based on international standards, an effective bankruptcy law, laws on competition and the securities market, and other components of the essential legal framework for a market economy.

Kazakhstan's progress in creating a young and growing market economy, although substantial, is ongoing and has not been achieved without a share of difficulties. Kazakhstan's new market economy faces some continuing transition challenges which remain to be met before it can fully realize the economic fruits of its market-based liberalization process. The likelihood that Kazakhstan will continue along the path of transition is high. The stated long-term priorities of the Government of Kazakhstan are consistent with the role of government in an economy that is completing its transition to a market system. Among those stated priorities, spelled out in *Kazakhstan 2030—Prosperity, Security and Improvement of the Welfare of All Kazakhstani People*, is the following (one of seven "key goals"): "Economic growth based on an open-market economy with

[1] The paper was prepared by Mr. Kanat Saudabayev, Ambassador of Kazakhstan to the US

high levels of foreign investment and internal savings: to achieve higher and more sustainable economic growth."

Kazakhstan has been a leading reformer in Central Asia in the decade since its independence in 1991. In recent years, market-based government reforms have stabilized the macroeconomy, liberalized the financial sector, transformed the pension system, and restructured the public sector. In the aggregate, price liberalization has created a framework where economic agents now respond to market signals in Kazakhstan. Further, as a consequence of the substantial privatization process, the level of foreign direct investment in Kazakhstan is one of the highest among all of the former Soviet-bloc countries. In year 2000 it reached 2.7 billion.

While the pace of structural reform in some areas of the economy slowed during 1998 under the strains of declining oil prices, a drought-induced domestic grain shortfall, and the lingering effects of regional financial crises, "the process of market-oriented reform is now seen to be irreversible." The twin shocks of the Asian and Russian financial crises in 1998 interrupted the first modest economic growth that Kazakhstan had achieved since independence. Due primarily to the mass privatizations and other market-based reforms that had been completed by the mid-1990s, Kazakhstan's progress allowed it to realize positive GDP growth in 1996 and 1997. At the same time, unemployment had steadily fallen to less than seven percent and single-digit inflation was achieved by 1998. In spite of the economic progress made to that point, Kazakhstan's GDP growth declined in 1998 as a result of the regional financial crises. Notwithstanding the tremors from these economic shocks, which temporarily diverted the government's attention from its ongoing market reform and privatization goals, the government followed through with its decision to allow the *tenge* to freely float (which completed the *tenge's* procession to full convertibility).

As a testament to the market-based reforms Kazakhstan had already accomplished by 1998, it recovered from the 1998 crisis quickly and achieved positive GDP growth again in 1999, which increased dramatically in 2000by 9.6%. After a decline in 1998, the level of foreign direct investment has also been reinvigorated; inflation, unemployment and the exchange rate have all been stabilized at sustainable levels; and the government has renewed the final stages of market reforms including the final stages of privatization focused on large-scale enterprises. Kazakhstan's recovery from the 1998 shocks and its decision to embrace the remaining elements of market reform show that its fledgling market economy exists within a structural framework evidencing the political will to further develop and grow within a market-based economic system.

II. <u>FACTORS ATRIBUTNG KAZAKHSTAN TO MARKET ECONOMY</u>

The article analyzes several factors, which should attribute to recognition of Kazakhstan as a market economy:

(i) the extent to which Kazakhstan's currency is convertible into the currency of other countries;

(ii) the extent to which wage rates in Kazakhstan are determined by free bargaining between labor and management;

(iii) the extent to which joint ventures or other investments by non-Kazakh firms are permitted in Kazakhstan;

(iv) the extent of government ownership or control of the means of production;

(v) the extent of government control over the allocation of resources and over the price and output decisions of enterprises; and

(vi) other factors as appropriate.

Each of the six factors is framed in terms of "the extent" to which the transition has been made, "suggesting that complete *laissez faire* or a perfectly competitive market economy is not the applicable standard."

Kazakhstan has received repeated commendation by numerous international organizations and observers for the progress it has made since the break-up of the Soviet Union in implementing the legal framework and institutions of an economy based on market principles.

