

society. The effectiveness of economic transformations, to a large extent, depends on the quality level of the institutional component of financial architecture, the stability of the country's financial system, the effectiveness of the impact of financial instruments on the economic development of the country. Improvements to the financial policy mechanism should be made in the light of the experience of developing and transformational economies.

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TELEVISION INDUSTRY IN KAZAKHSTAN: AN ENTITY FOR FOREIGN INVESTMENT

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Abstract. *Kazakhstan has set a strategic goal to attract foreign investment into the national economy. In order to establish favorable investment climate Kazakhstan went through the radical liberalization of foreign economic activity and made changes (amendments) to the legal framework. Certain steps were also taken in order to facilitate business activities and protect foreign investors' interests.*

Over the past 30 years of independence Kazakhstan has attracted 320 billion USD of foreign direct investments. In spite of certain upward trend of sustained growth, the statistics has showed short-term fluctuations during the times of crisis. While Kazakhstan economy has been hit hard by the crisis and global oil prices, it did not become less resource oriented. At the same time, despite the relative decline in FDI inflows to GDP, Kazakhstan has significant advantage over the average result for Europe and Central Asia.

The most of FDI inflows in Kazakhstan are coming from the resource development and service sector. One of the areas of investment is culture and recreation. The share of investments in this particular area is not high and is mainly provided by domestic investors. This paper emphasizes the prospects of national television as an entity for foreign investment.

The author draws attention to a number of factors that affect prospects of Kazakhstan television industry in terms of attracting investments. The paper describes both positive and negative contributing factors. Positive ones include competitive environment, modernization of the national media industry, Television dominance in terms of media consumption; high demand for TV series as the most promising product in terms of investment and qualified personnel in Television industry with a relatively low wage.

As for several factors that shape risks for foreign investors, the author stresses on the issues of transport and logistics infrastructure, administrative environment and lack of the consumer market capacity. The author provides recommendation to mitigate risks against the insufficient consumer market capacity.

High investing activities provide the economic development, the successful implementation of structural reforms, the production capacity, as well as strengthening its competitive position in both domestic and foreigner markets. Kazakhstan has set a strategic goal to attract foreign investment into the national economy. In order to establish favorable investment climate Kazakhstan went through the radical liberalization of foreign economic activity and made changes (amendments) to the legal framework. Certain steps were also taken in order to facilitate business activities and protect foreign investors' interests. The results of these efforts are reflected in a number of global ratings [1-4].

According to the World Bank, Kazakhstan raised to 25th place in the ranking Doing Business 2020 on ease of doing business. Thus, Kazakhstan overtook Iceland (26th place), Austria (27th place), Russia (28th place), Japan (29th place), Spain (30th place), Armenia (47th place), Belarus (49th place), Kyrgyzstan (80th place) and many other countries. The leaders of the Doing Business ranking are New Zealand, Singapore and Hong Kong [1].

According to the Global Competitiveness Index (GCI) World Economic Forum, Kazakhstan holds 55th place [3]. According to UNCTAD, in 2018, Kazakhstan took the 2nd place amongst the CIS countries in the net inflows of foreign direct investment (FDI) in the amount of 3.8 billion US dollars. First place took the Russian Federation with FDI of 13.3 billion US dollars [4].

In order to ensure direct dialogue with investors, Kazakhstan has established Foreign Investors' Council chaired by the President of the Republic of Kazakhstan, Council on Improvement of Investment Climate under the Chairmanship of Prime Minister of the Republic of Kazakhstan and Investment Ombudsman (Investors Guide, Ministry for Development and Investment of the Republic of Kazakhstan) [5].

