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## State Regulation of the Tourism Industry for Attracting International Investment

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### Abstract

The possibilities of developing the tourism industry in the Republic of Kazakhstan based on attracting investment and public-private partnerships (PPP) are examined in this article. The goal of the study is to analyze the possibilities of investing in the tourism industry of Kazakhstan with due consideration of the risk component and to determine the main strategic directions for the development of the tourism industry in Kazakhstan. The authors have analyzed the tourism regulatory practice in the Republic of Kazakhstan and identified the main problems of the tourism industry. The analysis has indicated that the large territory of the country, underdevelopment of the tourism infrastructure, and unwillingness of the tourism business to invest in its development are high-risk factors that require more global investment in the development of the tourism industry. The development of the tourism industry is supposed to be carried out with the comprehensive state support through the creation of a special system of legislative acts and favorable conditions for attracting investment and developing infrastructure. The approaches to attracting investment in various areas of the tourism industry, adopted by the leadership of various countries, have been considered. The authors have proposed recommendations for improving legislative measures and measures of state support for the tourism industry in Kazakhstan, primarily those that should secure the investment flows, based on the analysis of international experience and practice of the tourism industry in Kazakhstan. The issue of attracting international investment to the tourism industry in PPPs has been considered separately. The conclusions and proposals made on the basis of the research results can be used in the regulatory activities of specialized state bodies, taken into account when making investment decisions, and used as educational and methodological materials in the study of state regulation of tourism.

**Keywords:** tourism industry; state regulation; investment; infrastructure; risk factors.

**JEL Classification:** L83; L88; F21; L32; O13.

### Introduction

The role of tourism in ensuring the socioeconomic development of the country and its social stability can hardly be overestimated today. Tourism plays an important role in the formation of a healthy lifestyle and solving social problems by creating additional jobs (Shamalova *et al.* 2020, 574), increasing the rate of employment and well-being of the population (Dmitrieva *et al.* 2020, 837), and providing an opportunity for the development of depressed regions (Germanovich *et al.* 2020, 965). Therefore, tourism is inextricably linked with the main areas of society, namely with the sociocultural area, politics, and economy.

At the same time, as an entrepreneurial activity for the provision of tourism services, the tourism industry is one of the most profitable types of business in the world. According to the WTO estimates, the number of international tourist trips should reach 955 mln in 2020, and revenues from tourism will increase to USD 1.3 bln (Afanasov 2019, 94).

Based on this, it can be said that tourism is a comprehensive intersectoral complex that produces consumer goods and provides services.

Agenda 21, adopted at the UN Conference on Environment and Development in Rio de Janeiro in 1992, determined that the tourism industry had enormous potential and could make a constructive contribution to the preservation and enhancement of the heritage of all regions on the planet due to the active use of the sustainable development model (Pineda *et al.* 2016). The sustainable development model in the tourism industry is becoming increasingly complex today, combining the ways and methods of solving environmental, social, political, and economic problems into a single whole (Font *et al.* 2019, 1). The model has found its wide application in many countries today (Zvyagintseva *et al.* 2020, 955). In turn, the tourism sector of the economy of the Republic of Kazakhstan has also shown positive changes and stable dynamics of certain indicators in recent years. According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, the number of outbound tourism visitors amounted to 10,260,813 in 2017, which was by 117,103 visitors more than in 2013. The indicators for inbound tourism also show a positive trend. For example, the number of inbound tourism visitors increased by 860,111 in 2017 compared to 2013 (Turizm Kazakhstana 2018). However, given the presence of diverse and rich natural resources, historical and cultural heritage, which are the factors for the sustainable tourism development, economic indicators reveal a critically low level of development, exploitation, and return on the tourism potential in comparison with other countries – in particular, Europe. The share of tourism in Kazakhstan's GDP was 0.6 % at the end of 2017. For comparison, the contribution of tourism to Turkey's GDP was 10.9 % in 2014, and this figure reached 14.3 % in the UAE's GDP (Kupeshova and Aizharygov 2020, 70). The number of people leaving Kazakhstan for vacation is by 1.8 times more than the number of visitors to the country (Rey and Zhansagimova 2019, 296).

