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# Foreign direct investment in Kazakhstan – determinants and impact on economic growth

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# Introduction

Increase in the international competitiveness has been an important and urgent challenge facing the economy of Kazakhstan over the past few years. The experience of many countries over the globe seems to prove that this challenge can be met effectively by attracting foreign capital, which can in turn contribute to the successful modernization of existing economic systems as well as accelerating the economic growth and the pace of socioeconomic development (for the theoretical explanation see the theory of Investment Development Path – IDP). In such a role, capital in the form of foreign direct investment (FDI) is possibly the most plausible as it concerns not only a "capital shot" to an economy but also enables the technology transfers, knowledge sharing, fostering business linkages, and innovative cross-border cooperation. The arising of economic relations allows a country to tie up to the global economy and take its share in the international division of labour. However, attracting FDI requires a favourable investment policy, such as: legal and regulatory framework, political stability and predictability, incentives and benefits, infrastructure development, labour market policies, trade policies, as well as a friendly overall business climate. Arranging both seems to be crucial for Kazakhstan as the rapid development of large economies as Chinese or Indian as well as the growth of Eastern Europe and Southeast Asia, force necessary to strengthen the country's position in international capital markets and increase its international competitiveness as a recipient of FDI. The predominant export of natural resources will not allow Kazakhstan to take a leading position in the system of international economic relations. Therefore, the intensive development based mostly on the using of advanced technologies remains the first-rate task to all being responsible for the country's future. Attracting foreign investment will be first and fundamental principle to accelerate the process of development.

The dissertation consists of introduction, methodology part, five chapters and conclusions.

Chapter 1 of the text discusses the theoretical aspects of FDI, focusing on its essence, definitions, legal forms. Initially, FDI is defined as investments made by a company or individual from one country into another to establish a lasting interest in an enterprise. OECD has evolved its definition of FDI over the years, particularly to address the dynamic changes in financial structures of international enterprises and the challenges of globalization. The latest edition in 2008 refined FDI to include financial flows through special purpose entities to manage the complexities of round-tripping investments. The chapter outlines how FDI is

integral to international economic integration, providing the mechanism for transferring capital, technology, and knowledge across borders. It also details how the FDI relationship is characterized by a lasting interest and a significant degree of influence over the management of the enterprise, where direct or indirect ownership of 10% or more of the voting power is standard for establishing such a relationship. Moreover, chapter 1 discusses the Framework for Direct Investment Relationships (FDIR), which helps compilers determine the scope and nature of direct investment relationships for FDI statistics. This framework identifies all enterprises related to a direct investment, whether they are the investor or the investment enterprise. This comprehensive approach underlines the multifaceted nature of FDI, encompassing not just equity transactions but also reinvested earnings and inter-company debt, thereby highlighting the complexity and breadth of FDI's impact on global economic integration. Also, chapter 1 provides a detailed overview of FDI theories, forms of FDI and the establishment mode choice between greenfield investments and acquisitions. An important part of this chapter is to present the effects of FDI on the host country.

Chapter 2 explores Kazakhstan's status as a viable destination for FDI. It delves into the economic dynamics of Kazakhstan since its independence, highlighting the challenges of initial economic instability marked by hyperinflation and recession that the nation faced in the early 1990s. Following the introduction of its national currency, the tenge, Kazakhstan embarked on significant macroeconomic reforms which helped stabilize the economy and spurred growth driven by its rich natural resources and increasing FDI. The chapter further discusses the strategic legal frameworks Kazakhstan has established to encourage FDI, emphasizing the nation's progressive adaptation to international economic standards and its efforts to secure a favourable investment climate. This includes comprehensive legal protections for foreign investors. Kazakhstan's competitive position in Central Asia is examined through various indices among others such as the "Ease of Doing Business" and the "World Competitiveness Ranking", where it generally ranks favourably against neighbouring states. This reflects its stable economic environment, strategic reforms, and government efficiency. Chapter 2 outlines the potential risks associated with investing in Kazakhstan, identified through various global economic risk assessments. These include geopolitical tensions, economic dependency on commodity prices, and regional instabilities. Despite these risks, Kazakhstan's strategic geographical position, substantial natural resources, and ongoing economic reforms posit it as an attractive market for foreign investors within the region.

Chapter 3 of the provided text delves into the dynamics of FDI in Kazakhstan and Central Asia, presenting a comprehensive analysis supported by data from the United Nations Conference on Trade and Development (UNCTAD). The chapter is structured into several sections that collectively outline the scale and structure, with a particular focus on Kazakhstan. This section highlights the significant role of FDI in Central Asia, with Kazakhstan emerging as a leader in attracting foreign investment due to its developed economy and resource wealth. Comparative analysis of FDI stocks across Central Asian countries for the year 2022 illustrates Kazakhstan's dominance, with detailed tables and figures showing trends over three decades, emphasizing the growth in FDI stocks from virtually zero in the early 1990s to substantial levels by 2022. The methodologies used by Kazakhstani institutions like the National Bank of Kazakhstan and Kazakh Invest are discussed, which help in understanding the differences in FDI data collection and interpretation. Historical data from 1990 to 2022 is presented to show the evolution of FDI in Kazakhstan, marked by a consistent increase in inward FDI stock, highlighting the country's ability to attract substantial foreign investments, particularly in its oil and gas sectors. The breakdown of FDI by sector shows a heavy concentration in mining and quarrying, followed by substantial investments in manufacturing and services, indicating a diversified investment landscape. The number of enterprises with foreign capital is explored, noting that while foreign and joint venture entities form a small percentage of total businesses, they are particularly prevalent in larger enterprises, reflecting their strategic importance to the economy. The Investment Development Path theory is used to frame Kazakhstan's FDI trends, suggesting that Kazakhstan is transitioning from primarily receiving FDI due to its attractive natural resources and low labour costs, to increasingly engaging in outward FDI as its economy matures. Chapter 3 concludes that Kazakhstan, with its strategic initiatives and rich natural resources, has successfully positioned itself as a key recipient and increasingly, a source of FDI in Central Asia. The nation's evolving economic policies and improving investment climate are likely to enhance its attractiveness as a destination for foreign investors, while also enabling domestic companies to expand abroad. This dual role underscores Kazakhstan's growing significance in the global economic landscape, marking its progression towards greater economic diversification and international competitiveness.

Chapter 4 provides a comprehensive analysis of the determinants and motives of FDI in Kazakhstan, highlighting a range of factors that attract and influence international investors. Research spanning from 2010 to 2022 identifies key elements such as economic stability, market size, the richness in natural resources, and institutional quality as primary drivers of FDI. Studies suggest that while Kazakhstan's natural resources, particularly in the oil and gas

sector, remain a significant attractor, factors like market potential and strategic positioning increasingly influence investment decisions. Additionally, economic reforms and policy measures, including tax incentives and improvements in infrastructure, play crucial roles in enhancing Kazakhstan's appeal to foreign investors. However, challenges such as corruption, bureaucracy, and the need for more effective innovation management in resource sectors are noted as potential deterrents that could impact the flow and efficiency of FDI. Moreover, the evidence from quantitative research, specifically through questionnaires, provides a detailed perspective on the various elements that influence the FDI environment in Kazakhstan. For instance, while market-seeking motives dominate among firms that took part in the research investing in Kazakhstan, the allure of natural resources continues to be substantial. The chapter also discusses how internal factors such as company leadership and external factors like geopolitical location and economic policies influence investment patterns. As Kazakhstan continues to navigate its path towards economic diversification, understanding these dynamics becomes crucial for policymakers and investors aiming to foster sustainable economic growth and capitalize on emerging market opportunities. This analysis not only aids in comprehending the current investment climate but also assists in strategizing for future enhancements to attract more diverse and substantial foreign investments.

Chapter 5 explores the multifaceted impacts of FDI on Kazakhstan's economy through a detailed analysis of various research studies, using diverse econometric models to assess how different factors influenced by FDI have propelled or shaped economic activities and growth. The chapter begins by systematically reviewing research that delves into the relationship between FDI inflows and key economic indicators like GDP, employment, and sectoral development. Findings across these studies paint a complex picture of FDI's influence, indicating both significant positive impacts and nuanced interactions that vary by sector and over time. Some studies point to substantial boosts in GDP and sectoral growth driven by FDI, particularly emphasizing its role in enhancing economic stability and introducing advanced technological capabilities. However, other research highlights potential drawbacks, such as the crowding out of domestic investments in sensitive sectors like agriculture and manufacturing. In the second part of the chapter 5, a detailed econometric analysis strengthens the understanding of FDI's effects by constructing models that trace the long-term and short-term impacts on Kazakhstan's economic dynamics. These models examine the relationships between FDI and GDP per capita. The analysis employs trend models and autoregressive models to project the trajectory of economic growth under continued foreign investment influence. This section reinforces the findings from empirical studies reviewed earlier. By integrating both

theoretical and empirical perspectives, the chapter provides a comprehensive overview of the strategic role of FDI in driving economic growth and additionally growth of GDP per capita on FDI.

## Methodology

The doctoral thesis, the results of which are presented in this work, covers three basic research areas:

I. The assessment of the scale of foreign direct investment in Kazakhstan in the years 1991-2022, that is, from the moment the Republic of Kazakhstan became a sovereign country, to the end of the second decade of this century, as well as presenting the structure of these investments.
II. The identification of the determinants and motives of foreign direct investment in Kazakhstan against the background of the selected elements of the investment climate.
III. The assessment of the impact of foreign direct investment on economic growth in Kazakhstan.

Accordingly, the main research objective of this dissertation is to assess the scale and structure of FDI in Kazakhstan, identify the determinants of FDI in Kazakhstan and identify and evaluate the impact of FDI on economic growth.

As part of the scientific research process, the project necessitated the undertaking of literature reviews, the results of which were concisely presented in the first, second, fourth and fifth chapters of the thesis. These literature reviews are primarily focused on identifying research findings on a global scale. The limited number of studies discussing the determinants influencing the selection of Kazakhstan as a destination for foreign direct investment, especially lacking those in-depth analysis of entities that have made such investments and are engaged in business operations within Kazakhstan, suggests a significant gap in the existing literature. Also, there are few publications about the impact of FDI on economic growth in Kazakhstan.

As at the end of the April 2024 year in the Scopus database, article title was used as the search criterion. The search for the determinants of FDI returns 2,349 articles. However, when searching for the determinants of FDI in Kazakhstan, only 5 scientific articles are returned. In the Web of Science database, a search for the determinants of FDI produces 3,723 articles. However, when searching for the determinants of FDI in Kazakhstan, only 6 scientific articles are returned.

The search for the impact of FDI on economic growth of the country in Scopus database on the end of the April 2024, showed 2,134 articles. However, searching impact of FDI on economic growth in Kazakhstan showed only 15 articles. In the Web of Science database, a search for impact of FDI on economic growth on the country produces 3,055 articles. However,

when searching impact of FDI on economic growth in Kazakhstan, only 17 scientific articles are returned.

This scarcity of research could arguably form the foundation for the assertion that, albeit limitedly, the results presented contribute to illuminating an issue that has, thus far, been inadequately understood. The literature review covers available literature on the subject (in particular academic articles), published before January 2024. Selected academic databases (EBSCO, Emerald, Google Scholar, JSTOR, ScienceDirect, Scopus, Springer, Web of Science and Wiley).

### The first research area

The first research area (results are presented in the third chapter) aims to analyse the dynamics and structure of FDI in Kazakhstan, comparing its performance with other Central Asian countries. The analysis is structured around the examination of FDI trends, the sectoral distribution of FDI, the geographical origins of FDI, the amount of entities with foreign capital, and Kazakhstan's position on the Investment Development Path.

For the first area, the following research objectives were adopted:

- Identification the trend and scale of FDI in Kazakhstan and its Central Asian neighbours;
- Analysing the sectoral distribution of FDI within Kazakhstan to identify key areas of foreign investment;
- Examining the geographical origins of FDI in Kazakhstan to understand the global interest in the Kazakhstani market;
- Determining Kazakhstan's stage on the IDP based on FDI flows and economic development indicators.

The analysis utilizes data from several authoritative sources and reports, including:

- United Nations Conference on Trade and Development (UNCTAD) for global and regional FDI trends;
- National Bank of Kazakhstan for detailed statistics on FDI inflows and outflows;
- Agency for Strategic Planning and Reforms of the Republic of Kazakhstan for information on enterprises with foreign capital;
- JSC "NC "Kazakh Invest" reports for project-based FDI information;

Geographical origins of FDI: examine the geographical distribution of FDI sources using data from the World Investment Report (UNCTAD) and the National Bank of

Kazakhstan. This analysis aims to understand the international perspective on investment opportunities in Kazakhstan and identify strategic partnerships.

Entities with foreign capital: utilize reports from the Agency for Strategic Planning and Reforms and national statistics to assess the impact and presence of foreign-owned and joint venture entities in the Kazakhstani economy, including their distribution by sector and region.

Investment Development Path analysis: based on Dunning & Narula's IDP theory and empirical FDI and GDP data, evaluate Kazakhstan's progress on the IDP. This involves analysing the balance of inward and outward FDI relative to economic development indicators to determine Kazakhstan's current IDP stage and forecast its future trajectory.

### Second research area

The purpose of the second research area was to characterize selected factors of the investment climate and identify the determinants of foreign direct investment in Kazakhstan (the results are presented in the second and fourth chapters). As the determinants of FDI are derived from the locational factors of the host country, the results of own research were preceded by a presentation of Kazakhstan as an FDI location and Kazakhstan's place in the world competitiveness rankings.

For the second area, the following research objectives were adopted:

- Characterizing the investment climate in Kazakhstan and identify potential areas for expanding investment;
- Exploring the determinants of FDI in Kazakhstan, including economic, legal, infrastructural, and other location factors that influence foreign investors' decisions;
- Proposing directions for state policy to stimulate and regulate FDI, aimed at improving national competitiveness and the competitiveness of export-oriented sectors of the Kazakhstan economy;

The following sources were used to identify the investment climate: UNCTAD, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, International Monetary Fund, World Bank, Bureau of National Statistics of Kazakhstan, The World Competitiveness Center of the International Institute for Management Development, World Economic Forum, Transparency International, The Heritage Foundation and The Wall Street Journal, Legatum Institute, OECD.

In order to achieve the objectives of the second research area, a quantitative study was conducted using postal and online survey methods. The research tool used was a standardized survey questionnaire (Appendix 2). The use of the questionnaire method was necessary to

collect primary data. The survey covered the population of the 100 largest foreign direct investors in Kazakhstan (Appendix 1). FDI investors consisted various industries such as oil and gas, finance/banking, metallurgy/mining, technology/electronics, consulting/audit, telecommunications, building materials/construction, pharmaceuticals, and retail/food production. The oil and gas sector accounts for the largest percentage of foreign direct investments, followed by finance/banking and metallurgy/mining. This highlights the strategic importance of these industries to Kazakhstan's economy.

The study commenced in September 2022, initiating with the distribution of the first questionnaire to the hundred largest firms investing in Kazakhstan's economy. The research questionnaire was accompanied by a cover letter (Appendix 3). Subsequently, the second mailing occurred in January 2023. It was then determined that the questionnaire would be sent via postal mail to the twenty largest investors that are members of the Council of Investors under the President of the Republic of Kazakhstan.

