Unlocking the Potential of Kazakhstan's Special Economic Zones: Enhancing Governance, Transparency, and Investment Attraction for Sustainable Growth

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KEY TAKEAWAYS

- Kazakhstan's Special Economic Zones (SEZs) are central to its economic diversification strategy but have had uneven impact due to inefficiencies and under-utilization.
- There is a lack of transparent, up-to-date, and independent data on SEZ performance, hindering comprehensive evaluation.
- SEZs have attracted investment and created jobs but have not significantly boosted innovation or export performance.
- Governance issues include duplication of responsibilities, poor coordination among agencies, and ineffective management companies.
- SEZs have not effectively attracted significant private and foreign investments and investments are dominated by quasi-state companies.

Executive Summary

Kazakhstan's 14 Special Economic Zones (SEZs) are a key element of the country's efforts to diversify its economy beyond a heavy reliance on natural resources such as oil, gas, uranium, and metals.

Since their inception in the 2000s, Kazakhstan's SEZs have attracted over 2.7 trillion tenge (approximately $5.5 billion USD) specifically for developing business activities within the zones. Additionally, an investment of 4.1 trillion tenge (approximately $8.3 billion USD) was allocated to the construction of essential infrastructure, offices, and facilities to support these zones. The SEZs have facilitated a transfer of technology, enabling Kazakhstan to produce items that were previously not produced domestically, such as helicopters, rifle optics, locomotives, and electric trains.

Despite these achievements, the performance of Kazakhstan's SEZs has been uneven. A 2021 national audit[1] revealed significant governance issues. The "one-window" streamlined administrative process, intended to facilitate business operations, was not fully realized. Overlaps between the Ministry of Industry and Development (MID), SEZ management companies, and public organizations promoting Foreign Direct Investment (FDIs) such as Kazakh Invest have led to inefficiencies. Some management companies still fail to enforce contracts. Consequently, infrastructure development is behind schedule and financial returns are low. For every 1 tenge spent by the government on SEZ development, an investment of only 3.1 tenge was generated, with contributions divided as follows: 2 tenge provided by state-owned enterprises, and 1.1 tenge from private investors.

Due to a lack of current, independent data, a full assessment of SEZ performance is challenging. This policy brief, therefore, lays the groundwork for further investigation by highlighting governance and transparency issues. By addressing these challenges, Kazakhstan can better leverage its SEZs to diversify the economy, boost exports, and strengthen its position in global markets.

1. Kazakhstan's Special Economic Zones (SEZs)

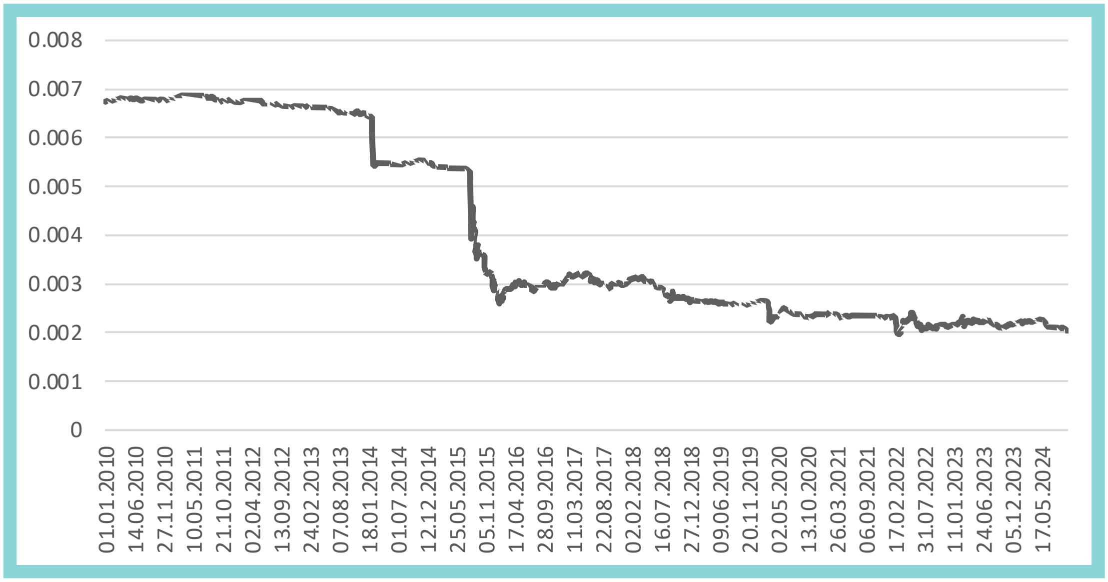
1.1. Context

Kazakhstan's Special Economic Zones (SEZs) are central to the country's efforts to reduce its reliance on commodities. Currently, Kazakhstan's economy depends heavily on natural resource exports as primary economic drivers. Mining products and fuels continue to constitute 66% of Kazakhstan's exports, despite making up only 13% of its GDP in 2023[2]. Of the rest of the economy, more than half of GDP is generated by services, and 15% comes from manufacturing. This points to a core issue – sectors outside of mining are not competitive enough to drive substantial export growth. This dependency exposes Kazakhstan to the volatility of global commodity markets. For instance, the 2014 oil price collapse triggered a significant depreciation of the national currency, the tenge (Figure 1), exacerbating inflation and slowing economic growth since then (Figure 2). Since 2014, annual growth rates have struggled to exceed 4%. In contrast, from 2000 to 2014, Kazakhstan enjoyed an average annual growth rate of 8%, with growth only falling below 4% once, during the global financial crisis of 2007/08.

[1] Қазақстан Республикасының Жоғары аудиторлық палатасы [Supreme Audit Chamber of the Republic of Kazakhstan]. (2021). Арнайы экономикалық аймақтар қызметінің тиімділігіне мемлекеттік аудит жүргізу [State Audit on the Effectiveness of Special Economic Zones]. GOV.KZ, October 4. https://www.gov.kz/memleket/entities/esep/documents/details/218950?lang=kk.