The crisis caused by the COVID-19 pandemic, which outbreaked in the spring of 2020, hit all sectors of the economy hard, but tourism and related sectors of the economy (hotel business, passenger transportation, etc.) suffered the most. Due to the restrictions imposed on the travel of citizens, both between states and within the territory of the state, the activities of organizations in the tourism sector of Kazakhstan were almost completely suspended, and the revenue of the tourism industry fell down to zero (Kazakhstan Newline 2020). Almost all the obligations of travel companies undertaken before the imposed restrictions remained unfulfilled, and multibillion-worth claims are now expected from the suffered consumers of travel services (Kachalova 2020). In the conditions of such uncertainty, investment risks have multiplied, and the investment attractiveness of the tourism industry in Kazakhstan is now at an extremely low level (Levina 2020). In this situation, the state should also take care of investment flows in tourism, in addition to measures designed to ensure the survival of business and the safety of jobs in it, because once the consequences of the pandemic are overcome, people's interest in travel will undoubtedly increase, and the increase in the tourist attractiveness of Kazakhstan will become one of the main tasks again. The development of the tourism industry is impossible without solving such problems as insufficient development of the tourist infrastructure, significant moral and physical deterioration of the existing material and technical base, insufficient staff training, and lack of local tourism brands. They require huge financial costs, including investment. According to various estimates, the amount required for the development of the tourism industry in Kazakhstan in 2020 ranged from USD 2 bln to USD 6.5 bln (Turisticheskaya otrasl Kazakhstana zhdet rosta n.d). Due to this, the investment attractiveness for foreign investors is of particular importance in the formation of the modern competitive tourist complex in Kazakhstan (Usubalieva and Kozybagarov 2015, 169).

Due to the globalization of the economy and the information openness of the world community, the scientific interest in various theoretical and methodological aspects of organizing tourism has increased in recent decades (Dudin *et al.* 2017, 1559). The general issues of tourism regulation in the Republic of Kazakhstan are explored by such scientists as N.O. Suleimenova (2019); innovative approaches to tourism are covered in the works of K.Zh. Abieva and E.Sh. Zhanatova (2019); and the works of E.Yu. Chistyakova and M.N. Abdikarimova (2018) are devoted to one of the types of post-industrial services in Kazakhstan as part of the economic growth model. This study is aimed at identifying and solving the main problems of state regulation of attracting investment in the tourism industry as a developing sector of the economy of Kazakhstan. The novelty of this work lies not so much in the comprehensive consideration of legislative acts regulating the tourism industry, but rather in the development of proposals that allow attracting more investment for the development of the local tourism

market. The hypothesis of the study is as follows: PPPs should be considered as one of the main directions of development of the tourism industry at the present stage, capable of attracting international investment.

## 1. Methods

The dialectical method of cognizing reality was used as the basic method of this study, which, along with the methods of theoretical generalization, comparative analysis, analysis and synthesis, and statistical method, allowed to substantiate the need to develop organizational and legal foundations for attracting investment in the tourism industry and to determine their criteria. In particular, comparative analysis allowed to study international approaches to stimulating the tourism industry and attracting international investment into it. The works of domestic and foreign scientists on the topic of attracting investments and PPPs in the tourism industry and statistical data on the economic indicators of the tourism industry in the world and in the Republic of Kazakhstan, publicly available online, became the informational basis for proving the hypothesis of the study.

## 2. Results

The directions of the tourism sector development in the Republic of Kazakhstan are recorded in two fundamental documents: the Concept for the Development of the Tourism Industry of the Republic of Kazakhstan through to 2023 (Decree of the Government of the Republic of Kazakhstan 2017) and the State Program for the Development of the Tourism Industry of the Republic of Kazakhstan for 2019 – 2025 (Decree of the Government of the Republic of Kazakhstan 2019), which was adopted in November 2019. These documents emphasize the need for state support for the tourism industry and the importance of cooperation between government authorities, industries, and tourism organizations. However, the main measures of such support are presented very vaguely, and the mechanisms for financing and attracting investments are indicated neither in the basic Law of the Republic of Kazakhstan No. 211-II "On tourist activities in the Republic of Kazakhstan" (June 13, 2001) nor in other regulatory legal acts, which serve as the basis for performing the tasks set by the above documents, although the obligation of the state to provide support to the tourism industry is noted there.