In February 2023, an initiative was taken to contact Kazakh Invest for an internship opportunity, accompanied by a questionnaire. Unfortunately, the response was unclear. Following this, an attempt was made to contact the Foreign Investment Committee at the Ministry of Foreign Affairs of Kazakhstan to explore internship possibilities, but this effort also did not yield a definitive outcome. Subsequently, in March, there was an effort to undertake a traineeship at the EU Delegation to Kazakhstan, specifically within the trade section, though this too did not result in a clear pathway forward.

### The third research area

The third research area of this study embarks on an empirical examination of the impact of foreign direct investment on the economic growth in Kazakhstan as measured by GDP per capita (results are presented in the fifth chapter). This segment is a blend of literature review and original econometric modelling, aiming to deepen the understanding of FDI's role in Kazakhstan's economic growth.

The objective of the third research area was to identify and evaluate the impact of FDI on economic growth in Kazakhstan.

The methodology employed in this study involves constructing econometric models to analyse the impact of FDI on the GDP per capita of Kazakhstan. It has been utilized polynomial trend models (linear, quadratic, and cubic) to capture the dynamic changes over time and assess the relationship between time and FDI inward stock. The models were estimated using ordinary least squares (OLS) regression, with each model's appropriateness evaluated by comparing

residual variances and using the F-Fisher test to select the optimal degree of polynomial based on statistical significance. Additionally, autoregressive models (AR) of varying orders were implemented to account for potential autocorrelation in the data, allowing for the inclusion of lagged values of both FDI and GDP per capita. Model robustness was verified through several diagnostic tests, including the CUSUM test for parameter stability, White's test for heteroskedasticity, and tests for normality of residuals and autocorrelation. The final selection of models was determined based on their ability to minimize residuals and provide statistically significant coefficients, ensuring the integrity and reliability of the findings.

It should be noted that, precise assessment of the direct effects of capital inflows and foreign investments on the host country's economy (including balance sheet benefits and disadvantages) is not possible. This fact remains unchanged by development or the use of quantitative methods, which enable increasingly accurate estimations of the parameters of econometric models. There are straightforward reasons why the results of assessing relationships must be interpreted with great caution. The cause and effect between the level of direct foreign investments (the explanatory variable) and parameters determining the level of growth of the host country (the explained variable), such as GDP or GDP per capita, are influenced by hundreds of factors, both measurable and immeasurable. Even incorporating other potentially significant factors (using multifactor models) in the impact assessment does not alter the situation, especially considering the autocorrelation between the variability of direct investment values and the variability of the aforementioned aggregates. On one hand, FDI influences economic growth, and on the other, economic growth is a crucial factor that influences the choice of a country for investments, thereby affecting the value of incoming capital in the form of FDI (Karaszewski, Jaworek, & Siemińska, 2016, p. 26).

This section of the research highlights the nuanced impact of FDI on Kazakhstan's economic growth, emphasizing the need for careful interpretation of econometric results and further investigation into the factors influencing the effectiveness of FDI. The findings contribute to a deeper understanding of how FDI interacts with local economic conditions to influence growth, laying the groundwork for policy recommendations aimed at enhancing Kazakhstan's attractiveness to foreign investors and leveraging FDI for sustainable economic development.

## Hypotheses

The research directions to achieve the adopted objectives for the three research areas of study determined the following hypotheses:

$H_1$: The significant increase in interest in Kazakhstan as a destination for FDI from 1993 to 2022 was primarily due to its natural resource wealth, with the mining sector consistently maintaining a dominant share of inward FDI.

$H_2$: The influx of inward FDI correlates with an improvement in GDP per capita and a gradual increase in the country's outward FDI, indicating a movement from Stage 1 to Stage 2 of the Investment Development Path.

$H_3$: Market size, political stability, economic policies, and the presence of natural resources are key determinants that significantly influence the decision of foreign investors to allocate capital to Kazakhstan

$H_4$: There is a significant positive relationship between FDI inflows and economic growth in Kazakhstan.

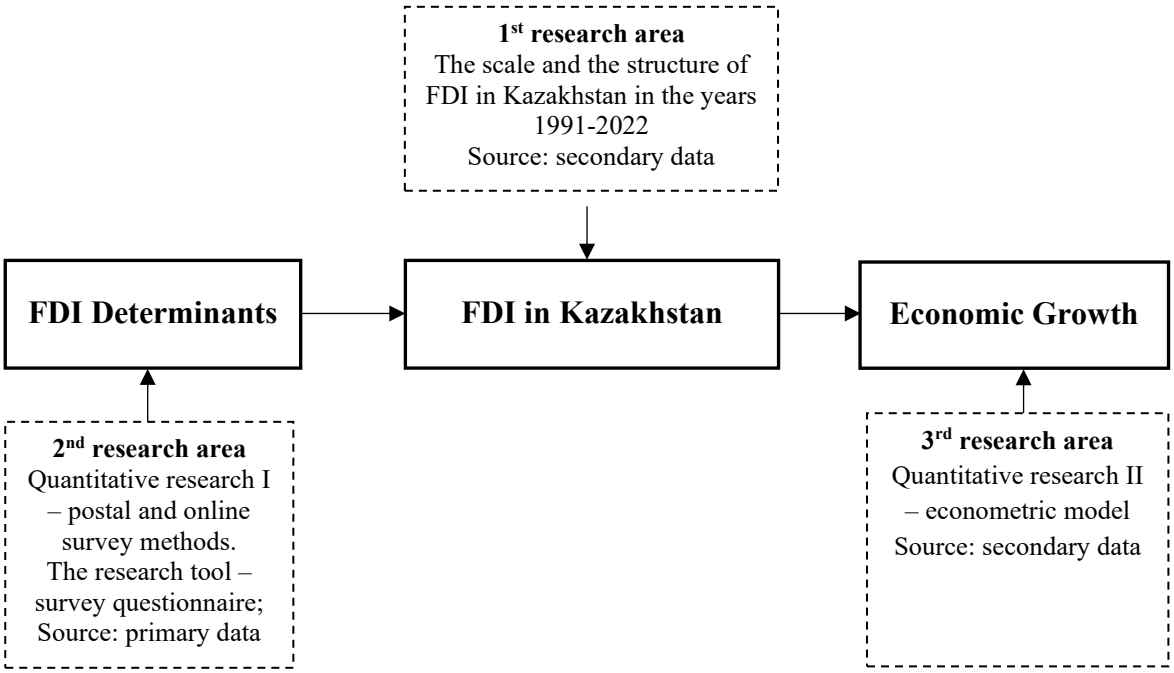
## Conceptual framework

Conceptual framework presented in figure M.1., outlines a structure for a research study that explores the relationship between FDI determinants, FDI in Kazakhstan, and economic growth. The framework starts by considering the various factors that determine FDI. At the centre of the framework is FDI in Kazakhstan, which is presented as a link between its determinants and economic growth. The framework suggests that FDI in Kazakhstan influences economic growth.

As indicated above, the research was divided into three areas:

1. The first research area involves secondary data to analyze the scale and structure of FDI in Kazakhstan over the years.
2. The second research area is described as quantitative research using postal and online survey methods, relying on primary data collected through survey questionnaires.
3. The third research area is also quantitative but uses econometric models based on secondary data.

**Figure M.1.** Conceptual framework




**Source:** done by the author.

The conceptual framework presented in figure M.1. became the basis for determining the scope of the research, the results of which are described in this dissertation.

The results of the study and the conclusions drawn based on them show the signs of scientific and practical novelty:

1. Demonstrate, on the basis of statistical analysis, a direct relationship between FDI inflows and economic growth in Kazakhstan;
2. Identify a set of measures to increase the investment attractiveness of the country, taking into account the need to attract capital to industry, ensuring an increase in the competitiveness of the national economy of Kazakhstan.
3. The materials and conclusions of the study can be used in the work of state departments and in the teaching of economic disciplines in the field of investment activities.

# Chapter 1. Foreign direct investment – theoretical aspects

## 1.1. Foreign direct investment – the essence, definitions and legal forms

Foreign direct investment plays a key role in the global economy, facilitating the movement of capital, technology, and knowledge across borders. FDI refers to the investment made by a company or an individual from one country (the home country) into another country (the host country) with the aim of establishing or acquiring a lasting interest in an enterprise operating in the host country (UNCTAD, 2021).

Perceiving FDI as an important element of international economic integration, the OECD recognized in the early 1980s that reliable FDI statistics were essential. At the same time, it was pointed out that the then reporting models did not take into account the changes taking place along with the evolution of multinational enterprises, the efforts of these companies to optimize structures by building capital groups (offshore) and the complexity of financing by tax jurisdictions, etc. As a result, in 1983 the OECD adopted a new "model" definition of foreign direct investment, which is a set of rules, the aim of which was to improve the statistics of these investments. However, it turned out to be insufficient in the face of further dynamic changes in the financial structures of international enterprises, which are a response to the challenges of an increasingly globalized market, and at the same time a factor deepening the globalization process. In order to adapt statistical measures to the changing realities, in 2008 the OECD adopted the 4th edition of the "model" definition of FDI. It includes e.g., distinguishing financial flows through special purpose entities in order to reduce the so-called round tripping investments (UNECE, 2021).

The fourth edition was produced as a result of the work of the Working Group on International Investment Statistics. It was conducted on behalf of the OECD Investment Committee (OECD, 2008, p. 3).

According to the definition: FDI reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise

resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence while on the other hand, an investor may own less than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries (OECD, 2008, pp. 48-49).

Direct investment includes the initial equity financial transaction that meets the 10% threshold and all subsequent transactions and positions between the direct investor and the direct investment enterprise, as well as qualifying FDI transactions and positions between incorporated and unincorporated fellow enterprises included under the Framework for Direct Investment Relationships (FDIR). Direct investment is not solely limited to equity investment but also relates to reinvested earnings and inter-company debt (OECD, 2008, p. 49).

The Framework for Direct Investment Relationships is a generalized methodology for identifying and determining the extent and type of direct investment relationships. In other words, the FDIR allows compilers to determine the population of direct investors and direct investment enterprises to be included in FDI statistics. For a compiling economy, the FDIR identifies all enterprises related to a particular enterprise whether it is a direct investor or a direct investment enterprise or both[1].

Direct investment includes inward and outward financial transactions/positions between directly and indirectly owned incorporated and unincorporated enterprises. As mentioned above, the extent of the direct investment relationship is determined according to the FDIR. Some relationships may exist between enterprises which may exhibit the characteristics of direct investment even though there are no links which qualify as direct investment. Such borderline cases should not be treated as direct investment (OECD, 2008, p. 49).

Direct investment enterprises can take many different legal forms but they are all corporations (incorporated enterprises) or quasi-corporations (unincorporated enterprises operating separately from their owners and that have, or for which it is possible or meaningful to construct, a separate set of financial accounts). A direct investment enterprise is either a subsidiary (a controlled enterprise if it is more than 50% owned by its immediate direct

[1] For example, within a group, it is possible that a direct investment enterprise itself owns 10% or more of the voting power of another non-resident enterprise, in which case the direct investment enterprise is itself a direct investor in a further direct investment enterprise. The question is therefore whether there is a direct investment relationship between the further enterprise and the original enterprise (OECD, 2008, p. 50).

investor), an associate (an influenced enterprise if it is owned between 10 and 50% by its immediate direct investor) or a branch (a quasi-corporation). Moreover, enterprises that have no direct investment influence upon one another (i.e., the 10% voting power criterion is not met where there is either no equity ownership in one another or it is insufficient for direct investment to exist) but are directly or indirectly influenced in the ownership hierarchy by the same enterprise (which must be a direct investor in at least one of them) are fellow enterprises (OECD, 2008, p. 23).

Apart from the inclusion of small (less than 10%) equity investment, loans or other debt between fellow enterprises identified through the FDIR are also included in FDI statistics even if such enterprises are not related to each other by FDI equity investment i.e., where there is less than 10% ownership of the voting power but where they are related by having a common parent. In practice all transactions/positions between fellow enterprises relate to the funds circulating within multinational groups via shared service centres (e.g. providing treasury or cash pooling facilities) or to take advantage of the best financing opportunities. They may also represent round-tripping of capital. These funds may result in large amounts of FDI if recorded purely as assets/liabilities while the same funds circulate within the same group of enterprises (i.e. representing an overstatement of the FDI-other capital component). On the other hand, recording these transactions/positions according to the directional principle is based on the categorization in the compiling economy of the relevant enterprises' ultimate controlling parent (UCP) as resident' or non-resident. Identifying whether the UCP is a resident or not determines the direction of direct or indirect FDI influence or control (OECD, 2008, p. 24).

FDI stands out among various forms of international capital flows due to its dual motives of income and control. While generating income is typically the primary objective of any investment endeavour, the distinct characteristic of FDI lies in the controlling motive, which involves the active involvement of the investor in managing the direct investment entity. This aspect sets FDI apart from other types of investment activities and is emphasized in most definitions of FDI. Furthermore, discussing investments also highlights the unique risks associated with them, particularly the inherent uncertainty of investing capital in foreign markets, which are typically less familiar to the investor compared to their domestic market (OECD, 2008, p. 25).

## 1.2. Establishment mode choice (greenfield vs. acquisition)

When engaging in FDI, enterprises have the choice between two primary modes of establishment: greenfield investments and acquisitions. Greenfield investments involve the establishment of new facilities or the expansion of existing ones in the host country. Acquisitions, on the other hand, entail purchasing an existing enterprise in the host country (Dikova & Witteloostuijn, 2007).

The choice between greenfield investments and acquisitions depends on various factors, including market conditions, strategic objectives, and resource availability. Greenfield investments offer enterprises the opportunity to build operations tailored to the specific needs of the host country, but they require significant upfront investments and involve higher risks. Acquisitions provide enterprises with immediate access to existing resources and market share, but they may face challenges related to cultural integration and post-acquisition management (Dunning & Lundan, 2008, pp. 79-115).