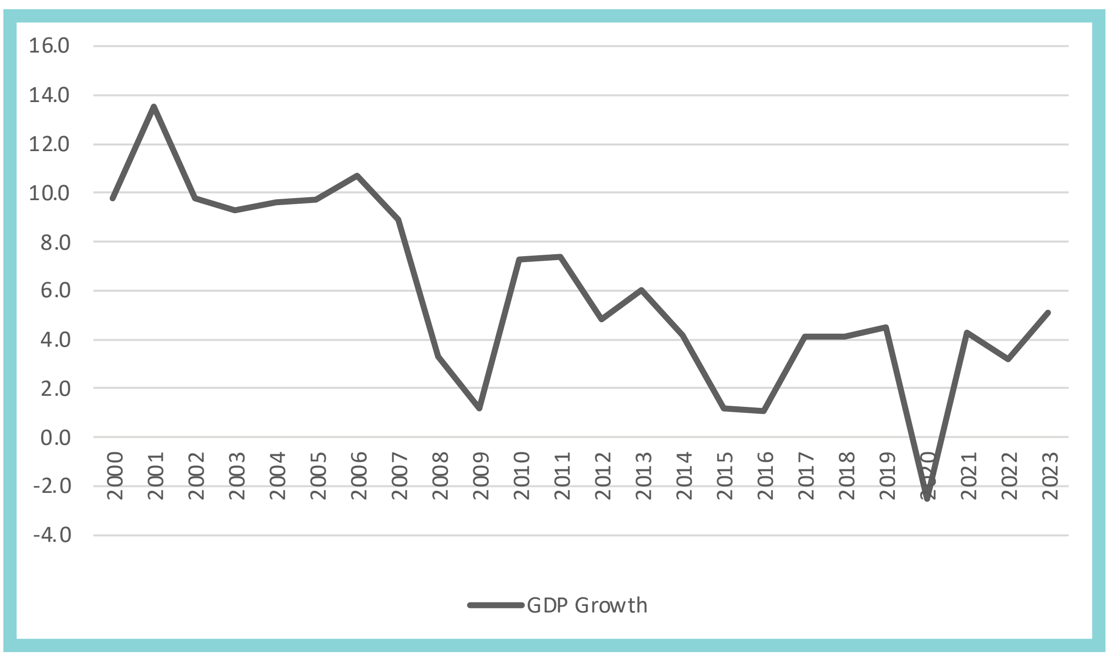
[2] Bureau of National Statistics (2024a).

Figure 1[3]: USD/KZT Exchange Rate (2010-2024)



[3] National Bank of Kazakhstan (2024a).

Figure 2[4]: Kazakhstan's annual GDP growth (annual, in %)



[4] World Bank, *GDP Growth (Annual %)* – Kazakhstan.

Kazakhstan's SEZ law was enacted in 2007[5]. Today, Kazakhstan hosts 14 SEZs. A notable concern, however, is the lack of transparent, up-to-date data on SEZ performance.

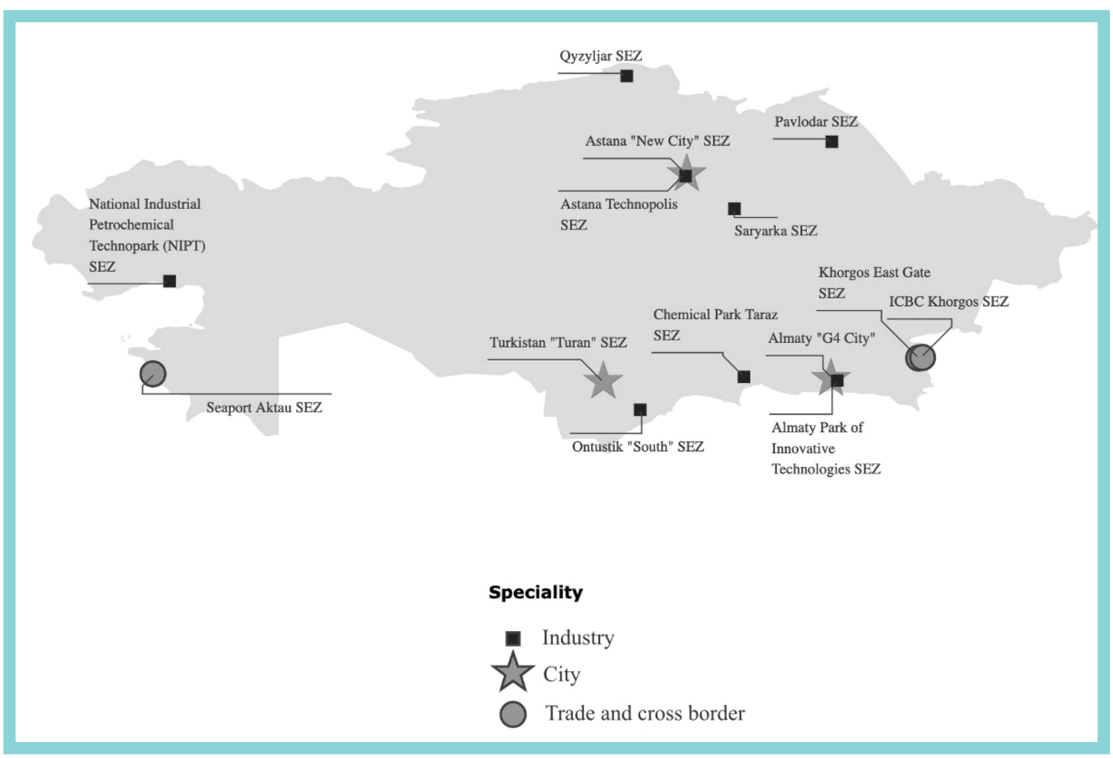
Although government agencies frequently present SEZs as success stories, they often fail to provide detailed, independently verified data to substantiate these claims. Moreover, the limited availability of academic research compounds this issue. There has been little research conducted after the COVID-19 pandemic, and the bulk of studies on Kazakhstan's SEZs are published in Russia[6] and China[7]. In Russia, studies often focus on Kazakhstan's role within the Eurasian Economic Union (EAEU), while Chinese research on SEZs is oriented around the Belt and Road Initiative (BRI). This leaves a gap in evaluations of Kazakhstan's SEZs.

This lack of data-driven analyses in the English language leaves international stakeholders in the dark regarding the current effectiveness of these zones. There is only one high-quality study currently available, which comprises a comprehensive report from the Asian Development Bank[8]. However, the data utilized in the report only extends to 2015. Therefore, there is an urgent need for more research on the performance and impact of SEZs in Kazakhstan.