A. Kazakhstan's Currency, The *Tenge*, Is Convertible Into The Currency Of Foreign Countries.

Kazakhstan's currency, the *tenge*, is freely convertible. As a member country of the International Monetary Fund ("IMF"), Kazakhstan has acceded to the requirements of Article VIII of the IMF Articles of Agreement regarding current-account convertibility, making its exchange system free of all restrictions on payments and transfers for current international transactions.[2] The Department itself, in its Kazakhstan Year 2000 Investment Climate Statement, described the legal framework in Kazakhstan as providing for currency convertibility.[3]

Foreign investors in Kazakhstan are allowed to open and maintain accounts in foreign currency, pay debts in foreign currency, and freely convert and repatriate profits earned in Kazakhstan. Residents of Kazakhstan may also apply for a license to move capital outside the country in foreign currency. Within Kazakhstan, there are no restrictions on foreign currency exchanges through banks and other organizations.

Kazakhstan's currency has also remained relatively stable, even as the rest of its neighbors were suffering the effects of regional financial crises. The *tenge* was allowed to float and underwent devaluation in April 1999 in reaction to the Russian and Asian financial crises. That move was lauded by international financial organizations and the *tenge* quickly stabilized thereafter.[4] Kazakhstan's inflation rate is better than many more-industrialized countries at an average of 6.7% for 1998 and 1999 (by comparison, Russia's rate for the same period was 63.9% and the Czech Republic's was 7.6%).[5] Low inflation is attributable to Kazakhstan's stable currency and tight fiscal policy.[6]

The IMF classifies Kazakhstan's exchange arrangement as "independently floating," meaning that the exchange rate is market-determined with minimal intervention aimed only at moderating the rate of change and preventing undue fluctuations rather than establishing a set exchange rate level. The exchange rate for the *tenge* depends entirely on supply and demand on the foreign exchange market, and the National Bank of Kazakhstan ("NBK") will not substantially intervene in setting the exchange rate.[7] The exchange rate is determined on the basis of interbank foreign exchange auctions now held daily. The currency market consists of over-the counter interbank exchanges at freely negotiated rates, as well as the Kazakhstan Stock Exchange (KASE) which conducts trading

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2 IMF, *Republic of Kazakhstan—Staff Report for the 2000 Article IV Consultation*, SM/00/257, November 17, 2000 (hereinafter "IMF Staff Report") at 5.

3 Kazakhstan: Year 2000 Investment Climate Statement, BISNIS, U.S. Dept. of Commerce, 13 September 2000 (hereinafter "DOC Investment Statement").

4 Freedom House, *Nations in Transit 2000: Kazakhstan*, avail. at http://www.freedomhouse.org (hereinafter "Freedom House Report"), "Introduction."

5 Freedom House Report at 21.

6 Economist Intelligence Unit (EIU) Country Report: Kazakhstan, April 10, 2001, "Overview."

7 Freedom House Report at 342 ("Macroeconomic Policy").

electronically.[8] Kazakhstan's gold and currency reserves are no longer used to control exchange rate levels.

Kazakhstan is likely to meet all of the fiscal targets set with the IMF thanks to its tight fiscal stance, high oil revenue, and rapid economic growth. Kazakhstan has paid off all of its outstanding IMF debt and has not needed to draw on the extended fund facility negotiated in December 1999.[9]

B. Labor Law In Kazakhstan Guarantees Workers' Rights, Including Rights To Join Unions And Negotiate Wage Rates.

Kazakhstan has enacted the essential legal framework to ensure that workers' rights are protected. The keystone is the law "On Labor," that went into effect January 1, 2000. Moreover, Kazakhstan had already joined the International Labor Organization (ILO) in 1993, and has ratified 15 ILO Conventions, including: Convention No. 87 "Free Association and the Right to Organize," and Convention No. 98 "Right to Organize and Collective Bargaining." Kazakhstan has implemented its labor laws in accordance with ILO standards. The basic rights guaranteed by these laws are respected in practice as well.

Law "On Labor" (1 January 2000). The central piece of Kazakhstan's legal framework for labor rights, the Law on Labor guarantees all the basic rights of workers in accordance with international standards, including the right to join trade unions and other organizations (Art. 7) and the right to form organizations in order to conduct bargaining and enter into collective agreements with employers (Art. 32). The Law on Labor sets minimum standards, but specifically provides that "parties to the individual contract of employment and collective agreement shall be entitled to agree on better [terms and conditions]." (Art. 5.)

Respect for Labor Rights In Practice.