**Table 1.1.** Advantages and disadvantages of the greenfield investments and acquisitions

| **Greenfield investments** | |
|---|---|
| **Advantages** | **Disadvantages** |
| 1. CUSTOMIZATION: Greenfield investments allow companies to build new facilities from scratch, tailored to their specific needs and preferences. This provides the opportunity to design and implement operations that align with their strategic objectives and requirements.<br>2. CONTROL: By starting fresh, companies have full control over the entire investment process, from site selection to facility design, technology adoption, and hiring practices. This control enables them to maintain full ownership and make decisions in line with their long-term vision.<br>3. KNOWLEDGE TRANSFER: Greenfield investments often involve the transfer of knowledge, skills, and technology from the home country to the host country. This knowledge transfer can lead to the development of local capabilities, workforce upskilling, and the creation of a knowledge-sharing ecosystem.<br>4. BRAND IMAGE: Building a new facility in the host country can enhance the company's brand image and reputation. It demonstrates a long-term commitment to the local market and can foster positive relationships with stakeholders, including customers, suppliers, and the host country's government. | 1. TIME AND COSTS: Greenfield investments require significant time and financial resources. Companies need to invest in land acquisition, construction, infrastructure development, obtaining permits and licenses, and hiring and training employees. The upfront costs can be substantial and may take time to recover.<br>2. MARKET ENTRY BARRIERS: Greenfield investments may face challenges related to market entry barriers, including local regulations, bureaucratic procedures, and cultural differences. Navigating these barriers can be time-consuming and complex, requiring a deep understanding of the local business environment.<br>3. UNCERTAINTY: Since greenfield investments involve entering a new market with no existing customer base, there is inherent uncertainty regarding market demand and potential risks. Companies may face challenges in accurately assessing market conditions and projecting future performance, which adds an element of risk to the investment. |
| **Acquisitions** | |
| **Advantages** | **Disadvantages** |
| 1. ESTABLISHED PRESENCE: Acquiring an existing company provides an immediate presence in the host country's market. Companies can benefit | 1. CULTURAL INTEGRATION: Acquisitions often involve merging two different organizational cultures, which can present challenges. |

| | |
|---|---|
| from the acquired company's existing customer base, distribution networks, brand reputation, and established relationships with suppliers and stakeholders.<br>2. SYNERGIES: Acquisitions can create synergistic effects by combining the strengths and resources of both the acquiring and acquired companies. This can lead to cost savings, increased operational efficiency, and expanded market reach.<br>3. FASTER MARKET ENTRY: Acquisitions offer a faster entry into the host country's market compared to building from scratch. This can be advantageous when companies want to capitalize on time-sensitive opportunities or gain a competitive advantage by quickly establishing a presence. | Integrating the acquired company's workforce, management practices, and corporate values with those of the acquiring company requires careful planning and effective change management.<br>2. HIDDEN LIABILITIES: Acquiring an existing company may come with hidden liabilities, such as undisclosed debts, legal issues, or poor financial performance. Thorough due diligence is essential to identify and assess these potential risks before completing the acquisition.<br>3. LOSS OF AUTONOMY: Acquired companies may experience a loss of autonomy as they become part of a larger organization. This can lead to resistance or conflicts if the acquired company's employees and management feel that their decision-making authority and entrepreneurial spirit are constrained by the acquiring company's policies and procedures. |

**Source:** (Jaworek & Szałucka, 2010, pp. 179-192)**.**

It is important to note that the advantages and disadvantages of greenfield investments and acquisitions can vary depending on the specific circumstances, industry dynamics, and the strategic goals of the investing company. Careful evaluation of these factors is necessary to determine the most appropriate mode of establishment for a foreign direct investment.

## 1.3. Determinants of FDI

The attractiveness of a country for foreign direct investment is determined by a wide variety of factors, referred to as FDI location factors. Those among them that build a favourable investment climate are indicators of a host country's potential and are called its locational advantages. These advantages, along with internal factors that influence FDI location decisions (e.g. the adopted corporate strategy or personal motivations of managers). Their issues were the subject of inquiry, to which a considerable part of the empirical considerations was devoted. In this study, FDI location factors were grouped according to three categories: natural factors, instances-legal and other factors affecting the conduct of business, and economic factors, using the proposal of J.H. Dunning, popularized by the United Nations Conference on Trade and Development (Dunning, 2006).

**Table 1.2.** Classification of FDI location factors

<table>
<tr><td colspan="4">NATURAL FACTORS</td></tr>
<tr><td colspan="4">– geographical location<br>– the presence of natural resources<br>– the risk of natural disasters<br>– climate</td></tr>
<tr><td colspan="4">INSTITUTIONAL AND LEGAL FACTORS AND OTHER FACTORS AFFECTING RUNNING A BUSINESS</td></tr>
<tr><td colspan="4">– economic stability<br>– political stability<br>– social stability<br>– stability of legal regulations<br>– the tax system<br>– customs policy<br>– labour law regulations<br>– business registration process<br>– restrictions on economic activity of foreigners<br>– incentives for foreign investors<br>– corruption<br>– powers of trade unions<br>– quality and efficiency of service in offices<br>– bureaucracy</td></tr>
<tr><td colspan="4">ECONOMIC FACTORS</td></tr>
<tr><td>Market seeking</td><td>Resource seeking</td><td>Efficiency seeking</td><td>Strategic seeking</td></tr>
<tr><td>– market size<br>– market absorption<br>– market growth prospects<br>– prospects for economic growth<br>– proximity to existing markets<br>– market competition</td><td>– availability of employees with appropriate qualifications<br>– availability of materials, semi-finished products (ancillary services)<br>– the possibility of acquiring strategic assets (modern technologies, distribution channels)<br>– condition of transport and energy - telecommunications infrastructure<br>– fuller use of available resources<br>– access to research and development centres<br>– the existence of special economic zones<br>– possibility of cooperation with local enterprises<br>– proximity to a key partner<br>– tourist attractiveness</td><td>– natural resource prices<br>– prices of materials, semi-finished products (ancillary services)<br>– labour resource prices<br>– energy prices<br>– real estate prices<br>– benefits resulting from the replacement of exports with production in the host country</td><td>– quality of technological, managerial and other assets<br>– physical infrastructure (ports, roads, power grids, telecommunications)<br>– mindset of the institutions, policies oriented towards economic growth/development</td></tr>
</table>

**Source:** (Dunning, 2006).

Among the natural factors influencing decisions regarding the choice of a host country are geographical location, the presence of natural resources, the threat of natural disasters, and the prevailing climate in the area. The group of institutional-legal factors, primarily concerning legal regulations and rules of entry and operations in the host country, highlights the stability of the host country in the broadest sense. This includes the stability of legal, economic, political, and social regulations. Considerations such as the tax system, customs policy, labour regulations, restrictions on the economic activities of foreigners (e.g., on the acquisition of real estate), the level of corruption, and the quality and efficiency of service in offices were taken into account. The third category, describing economic conditions, was divided into market factors (among them, the size of the market and its growth prospects), resource factors (the availability of workers with the appropriate skills, the availability of materials and semi-finished products, the potential for acquiring strategic assets, the state of the transport, telecommunications, and energy infrastructure, the possibility of cooperation with local companies, the proximity to a key collaborator, and tourist attractiveness), and efficiency factors (the cost of resources, the availability of materials and semi-finished products, the opportunity to acquire strategic assets, the state of the transport, telecommunications, and energy infrastructure, the potential for cooperation with local companies, the proximity to a key collaborator, and tourist attractiveness) (Table 1.2.).

The issue of FDI location factors is an important area of scientific inquiry, but it should be noted that most of the studies in this area contain mainly the results of empirical research, which is an attempt to identify the relationships occurring between the macroeconomic variables of a given economy and the inflow of FDI (Blonigen, 2005, p. 838).

However, only a relatively small number of studies provide information obtained directly from foreign investors e.g. (Nukusheva, 2020; Zainal & Iztayeva, 2019; Sadvakassov, 2015; Rakhmatullayeva, 2020). Additionally, it is challenging to identify location factors that serve as universal determinants of investment decisions. This challenge arises because the impact of these factors depends on several determinants. Among these, key motives driving foreign investors can be distinguished (such as market access, resource availability, or efficiency gains), the corporate strategy employed (whether it's international, multinational, global, or transnational), the type of investment made (whether it's a new investment or a sequential one), the sector of investment (industrial or services), and the size of the investor (whether it's a small, medium, or large enterprise) (Jaworek, Czaplewski, Kuczmarska, & Kuzel, 2016).

Numerous studies conducted in the 1960s and 1970s, involving foreign investors, identified crucial determinants of FDI location, such as: market size, labour costs and skills,

political stability, access to natural resources, trade policies and barriers, infrastructure quality, regulatory environment. Among these determinants, two economic factors stood out: the size of the market and its growth prospects. Some scientific research also underscored the significance of other economic factors, including lower labour costs and the availability of skilled employees, as well as non-economic factors such as natural conditions and policies offering financial incentives to foreign investors. Subsequent studies, primarily employing quantitative methods, revealed that factors such as economic openness, economic and political stability in the host country, infrastructure quality, the tax system, and exchange rates also exert a significant influence on the decision regarding FDI location (Faeth, 2009).

Economic determinants play a significant role in shaping FDI flows. Market size and potential profitability of the host country's market, resource availability, cost considerations, and trade policies are key economic factors that influence FDI decisions (Kumari & Sharma, 2017).

Equally important are efforts aimed at improving the qualifications of the local labour force and enhancing the condition of national infrastructure (Kinda, 2009). The inflow of foreign capital, driven primarily by geographic location, significantly impacts local socio-economic development through benefits like employment and market competitiveness. This capital inflow is consistently motivated by the acquisition of new markets, access to low-cost labour, and economic growth prospects, indicating enduring investment themes regardless of economic conditions (Lizińska, 2017).

It should be emphasized that certain FDI location factors are intrinsic to host countries and are not easily altered to align with the preferences of foreign investors, or they can only be adjusted to a limited extent. These factors primarily include natural elements such as geographical location, the presence of natural resources, climate, and susceptibility to natural disasters, as well as some economic factors like market size and absorptive capacity, and proximity to existing markets (Ramirez-Aleson & Fleta-Asín, 2016).

From the perspective of a country seeking foreign direct investment, whether or not it possesses inherent locational advantages, the factors that can be influenced by the host country's government to create a favourable and competitive investment climate hold particular significance. Paramount among these factors are initiatives aimed at enhancing overall stability within the host country, which forms the foundation for cultivating a favourable business environment (Roy & Narayanan, 2018).

Creating an investment-friendly climate that caters to the needs of foreign investors is undeniably a significant challenge for countries with lower levels of economic development,

which typically grapple with substantial deficits in this regard. As emphasized by B.A. Blonigen, at least three primary reasons for the substantial influence of these factors on foreign investors' decisions can be identified. Firstly, the prevailing legal regulations in the host country, which fail to offer adequate protection for the investor's assets, diminish the likelihood of investment. Secondly, the low quality and efficiency of administrative services, coupled with high levels of corruption, inflate the cost of doing business. Thirdly, unfavourable institutional and legal frameworks, often stemming from inept economic management, tend to be accompanied by additional impediments to conducting business, such as underdeveloped road and telecommunications infrastructure. Importantly, the repercussions of unfavourable institutional and legal regulations, along with other business-related factors, are not solely experienced by foreign investors, as similar regulations and standards typically apply to domestic entities as well (Blonigen, 2005).

Based on an analysis of the research findings presented in 97 scientific articles addressing the institutional factors of FDI location, N. Bailey (2018) highlights the primary incentives and disincentives affecting the inflow of capital in this manner. The foremost incentives encompass political stability, a democratic system, and transparent legal regulations that facilitate business operations. Conversely, the most significant institutional disincentives are identified as corruption, an unfavourable tax system, and substantial cultural differences.

It is evident that one of the most significant challenges for developing countries lies in combating deeply entrenched corruption. A high level of corruption substantially diminishes the inflow of FDI, leading to increased costs of doing business within a particular country and elevating the level of social risk associated with investments. High corruption levels are especially detrimental in the eyes of investors from highly developed countries, as they significantly impede business operations within a given region. Conversely, companies from developing countries, often characterized by corruption levels similar to those in the host country, hold a different perspective. For them, corruption is typically viewed as a neutral or even stimulating factor for FDI (Cuervo-Cazurra, 2006).

Numerous scholarly studies also highlight the influence of institutional, legal, and other factors on the quality of business operations, which subsequently impact decisions regarding the mode of entry into the host country (solo venture vs. joint venture). The significance of investment risk escalates in countries where the institutional and legal environment functions defectively (Demirbag, McGuinness, & Altay, 2010). In such scenarios, many enterprises, aiming to mitigate the risks associated with investments, opt to enter the host country by

establishing partnerships with local partners who possess a deep understanding of the local business landscape (Brouthers, 2002).

Political factors, such as government regulations, stability, and investment incentives, also play a critical role in attracting FDI. A favourable investment climate, characterized by transparent regulations, political stability, and protection of property rights, can encourage foreign investors to choose a particular host country (Globerman & Shapiro, 2003).

Social factors, including cultural similarities, labour market conditions, and infrastructure development, can also influence FDI decisions. Cultural proximity between the home and host countries can facilitate business relationships and reduce transaction costs (Globerman & Shapiro, 2003). Additionally, the availability of skilled labour, adequate infrastructure, and technological capabilities can be attractive factors for foreign investors (Globerman & Shapiro, 2003).

Understanding the determinants of FDI is crucial for policymakers and investors seeking to attract foreign investment. The decision to engage in FDI is influenced by a wide range of factors, including economic, political, and social considerations.

## 1.4. Behavioural aspects of FDI

Foreign direct investment remains a pivotal element in the global economic landscape, enabling companies to expand beyond their domestic markets and tap into new opportunities abroad. As outlined above, the motives behind FDI are varied and complex. They can be classified in a variety of ways. A different classification of FDI motives than that suggested by J.H. Dunning was indicated by Albaum et al. (2002). The authors divide them into four distinct groups: reactive extrinsic, reactive intrinsic, proactive extrinsic and proactive intrinsic, the last of which is mainly driven by managerial ambition. While the first three motives often align with the goal of maximizing shareholder wealth, managerial motives can sometimes conflict with this objective. This chapter identifies some elements of the application of behavioural theory to FDI decision-making, highlighting how managers' bounded rationality and personal goals influence these decisions (Jaworek, Karaszewski, & Szałucka, 2018, p. 21).

Behavioural theory suggests a departure from the notion of complete rationality in decision-making. Instead, it proposes that decisions in the context of FDI can be better understood through the lens of bounded rationality (Cyert & March, 1963). Bounded rationality acknowledges that decision-makers operate with limited information, cognitive biases, and are

influenced by their personal goals and experiences (Aharoni, 1966). This perspective is further supported by subsequent scholars (Jensen & Meckling, 1976; Buckley A., 2002; Eun & Resnick, 2012), who argue that managerial attitudes play a significant role in the rationale behind FDI.

Managerial motives for FDI, characterized by personal ambitions and experiences, can sometimes diverge from the overarching corporate objective of shareholder wealth maximization. These motives are reflected in the behavioural decisions that may lead managers to favour investments that align with their personal interests or risk preferences, even if these choices do not maximize firm value (Jaworek, 2013). Behavioural economics approaches to FDI, such as those discussed by (Hosseini, 2005) and (Pinheiro-Alves, 2011), provide evidence of heuristics and biases, including herding, anchoring, and mental accounting, influencing FDI location decisions.

The integration of behavioural theories into the FDI decision-making process offers a more nuanced understanding of how decisions are made in the face of uncertainty and complexity. Behavioural economics and decision theories not only challenge the classical decision-making paradigm but also offer insights into overcoming biases and improving decision-making outcomes in the context of FDI (Arnott & Gao, 2019; Takemura, 2020).

The behavioural theory of FDI decision-making provides a comprehensive framework for understanding the complex interplay between economic factors, institutional and legal frameworks, and individual behavioural biases. By acknowledging the influence of bounded rationality and managerial motives, this theory offers valuable insights for both researchers and practitioners seeking to navigate the intricacies of international investment strategies.