During the independence, Kazakhstan has attracted 320 billion USD of foreign direct investments. Over the past decade, the country's economy received 250.2 billion USD. The bulk of FDI came in 2012 (28.9 billion USD), in 2011 (26.5 billion USD) and in 2018 (24.3 billion USD). According to the results of the first quarter of 2019, the gross inflow of FDI amounted to 6 billion USD (a year earlier - 6.7 billion USD). In general, in 2018, the volume of FDI reached 24.3 billion USD, which is 15.8% more than in 2017 (21 billion USD). It is also noted that the Government of Kazakhstan plans to bring the ratio of gross FDI to GDP to 19% by 2022. [6]

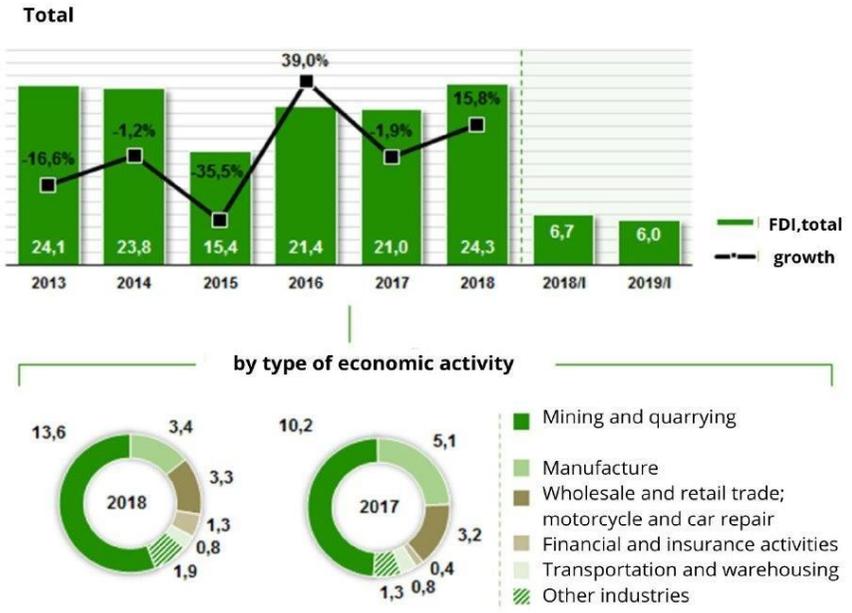
Since the early 2000s, FDI inflows to Kazakhstan have a sustainable growth. At the same time, the statistics has showed short-term fluctuations during the time of crisis. These fluctuations were recorded in 2008-2009 and are still observed today. Despite the relative decline in FDI inflows to GDP, Kazakhstan has a significant superiority over the average for Europe and Central Asia. In particular, the ratio of FDI to Kazakhstan's GDP is more than three times higher than the regional average [7]. The reason for the decline in indicators is the continuing resource-oriented economy of Kazakhstan. Changes in world oil prices are affecting the country's economy. Another reason pointed out by experts is the lack of knowledge about Kazakhstan. Thus, we can talk about the low efficiency of the soft power of the state.

If we look at the sectors the largest volume of FDI in 2018 was directed to mining and quarrying (13.6 billion USD). In the manufacturing industry, as well as wholesale and retail trade, amounted to 3.4 billion and 3.3 billion USD. The five main sectors included financial and insurance activities (1.3 billion USD), transportation and warehousing (786 million USD).

Despite this, government policy to diversify the economy has had a positive impact on investment flows. Hence, in 2018 the share of direct investments in

financial and insurance activities increased (from 1.9% to 5.4%), and in the professional, scientific and technical fields (from 0.9% to 2.8%), while in construction (from 1.6% to 2.4%). [6]

Gross FDI inflow to Kazakhstan (billion US dollars)



Ratio of gross FDI to GDP of Kazakhstan (%)



Finreview calculations based on data from the National Bank and Statistics Committee of the Ministry of Economy of the Republic of Kazakhstan

Chart 1. Distribution of gross FDI inflows by industry, 2019

One of the areas for the investments within Professional and Technical Services is culture and recreation. The share of investments in this particular area is not high and is mainly provided by domestic investors. This paper emphasizes the prospects of national television as an entity for foreign investment.

In terms of attracting investment, the prospects of Kazakhstani television are influenced by a number of positive and negative contributing factors. Amongst the

factors, which increase investment attractiveness of the television industry are the following influences.

Firstly, the environment, which national media operates in, has rather competitive nature that is the result of a deliberate and conscious policy of the state. Over the past 30 years, Informational space of the Republic of Kazakhstan has been open to foreign mass media. Currently, as of February 25, 2020, 165 local channels, 24 of which with republican status and 141 Regional channels are officially registered in Kazakhstan [8]. In addition, 247 foreign television channels are distributing their products in our country [9]. As of 2015, geographically Kazakh television channels broadcast in 118 countries [10].