This policy brief seeks to offer an overall assessment of the regulatory framework, current situation, and notable examples of SEZs to provide a broad understanding of their role in Kazakhstan's economic landscape. However, given the lack of transparent data and independent analysis, this brief cannot fully assess the transformative, causal impact of SEZs on Kazakhstan's macroeconomic growth. Instead, it highlights micro-level indicators and developments, signaling the need for further research to draw more definitive conclusions about their long-term effectiveness.

1.2. Kazakhstan's 14 operating SEZs[9]

Figure 3[10]: Kazakhstan's Special Economic Zones



5 Ministry of Justice of the Republic of Kazakhstan (2019).

6 For instance, see Turgel, Bozhko & Zinovieva (2019).

7 For instance, see Guo Hui (2019).

8 Asian Development Bank (2018).

9 Kazakh Invest (2024).

10 Charter Cities Institute (2024).

Kazakhstan's 14 SEZs can be categorized into three main groups: *City-focused* SEZs, *Industry-focused* SEZs, and *Trade and cross border* SEZs, each with specific goals to boost Kazakhstan's regional and national development.

City-focused SEZs

The **Astana New City SEZ**, established in 2001 and spanning 15,421 hectares, focuses on urban development, specifically that of Astana (see Box 1[11]). It aims to attract investments in modern infrastructure and advanced technologies to accelerate the city's growth as an economic hub.

Box 1 – Astana New City SEZ

Established in 2002 and active until 2027, Astana New City covers 7,600 hectares, designed to bolster Astana's industrial base by attracting machinery, electronics, and aerospace.

Successes:

- *Strategic partnerships*: projects include Astana Solar LLP's photovoltaic modules, helicopter assembly by Eurocopter Kazakhstan Engineering LLP, and partnerships with General Electric for diesel locomotives and Alstom for electric locomotives.

Challenges:

- *Tax exploitation:* Construction companies, such as Premier Palace LLP and Barcelona LLP, delayed project completion notifications to extend tax exemptions, resulting in state losses of over 2.4 billion KZT from 2017 to 2019.
- *Low FDI:* By 2015, only 6% of the SEZ's total investment came from FDI.
- *Limited job creation:* Despite a 275 billion KZT (700 million USD) investment in infrastructure since 2003, the SEZ employed only 2,650 people by 2016 (date of the last available data).

Similarly, the **Almaty G4 City SEZ**, which has been under development since 2023, covers 30,000 hectares and aims to create a brand-new urban center, promoting construction and urban planning on a grand scale (see Box 2). The **Turkistan Turan SEZ,** active since 2018, is dedicated to construction and tourism, covering 4,622 hectares in the Turkistan region. It seeks to enhance the region's attractiveness as a cultural and historical destination through modern infrastructure projects.

[5] SEZ Union

Box 2 – G4 City Project[12]
Vision:

The **G4 City** project aims to replicate **Astana New City** in Almaty, with a goal of attracting 3.7 trillion KZT (8.1 billion USD) by 2048. Expected to produce 17 trillion KZT (37.2 billion USD) in output and employ 60,000 people, **G4 City** will have four districts: Gate City (business), Golden District (education and healthcare), Growing District (innovation and logistics), and Green District (tourism). The city will support a projected 2.2 million residents.

- *Master planning:* Hired by the Kazakh government, the consultancy *Surbana Jurong*, in partnership with the Caspian Group, is overseeing the master planning for **G4 City**.

Industry-focused SEZs

Kazakhstan also has several SEZs that focus on specific industrial sectors. The **Astana Technopolis SEZ**, established in 2017, covers 584 hectares and specializes in IT and pharmaceuticals. It promotes innovative manufacturing by leveraging R&D from Nazarbayev University. In the Karaganda region, the **Saryarka SEZ**, established in 2011 over 595 hectares, focuses on metallurgy and heavy mechanical engineering. It includes the "Metallurgy-metalworking" Industrial Park and supports technological innovation. Another key SEZ is the **Pavlodar SEZ**, which spans 1,100 hectares and focuses on chemistry and metallurgy. Established in 2011, it develops export-oriented chemical and metallurgical products. The **Qyzyljar SEZ**, active since 2019 and covering 193 hectares, focuses on metallurgy and mechanical engineering. The **Chemical Park Taraz SEZ**, established in 2012 and covering 505 hectares, is designed to foster chemical production using sustainable technologies in the Zhambyl region. The **National Industrial Petrochemical Technopark (NIPT) SEZ**, established in 2007 and covering 3476 hectares, is a major hub for the petrochemical industry, focusing on deep hydrocarbon processing and the production of competitive petrochemical products. The **Almaty Park of Innovative Technologies SEZ**, established in 2003 and covering 163 hectares, focuses on information and communication technology (ICT), attracting investments in R&D in cutting-edge fields such as electronics, telecommunications, and renewable energy. Finally, the **Ontustik SEZ**, established in 2005 and covering 200 hectares in Shymkent, focuses on the textile and chemical industries, aiming to attract global brands and promote high-tech textile production.

***Trade and cross border* SEZs**

Several SEZs are dedicated to facilitating trade and improving Kazakhstan's role in global supply chains. The **Khorgos Eastern Gate SEZ**, established in 2011 and covering 4,592 hectares, is located on the customs border of the Eurasian Economic Union, playing a crucial role in cross-border trade, particularly with China (see Box 3[13]).

[12] Surbana Jurong Group (2021); Omirgazy (2023).
[13] SEZ Union (2017c).

Box 3 – Khorgos Eastern Gates SEZ

Established in 2011 and operational until 2035, the Khorgos Eastern Gates SEZ spans 4,600 hectares on Kazakhstan's border with China. Comprised of a Dry Port (Inland Port), Industrial Zone, and Logistics Zone, Khorgos serves as a major hub for goods moving between China, Europe, and Central Asia.

Key successes:

- *Gauge compatibility:* Allows efficient transfer from China's rail gauge to Russia's gauge.
- *Container processing capacity:* The Inland Container Dock processes up to 540,000 twenty-foot equivalent units (TEU) annually, handling multiple trains simultaneously.
- *Enhancement of logistical capabilities:* Ongoing projects, including the Altynkol Station and West Europe-West China Highway, will enhance logistical capabilities.
- *Reduction of Travel time:* Travel time from Shanghai to Moscow has been cut from 30 to 15 days.