## 1.5. Selected theories of foreign direct investment

### Product life cycle theory

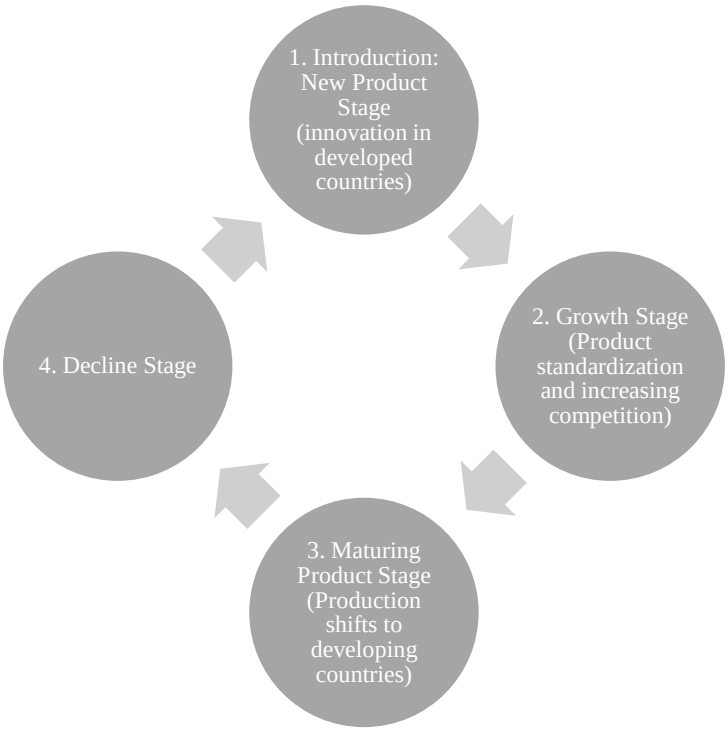
The product life cycle theory, developed by R. Vernon in 1966, offers a framework that explains the temporal movement of production in response to the stages of a product's life cycle. This part examines the product life cycle theory's application to foreign direct investment, detailing its foundational concepts, subsequent empirical validations, and contemporary critiques. R. Vernon introduced the product life cycle theory to describe how production locations for new products shift internationally over time. Originally detailed in his seminal paper, Vernon argued

that product stages dictate where firms choose to produce goods, influenced primarily by cost considerations, market maturity, and competitive positioning (Vernon, 1966).

Figure 1.1. represents the product life cycle theory which outlines four distinct stages through which a product typically progresses:

1. Introduction Stage: this initial phase involves the product's launch into the market. Sales grow slowly as the product is introduced, and production is typically localized to the innovating firm's home country. High costs and low volumes are characteristic of this stage due to significant investment in research and development as well as marketing.
2. Growth Stage: as the product gains acceptance and proves its viability, sales begin to rise rapidly. This stage often sees the beginning of international production and export to foreign markets as firms seek to capitalize on lower production costs and new market opportunities.
3. Maturity Stage: the product's market growth starts to slow down as it saturates its potential markets. During this stage, production may be increasingly globalized to optimize costs, and competition becomes more intense as similar products appear in the market.
4. Decline Stage: eventually, the product faces a decline in sales and profits as newer technologies, changing consumer preferences, or more innovative products replace it. Firms may need to consider withdrawing the product from the market or innovating to rejuvenate its market presence.

**Figure 1.1.** Product life cycle theory stages




**Source:** Done by the author based on: (Vernon, 1966).

Several studies have tested and expanded upon Vernon's original model. For instance, Klepper (1996) explores how the maturation of industries affects their geographic dispersion and FDI patterns, providing a direct link between industrial lifecycle stages and international investment decisions. Furthermore, Brewer (1993) investigates the predictive power of the product life cycle theory model in the context of evolving global trade patterns, suggesting modifications to incorporate trade barrier considerations and economic integration effects.

The relevance of the product life cycle theory in the modern economic landscape is both affirmed and criticized. McDougall & Oviatt (2000) argue that technological advances and the rise of digital markets necessitate an updated framework that accounts for the non-linear and accelerated life cycles of digital products. They propose an integrative approach that considers rapid innovation and the global scale of digital markets from inception. Critiques such as those from Kotabe & Swan (1995) suggest that the traditional product life cycle theory model may not adequately address the complexities of strategic alliances and global network structures in high-tech industries, where product life cycles are significantly shortened.

The product life cycle theory remains a foundational model for understanding FDI patterns related to product maturity. Despite critiques and calls for updates to reflect new technological and economic realities, the theory provides valuable insights into the strategic decision-making processes of multinational corporations. This analysis underscores the

dynamic interplay between product development, international market entry, and global production strategies.

## Theory of ownership advantage

The concept of ownership advantage was prominently introduced by J.H. Dunning in his Eclectic Paradigm, or OLI framework, which posits that for firms to engage in FDI successfully, they must possess ownership, location, and internalization advantages. Ownership advantage is a core concept in the field of international business, serving as a fundamental pillar in explaining why and how firms engage in FDI. The ownership advantage specifically refers to the firm-specific assets that provide competitive edge overseas (Dunning, 1980).

Ownership advantages are proprietary assets that firms leverage to compete in foreign markets. These can include technology, patents, trademarks, organizational skills, and brand reputation. Dunning argued that these advantages not only need to be firm-specific but also transferable across borders to offset the costs and risks associated with operating in foreign environments (Dunning, 1988).

Empirical validations of the ownership advantage theory have shown its applicability across various contexts and geographies. For instance, studies like those by Rugman & Verbeke (2004) have explored how firm-specific advantages are utilized by multinational enterprises from developed markets to maintain competitive positions globally. Meanwhile, researchers like Luo & Tung (2007) have focused on how emerging market multinationals leverage unique ownership advantages to compete internationally. The analysis of advantages held by enterprises has become the subject of research by many scientists, among whom was S.H. Hymer. In his research, the author utilized, among other sources, research results on barriers to entry into the industrial market of the United States of America presented by J.S. Bain (table 1.3.), connecting them with the motives for undertaking FDI. The author pointed out that the advantages that an enterprise has in relation to entities in its own country may be completely different from its advantages in relation to enterprises in another country.

**Table 1.3.** Circumstances influencing enterprises to gain advantages according to J.S. Bain

| Category | Circumstances | Details |
|---|---|---|
| ABSOLUTE COST ADVANTAGE | Control of production techniques | Established companies control production techniques through patents or secrecy, excluding new entrants or imposing discriminatory license fees. |
| | Imperfections in factor markets | Existing businesses benefit from lower purchase prices due to imperfections in factor markets or control of strategic inputs, disadvantaging new entrants. |
| | Constraints on supply of production factors | Supply constraints in markets relative to the needs of efficient entrants can raise prices for production factors for new entrants. |
| | Money market conditions | Established companies face lower interest rates than potential entrants, benefiting from the absolute capital requirement differences. |
| BENEFITS FROM PRODUCT DIFFERENTIATION | Buyers' cumulative preference | Established brands and reputations enjoy a cumulative preference among buyers, excluding small minorities. |
| | Control of superior product designs | Control over superior product designs through patents by established companies can exclude new entrants or force discriminatory licensing fees. |
| | Control of ownership or contracts | Established companies' control or contracts over preferred outlets can limit new entrants' access to markets. |
| DISCOURAGING ENTRY | Benefits of large-scale production and distribution | The real benefits of large-scale operations mean the optimally operating entity supplies a significant market portion. |
| | Monetary economies of large-scale production | Similar effects arise from monetary economies, such as greater bargaining power of large buyers. |
| | Benefits from advertising or sales promotion | Both actual and strictly monetary benefits from extensive advertising or sales promotion discourage new entry by maintaining large enterprise advantages. |

**Source:** (Bain, 1956, pp. 15-16).

Moreover, S.H. Hymer pointed out that achieving higher profitability for a foreign entity results from having the advantages mentioned above, which include:

- technological advantages enabling the production of new products, the production of goods with more advantageous features, and incurring lower production costs;
- financial advantages resulting from the ability to use own capital resources and easier access to external financial sources, both in the location country and on the international credit and capital market;
- advantages in terms of management skills and the ability to use solutions employed in parent companies;
- marketing advantages;
- advantages related to the possibility of using cheaper production factors, a better information network, and more comprehensive support for managerial decisions.

S.H. Hymer assumed that multinational companies have an advantage if markets are imperfect, i.e., if there is a monopoly or oligopoly; then some form of collusion (e.g. a cartel) will be profitable. Ownership advantages can, therefore, be associated with a form of collusion that results in control of the parent company over other daughter companies.

While the ownership advantage theory has been widely accepted, it has not been without criticism. Critics argue that the theory may not fully account for the nuances of global digital markets where traditional assets like physical goods are less important than digital capabilities and data control (Awate, Larsen, & Mudambi, 2015). Additionally, the rise of global value chains has prompted a re-evaluation of what constitutes an ownership advantage, with more emphasis on collaborative competencies and network position (Kano, 2018).

The theory of ownership advantage remains a vital concept in understanding FDI, particularly in explaining the internationalization strategies of firms from both developed and emerging economies. As global business dynamics continue to evolve, so too will the interpretations and applications of this theory. The future of research in this area will likely focus on integrating digital transformation, sustainability, and global value chain considerations to better understand how firms can leverage their unique assets in the competitive global market.

### Location theory

Location theory in the context of FDI is a critical aspect of international business that explains why companies choose specific countries or regions for investment. This theory encompasses various factors ranging from economic, political, cultural, to geographic that influence the decision-making process of multinational corporations.

The location theory for FDI was not introduced by a single theorist but evolved from the broader field of economic geography and was later integrated into international business studies by scholars such as J.H. Dunning with his Eclectic Paradigm. Dunning incorporated location as a crucial factor alongside ownership and internalization advantages to explain the strategic deployment of FDI by firms (Dunning, 1980).

Location theory in FDI posits that firms choose locations based on a set of strategic determinants that optimize their operations and maximize their returns. These determinants include market size, labour costs, political stability, proximity to raw materials, and the regulatory environment. The theory also considers agglomeration economies, where firms benefit from the external economies of scale derived from clustering near related activities (Krajewska, 2020; Davidson, 1980).

Empirical research has significantly advanced our understanding of location theory. For instance, studies have shown that strategic linkages, both internal and external, significantly affect FDI location choices. Firms often consider existing networks and the presence of diasporas as critical factors in location decisions (Chen & Chen, 1998). Additionally,

behavioural economic analyses have incorporated non-economic factors such as cultural preferences and managerial biases into the location decision-making process, expanding the traditional economic models (Hui, 2009). Critiques of the traditional location theory argue that it often oversimplifies the complexity of FDI decisions and underestimates the role of dynamic capabilities[2] and firm-specific strategies[3]. The increasing importance of digital infrastructure and intellectual property has also shifted the focus from traditional factors like labour costs and physical proximity to raw materials. Modern interpretations of location theory emphasize the strategic role of political risk management, the search for innovation hubs, and access to technological competencies, reflecting the evolving priorities of global firms in a digital economy (Asmussen, Nielsen, & Weatherall, 2017).

Location theory remains a cornerstone of FDI research, providing essential insights into why firms internationalize and how they select their destinations. While foundational concepts continue to guide understanding, ongoing research and critique necessitate a broader view that accommodates emerging trends such as globalization, technological advancements, and geopolitical shifts. The theory's evolution mirrors the dynamic landscape of international business, underscoring the need for firms to adapt their strategies to complex and rapidly changing global market conditions.

### Internalization theory

Internalization theory is a base in the study of foreign direct investment and international business, explaining why firms prefer to internalize business activities rather than using the market, especially in the context of cross-border operations.

The theory of internalization was first broadly conceptualized by R.H. Coase (1937) in his seminal work on the nature of the firm, which addressed why firms exist and why they expand to minimize the costs of using market mechanisms. The international dimension was specifically developed by P.J. Buckley & M. Casson (1976), and further integrated into the field of international business by J.H. Dunning (1977) in his Eclectic Paradigm.

Internalization theory posits that firms engage in FDI to internalize imperfect market transactions that would otherwise be costly if coordinated via the market. This is particularly relevant for proprietary knowledge, technology, and brand names, where external market transactions could lead to potential losses or misappropriations (Rugman, 1980). Empirical

[2] Dynamic capabilities refer to a firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments.
[3] Firm-specific strategies are the unique approaches and decisions a company makes based on its specific resources, capabilities, and goals.

studies have tested and validated the internalization theory across different contexts and industries. For instance, A. Waheed (2008) found that FDI modes of expansion yield different returns compared to non-FDI modes, reinforcing the idea that internalized operations can protect firms from the risks of information leakage. The theory has been extended to consider not only traditional tangible assets but also the role of intangible assets like corporate reputation and strategic management practices in the internalization process (Buckley & Casson, 1998).

In the context of the internationalization process of Polish construction companies, empirical analysis has demonstrated how market, competition, cost, and legal factors play pivotal roles. These companies adapt and innovate, leveraging both internal and external determinants to enhance their global market position and compete more effectively in international markets. Such a perspective provides a practical application of internalization theory, showing how these firms internalize business activities to minimize reliance on external market mechanisms while enhancing competitive advantages in foreign markets (Posadzińska, 2012).

Critiques of internalization theory argue that it sometimes oversimplifies the complexities of global strategic decision-making and may not fully account for the dynamic capabilities of firms that adapt over time. Modern interpretations suggest integrating internalization theory with newer theories of global strategy, such as those addressing digital transformation and sustainability in international business (Chen S., 2005).

Internalization theory has significantly shaped the understanding of why firms choose to engage in FDI and how they manage their international operations. Despite critiques, it remains a robust framework to analyse the strategic behaviours of multinational enterprises. As international business continues to evolve with technological advances and global integration, internalization theory will continue to be vital in explaining the complexities of global market operations. This ongoing relevance underscores the adaptability and foundational importance of internalization theory in the study of FDI and international business strategy.

## Eclectic theory of J.H. Dunning

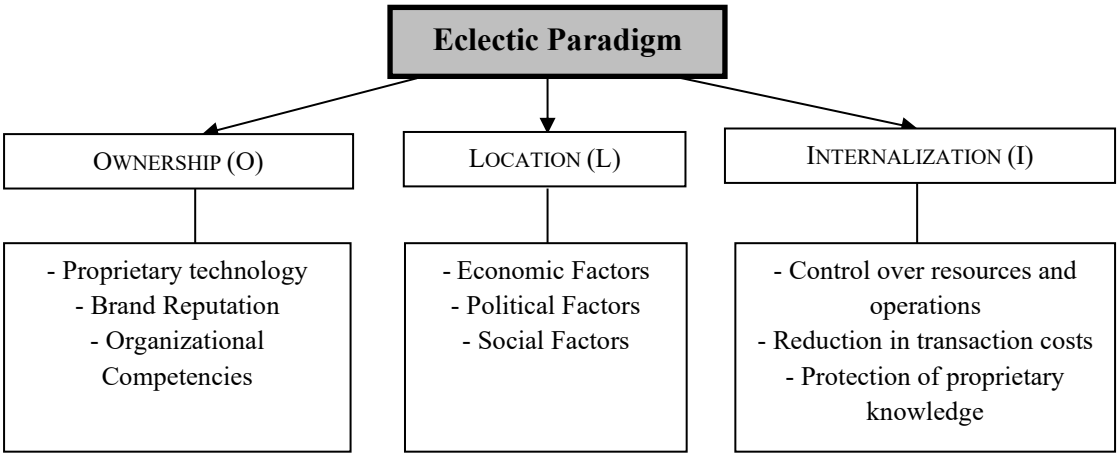
J.H. Dunning's Eclectic Paradigm, often referred to as the OLI Framework (Ownership, Location, Internalization), is a comprehensive model used to explain why companies engage in FDI. Introduced in the late 1970s, this theory combines various theoretical perspectives from international business, industrial organization, and trade theories to explain the motives and observed patterns of FDI.