Each year the Law on the Republic Budget sets the level of the minimum wage. The minimum wage has increased every year since 1995, going from 200 *tenge* per month in January 1995 to 2,680 *tenge* per month in January 2000.[10] Average wages are well in excess of the Government-set minimum wage.[11] Actual monthly earnings in Kazakhstan have been steadily increasing over the past several years (nearly tripling from 1995 to 2000) and the unemployment rate is in the single digits.[12] Average monthly wages in Kazakhstan for 1999 and 2000 exceeded the average monthly wages for other countries in the region, including Ukraine, Russia, and Uzbekistan.[13] In addition, the number of independent unions has been increasing recently.

C. Kazakhstan Welcomes Foreign Investment.

Joint ventures and other foreign investments into Kazakhstan are not just permitted but actively encouraged. Among all the countries of Eastern Europe and the former Soviet Union, Kazakhstan is one of the most open toward foreign investment. Foreign direct investment (FDI) in Kazakhstan averaged $966 million, or $63 per capita, in 1998 and 1999.[14] In 1999, Kazakhstan

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8 IMF Exchange Report at 468.

9 EIU Country Report, "Foreign trade and payments."

10 IMF Staff Report, Statistical Appendix at 51.

11 *See id*. (average wage for January 2000 was 11,796 tenge per month, compared to the minimum wage of 2,680 tenge per month).

12 IMF, International Financial Statistics, May 2001 at 468.

13 IMF Staff Report at 12.

14 Freedom House Report at 20 (Table B).

ranked third among former socialist-bloc countries in terms of total volume of foreign investment at $1.5 billion, behind only Poland and Hungary. In 2000 FDI rose to 2.7 billion USD, in 2001 the Government forecasts further increase to 3.5 billion USD.

All sectors of the economy are open to foreign investment[15] and foreign investors are allowed to participate in privatization.[16] Foreign investors are involved in the energy sector, the steel industry, extraction industries, and many other sectors.

Laws on foreign investment, the Agency of the Republic of Kazakhstan for Investment (ARKI), and the Foreign Investors' Council all encourage and support foreign investors. The Law "On Foreign Investment" (27 December 1994) protects foreign investors from nationalization/expropriation, changes in legislation, and illegal action by state agencies or officials and guarantees the unrestricted use of income and currency convertibility for dividends and other uses.[17] In addition, the Law "On the State Support of Direct Investment" grants state assets and concessions, income, land and property tax holidays for five years with additional periods at reduced rates, plus duty and VAT exemption for imported machinery and inputs for varying periods. Furthermore, foreign investors may own and lease land according to the Law "On Land" (24 January 2001).[18]

D. <u>Kazakhstan Has Privatized And Liberalized Ownership And Control Of The Means Of Production.</u>

Since the dissolution of the Soviet Union, Kazakhstan has steadily progressed in privatizing enterprises of all sizes in the country and thus transferring ownership and control of the means of production to the private sector. That progress, however, has not been without difficulties and delays, and some state-owned enterprises have yet to be privatized. Kazakhstan has established effective agencies for managing privatization and has in place the specific plans to complete the privatization process. The EBRD measured private sector share of GDP in 1999 at 60%, up from 55% in 1998.[19] It is likely that the current percentage share of GDP attributable to the private sector is even higher than the most recent EBRD figure. The most current government figures show that the private sector now accounts for over 75% of GDP and that over 75% of those employed in Kazakhstan work in the private sector, and the Economist Intelligence Unit reported that private consumption accounted for 76.3% of GDP in 1999.[20] Private land ownership rights have been established in Kazakhstan in accordance with the Law "On Land."[21]

Privatization moved relatively quickly in Kazakhstan, particularly in 1996 and 1997, as firms were privatized in all sectors of the economy, including oil and gas, power generation, coal, and telecommunications.[22] In 1997 alone, approximately 80% of Kazakhstan's power generation capacity was privatized, and Kazakhstan now plans to privatize all regional power distribution companies during 2001.[23] By the end of 1997, 100% of all small firms in Kazakhstan were private, compared to 41.7% in 1994.[24] In addition, housing is fully privatized; a majority of large enterprises are privatized,

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15 DOC Investment Statement 7.

16 Freedom House Report at 344.

17 IBRD Memo at 69-70.

18 World Bank, "Kazakhstan: Joint Private Sector Assessment," available at <u>http://www.worldbank.kz/content/esw7_eng.html</u>.