Government has set a priority to create conditions for the progressive development of the national media industry.

Secondly, in accordance with 'Information Kazakhstan – 2020' State Program [11], modernization is seen as the main objective for the national media industry. Considering the principles of national television in the economy of Kazakhstan, it is quite logical to expect investment growth in the industry.

Thirdly, television in Kazakhstan remains dominant among the population, which can be measured by media consumption and audience share. This is evidenced by data obtained from monitoring the volume of the audience of various media [11]. Data by TNS shows that 97.9% of households in Kazakhstan have at least one TV set. 23.4% have two TVs and 5.1% have more than three TVs [13]. Besides, Kazakhstan demonstrates high rates of average daily TV consumption. On average Kazakhstanis' daily spend 205 minutes watching TV, which is nearly 3.4 hours. Also the time population spends in the Internet is 174 minutes (2.9 hours), 125 minutes (2.1 hours) listening to the radio and 57 minutes on the press. Moreover, in Kazakhstan 72% of respondents watch TV every day, which corresponds to the level of Latvia, Great Britain and Estonia. European countries' statistics also shows a high level of television content consumption. On average, in 28 countries of the European Union 78% of respondents watch TV every day or almost every day. At the same time, the largest consumption of television content is observed in Portugal - 94%, 90% in Bulgaria and Romania, 87% in Italy, and the lowest is in Germany - 68%, Sweden - 60% and Luxembourg - 57% [15].

Fourth, the most popular genres include 'soap operas', 'entertainment shows' and 'movies' [16]. The world practice has showed that TV series are the most promising television production in terms of investment. The appeal of television series is also determined by technology development and transformation of the TV product into an advertising tool.

Comparing genre preferences with the 2014 indicators we see that the structure of media content consumption as a whole remains [17].

Fifth factor are low wages, despite of the availability of qualified personnel in the television industry. In February 2020, the average salary in Kazakhstan amounted to 203,833 tenge and first time exceeded 500 US dollars since the summer of 2015 [18]. However in March, a series of events occurred: the OPEC+ deal was disrupted, the price of Brent oil fell to 20-23 US dollars per a barrel, the introduction of the State of Emergency in Kazakhstan due to the coronavirus pandemic, the dollar exchange rate exceeded 447 tenge and consequently the average salary in Kazakhstan amounted to 456 US dollars. For comparison, in Germany and France the minimum wage for 2018 amounted to 1498 Euros, while in Hungary, Romania, Latvia and Lithuania it ranges from 400-430 Euros, which means that the average level of wages exceeds the one in Kazakhstan [19].

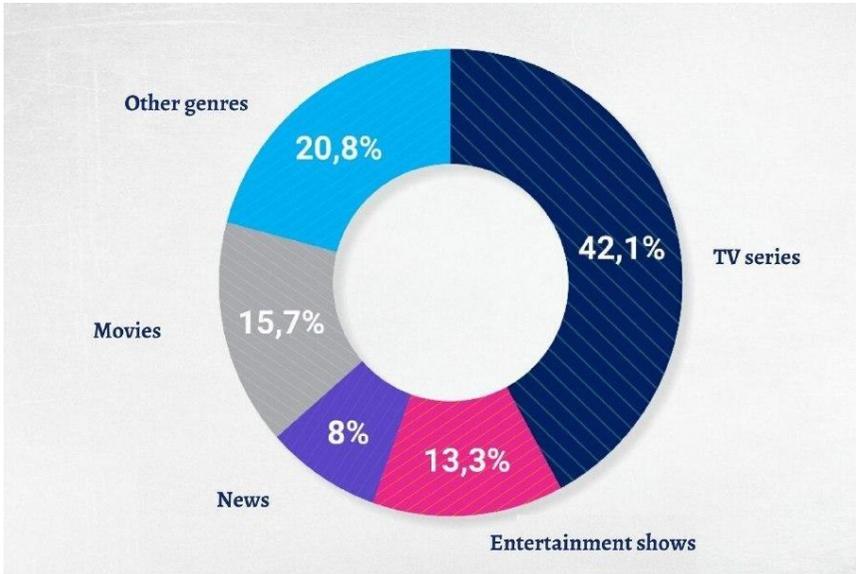


Chart 2. **Genre Structure of TV channels nationwide (January 2019 – December 2019)**