The biosphere natural and ethnocultural centers, as well as various objects of the natural reserve fund are used for the needs of tourism in Kazakhstan and serve as the basis for a national environmental and ethnocultural network (Shomshenkova *et al.* 2020, 594). However, Kazakhstan does not use significant natural resources and numerous historical and cultural sites properly in order to intensify the tourism sector development (Practical guide for the development of regional tourism 2016). Considering the development of the tourism sector in the Republic of Kazakhstan in recent years, it can be described by the following factors:

- low level of awareness of the role and significance of the sustainable tourism model for the socioeconomic development of the state by the regulatory bodies;
- lack of the established tourist resources and an integral system of their rational use, uncertainty of the directions of their exploration and development, inefficient and illegal use of the unique natural, historical, and cultural resources; and
- unfavorable conditions for the development of the tourism industry and the lack of a clear state investment policy, inefficient tools to support the development of priority types of tourism (Kazyrykpay 2019, 79).

The inadequacy of the state support tools for the tourism industry is also indicated in the fundamental documents (Law of the Republic of Kazakhstan 2001).

Tourism is a fairly capital-intensive sector of the economy, as capital is attracted for a long period and is repaid very slowly (Nikolskaya 2020, 467). The study of the international experience revealed that sources of funding might originate from other sectors of this business sector that financed additional structures (Bushueva and Yudina 2020, 350; Alford and Jones 2020; Maslennikova and Yudina 2020, 1; Biryukov *et al.* 2019, 1779). For example, transportation companies were the initiators of hotel construction, using their own funds. Tour operators often invest in the development of hotel complexes in the areas they send their clients (Romanova 2014, 241). The state plays a special role in financing and creating tourism infrastructure in the form of subsidies, concessional loans, bonification of interest, and tax incentives in almost all countries.

This is how the state support of investments in the tourism industry is carried out in the leading countries of the world tourism industry – for example, Austria, France, and the UK. There are financial and tax incentives for foreign investors in Italy – in particular, in the form of a reduction in value added tax rates (Usubalieva and Kozybagarov 2015, 169).

Greece is an example of the country where the importance of investing in tourism is recognized at a high state level. Its government offers investors assistance in obtaining loans at favorable interest rates and tax rebates. For example, the VAT on accommodation and meals in Greece is 8 %, and the government has

developed a system of discounts for travel agencies that accept visitors in the off-season. The Ministry of National Economy of Greece announces the total amount of assistance to tourism investors every year. The Greek government determines the priorities for investment in tourism. First of all, this is the construction, expansion, and modernization of high-class hotels and tourist complexes. Moreover, additional benefits are provided if the volume of investment reaches USD 23 mln. It is interesting that reconstructed hotels and other tourist facilities have the right to choose the form of state aid. Depending on the state of the enterprise, it can be subsidies or tax benefits (Afanasov 2019, 94). Of course, such a policy in tourism yields a positive result and makes the country attractive for international investors in the tourism industry.

In addition to the creation of special bodies and services for the tourism development, the states of various countries are actively investing in this sector. For example, in order to solve the problem of financing the construction of hotels in China, its government introduced a favorable investment climate for foreign investors and also invested funds from the state budget (Usubalieva and Kozybagarov 2015, 169).

As practice indicates, states encourage foreign investment by setting up joint ventures, buying real estate by foreigners, and timesharing with individual investors. For example, the Mexican Riviera (Puerto Vallarta, Cancun, and Ixtapa) is an example of a successful combination of foreign private and public investment in the sector: from hotels, restaurants, and golf courses to world brand stores. Tourism in the USA is built on PPPs, joint planning, financing, and project implementation (Usubalieva and Kozybagarov 2015, 169).

### 3. Discussion

Following the research results, it can be stated that investment is one of the most important factors in the tourism industry development, since its volume and structure influence the following:

- dynamics of the industry development in the long term;
- financial and economic indicators of the industry in the future;
- qualitative characteristics of tourist facilities and enterprises in the future;
- throughput and production capacity of tourist facilities;
- structural proportionality of the industry development (simultaneous development of hotels, transportation, catering chains, communications, etc.); and
- general situation in tourist supply and demand in the territorial context (competitive environment).

International experience shows that the investment resources are often attracted in the tourism industry through PPPs, which provide the following (Nurpeisova 2018, 42; Morozova *et al.* 2019, 1819; Romanova *et al.* 2020, 663):

- improving the instruments of financial support for investment projects as part of the implementation of state and sectoral programs through PPPs: mezzanine loans, forfeiting, leasing, guarantees, etc.;
- applying models for ensuring profitability for a private investor in infrastructure projects;
- minimizing banking risks in financing investment projects: clear structuring of projects, development of project and Islamic financing, etc.; and
- strategic focus on the project-oriented resource management of financial institutions (Nurpeisova 2018, 42).