Challenges:

- By 2021, only 27.6% of the SEZ's area was allocated to active investment projects.
- According to the national audit, of the 76 registered projects in the SEZ, only 29 were active, with the majority focusing on trade and logistics rather than establishing high-value industries. This emphasis on logistics has primarily streamlined existing trade routes rather than fostering a new, export-oriented industrial base.
- Key facilities, including sewage treatment and a 115 MW boiler station, were left unfinished due to insufficient company attraction to make them profitable and management issues.
- The managing company faced a 773.9 million KZT (USD 1.6 million) loss after funds placed in Kazinvestbank became inaccessible when the bank's license was revoked.

Similarly, the **International Center for Boundary Cooperation (ICBC) Khorgos**, established in 2011 and covering 528 hectares, serves as a unique point of cultural exchange and tourism between Kazakhstan and China (see Box 4).

Box 4 – China in Kazakhstan's SEZs

Key contributions:

- *Strategic partnerships*: The Khorgos "Dry Port" was developed through partnerships with major Chinese state-owned enterprises, including China COSCO Shipping Corporation and China Merchants Group.
- *Significant company involvement*: Over 500 Chinese companies were involved in Kazakhstan's SEZs in 2020.
- *International Center for Boundary Cooperation (ICBC) in Khorgos*:
    - Established through an agreement between Kazakhstan and China, this zone facilitates cultural exchange and business cooperation with hotels, a congress hall, and a shopping complex. Visitors can stay for up to 30 days visa-free, using either country's currency, with an independent legal system utilized within the zone.

Challenges:

- *Export composition*: Minerals and metals constituted 83.5% of Kazakhstan's exports to China in 2022, highlighting limited export diversification via Khorgos SEZ.
- *Lack of manufacturing development*: According to the national audit, many Chinese investments focus on assembly operations, re-exporting products back to China rather than developing complex manufacturing.

The **Seaport Aktau SEZ**, established in 2002 and covering 2,000 hectares, focuses on integrating Kazakhstan's economy into global trade networks, utilizing the commercial seaport to enhance trade and attract investments in high-tech industries (see Box 5).

Box 5 – Seaport Aktau SEZ[14]

Established in 2002 on the Caspian Sea, the Aktau SEZ covers 2,000 hectares and is pivotal to Kazakhstan's oil and gas export strategy, serving as a strategic outlet for energy products.

Key successes:

- *Attraction of FDI*: Aktau SEZ has one of the highest foreign investment rates among Kazakhstan's SEZs, with FDI comprising over 50% of total investments, largely in energy industries.
- *Export strength*: By 2015, 80% of the goods produced in Aktau SEZ were exported, primarily to Caspian region countries. Upgraded port facilities support large-scale exports of oil, metals, and bulk goods.

Challenges:

- *Limited diversification*: Aktau SEZ's focus remains heavily centered on the energy sector, reflecting Kazakhstan's ongoing struggle to diversify its economy beyond oil and gas exports.

[14] SEZ Union (2017a).

In addition to Kazakhstan's 14 SEZs, the **Astana International Financial Centre** (AIFC)[15] plays a pivotal role in shaping the country's economic landscape, particularly in the financial services sector. While the SEZs are designed to drive growth in construction, industry and trade, the AIFC complements these efforts by acting as a financial hub that connects Kazakhstan to global markets.

By fostering innovation in sectors including fintech, green finance, and Islamic finance, the AIFC helps attract international investments, ensuring that Kazakhstan not only develops its industrial and trade infrastructure but also strengthens its position as a leading financial center in Central Asia. Together, the AIFC and the SEZs create a multifaceted ecosystem for economic development, enhancing Kazakhstan's role in regional and global economic networks.

1.3. Regulatory framework of Kazakhstan's SEZs

Legal features

In Kazakhstan, SEZs are now regulated by the 2019 law "On Special Economic and Industrial Zones" and are established for an initial period of up to 25 years, rather than being set up on an indefinite basis. This limited timeframe is noteworthy, as it introduces a degree of uncertainty for investors and reflects the government's hesitance to commit fully to the SEZs in the long term. Instead of providing long-term assurances, the government retains control, reserving the option to review and potentially extend the SEZs based on their performance.

Development within these SEZs operates under a mixed model, combining public oversight with private management companies. While local governments provide SEZs with free land during their operational period, the zones only have the option to purchase this land after their designated period concludes.
The 2019 law outlines several benefits and incentives for SEZs, as detailed in Table 1:

Table 1: Benefits and Incentives for SEZ

Tax	SEZ	Non-SEZ
Import tariff	0 [a]	5.6% [b]
Standard VAT rate	0 [c]	12%
Corporate income tax	0	20%
Property tax	0	1.5%
Land tax	0	5.43 – 11.94 USD/ha

[a] *Goods imported under the free customs zone procedure are treated as outside the EAEU's customs territory for customs duties, taxes, and non-tariff regulations.*
[b] *MFN simple average.*
[c] *Applicable to goods fully consumed in SEZ activities as specified by the government of Kazakhstan.*

[15] Astana International Financial Centre (2024).

As of January 1, 2024, Kazakhstan's SEZ tax incentives have been restructured through an amendment to the 2019 law, introducing a tiered system based on investment volume. This change further reinforces SEZs as short-term tools aimed at attracting immediate business activity rather than fostering sustained, long-term commitments. SEZ tax benefits are now tied to the Monthly Calculation Index (MCI), a standardized unit in Kazakhstan that is adjusted annually through the national budget law to reflect economic conditions and modify the levels of social payments, penalties, and taxes. While this ensures flexibility and responsiveness to economic shifts, it also means that incentive thresholds can be modified at any time, potentially adding to investor uncertainty.

The tiered system classifies projects as follows:

- *Category A*: Projects up to 3,000,000 times the MCI (approximately 22.83 million USD) receive incentives for 7 years.
- *Category B*: Projects investing between 3,000,000 and 14,500,000 times the MCI (up to approximately 110.34 million USD) gain benefits for 15 years.
- *Category C*: Projects exceeding 14,500,000 times the MCI are eligible for incentives lasting 25 years.

Projects can move between categories if they increase their investment, scaling incentives with higher financial commitments. However, this tiered structure further underscores SEZs as relatively short-term mechanisms for attracting targeted investments. This approach raises questions about the SEZs' efficiency in fostering the long-term stability and competitive growth that are vital for broader economic transformation.