J.H. Dunning, a leading economist in the field of international business, introduced the Eclectic Paradigm in 1977. His work initially aimed to provide a holistic framework that could explain the complexities of international production better than the existing theories at the time (Dunning, 1977).

Figure 1.2. shows the representation of the Eclectic Paradigm which integrates three core dimensions:

- Ownership Advantages (O): refer to the firm's specific assets that provide a competitive edge internationally;
- Location Advantages (L): refer to the features of a host country that make it an attractive destination for investment;
- Internalization Advantages (I): the benefits gained from controlling foreign business activities, rather than licensing or contracting them out to third parties.

**Figure 1.2.** Representation of J.H. Dunning's Eclectic Paradigm (the OLI Framework)




**Source:** done by the author based on: (Dunning, 1980).

These three components help explain why firms decide to invest abroad and choose specific locations and modes of entry (Dunning, 1980; Dunning, 1988).

Numerous studies have validated and extended Dunning's theory. For example, research on Chinese family enterprises has applied the OLI framework to understand how cultural and economic factors influence the internationalization of these firms (Erdener & Shapiro, 2005). The theory has been extended to address the dynamics of the digital economy and the global knowledge economy, which affect FDI flows in contemporary business environments (Brouthers, Brouthers, & Werner, 1996).

While Dunning's Eclectic Paradigm has been influential, it has also faced criticism for its complexity and the difficulty in empirically isolating the effects of O, L, and I advantage. Critics argue that the paradigm may not adequately capture the rapid changes in global business

practices, particularly in technology and digital services. Modern interpretations of the Eclectic Paradigm include integrating it with newer theories of global strategy and business models that reflect the rise of digital platforms and the service economy (Rugman, 2010).

J.H. Dunning's Eclectic Paradigm remains a foundational framework in international business studies, offering a versatile tool for understanding the motivations behind FDI. Despite its critiques, it continues to be relevant in analysing the strategies of multinational enterprises as they navigate the complexities of global markets. Future research and theoretical developments are likely to focus on adapting the paradigm to the evolving landscape of international trade, investment, and technological advancement, ensuring its continued relevance in the field of international business.

## Oligopolistic theory

Oligopolistic theory in FDI explains how firms in oligopolistic industries undertake international investment decisions influenced by competitive interdependencies. Introduced by S.H. Hymer and later developed by R. Vernon and J.H. Dunning, this theory provides understanding into the strategic behaviour of multinational enterprises competing in global markets.

The theory was primarily developed by S.H. Hymer in his 1960 Ph.D. dissertation, which was later published posthumously in 1976. Hymer's work laid the foundation for understanding how firms' strategies to control markets and combat competition extend beyond national borders (Hymer, 1976).

Oligopolistic theory posits that FDI is a strategic move driven by firms in oligopolistic industries to maintain or enhance their competitive position. Key concepts include:

- follow-the-leader behaviour: when firms often enter foreign markets following their competitors to mitigate risks and maintain competitive parity;
- cross-investment: to avoid outflanking, firms from the same home country invest in each other's markets;
- strategic asset seeking: firms invest in foreign markets to acquire strategic assets that enhance their competitiveness globally.

These behaviours reflect the interdependencies and competitive dynamics within oligopolistic markets, influencing firms' international strategies (Knickerbocker, 1973).

Empirical research has supported and extended oligopolistic theory by demonstrating how market structures and competitive dynamics influence FDI patterns. For instance, studies have

shown how automotive and pharmaceutical firms exhibit oligopolistic reactions by entering markets where key competitors have established operations (Graham, 1978).

Further theoretical extensions have incorporated elements of game theory to model the strategic interactions among oligopolistic firms, enhancing our understanding of FDI decisions in response to competitors' moves (Head, Mayer, & Ries, 2002).

While oligopolistic theory has been influential, it faces critiques for its focus on large firms and traditional industries, potentially overlooking the nuances of globalization and technological advancements. Critics argue that the theory may not fully capture the complexities of digital economies and the role of smaller, more agile firms. Modern interpretations of the theory incorporate the impact of digital transformation on competitive strategies and FDI. These perspectives consider how technological capabilities and digital platforms influence oligopolistic behaviour and FDI patterns (Ito & Rose, 2002).

Oligopolistic theory remains a vital lens for understanding FDI, particularly in explaining the strategic behaviours of firms in competitive industries. As global markets evolve, the theory continues to be relevant, albeit needing adjustments to address new economic realities, including the rise of the digital economy and the changing nature of global competition.

### Investment development path

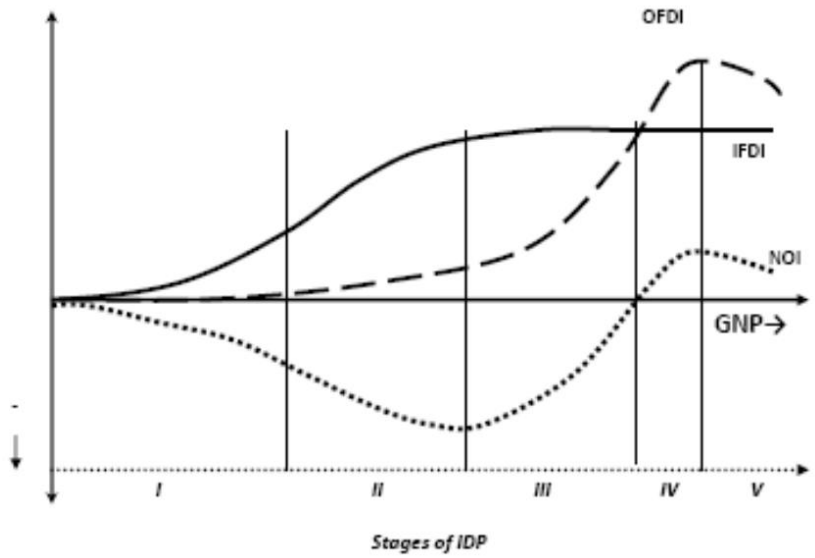
The Investment Development Path theory examines the interplay between a country's level of economic development and its patterns of foreign direct investment. Initially articulated by J.H. Dunning in the 1980s, this theory suggests that as countries develop economically, their outward and inward FDI activities undergo significant changes.

The IDP theory integrates elements from Dunning's Eclectic Paradigm and the economic development literature. It posits that a country's FDI profile evolves through distinct stages as it progresses in its economic development. This progression is influenced by changes in the country's competitive advantages and the internationalization motives of its firms (Dunning, 1981). The primary measure used to assess a country's level of economic development within the context of its investment position is the synthetic indicator known as NOI (Net Outward Investment). NOI is calculated as the difference between the cumulative value of outflows and inflows of FDI in a given country. As a country develops, its expected values for NOI change significantly, with development divided into five distinct phases (Zhubikenov, 2022, p. 89).

Figure 1.3. illustrates the IDP theory which identifies five stages through which countries typically progress:

- Stage 1: countries with low-income levels exhibit minimal inward and outward FDI. Investments are primarily driven by foreign MNCs exploiting specific resource advantages;
- Stage 2: as economic development proceeds, inward FDI increases, driven by market size and labour cost advantages, while outward FDI begins modestly as firms start to explore international opportunities;
- Stage 3: at intermediate levels of development, both inward and outward FDI intensify. Domestic firms become more competitive internationally, and foreign firms deepen their investment to tap into local and regional markets;
- Stage 4: countries exhibit high levels of both inward and outward FDI. Domestic firms establish substantial international operations, reflecting a strong creation of competitive advantages;
- Stage 5: at the highest development levels, a country's FDI flows are both outward and inward, reflecting complex interdependencies and the global integration of its firms.

**Figure 1.3.** Graphical representation of the IDP




**Source:** (Narula & Guimón, 2010).

Empirical validations of the IDP theory include studies by Narula & Dunning (2000), who examined the FDI activities of several European countries and found patterns consistent with the IDP stages. Modifications to the theory have been proposed to account for globalization effects, the rise of digital technologies, and the increasing importance of services FDI (Narula & Dunning, 2010).

While the IDP theory has been influential in understanding the evolution of FDI in relation to economic development, critiques have emerged regarding its applicability to rapidly developing economies, such as those in East Asia, where accelerated economic growth has disrupted the traditional IDP sequence. Researchers like (Athukorala, 2003) suggest that the rise of global value chains and the strategic behaviour of multinational corporations can alter the expected IDP trajectory.

The Investment Development Path theory offers a valuable framework for analysing the dynamic relationship between a country's economic development and its FDI patterns. Despite some limitations and the need for adaptation to modern economic phenomena, the IDP remains a critical tool in the study of international business and economic development.

## 1.6. Impact of FDI on Location Country

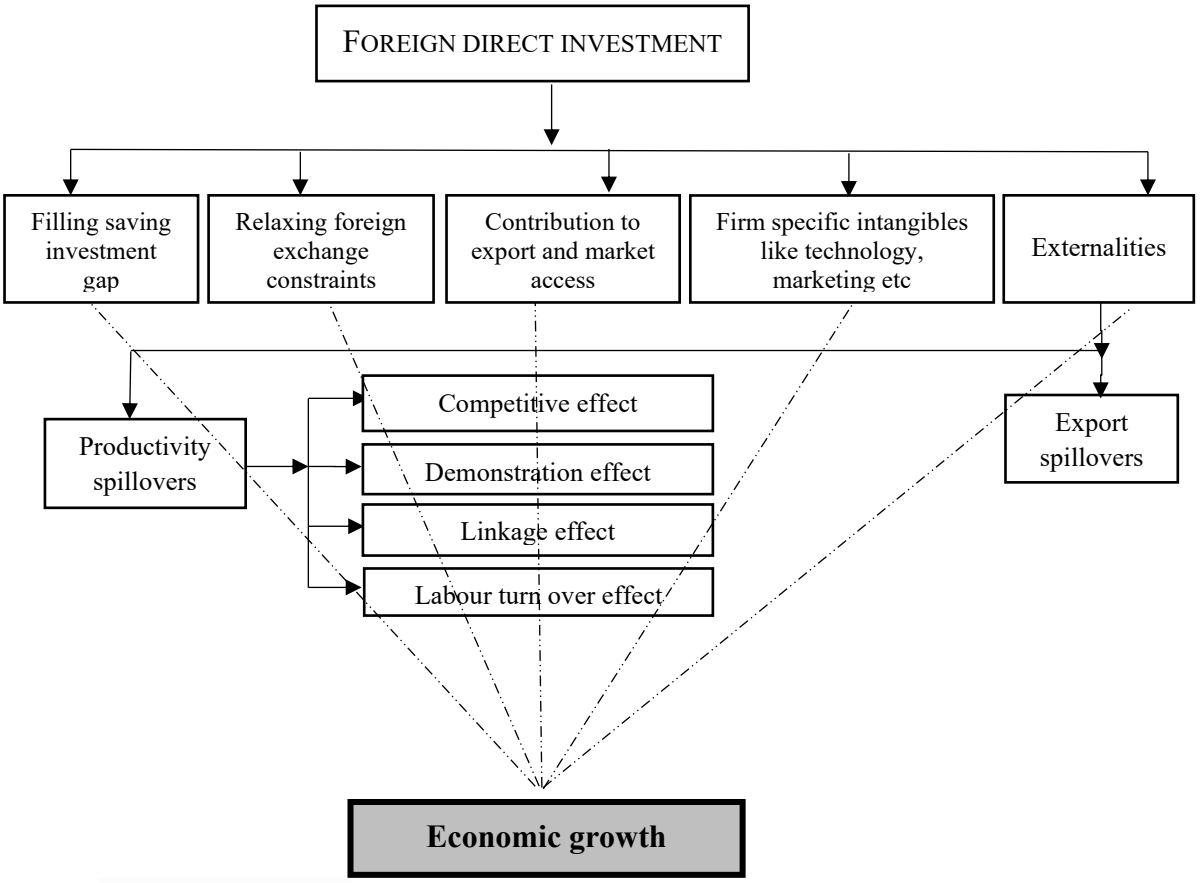
FDI is a major catalyst for economic growth and development in host countries. It involves an investment made by a firm or individual in one country into business interests located in another country. A significant amount of the impact of FDI on the host country's economy has been devoted to the scientific research team from Nicolaus Copernicus University in Toruń in their work (Karaszewski, 2001; Jaworek, 2006; Jaworek & Karaszewski, 2020; Kuczmarska, 2020).

FDI often introduces large amounts of capital into the host economy, stimulates the creation of new jobs, and fosters an increase in productivity and development. Studies such as those by (Kurtishi-Kastrati, 2013) and (Forte & Moura, 2013) have shown that FDI significantly contributes to higher GDP growth rates in host countries through technology transfer, human capital development, and more. Another positive impact of FDI is a labour market and wages. FDI often improves job quality and wages in host countries. Hale & Xu (2016) provide a comprehensive review of how FDI influences wages, employment, and labour productivity, generally finding that FDI leads to higher wages. Moreover, FDI positively effects on the human capital development. FDI has been linked with increased educational opportunities and higher skill advancements in the workforce. Lehnert, Benmamoun, & Zhao (2013) discuss how FDI positively influences the welfare and knowledge infrastructure of host countries.

The figure 1.4. presents a comprehensive analysis of the multifaceted impact of FDI on the economic growth of developing countries, highlighting pathways through which FDI fosters development. It delineates the mechanisms by which FDI contributes to economic growth,

starting with direct impacts such as bridging the gap between domestic savings and investment needs, thus enhancing capital availability.

**Figure 1.4.** The Impact of foreign direct investment on the economic growth of developing countries




**Source:** (Gutola & Milos, 2022).

Additionally, FDI introduces foreign currency into the economy, alleviating foreign exchange constraints and stabilizing the balance of payments. A significant direct contribution of FDI is its role in expanding a country's export volume and market access through the multinational companies' established networks, which, along with the introduction of firm-specific intangibles like technology transfer, improved management practices, and marketing skills, boosts the competitiveness and productivity of the host country's economy. Moreover, FDI generates positive externalities, such as raising industry standards and creating beneficial effects not directly captured by the investing firms. The indirect impacts of FDI are equally pivotal. They include productivity spillovers, whereby local firms absorb advanced technologies and practices from foreign entities; competitive effects that stimulate efficiency and innovation within local markets; and demonstration effects, where local enterprises emulate successful strategies of foreign companies. Additionally, linkage effects emerge as local suppliers benefit from demand generated by foreign firms, and the labour turnover effect

facilitates the transfer of skills and knowledge through workforce mobility between foreign and local firms. Finally, export spillovers enable local businesses to leverage the export activities of foreign firms, enhancing their integration into global markets. The flowchart underscores that these diverse effects of FDI on economic development are interconnected, suggesting that FDI's influence on economic growth is complex and layered, spanning various economic activities and processes. The overarching message is that FDI serves as a crucial component in the economic development strategies of developing countries, offering both immediate benefits in terms of capital infusion and long-term advantages through productivity enhancements, competitiveness boost, and global economic integration. This comprehensive view illustrates that the impact of FDI on economic growth in developing countries is multi-dimensional, encompassing immediate capital needs as well as fostering long-term economic development through various direct and indirect pathways.