19 European Bank for Reconstruction and Development (hereinafter "EBRD"), "Transition report 2000," at 176.

20 EIU Country Report, "Economic Structure."

21 World Bank, "Kazakhstan: Joint Private Sector Assessment," available at <u>http://www.worldbank.kz/content/esw7_eng.html</u>.

22 DOC Investment Statement ¶¶ 10, 48.

23 EBRD, "Kazakhstan Investment Profile 2001," at 13.

24 EBRD, "Transition report 2000," at 176.

and nearly half of medium-sized enterprises had been privatized by the end of 1998.[25] Since 1998 many more medium-sized enterprises and large enterprises have been privatized.

Although the "Blue Chip Program" for the sale of blocks of shares in large enterprises was postponed, due to unfavorable conditions on international markets, plans for completing the privatization process are now in place. Two methods will likely be used for the privatization of remaining blue-chip companies: transfer of management rights and outright sale of shares.[26] Shares in Kazakhtelecom, electricity generation companies, regional power distribution companies and other large and medium-sized enterprises are slated for full or partial privatization in the near future.[27] The implementation of that final stage will complete a process that has already seen substantial progress achieved in the privatization of formerly state-owned enterprises in Kazakhstan.

Kazakhstan created a State Agency on Investment to streamline the process and has formed a Privatization Department within the Ministry of Finance (representing the merger of the former State Property Committee and Privatization Committee) to monitor privatization contracts and the terms of tenders.[28] Several important laws and regulations have created the legal framework under which the privatization process has progressed, from the earliest law "On Denationalization and Privatization" (dated 6/22/91) to recent presidential decrees on the program for privatization in 1999-2000 (dated 6/1/99) and on privatization (dated 7/21/2000).

Some enterprises have been excluded from privatization, but it is not unusual, even for western countries, to maintain state control of some strategic enterprises. In an August 2000 decree, President Nazerbayev excluded the state-owned KazTransOil and KazAtomProm from privatization.[29] In total, 24 enterprises of strategic importance will remain state-owned, 16 of these being designated as "national companies" (the national oil-gas company, the nuclear power company, the post office, etc.). Other than these enterprises, all remaining state-owned companies are to be privatized by the end of 2002. The government plans to privatize the four regional electricity companies by 2002 and to sell off the grid operators.

Kazakhstan has legalized private land ownership and allows foreign investors, as well as citizens and domestic businesses, to own property.[30] In addition, the Civil Code of Kazakhstan guarantees the right to own and operate a private business without governmental interference.[31] In practice as well, the environment for operating a business has improved with simplified registration and taxation practices implemented in 1998.

E. Resource Allocation And Price And Output Decisions Are Controlled Primarily By Market Forces, Not Government Direction.

Price liberalization began shortly after Kazakhstan broke away from the Soviet Union in 1991 and is nearly completed. Achievements in liberalizing the economy include freeing most prices, interest rates, and exchange rates. The World Bank has praised the Government of Kazakhstan for its transformation from its role under the former Soviet model as an intrusive and pervasive force controlling all aspects of the economy to a "mainly regulatory" role which aims at providing infrastructure, appropriately regulating economic activities, administering social justice, and protecting the poor and the environment. Although some sectors—such as utilities, energy, and natural monopolies—remain subject to government price regulation, this is typical even of western countries.

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25 Freedom House Report at 340.
26 EIU Country Report, "Economic policy outlook."
27 IBRD Memo at 15.
28 Freedom House Report at 340.
29 EIU Country Report, "Economic policy." *See* Tab 9.
30 Freedom House Report at 340.
31 Freedom House report at 343.

Prices are almost completely liberalized in Kazakhstan, with the exception of some basic foodstuffs.[32] The Government has reviewed and/or eliminated producer price regulations for electricity, natural gas, and thermal energy, and consumer prices for gas, electricity and telephone services, rents, utility fees (heating, water), and local transportation fares. The Government has allowed liberalization of agricultural procurement prices so farmers earn realistic prices for their produce.[33] The government has consistently reduced budget allocations for subsidies to industry and utilities, maintaining subsidies mainly in the agricultural sector only.