Adding to this, each SEZ operates under some degree of public oversight, with the Minister for Investment and Development specifying priority activities to guide each zone's focus[18]. These priorities are intended to align SEZ objectives with Kazakhstan's national economic goals, though the short-term nature of incentives may limit their ability to contribute to enduring economic diversification.

To qualify as an SEZ resident, companies must be officially registered as both residents and taxpayers. They are not permitted to operate branches outside the SEZ. Furthermore, at least 90% of a company's annual income (or 70% for the "Park of Innovative Technologies") must come from priority activities designated for the SEZ. Eventually, when a SEZ is abolished, it undergoes a transition into an industrial zone of national importance. Unlike SEZs, these zones are primarily coordinated areas focused on infrastructure development but lack additional incentives, reflecting a shift toward minimal public commitment. Participants with sublease rights in the SEZ are offered the option to purchase the land upon this transition.

Governance

In terms of governance, the Ministry of Industry and Development (MID) plays a central role in SEZ governance, handling policy creation, operations, and abolition, except for **Astana–New City**, which is managed by the local municipal government. The MID also maintains a national registry of SEZ participants, develops guidelines for land contracts and feasibility studies, and chairs a multi-agency expert council for SEZ matters. Additionally, Kazakh Invest, an organization designated in 2016, focuses on increasing the investment appeal of SEZs by coordinating with public authorities, managing state-owned shares, and promoting SEZs

[18] Ministry of Justice of the Republic of Kazakhstan (2017).

through various initiatives, including marketing and investor engagement. SEZ management companies, on the other hand, are responsible for zone development, infrastructure maintenance, and fostering public-private partnerships. They report to the MID and work to enhance SEZ operations and attract investments through continuous reforms.
For companies, the government aims to facilitate interactions with authorities under a "one window" principle, designed to streamline processes and reduce bureaucratic hurdles. However, the practical implementation of this system still faces challenges in fully achieving the desired efficiency.

2. How should we judge the performance of SEZs in Kazakhstan?

2.1 Success

According to data from Qazindustry[19] (a government-sponsored think tank conducting research about industry in Kazakhstan), Kazakhstan's SEZs have made some interesting contributions to the country's economy. They have attracted over 2.7 trillion tenge (approximately 5.5 billion USD) specifically for business activity development within the zones. This allowed more than 300 projects to be launched, boosting economic activity. Additionally, an investment of 4.1 trillion tenge (approximately 8.3 billion USD) has gone into constructing infrastructure, offices, and facilities to support these zones. While this focus on infrastructure is not inherently negative and can serve as an initial step toward building essential capacities, it does point to an imbalance. The emphasis on construction over direct productive investment suggests a slower path to achieving the economic returns and industrial growth that SEZs aim to foster.

SEZs also have direct benefits for the workforce, generating over 24,000 stable jobs. Notably, Astana, Almaty, and Shymkent—the only three cities in Kazakhstan that have seen positive net internal migration since January 2023—all have urban SEZs specifically designed to attract residents and stimulate urban growth (see Table 2). While there may be urban depopulation in other regions with SEZs, those zones are not urban-focused and do not have the explicit goal of attracting population in the same way. The data here, therefore, primarily reflects the urban impact of SEZs rather than the broader regional context.

[19] Economic Research Institute (2024).

Table 2[20]: Net internal migration in Kazakhstan (January 2023 – August 2024)

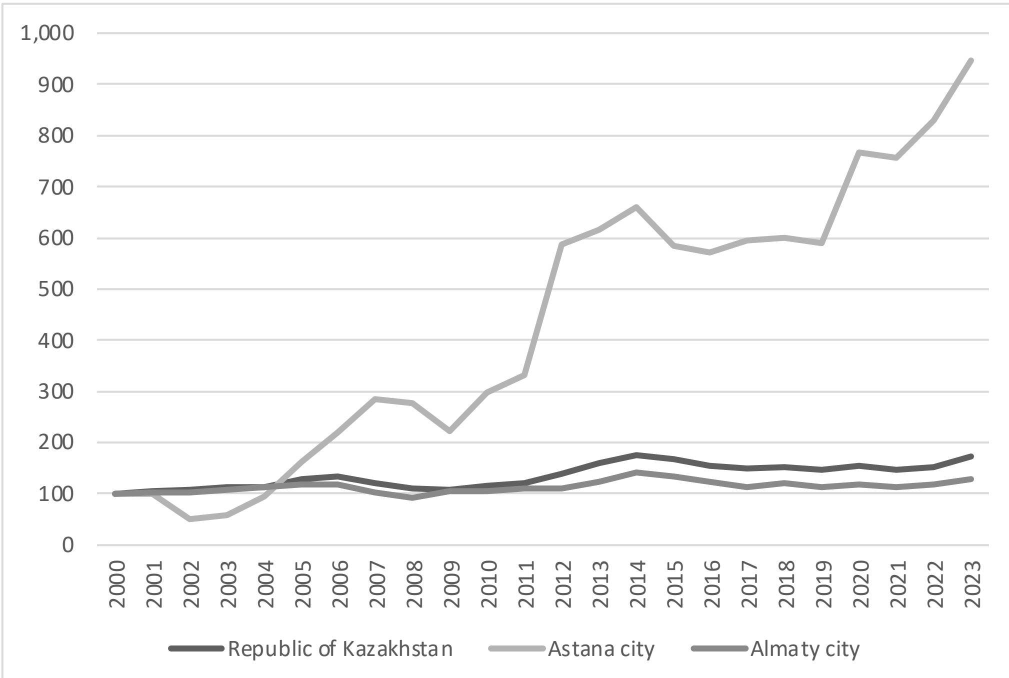
	Net migration
Abay	-11,719
Akmola	-5,425
Aktobe	-3,460
Almaty	-162
Atyrau	-5,880
Batys Kazakhstan	-4,125
Zhambyl	-24,226
Zhetysu	-15,870
Karagandy	-8,246
Kostanay	-7,284
Kyzylorda	-13,246
Mangystau	-1,706
Pavlodar	-6,286
Soltustik Kazakh-stan	-6,743
Turkistan	-41,681
Ulytau	-3,725
Shygys Kazakstan	-4,451
Astana city	93,808
Almaty city	61,723
Shymkent city	8,704

Beyond that, SEZs have at least partially fulfilled their objective of driving productivity growth by enabling certain innovations. According to Qazindustry, SEZs have supported the introduction of over 30 new products and technologies, such as helicopters, rifle optics, locomotives, and electric trains, showcasing a degree of capacity to foster industrial development. However, while these advancements reflect new production capabilities, they do not necessarily indicate a significant leap up the value chain.