The relationship between business clusters and FDIs is also crucial in this context. Clusters enhance a region's attractiveness to foreign investors by offering benefits like agglomeration economies, knowledge spillovers, and reduced uncertainty. These factors make clusters appealing to multinational enterprises seeking strategic locations for investment (Götz, 2009). This relationship is important because clusters can significantly enhance the economic benefits that FDI brings to host countries.

On the other hand, there are some negative impacts of FDI like economic instability. FDI can lead to instability in the host economy due to fluctuations in global financial markets. This can make economies particularly vulnerable if they are heavily dependent on foreign capital (Sass, Gál, & Juhász, 2018). FDI can also lead to environmental degradation if the involved industries do not adhere to eco-friendly practices. This aspect often receives criticism, especially in developing countries where environmental regulations may be less stringent (Ilie, 2014).

The impact of FDI on the host country can be significantly moderated by the absorptive capacity, which determines the extent to which the local economy can effectively utilize and benefit from foreign technologies and knowledge. The benefits of FDI largely depend on the host country's ability to absorb and integrate the foreign capital into its economy effectively. This includes factors such as economic stability, human capital, financial development, and trade openness, as highlighted by B. Joo, S. Shawl, & D. Makina (2022).

The governance and institutional framework of a host country plays a critical role in shaping the impact of FDI, as effective governance can enhance the positive effects of foreign

investment. Conversely, weak or corrupt governance structures may mitigate these benefits, leading to less favourable economic and social outcomes (Haq, 2022).

The impact of FDI on host countries is profound and varies across different economies and sectors. While FDI generally promotes economic growth, technology transfer, and human capital development, it also poses challenges such as potential economic instability and environmental concerns. The overall effect of FDI depends significantly on the host country's economic conditions, regulatory frameworks, and ability to effectively integrate foreign capital. Policymakers must carefully consider these factors to maximize the benefits of FDI while mitigating its potential downsides.

# Chapter 2. Kazakhstan as place of for FDI investment

## 2.1. Economy of Kazakhstan – general information

### 2.1.1. Historical view of Kazakhstan against the background of changes in the GDP level

#### From independence to the end of the century

The Republic of Kazakhstan began constructing the foundations of a sovereign, independent state in the early years of the last decade of the previous century. It was an exceedingly challenging period for the country, grappling with a severe crisis marked by increasing unemployment, deepening impoverishment of the population, and hyperinflation due to the liberalization of previously government-controlled prices. Kazakhstan remained in the ruble zone, preventing the ability to conduct an autonomous monetary policy, notably in regulating the money supply. It wasn't until the end of 1993 that the national Kazakh currency, the KZT tenge, was introduced, offering the possibility of independent monetary policy. However, contrary to expectations, inflation surged further (Simon, 2009).

The daunting outset did not deter the country's authorities from embarking on the political transformation process, commencing with laying the groundwork for a market economy while concurrently constructing economic infrastructure to capitalize on their resources and geographical advantages. Similar to the transformation in other former Soviet Union republics and post-World War II socialist-imposed countries in Central and Eastern Europe, although the trajectory of the political transformation process was similar, it took varying paths and unfolded under different socio-economic conditions. Moreover, the reformation of the economies in these nations coincided with profound shifts in the global economic system due to mega trends in civilization development – globalization of the economy, international integration, and revolutionary advancements in information and communication technologies. All these factors presented monumental challenges for these countries. The circumstances mentioned above, along with social conditions tied to the roots of national identity, made these challenges particularly arduous for Kazakhstan. Significant improvements in Kazakhstan were only brought about by macroeconomic stabilization, achieved through a series of unpopular reforms and restrictions on state deficit financing (Sakhanova, 2010).

Since the 2000s, Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI[4]. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty.

This progress, however, masks vulnerabilities and inequality in the country's development model. Slowing economic growth, growing inequality and elite capture, and weak institutions reflect the flaws of the resource-based and state-led growth model and raise the risk that Kazakhstan could become stuck in the "middle-income trap" (Turkebayeva, et al., 2022).

Kazakhstan needs to strengthen competition and human capital and improve public sector and state-owned enterprises (SOE) performance. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation. Revitalizing economic growth and productivity requires implementing structural reforms to transition from a state-dominated development model to a more resilient private sector-led one. This entails fostering competition and limiting the market dominance of SOEs, reinforcing the rule of law, and resolute anticorruption action. Enabling private investment (including FDI) and competition in non-oil growth sectors would need to be a key part of this effort (WorldBank, 2023).

Between 1991 and 1995, Kazakhstan endured an economic recession. The country faced low economic levels, an imbalance in the budget system's income and expenditure, resulting in a budget deficit, escalating energy prices, and uncontrolled monopolies among producers. Loose monetary policies, combined with price liberalization and the desire to align prices with global levels, led to hyperinflation exceeding 2500% in 1992[5]. In this context, Kazakhstan needed to implement a stringent financial and monetary policy to preserve its national currency (Kuchumova, 2008, pp. 53-58).

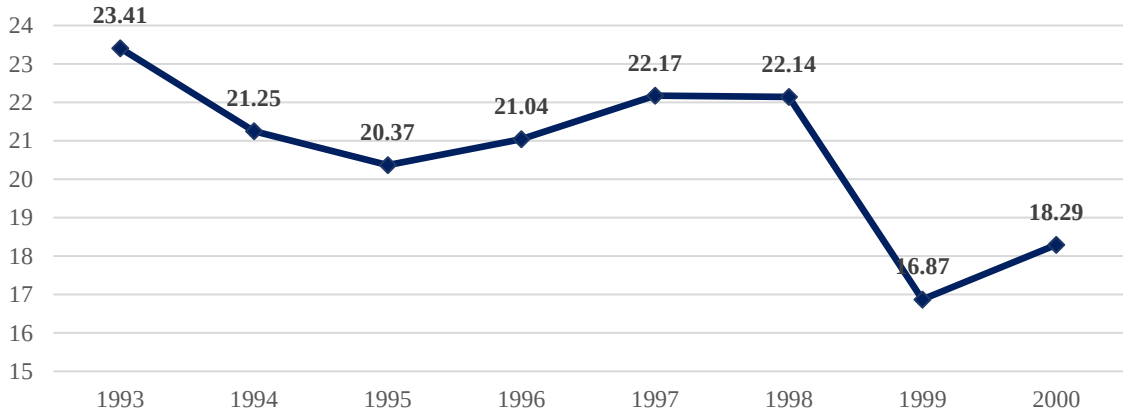
As mentioned above, on November 15, 1993, through a Decree by the Head of State, the national currency, the tenge, was introduced. The period of implementing the national currency in Kazakhstan was marked by a collapse in production and rampant inflation. In 1993, the average monthly growth rate was 30.1%, and real GDP witnessed a decline of 9.2%. Given these circumstances, the Government and the National Bank prioritized a gradual reduction in the rate and a consistent decrease in the production decline. By 1995, Kazakhstan's economy began to slow its decline, and inflation started to decrease, thanks to effective monetary policy

[4] Chapter three of the dissertation is devoted to this issue.
[5] Inflation issues in Kazakhstan are detailed in subsection 2.1.2.

measures. These measures successfully curbed hyperinflation, reducing the rate of decline from 2265% in 1993 to 60% in 1995 (Donskich, 2013).

Figure 2.1. displayed the gross domestic product of Kazakhstan measured in billions of U.S. dollars over an eight-year period from 1993 to 2000. In 1993, Kazakhstan's GDP was the highest of the period at around 23.41 billion dollars. From 1993, there was a noticeable decline in GDP over the next two years, dropping to about 20.37 billion dollars in 1995. In 1996, there was a slight recovery, with GDP increasing to around 21.04 billion dollars. The GDP peaked again in 1997 and 1998, reaching approximately 22.17 and 22.14 billion dollars, respectively, showing a period of economic growth. A significant drop occurred in 1999, where the GDP plummeted to about 6.87 billion dollars, which was the lowest point. This suggested a severe economic crisis.

**Figure 2.1.** Dynamics of Kazakhstan's GDP from 1993 to 2000 (billions of dollars)




**Source:** own elaboration based on: (WorldBank, 2023).

In 2000, there was a recovery, with GDP rising to around 18.29 billion dollars, although this was still below the levels seen in the mid-1990s. The overall trend of figure 2.1. showed volatility in Kazakhstan's GDP during the 1990s. There were periods of growth and decline, indicating an unstable economic situation during these years. The sharp decline in 1999 could be attributed to several factors, including the Russian financial crisis of 1998 (which had a significant impact on the economy of Kazakhstan due to close economic ties) and changes in global oil prices. The recovery in 2000 suggested a stabilization or a positive response to economic reforms and external economic conditions.

**The first decade of the 21st century and the World Economic Crisis**

Economic growth, combined with earlier tax and financial sector reforms, significantly improved government financing, reducing the budget deficit from 3.5% of GDP in 1999 to 1.2% of GDP in 2003. Government revenue increased from 19.8% of GDP in 1999 to 22.6%

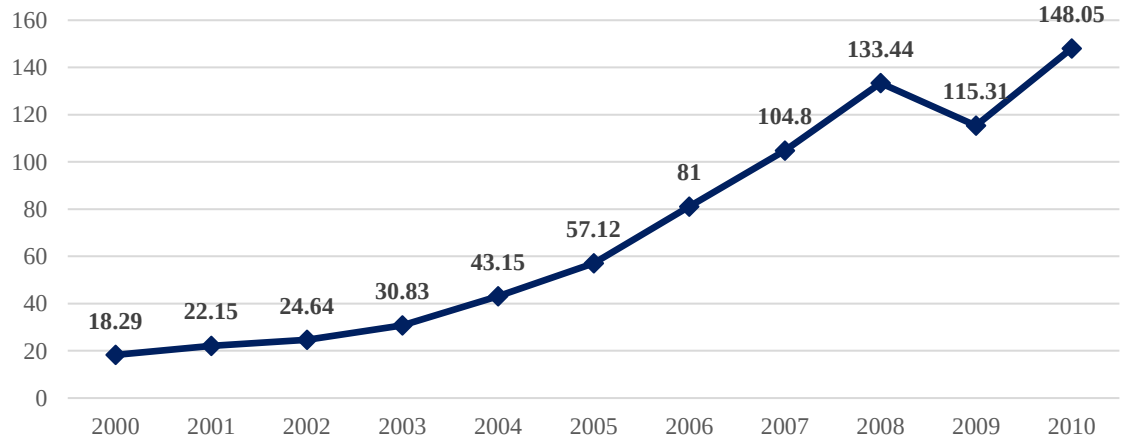
of GDP in 2001, but then decreased to 16.2% of GDP in 2003. In 2000, Kazakhstan adopted a new tax code to consolidate these gains.

The Kazakh financial system suffered a severe blow in 2008. Despite Prime Minister stating on June 8, 2009, in Astana that the financial system was stable, the International Monetary Fund recognized the vulnerability of Kazakhstan's financial system on October 30, 2009 (Kazakhstan and the International Monetary Fund, 2023).

In 2009, the government introduced large-scale support measures, such as bank recapitalization and support for the real estate, agriculture, and small and medium-sized enterprises (SMEs) sectors. The total cost of the stimulus programs was 21 billion dollars or 20% of the country's GDP, with 4 billion dollars intended to stabilize the financial sector. During the global economic crisis, Kazakhstan's economy contracted by 1.2% in 2009, and annual growth rates subsequently increased to 7.5% and 5% in 2011 and 2012, respectively (NBRK, 2012).Overall, GDP growth rates (supported by high global crude oil prices) between 2000 and 2007 decreased from 8.9% to 13.5% in 2008 and 2009, but then rose again since 2010 (https://data.worldbank.org, 2023).

By 2010, the government had successfully achieved a real GDP growth of 7%. The country's unemployment rate had dropped to 5.5%, and the average per capita cash income of the population had increased by 6.3% in real terms, with real wages rising by 7.5% (NBRK, 2010).

**Figure 2.2.** Dynamics of Kazakhstan's GDP from 2000 to 2010 (billions of dollars)




**Source:** own elaboration based on: (WorldBank, 2023).

### Kazakhstan after 2010 and economic policy of "Nurly Zhol"

In 2013, the economy of Kazakhstan saw a gradual decline in GDP growth rates, although they remained significantly higher than regional averages. This drop in growth was primarily attributed to the challenging global macroeconomic environment. However, it was mitigated by

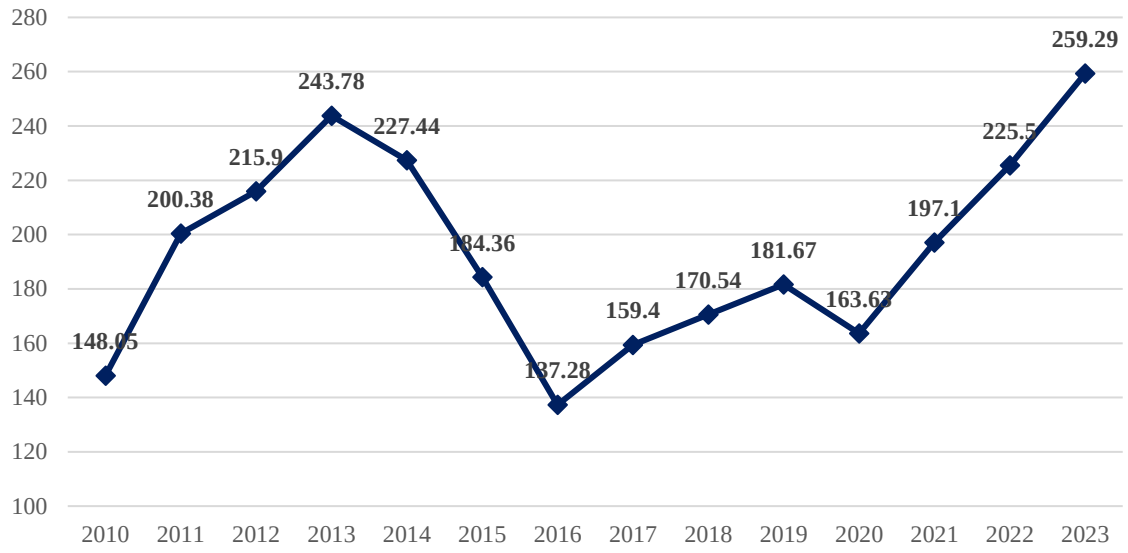
a positive domestic market situation. The country continued to experience robust growth in household consumption of goods and services, along with rapid expansion in the service sector. Population consumption grew steadily, exceeding 11% annually, corresponding to the average growth in recent years. The increasing population also contributed to this trend. Furthermore, a substantial grain harvest led to a 10.8% increase in agricultural output. The situation was further improved by the commencement of commercial oil and gas condensate production at the new Kashagan field. Investment growth also accelerated within the country for the first time since the global crisis of 2009. This was largely attributed to Kazakhstan's ongoing integration into the EurAsEC Customs Union, facilitating the free movement of capital, goods, and labour across its territory. It is still possible to observe the rising inflation (6%) and the ongoing depreciation of the tenge against a global basket of currencies. In summary, the projected GDP growth for Kazakhstan in 2013 stood at 4.4% (Ybrayev, 2020).