It must be noted that the idea of introducing various PPP models adapted for some areas of the tourism industry is supported by some researchers in Kazakhstan (Nurpeisova 2018, 42; Baizakov and Adilbekova 2017, 16). For example, a practical PPP model is proposed for the introduction of medical tourism in Kazakhstan, which can adapt to the conditions of an individual project agreement between both public and private medical institutions.

Certain risks in the implementation of the PPP projects are the limiting factor for the participation of financial institutions in them. First of all, banks and other institutions of the financial sector pursue their own benefits and interests, like any business actors. Therefore, when implementing projects, the financial institutions will give preference to projects where a private investor, region, or local executive body fulfill their obligations in the long term (Nurpeisova 2018, 42; Kuru and Artan 2020, 704).

Budgetary funds are insufficient if there are no private investment, foreign investment, and market mechanisms.

Unlike loans and credits, direct investment attracted to the tourism industry does not become an additional burden, contributes to obtaining funds for its repayment, serves as a source of the fixed assets renewal and a source of capital for investment in the production of goods and services, and ensures a transfer of technology, know-how, and advanced management and marketing techniques. Direct international investment contributes to

the most efficient integration of the national economy into the world economy due to promoting external contacts and various industrial, scientific, and technical cooperation (Zhidkikh 2010).

There are some successful examples of attracting investment in tourism development in Kazakhstan. For example, two hotel projects were launched with the participation of international investors in Astana in 2014. The total number of rooms was 519. In this case, an order for the construction of a 19-storey Hilton Garden Inn Astana Hotel with a total area of 31 thousand square meters was placed by ExpoCentre Astana LLP. In the fall of 2011, the Eurasian Development Bank issued a loan in the amount of USD 44 mln to Astanapromstroy-M LLP (a subsidiary of CJSC Mospromstroy) for the construction of the Marriott Astana Hotel and administrative complex (Usubalieva and Kozybagarov 2015, 169).

In the conditions of the modern economy of Kazakhstan, the positive influence of direct international investment can be considered broader, since it contributes to the formation of a new institutional structure of the market economy in Kazakhstan and strengthens the economic ties that emerge on a market basis between economic agents.

Radical changes in the state policy of attracting, protecting, and using investment, providing international investors with conditions of stability, guarantees, and nondiscrimination in the host country are inevitable in order to create a favorable regime for international investors.

The authors have studied similar research devoted to attracting investment in other countries (Gornostaeva 2011; Huyen 2020, 209; Lee 2020) and believe that the following is very important for attracting private investment, including international, in the tourism industry:

- the measures of local authorities in advertising and information activities (coverage of the tourist and recreational potential of a territorial administrative unit);
- liberal administrative and tax policies of both local and federal authorities that encourage private investment initiatives; and
- efficient antimonopoly and anticriminal policies of local authorities aimed at maintaining a healthy competitive environment among tourism enterprises.

Kazakhstan occupies a leading position in terms of the volume of attracted foreign investment per capita among the CIS countries today, but tourism is still lagging behind in the structure of investment (Usubalieva and Kozybagarov 2015, 169).

The measures of the leadership of the Republic of Kazakhstan to attract international investment in the tourism industry should have the main goal of achieving a favorable investment climate for the broad involvement of the entrepreneurs engaged in tourism. First of all, this concerns the implementation of a preferential credit policy on a long-term basis (three to seven years), including the repayment of loans, the development of a system of guarantees for financial and credit institutions, the inviolability of property rights, the simplification of the rules for transferring dividends abroad to international investors, the more preferential tax policy for the profits reinvested in the further development of the material base of tourism, etc.

At the same time, it must be clarified that international investment must be "complementary" in relation to domestic investment in the tourism industry of Kazakhstan in order to successfully solve the problems of the industry. It can encourage the tourism development in these conditions only. Moreover, world experience shows that the volume of direct international investment almost never exceeds 10 – 12 % of the total investment in the national economy (Gornostaeva 2011).