Further evidence indicates that even if Almaty remains the country's R&D center, hosting 39% of its researchers, Astana has shown the fastest growth in research and development employment, largely since the establishment of the **New City SEZ** (see Figure 4). This rapid expansion has positioned Astana as Kazakhstan's secondary R&D hub, now accounting for 19% of the nation's researchers.

[20] Bureau of National Statistics (2024b).

Figure 4[21]: Number of employees carrying out research and development by region (index 100 in 2000)



Additionally, the state has already seen some returns on its investments, with SEZ contributions to the state budget reaching 353 billion KZT (approximately 720 million USD). These zones have also helped diversify Kazakhstan's trade, as exports from SEZs have added 480 billion KZT (approximately 980 million USD) to the national economy.

2.2 Failures

Nonetheless, apart from these successes, there are some notable failures. In recognition of these issues, Kazakhstan's national audit agency[22] conducted an evaluation of SEZs in 2021.

One significant failure highlighted by the audit was the incomplete implementation of the "one-window" principle. Despite commitments to this system, the State Corporation "Government for Citizens" (an online platform designed to streamline administrative services) did not fully deliver its mandated services in SEZs such as **Astana-New City** and **Saryarka**.

Additionally, the audit revealed serious duplication of responsibilities and a lack of coordination among key institutions, including the MID and SEZ management companies. These bureaucratic inefficiencies, compounded by poor performance from Kazakh Invest, made the zones less attractive, particularly to small and medium enterprises (SMEs). In the **Astana-New City SEZ**, for example, 32% of the industrial park's land remained unused.

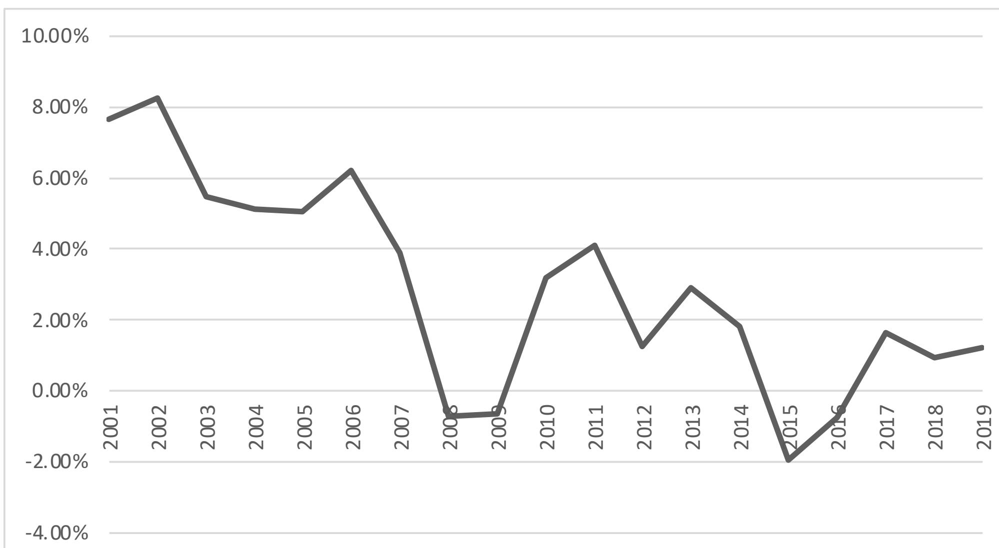
21 Bureau of National Statistics (2024c).

22 Қазақстан Республикасының Жоғары аудиторлық палатасы [Supreme Audit Chamber of the Republic of Kazakhstan] (2021).

Moreover, quasi-state companies dominated investment in SEZs, limiting the participation of private sector players and stifling competition.

In terms of fostering innovation, SEZs largely failed to meet their goal of creating advanced industrial ecosystems. One critical issue highlighted by the audit was the lack of partnerships between SEZs and educational institutions. While **Ontustik SEZ** collaborated with the "Light Industry and Service College" to train local workers, most SEZs, including **Astana-Technopolis**, did not establish similar partnerships. This failure to focus on human capital development limited the availability of skilled labor, discouraging high-tech industries from setting up operations in these zones. Additionally, there were no clear requirements for the adoption of new technologies in most SEZs. For instance, SEZs including **NIPT** and **Taraz Chemical Park** relied heavily on importing foreign materials and components, leading to low levels of technological innovation. Instead of fostering high-tech industries, many SEZs engaged in low-value-added assembly operations, contributed to Kazakhstan's stagnant total factor productivity (TFP) growth (see Figure 5).

Figure 5[23]: Kazakhstan's year-on-year TFP growth



Regarding infrastructure, the audit praised the creation of a 2025 roadmap for SEZ infrastructure development but noted that its immediate impact was not yet visible. Despite plans for expansion, SEZs such as **Pavlodar** and **Aktau Seaport** continued to face severe infrastructure challenges. In **Pavlodar**, only 30% of the planned infrastructure was completed by 2020, leaving many projects unfinished. Similarly, in **Aktau Seaport**, only 38% of the infrastructure was operational.

A major issue was the mismanagement of Public-Private Partnerships (PPPs). For example, in the **Turkistan SEZ**, 47% of infrastructure projects relied on PPPs, but many were delayed or incomplete. A notable inconsistency was the planned construction of hospitals in the **Astana Technopolis** and **Qyzyljar SEZs** under PPP arrangements, which accounted for the

[23] Federal Reserve Bank of St. Louis (2024).

vast majority of planned investments. However, these projects were more focused on public infrastructure than on advancing industrial production and exports, misaligning with the SEZs' primary goals.

As a result of these issues, export performance was weak across the board. SEZs generated exports amounting to only 3.5% of their total production. For example, in the **Pavlodar SEZ** – one of Kazakhstan's largest, and with the objective of primarily exporting – only 42.2% of production was exported, with the rest consumed domestically. This failure to establish export-oriented industries undermined the core objective of SEZs, which was to attract investment focused on high-value, export-driven production.