On November 11, 2014, during an extended meeting of the Political Council of the Nur-Otan party in Astana, the President of Kazakhstan delivered an unexpected message to the nation, introducing "Nurly Zhol", which translates from Kazakh as "The Path to the Future". This new economic policy entails significant state investment in infrastructure over the upcoming years. "Nurly Zhol" was implemented as a preventive measure to ensure sustainable economic growth in light of contemporary global economic and geopolitical challenges, such as a 25% decline in oil prices and mutual sanctions between the West and Russia over Ukraine, among others. This policy encompasses all facets of economic growth, including finance, industry, and social security, with a notable emphasis on infrastructure development and construction. In response to the recent drop in income from raw material exports, funds were allocated from the National Fund of Kazakhstan.

In August 2015, another 26% devaluation occurred when the National Bank announced the adoption of a free exchange rate for the tenge, leading to a devaluation of the national currency. The primary reason behind this move was likely to support the national economy in the face of a significant depreciation of the Russian ruble (NBRK, 2015).

In 2016, Kazakhstan's National Bank adjusted its base rate to combat inflation and stabilize the economy, initially setting it at 17% in February and reducing it to 15% by May, with a tight interest rate corridor. This monetary policy shift aims to curb inflation expectations, bolster confidence in tenge-denominated assets, and lower currency risk hedging rates in the financial market. Despite these measures and relatively high oil prices at 64 dollars per barrel by the end of 2019, the country's current account deficit widened to over 5.5 billion dollars.

**Figure 2.3.** Dynamics of Kazakhstan's GDP from 2010 to 2023 (billions of dollars)




**Source:** own elaboration based on: (WorldBank, 2023).

Kazakhstan's GDP trends reveal a nuanced narrative of economic growth. Over the past two decades, Kazakhstan has experienced notable fluctuations in GDP due to its heavy reliance on natural resources, particularly oil and minerals. The country's GDP trajectory, influenced by global commodity price swings, exhibited periods of substantial growth and contraction (Figure 2.1., Figure 2.2., Figure 2.3.).

Based on the data presented above, some trends in Kazakhstan's GDP indicator can be identified (Golovnin & Ushkalova, 2014):

1. Transition years (1992-1999):
   - Following independence in 1991, Kazakhstan faced economic turmoil due to the dissolution of the Soviet Union. GDP fluctuations were prominent as the country transitioned to a market economy;
   - GDP experienced volatility and declines during the early years, influenced by the restructuring process and the shift away from a centrally planned economy.
2. Resource-driven growth (2000-2014):
   - From 2000 to 2008, Kazakhstan's economy soared primarily due to the boom in oil and gas exports. This period witnessed rapid GDP growth, almost doubling during this time frame;
   - The country attracted significant foreign investments in its energy sector, fueling economic expansion, infrastructure development, and urbanization.
3. Global economic challenges (2014-2017):

- Beginning in 2014, declining global oil prices significantly impacted Kazakhstan's economy, given its reliance on oil exports. GDP growth rates decelerated, and the economy faced headwinds during this period;
- The government initiated economic diversification strategies, aiming to reduce dependency on oil revenues and strengthen other sectors like agriculture, manufacturing, and services.

4. Recovery and reforms (2018-2022):
   - Kazakhstan embarked on economic reforms focused on diversification and modernization, aiming to attract foreign investments and promote non-oil sectors. These efforts contributed to a gradual economic recovery and stabilization;
   - Despite the challenges posed by the COVID-19 pandemic in 2020, Kazakhstan demonstrated resilience, with GDP contracting slightly in 2020 but rebounding in 2021 as the country implemented measures to mitigate the pandemic's impact (Magrupova, Koshebayeva, & Abzalbek, 2021).
5. Future prospects:
   - The country is actively pursuing economic diversification, innovation, and infrastructure development to foster sustainable growth and reduce dependence on oil. Efforts toward strengthening regional economic partnerships and enhancing the business environment remain key priorities for future economic prospects.

Kazakhstan's GDP trajectory reflects its transition from a post-Soviet economy to one heavily reliant on oil exports, followed by efforts to diversify and navigate global economic challenges. The government's ongoing reforms and diversification strategies are aimed at promoting sustainable economic growth and resilience in the face of external uncertainties (Adilkhanov & Sabden, 2021).

Table 2.1. presented Kazakhstan's key economic indicators as they stood at the end of 2022. The table is based on data from the World Bank (2023). At the end of 2022 Kazakhstan's population was recorded at 19.2 million people. The GDP of Kazakhstan was 225.3 billion dollars. The GDP per capita, an indicator of the average economic output per person, was 11476.6 dollars. The average life expectancy at birth for Kazakhstan was 70.2 years.

**Table 2.1.** Kazakhstan's key economic indicators (as of the end of 2022)

| | |
|---|---|
| Population (million) | 19.2 |
| GDP (current billion dollars) | 225.3 |
| GDP per capita (current dollars) | 11625 |
| Life expectancy at birth | 70.2 |

**Source:** own elaboration based on: (WorldBank, 2023).

### 2.1.2. Selected macroeconomic characteristics of Kazakhstan

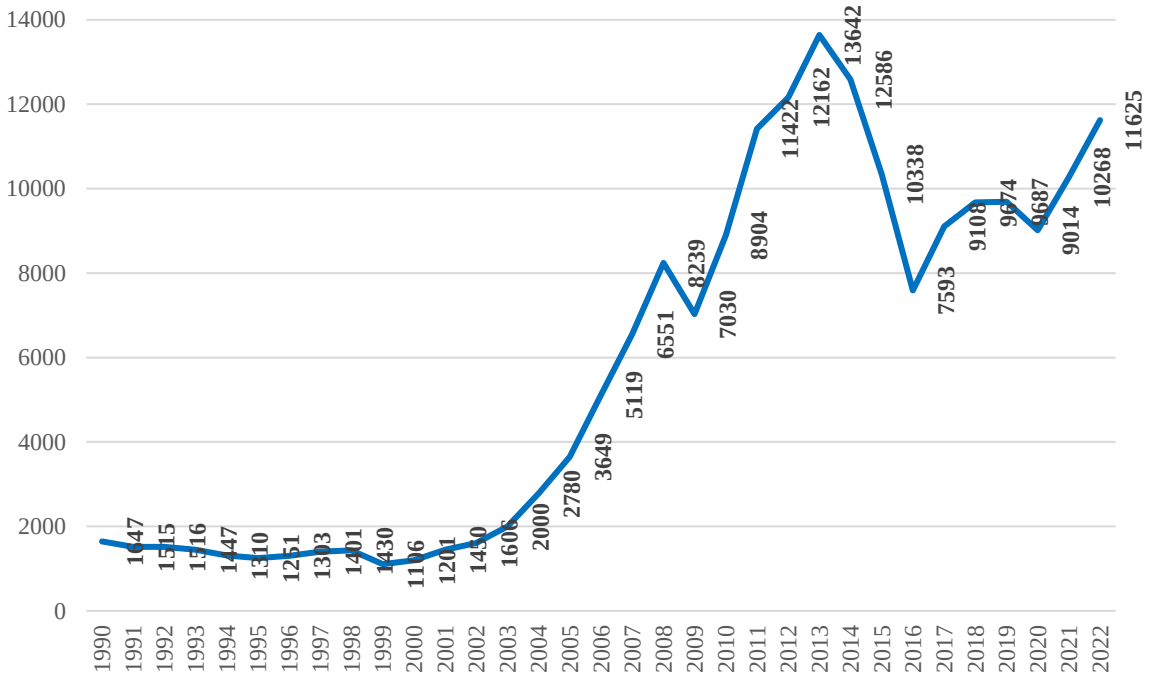
Kazakhstan's economic dynamics are shaped by various indicators, including GDP, inflation, and unemployment rate, which significantly influence the country's economic prospects and attractiveness for foreign direct investment. Kazakhstan has a relatively large and resource-rich economy in Central Asia. Its GDP is heavily influenced by the oil and gas sector, which contributes significantly to its overall output. However, efforts have been made to diversify the economy, focusing on sectors such as agriculture, manufacturing, and services. Inflation rates in Kazakhstan have seen fluctuations, influenced by both, domestic and global factors. The government has implemented various monetary policies to manage inflation and stabilize prices. In recent years, efforts have been made to maintain moderate inflation to ensure economic stability. Kazakhstan's unemployment rate has experienced changes due to shifts in economic activities and global market fluctuations. Efforts to address unemployment include initiatives to stimulate job creation, improve education and skills training, and attract foreign investments to create employment opportunities. Kazakhstan has actively sought FDI to diversify its economy and promote economic growth. The country offers various incentives and initiatives to attract foreign investors, particularly in sectors like energy, infrastructure, and technology. The stability of macroeconomic indicators like GDP growth, inflation, and the regulatory environment significantly influences FDI inflows.

Overall GDP trends provides insights into the distribution of wealth among the population. Despite significant GDP growth, disparities in income distribution persist, signalling the need for targeted policies to ensure more equitable wealth distribution and sustainable economic development (WorldBank, 2023).

#### GDP per capita

The GDP per capita of Kazakhstan, according to a 2022 estimate, was 11,625 dollars per year per person, placing the country at the 99th rank in the world (UNCTAD, 2024). Figure 2.4. shows a visual representation of the GDP per capita history of Kazakhstan.

**Figure 2.4.** Dynamics of Kazakhstan's GDP per capita from 1990 to 2022 (thousands of dollars)




**Source:** own elaboration based on data: (WorldBank, 2024).

In 1990, GDP per capita was approximately 1447 dollars. From 1990 until around 2000, there was minimal growth in GDP per capita, fluctuating slightly but remaining close to the initial value. Starting in 2001, there was a noticeable upward trend in GDP per capita, which accelerated significantly, peaking in 2007 at approximately 8,659 dollars In 2008, there was a slight dip, likely reflecting the impact of the global financial crisis. After a quick recovery, the GDP per capita reached its highest point in 2012 and 2013, at around 14,262 dollars. From 2014, there was a decline with some fluctuations, with notable drops in 2015 and again in 2020, which were related to the economic impact of the COVID-19 pandemic. The end of the period showed a recovery phase, though not reaching the previous peak levels.

The period of growth from 2001 to 2013 suggested a phase of economic expansion in Kazakhstan, potentially linked to the development of the country's oil industry, increased foreign investment, and rising oil prices. The figure showed that Kazakhstan's economy was sensitive to external shocks, evident from the decline during the global financial crisis and the more recent COVID-19 pandemic. The downward trend after 2013, punctuated by sharp declines, indicated periods of economic difficulty. These could have been due to a combination of factors, including declining oil prices, over-reliance on commodity exports, and regional economic pressures. Despite these challenges, the economy showed signs of resilience, as indicated by the recoveries following each downturn. Over the 32-year period, there was a clear overall upward trend in GDP per capita, suggesting significant long-term economic growth.

## Inflation

Since gaining independence in 1991, Kazakhstan has experienced various economic transitions that have significantly impacted its inflationary patterns. Following independence, Kazakhstan faced economic challenges due to the dissolution of the Soviet Union. The initial years saw economic instability, marked by hyperinflation resulting from the transition to a market economy. In the early 1990s, inflation surged, reaching staggering levels, which profoundly affected the country's economic stability. Throughout the 1990s, Kazakhstan grappled with high inflation rates, often exceeding triple digits. Factors such as economic reforms, currency devaluation, and the restructuring of industries contributed to this volatile inflationary environment. However, in the early 2000s, Kazakhstan implemented strategic economic policies aimed at stabilizing inflation, resulting in a gradual decline in inflation rates. Kazakhstan initiated various measures to curb inflation and stabilize its economy. The government focused on monetary policy adjustments, introducing inflation-targeting frameworks, and strengthening fiscal policies to manage price stability. The National Bank of Kazakhstan played a crucial role in implementing monetary measures to control inflationary pressures (NBRK, 2023).

Inflation significantly influenced Kazakhstan's economic development. High inflation rates posed challenges for businesses, investors, and consumers, impacting purchasing power, investment decisions, and overall economic growth. Conversely, controlled inflation rates positively affected investor confidence, encouraging economic activities and foreign investments.

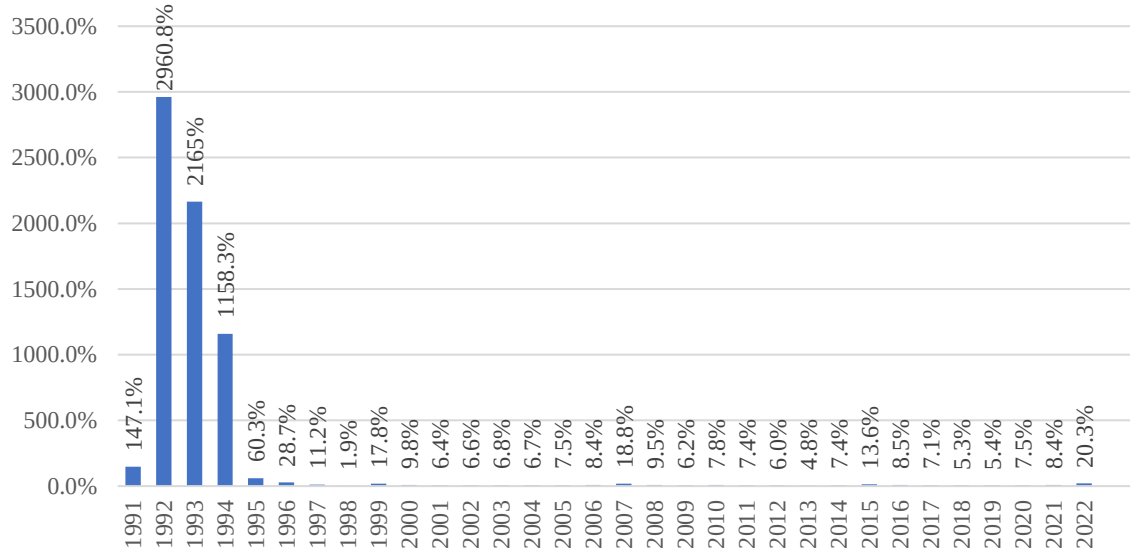
In recent years, Kazakhstan has witnessed moderate inflation rates, demonstrating relative stability compared to the tumultuous early years post-independence. The government's commitment to prudent monetary policies and diversified economic strategies has contributed to maintaining inflation within manageable levels. Looking ahead, Kazakhstan aims to sustain its efforts to ensure price stability and foster sustainable economic growth.

The evolution of inflation in Kazakhstan since independence reflects a dynamic economic journey. From the challenges of hyperinflation to implementing strategic reforms, the country has navigated through various phases, significantly impacting its economic landscape. Moving forward, maintaining a balance between economic growth and price stability will remain a pivotal goal for Kazakhstan's sustainable development (NBRK, 2023).