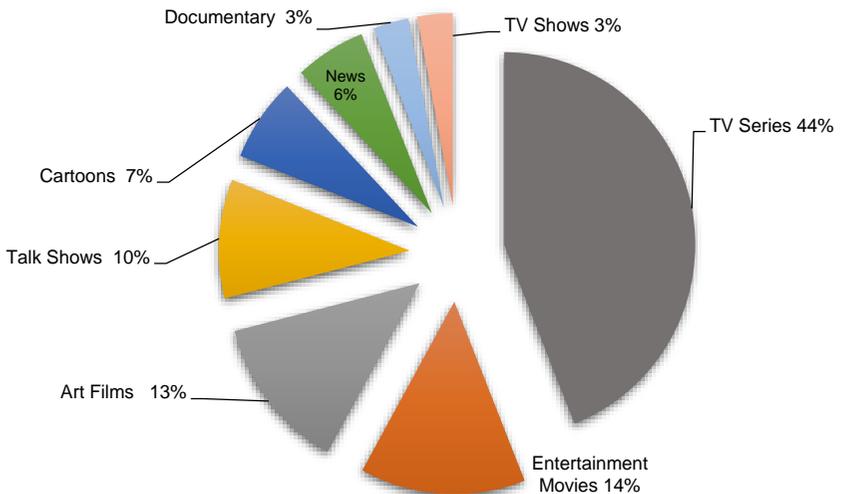


Chart 3. **Genre Structure of TV channels nationwide (December 2013 - March 2014)**

Source: J'son & Partners Consulting, 2014. *TV Content Market in the Republic of Kazakhstan (Research)*

Lastly, Kazakhstan introduced the ban on advertising on foreign television channels in order to strengthen the protectionism of the media sphere since July 1, 2016. This norm will increase the flow of advertising budgets to the Kazakhstan television market. However, it is not possible to give accurate indicators of the economic effect of the implementation of this norm, since in recent years the advertising market has been greatly transformed due to the flow of advertising budgets into the internet. Nevertheless, the investors sees the political and legislative will of the state to protect the advertising and media markets of Kazakhstan that is an important factor in assessing investment forecasts.

At the same time it is worth mentioning and identifies certain factors that shape risks for foreign investors.

According to EY data, investors operating in Kazakhstan pay attention to the following areas that require improvement [20]:

Firstly, current and potential investors suggest further improvement in transport and logistics infrastructure of the country.

Secondly, it is administrative environment. In spite of high level of political stability, Kazakhstan is facing such challenges as corruption and bureaucracy in public administration.

Third challenge includes flexibility of labor legislation and simplified procedure for issuing work permission. Many investors urge Kazakhstan to facilitate the procedure to bring qualified foreign personnel to the country, recruitment process and layoffs, as well as working hours.

One of the most significant challenges that potential foreign investors may face is lack of the consumer market capacity. Kazakhstan TV series concede competitors as domestic channels are not able to refund the cost of high-quality TV series production. Insufficient volume of television audience in the country does not allow paying off high-quality TV series. While comparing the production cost, it shows that the cost price of one episode of American TV series is 350 times higher than the cost of Kazakhstani product [21]. At the same time, foreign TV series producers consider Kazakhstan to be a secondary market as they collect basic income from the premiere in their respective countries. Selling TV series to Kazakhstan TV channels is a bonus after receiving basic fees. This situation generates low prices when selling TV product in Kazakhstan. As a result, national TV channels get more profit while buying foreign TV series, rather than producing their own. Currently the production of national TV content is of high priority, which is clearly reflected in Kazakhstan legislation.

In order to improve the situation, government officials even tried to implement the ban on foreign TV series on national channels but this decision was found to be ineffective. The establishment of Eurasian Economic Union (EAEC) will significantly expand the consumer market and to some extent ease the situation. However, the most efficient way to improve current status quo is to attract foreign investors and focus on high-quality export-oriented TV product. In that case basic profit would come from sales of foreign TV channels or aggregators of entertainment content on the Web. In this approach both art films and documentary TV series would have great potential.

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