## Conclusion

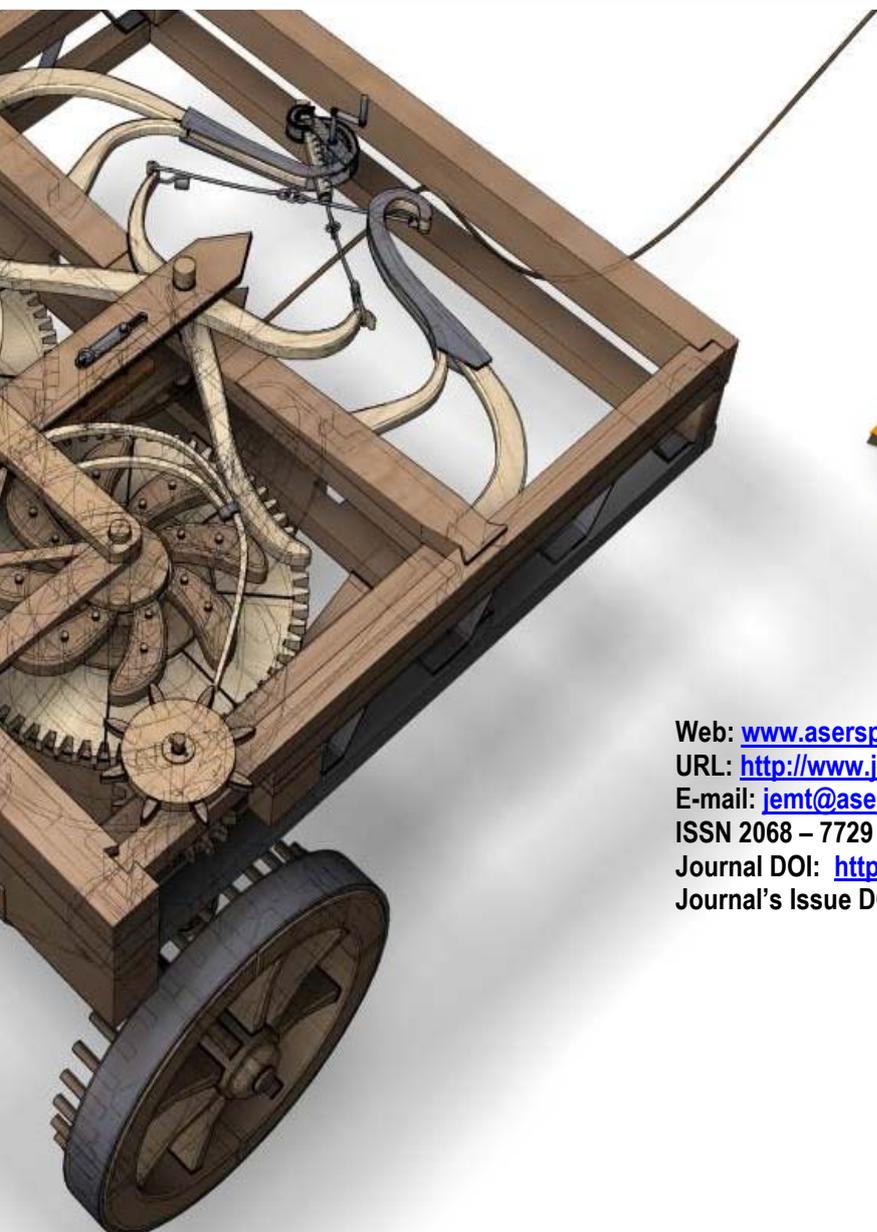
The studies carried out in the presented article indicate the need to develop a state program to encourage inbound tourism in the modern realities, based on benefits, creation of favorable conditions, and financial assistance from the state. The development of tourism undoubtedly requires extensive investment, which can be obtained through attracting international investors, according to the experience of foreign countries. Such advantages of the Republic of Kazakhstan as an advantageous geographical position and the presence of sociopolitical instability in some neighboring regions should further encourage the inflow of foreign investment not only in the extractive sectors and processing industry, but also in the service sector. It has also been concluded that attracting significant international investment in the tourism industry of the Republic of Kazakhstan requires not only the development of legislative measures aimed at encouraging and protecting investment, but also the active participation of government agencies in investment and its use. The PPP form seems to be the most promising area of participation of the Republic of Kazakhstan in various tourism projects. As such, the hypothesis of the study seems to be proven. The study of international experience in the tourism industry standardization can be a continuation of this research.

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