Finally, management companies overseeing SEZ operations were heavily criticized for inefficiency and failure to meet reporting standards. In the **NPIT SEZ**, for instance, the management company did not submit complete or accurate reports on the zone's activities. Contract enforcement was another major issue, as management companies did not consistently hold SEZ participants accountable for meeting their contractual obligations. In the **Saryarka SEZ**, one company occupied 90 hectares (36.5% of the total SEZ area) and consumed 75% of the zone's electricity but failed to meet its investment commitments for over 10 years. Despite this, the management company did not take action to enforce the contract or reallocate the land.

In the conclusion of the audit, one of the most critical findings was the SEZs' failure to attract significant private and foreign investments. For every 1 tenge spent from the state budget on SEZ infrastructure, only 3.1 tenge of industrial investment was generated, with 1.1 tenge coming from private investors, and 2 tenge from quasi-state enterprises. This low return on investment raises concerns about the efficiency and effectiveness of state support for SEZ development, as the reliance on public and quasi-public funding highlights potential challenges in attracting substantial private investment.

The failures in the implementation and management of Kazakhstan's SEZ also offer insights into why the country did not effectively leverage the shifts caused since 2022 by the Ukraine war and Russia's isolation to secure lasting investment gains. Initial expectations posited that these would enhance Kazakhstan's relative appeal as an investment destination. Indeed, there was a short-term uptick in investments from key partners such as the United States (Figure 6a) and the Netherlands (Figure 6b), which have been the country's top investment sources since 2010. However, these increases did not translate into sustained growth in FDI. Instead, levels from these countries are now relatively stable compared to pre-2022 patterns. Further analysis even shows that investments from France, Kazakhstan's fourth-largest investment partner focused on uranium, have been shrinking amid market uncertainties, with little diversification into other economic sectors that SEZs were designed to attract (Figure 6c). Of potential more concern, however, if that Kazakhstan's growth in FDI is above all supported by Russia, its third-largest investment partner, mostly as a result of Russia's lack of access to many other markets (Figure 6d).

Figure 6a[24]: Year-on-year cumulative net inflows of FDI from the United States (2013-2024)

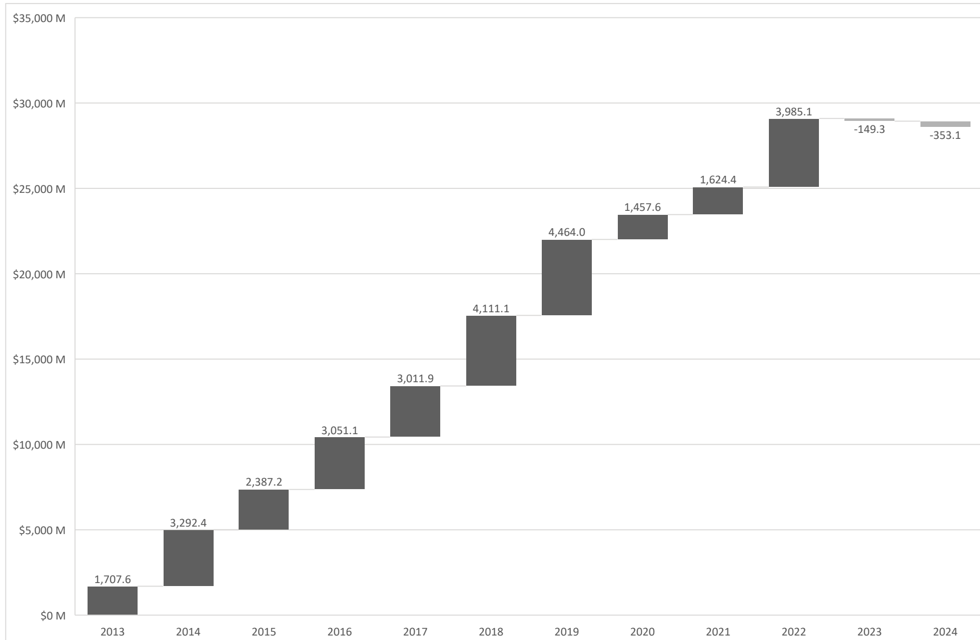
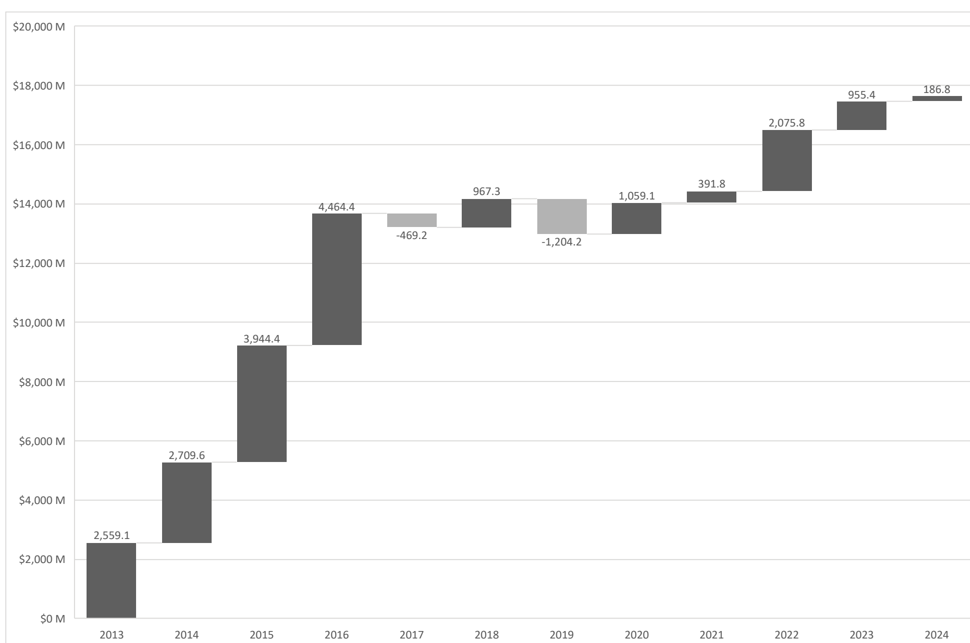


Figure 6b: Year-on-year cumulative net inflows of FDI from the Netherlands to Kazakhstan (2013-2024)