Kazakhstan has also made marked improvements in its banking sector, moving assertively toward market-based lending and away from government control over the allocation of capital. Banking reform began in earnest in the mid-1990s when existing banks were restructured and the National Bank of Kazakhstan ("NBK") restricted its role to providing temporary lender-of-last resort support and implementing banking reforms. Kazakhstan has further liberalized the financial system by: (a) increasing the limit on foreign ownership of banks to 50 percent; (b) eliminating foreign exchange surrender requirements for exporters; (c) placing Treasury bills of longer maturity; (d) creating an overnight facility for banks; (e) regulating the newly revised pension system funds; and, (f) splitting the Stock Exchange into the Almaty Financial Instruments Exchange (for foreign currency trading) and the Kazakhstan Stock Exchange (for securities trading). With improved economic conditions and inflation under control, banks in Kazakhstan have increased credit to the economy and reduced interest rates (both the NBK reference rate and the commercial banks' rates). Continued low levels of inflation through early 2001 (inflation was at 8.3% in January 2001) prompted the NBK to cut its key refinancing rate from 14% to 12.5% on February 20.[34]

Banking sector reform has created a system for the allocation of capital that is market-based. Kazakhstan has a two-tiered banking system with the National Bank of Kazakhstan ("NBK") (which implements monetary policy) and numerous commercial banks operating.[35] Only one bank is completely government-owned, the Kazakhstan Eximbank. The state holds less than a majority of the shares in two other banks: the National Savings Bank of Kazakhstan and the Bank CenterCredit, but has plans to sell its shares in the National Savings Bank. Sixteen banks with at least partial foreign ownership operate in Kazakhstan, including several of the world's largest banks. Confidence in the banking sector has been rising, as has the level of bank lending.[36] Bank lending rose by 85 percent from 1999 to 2000, while bank deposits increased 72 percent. Most loans are classified as "standard," with only a small percentage classified as "unsatisfactory" (3.4%), high risk (2.6%), or loss (4.7%) as of December 31, 1998.[37] Overall, increases by the NBK in the requirements of bank capitalization during the 1990s have led to a decrease in the number of banks but a more stable and professional banking sector. The NBK is creating a system of obligatory collective insurance for individuals' deposits which will likely further increase confidence and savings levels. The growth of the Kazakhstani people's trust in the banking system is evidence by the growth of individual deposits by 26.2% in the fourth quarter of 1999, or by US$87 million.

Even though market forces now drive the pricing and output decisions of enterprises across the economy, certain industries that have been classified as natural monopolies in Kazakhstan are subject to special regulatory regimes, that include pricing principles and rules for disposition of assets.[38] Thirty-nine energy and utilities firms have been designated as natural monopolies. The Anti-

32 Freedom House Report at 343.
33 EIU Country Report, "Agriculture."
34 EIU Country Report, "Economic policy outlook."
35 Freedom House Report at 342.
36 EIU Country Report, "Economic policy outlook."
37 IBRD Memo at 71.
38 Freedom House Report at 343.

monopoly Committee is responsible for the regulation of the power sector, telecommunications, gas and oil pipelines, railroads, air navigation, water supply and sewer systems.[39]

While regulation does exist, the EBRD considers Kazakhstan to be "at the forefront of power sector reform" among the countries where it operates. "Kazakhstan…has progressed further in implementing reforms [of the power industry] than any other CIS country. Among the former communist countries, only Hungary has moved further in power sector transition." Kazakhstan has unbundled power generation, transmission and distribution; formed a regulatory body which has developed significant expertise; introduced the private sector in some areas; and liberalized the market for large users. The wholesale market follows principles of competition, allowing generators to enter into contracts with large users and electricity distribution companies for the sale or purchase of power.[40]

F. <u>Other Factors Also Indicate Kazakhstan's Progress In Market-Based Reform.</u>

One should consider Kazakhstan's openness to foreign trade and integration into the global trading system, its considerable progress towards accession to the WTO, its emergence on global capital markets along with the United States' considerable investment in its economy, its comprehensive tax system based on international models, and its enactment of national competition laws and improving judicial system as compelling further evidence of Kazakhstan's status as a market economy country.