24 National Bank of Kazakhstan (2024b).

Figure 6c: Year-on-year cumulative net inflows of FDI from France to Kazakhstan (2013-2024)

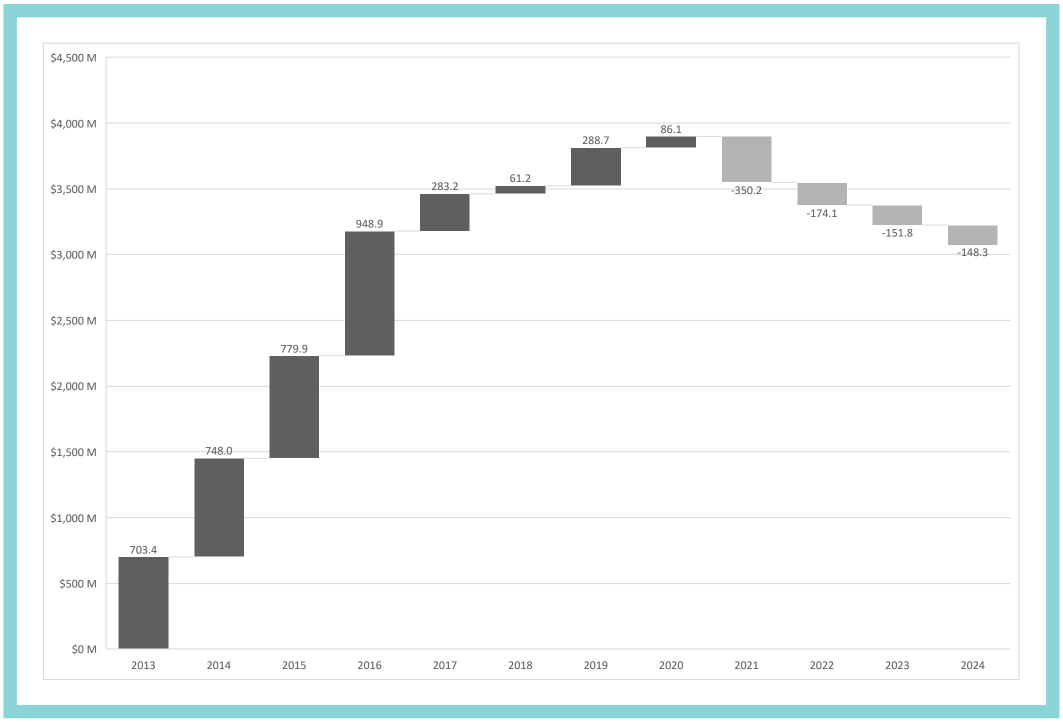
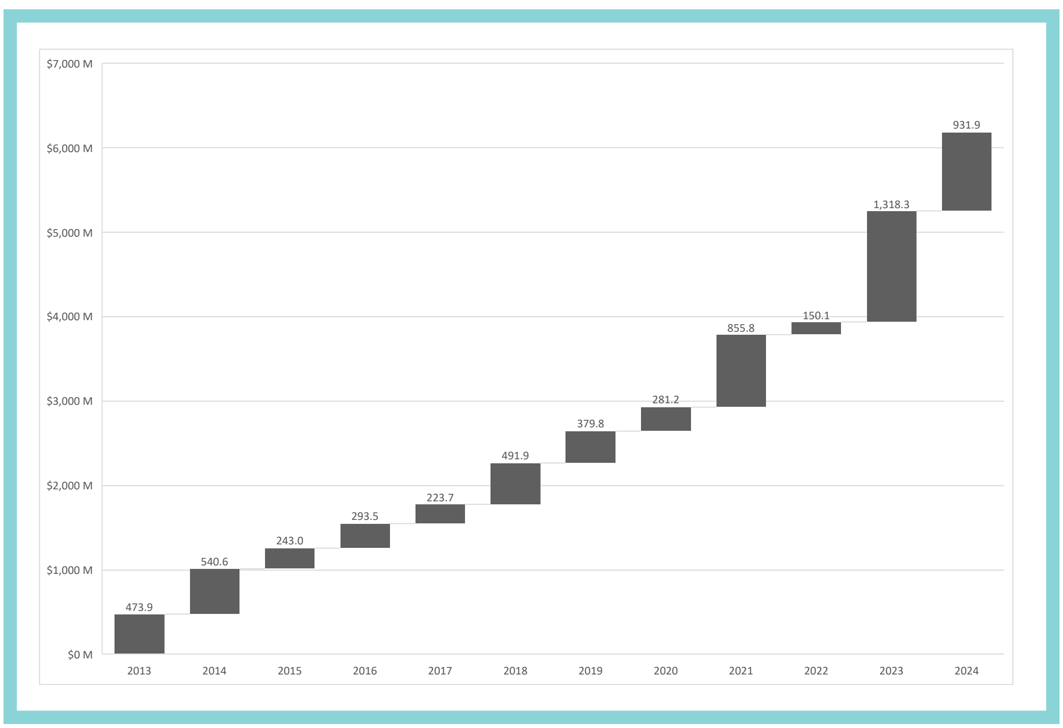


Figure 6d: Year-on-year cumulative net inflows of FDI from Russia to Kazakhstan (2013-2024)



Conclusion

Kazakhstan's establishment of SEZs is a commendable step toward diversifying its economy and fostering growth beyond its traditional reliance on natural resources. The existence of these 14 SEZs provides the country with a substantial framework that, if effectively leveraged, holds significant potential for economic advancement. While the SEZs have not harmed the economy, they have yet to deliver the full range of benefits envisioned at their inception.

SEZs offer a valuable platform for the government to build upon. Enhancing governance structures, ensuring transparency, and streamlining administrative processes are crucial steps. Fully implementing the "one-window" system would reduce bureaucratic hurdles, making it easier for businesses to operate within the SEZs. Clarifying the roles and improving coordination between governing bodies such as the MID, SEZ management companies, and investment agencies can eliminate inefficiencies.

Investing in infrastructure development and fostering innovation through partnerships with educational institutions can attract high-tech industries and skilled labor. Creating a more favorable environment for private and foreign investors by enforcing contracts and ensuring efficient management will encourage diverse investments.

In essence, Kazakhstan already has a robust mechanism at its disposal with its SEZs. The government has the opportunity to transform these zones into powerful engines of economic growth to unlock the full potential of its SEZs.

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