Kazakhstan has demonstrated its openness to foreign trade through its substantial integration into the international trading system. From 1994 to 2000, the value of its exports rose from US$3.23 billion to US$9.14 billion. In that same period, the value of its imports grew from US$3.56 billion to US$5.05 billion.[41] Moreover, during that period, the geographical distribution of Kazakhstan's exports and imports moved decidedly away from the original emphasis on trade with countries of the Baltics, Russia, and the Other States of the former Soviet Union ("BRO"). In 1995, trade with non-BRO countries constituted only 41.89% of Kazakhstan's exports and 29.36% of its imports. By 1999, Kazakhstan's trade with non-BRO countries had risen to 69.90% of its exports and 56.31% of its imports. These percentages include 22.9% of exports to, and 25.3% of imports from, the EU.[42] This trend demonstrates that Kazakhstan has moved away from a lingering reliance on trade with countries of the former Soviet Union and toward trade with many of the other market economies in the multilateral trading system that Kazakhstan has entered.

Kazakhstan has conformed its trade regime to WTO standards, completed the first round of WTO accession negotiations in 1997, and second round – in 2001 and expects to be admitted to the WTO in the very near future. Kazakhstan has liberalized its trade policies and belongs to several international trade organizations. Kazakhstan has no export tariffs. In 1998, Kazakhstan issued a resolution that decreased its average import tariff rate to 9%. Although some temporary trade barriers were erected in 1998 against imports from neighboring countries in response to the collapse of the currencies in those countries, most of these were removed in June 1999. Furthermore, Kazakhstan has adopted the international tariff nomenclature as the basis of its tariff schedule, and its customs valuation rules conform to the WTO Valuation Agreement.[43] These measures demonstrate the depth to which Kazakhstan has embraced the market-based international trading system. Through its

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39 World Bank, "Kazakhstan: Joint Private Sector Assessment," available at http://www.worldbank.kz/content/esw7_eng.html.

40 David Kennedy, "Regulatory reform and market development in power sectors of transition economies: the case of Kazakhstan," EBRD Working Paper No. 53, June 2000 at 17.

41 International Monetary Fund, *International Financial Statistics*, May 2001 at 470.

42 EIU Country Report, "Economic Structure."

43 *See* U.S. Department of State FY 2000 Country Commercial Guide: Kazakhstan at Ch. VI.

openness and growing international trade, Kazakhstani industries are now competing in the global market economy.

Kazakhstan has established the framework and infrastructure for functioning capital markets, founding the National Securities Commission in 1995 and passing its Securities Law in 1997.[44] Kazakhstan has issued Eurobonds on the international market. It has promoted foreign investment into its new market economy and the United States has signaled its response to the market opportunities in Kazakhstan. The United States accounted for 50.17% of the foreign direct investment in Kazakhstan in 1999.[45] and 36% in 2000. Kazakhstan's presence within the global financial system provides further evidence of the liberalization and stability of its new market economy. Moody's has assigned Kazakhstan a B1 rating, equivalent to that of Argentina, and better than the ratings assigned to Bulgaria, Romania, Russia, and the rest of the countries in the CIS.[46]

Kazakhstan's new Tax Code is considered by tax experts to be among the most comprehensive in the region, applying an international model based on principles of equity, economic neutrality, and simplicity.[47] Although challenges remain to the effective administration of its tax system, Kazakhstan has implemented a tax system appropriate for a market economy. In addition, the Government is in the process of revising the tax code so that it will contain detailed instructions on procedures, with the goal of improving implementation.[48]

Kazakhstan's achievements during its 10 years of independence demonstrate to international investment community its ability to be a reliable partner bearing great economic potential. Based on the factors mentioned above it should be recognized that during these years the country has managed to build a solid foundation for open market economy.

As Kazakhstan starts looking into the next decade of its sovereign development, country's vulnerability to external shocks, similar to the one in 1998-99, will be diminished significantly due to a stronger and more resilient balance of payments position, improved fiscal flexibility, excellent prospects for oil export growth, resulting rapid decline in the country's debt levels and a medium-term political stability and reform continuity. At the same time, in the longer term in the next decade the potential for rapid development remains good.

Although some weaknesses will remain in short to medium term given that economy is largely dependable on revenues from oil and minerals exports, which makes it vulnerable to external price shocks, Government remains committed to further reforms aimed at promoting economic prosperity and wealth through the development of modern and diversified economy.

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44 Freedom House Report at 342.

45 *See* January 2001 IMF Country Report No. 01/20

46 IMF Staff Report, Statistical Appendix at 20.

47 DOC Investment Statement ¶ 8.

48 IMF Staff Report at 16.