There were years in the history of independent Kazakhstan when inflation exceeded 2960%, for example, in 1992, and this level remained until 1995 when it was finally curbed to 60.3%. In 1998, it dropped to 1.9%, marking the lowest inflation of all time. However, a year

later in 1999, the growth rate of consumer prices increased again to 17.8%. After this, the annual figure showed a decrease and remained at the level of 6.4-9.8%. Meanwhile, in 2007, inflation rose sharply again to 18.8%. From 2008 to 2014, price growth was kept within the range of 6-9.5%. In 2015, inflation rose to 13.6%. After that, for several years, despite various economic shocks, inflation was kept within a single-digit corridor (BUREAU, 2023).

**Figure 2.5.** Dynamics of inflation rate in Kazakhstan from 1991 to 2022 years (%)




**Source:** own elaboration based on data: (BUREAU, 2023).

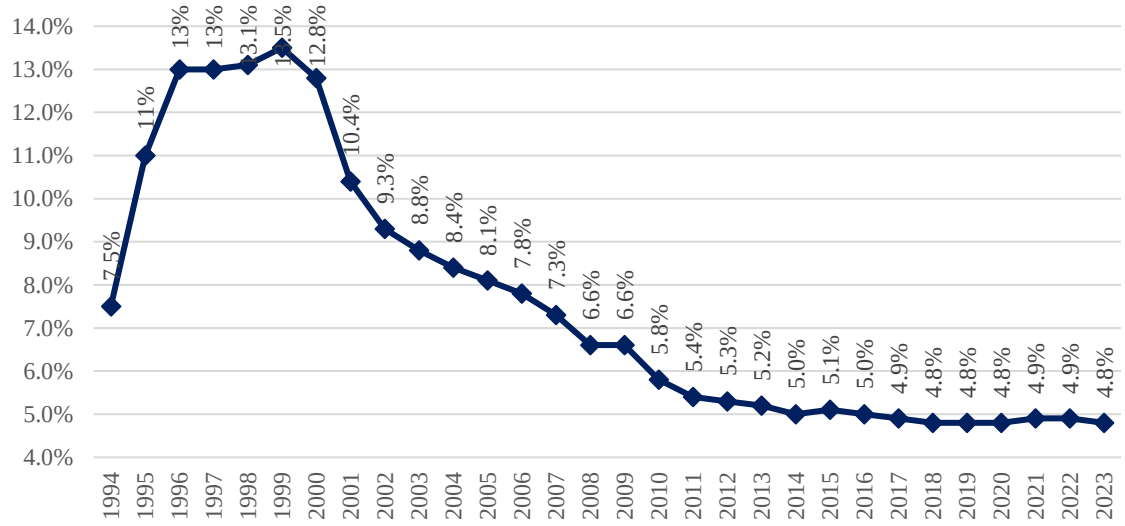
However, the situation changed in 2022 when Russia invaded Ukraine. Supply chains were broken, and anti-Russian sanctions were introduced, impacting the international market and subsequently affecting Kazakhstan. In March 2022, inflation rose to 12% and continued to increase throughout the year. As a result, the annual figure reached 20.3% (Figure 2.4.).

## Unemployment rate

Following the dissolution of the Soviet Union and Kazakhstan's declaration of independence in 1991, the country underwent significant economic changes. The transition from a centrally planned to a market-oriented economy led to challenges, including increased unemployment. The early 1990s saw economic restructuring, and unemployment rates were relatively high during this period. In the mid to late 1990s, Kazakhstan implemented economic reforms and stabilization measures, leading to a gradual improvement in the economic situation. The unemployment rate started to stabilize during this period. The late 1990s and early 2000s witnessed further economic growth and diversification, driven in part by the development of the country's natural resource sector, particularly oil and gas. This growth likely had a positive impact on employment, helping to stabilize and reduce the unemployment rate. As mentioned

above, throughout the mid-2000s and into the 2010s, Kazakhstan continued to experience economic growth. The government implemented various policies to diversify the economy, attract foreign investment, and address social issues, including unemployment. During this period, the unemployment rate generally remained within a certain range, reflecting overall economic stability (Figure 2.6.).

**Figure 2.6.** Unemployment rate in Kazakhstan from 1994 to 2023 (%)




Source: own elaboration based on data: (BUREAU, 2023).

The situation in the 2020s was influenced by various factors, including global economic conditions, fluctuations in commodity prices, and the impact of the COVID-19 pandemic. Unemployment rates during this period was depend on how well Kazakhstan adapted to these challenges and implements relevant economic policies.

According to official statistics, the situation with unemployment in Kazakhstan, at first glance, appears relatively favourable when compared with other post-Soviet countries and non-CIS countries. In the last 5 years, its level has stabilized in the range of 4.8-5.2%. In the USA, for example, the fluctuation corridor is wider, ranging from 3.9% to 7.4%, and in developing countries, the unemployment rate can consistently exceed 10% (BUREAU, 2023).

## 2.2. Basic legal regulations of foreign direct investment in Kazakhstan

### 2.2.1. Legal regulations regarding foreign direct investment in Kazakhstan

The Kazakh authorities are aware that relying solely on raw materials for the economy could have disastrous long-term results. To counter this, they are implementing a comprehensive plan to diversify the country's economy, including attracting capital from abroad. Legal solutions have been put in place to encourage foreign investments in the country.

The primary legal act regulating the activities of foreign investors in Kazakhstan was the Law of the Republic of Kazakhstan dated December 27, 1994 (Foreign Investment Act, 1994), titled "On Foreign Investments". However, this law lost its effect according to the Law of the Republic of Kazakhstan No. 373-II dated January 8, 2003 (Entrepreneurial Code of the Republic of Kazakhstan, 2015). The currently applicable legal act in this regard is the Entrepreneurship Code, specifically Chapter 25 titled "State Support for Investment Activities".

According to this normative act, foreign investors have the right to invest in any objects and types of economic activities, except for cases outlined by the laws of the Republic of Kazakhstan. Moreover, investors are granted full and unconditional protection of their rights and interests, as guaranteed by the Constitution of the Republic of Kazakhstan (Constitution of the Republic of Kazakhstan, 2024).

One of the crucial provisions of this legal act is Article 281, which states that the state supports foreign investments by creating a favourable investment climate. This is expected to contribute to the development of the economy, stimulate new investments, and modernize existing industries using advanced technologies, enhanced training of Kazakh staff, and environmental protection.

State support for investments involves providing investment preferences and/or guaranteeing stability in the face of changes to the tax legislation of the Republic of Kazakhstan. Another significant point of the Act pertains to guarantees against expropriation, which is often considered a risk for foreign investors. According to the law, foreign investments cannot be nationalized, expropriated, or subjected to measures with similar effects, except in exceptional situations outlined by the Law of the Republic of Kazakhstan. In such cases, the investor is entitled to a full refund for the damage caused as a result of legislative acts on nationalization and requisition of real estate issued by the Republic of Kazakhstan[6].

The provisions of article 276 are crucial for business safety. This article ensures that the investor is provided with full and unconditional protection of rights and interests, as guaranteed by the Constitution of the Republic of Kazakhstan, the Code of Entrepreneurship, and other regulatory legal acts of the Republic of Kazakhstan, as well as international treaties ratified by the Republic. Additionally, the investor is entitled to compensation for damage caused due to

[6] The market value of real estate is determined according to the legislation of the Republic of Kazakhstan. The valuation on which the owner was reimbursed for the requisitioned real estate may be contested in court proceedings. Ultimately, once the circumstances leading to the demand for nationalization have ceased to exist, the investor has the right to demand the return of the property, while also being obliged to return the compensation amount received, accounting for the loss resulting from the property's decline in value.

the issuance of acts by state bodies that contradict the laws of the Republic of Kazakhstan, as well as illegal actions or inaction by officials of these bodies.

Furthermore, the provisions affirm that the Republic of Kazakhstan guarantees the stability of the terms of contracts concluded between investors and state authorities, except in cases where changes in contracts are made by mutual consent of the parties.

An important aspect in the context of business freedom is the provision of article 277 – "Guarantees of the Use of Income". According to current norms, investors have the right to:

1. use the income obtained from their activities at their discretion after paying taxes and other mandatory contributions to the budget, in accordance with the legislation of the Republic of Kazakhstan;
2. open bank accounts in national and foreign currency in banks within the territory of the Republic of Kazakhstan, in accordance with the banking and currency legislation of the Republic of Kazakhstan.

In addition to normative acts, it's important to mention the Code of Ethics for Foreign Investors Operating in Kazakhstan (Declaration on the Code of Ethics for Foreign Investors, 2000). The Declaration on the Code of Ethics for Foreign Investors, adopted at the fourth meeting of the Foreign Investors' Council under the President of the Republic of Kazakhstan in Almaty on December 8, 2000, is a significant document that outlines the principles and standards of behaviour for foreign investors operating in Kazakhstan. This document was established to encourage responsible investment and set ethical norms in the business practices of foreign companies in Kazakhstan.

The Declaration includes several principles such as compliance with the laws of the Republic of Kazakhstan, respect for the social and cultural traditions of the country, taking measures to protect the environment, and ensuring equal labour and employment conditions for the local population. Additionally, the declaration emphasizes the importance of transparency in business operations and combating corruption. The adoption of the code of ethics demonstrates Kazakhstan's and foreign investors' commitment to creating a favourable investment climate based on mutual respect, responsibility, and adherence to high standards of business ethics. It also helps to strengthen trust between government bodies, the local business community, and the international investment community.

### 2.2.2. Purchase of real estate by foreigners

#### Purchase on housing

Article 9 of the Law of the Republic of Kazakhstan, "On the Legal Status of Foreigners", stipulates the following:

- "Foreigners permanently residing in the Republic of Kazakhstan have the same rights in housing relations and bear the same responsibilities as citizens of the Republic of Kazakhstan;
- foreigners may own housing in the Republic of Kazakhstan (with the exception of temporarily staying foreigners" (On the Legal Status of Foreigners, 1995).

In practice, this provision is interpreted as follows: A foreigner with a residence permit has the right to purchase any housing (apartment, house). Foreigners who do not have a residence permit will be denied execution and registration of a housing purchase transaction.

Thus, a foreigner who does not live in the Republic of Kazakhstan but wants to purchase housing has the following option: obtain a residence permit, then purchase housing. However, this is not the only option. Legal entities with foreign participation can acquire ownership of housing without any restrictions, regardless of whether the founder of the organization is located on the territory of the Republic of Kazakhstan or not. Therefore, an alternative option is to create a legal entity and purchase housing as its property (article 19) (On the Legal Status of Foreigners, 1995).

#### Acquisition of land in Kazakhstan

According to paragraphs 3 and 4 of article 23 of the Land Code of the Republic of Kazakhstan (Land Code of the Republic of Kazakhstan, 2003), land plots may be privately owned by foreign citizens, stateless persons, and foreign legal entities (non-state) only for the following purposes:

1. for development or construction with industrial and non-industrial, including residential, buildings (structures, constructions), and their complexes;
2. lands intended for servicing buildings (structures) in accordance with their purpose.

Land intended for commercial agricultural production and afforestation cannot be owned by foreigners and foreign legal entities (as per clause 4 of Article 23 of the Land Code). As outlined in paragraph 5 of article 37 of the Land Code, land plots for commercial agricultural production can be leased to foreigners and stateless persons for a period of up to 10 years. The right of permanent land use cannot belong to foreign land users (as stated in clause 2 of article 34) (Land Code of the Republic of Kazakhstan, 2003).

## Peculiarities in relation to citizens of Russian Federation

In accordance with article 7 of the Land Code, if an international treaty ratified by the Republic of Kazakhstan establishes rules other than those contained in the Land Code, then the rules of the said treaty apply. International treaties ratified by the Republic of Kazakhstan apply directly to land relations, except in cases where it is stipulated in the international treaty that its application requires the publication of a legislative act (Land Code of the Republic of Kazakhstan, 2003).

For instance, paragraph 1 of article 4 of the Treaty between the Republic of Kazakhstan and the Russian Federation (Treaty on the legal status of citizens of the Republic of Kazakhstan permanently residing on the territory of the Russian Federation, 1995) on the legal status of citizens of the Republic of Kazakhstan permanently residing in the territory of the Russian Federation, and citizens of the Russian Federation permanently residing in the territory of the Republic of Kazakhstan, establishes that a citizen of one Party permanently residing in the territory of the other Party enjoys the same rights and freedoms and bears the same responsibilities as citizens of the Party of residence, with the exceptions established by this Agreement. Simultaneously, paragraph 1 of article 6 of the said Treaty establishes that the acquisition of property by citizens of one Party permanently residing in the territory of the other Party is regulated by the legislation of the Party of residence. Regarding this, Russian citizens permanently residing in Kazakhstan (holding a residence permit) are still subject to the aforementioned restrictions, and they have the right to acquire ownership of plots only for the intended purpose specified in paragraphs 3 and 4 of article 23 of the Land Code (Land Code of the Republic of Kazakhstan, 2003).

## Features regarding the residence of the Republic of Belarus

A similar situation arises concerning citizens of the Republic of Belarus permanently residing in Kazakhstan (holding a residence permit). Clause 1 of article 4 of the Treaty between the Republic of Kazakhstan and the Republic of Belarus on the legal status of citizens of the Republic of Kazakhstan permanently residing in the territory of the Republic of Belarus, and citizens of the Republic of Belarus permanently residing on the territory of the Republic of Kazakhstan provides that a citizen of Belarus permanently residing in Kazakhstan enjoys the same rights and freedoms and bears the same responsibilities as citizens of Kazakhstan, with exceptions established by this Agreement. Paragraph 1 of article 6 of this agreement establishes

that the acquisition of property by citizens of one Party permanently residing in the territory of the other Party is regulated by the legislation of the Party of residence. Thus, the law of the Republic of Kazakhstan applies, and the restrictions specified in paragraphs 3 and 4 of article 23 of the Land Code are upheld (Land Code of the Republic of Kazakhstan, 2003).

### Purchase of non-residential real estate

Regarding the acquisition of real estate not related to the housing stock (such as buildings, structures, premises, offices, shops, etc.), the legislation of the Republic of Kazakhstan does not impose restrictions, irrespective of whether a foreigner holds a residence permit. There is no rule explicitly indicating such a possibility, but it can be deduced from the content of the aforementioned article 23 of the Land Code, which allows land plots to be owned by foreigners. Ultimately, the right to a land plot is inherently linked to the right to the buildings situated on it (Land Code of the Republic of Kazakhstan, 2003).

### Housing inheritance

The aforementioned restrictions on purchasing housing do not apply when inheriting property due to international agreements concluded by the Republic of Kazakhstan. For instance, as per article 47 of the Chisinau Convention of October 7, 2002, "On legal assistance and legal relations in civil, family, and criminal matters", signed by several countries including Kazakhstan and Belarus, citizens of each state have equal rights to inherit property or rights in the territories of other parties to the Convention, either by law or by will. Notaries issue certificates of inheritance rights to real estate and any other property to foreigners, regardless of whether they reside in Kazakhstan or not. The procedure for registering inheritance rights in such cases does not differ from the generally established one (Land Code of the Republic of Kazakhstan, 2003).

Paragraph 1 of article 252 of the Civil Code of the Republic of Kazakhstan (General Part) stipulates that if a person owns property that cannot belong to them by virtue of legislative acts but is held legally, this property must be alienated within 1 year from the moment of acquiring ownership, unless other periods are provided for by legislative acts. In accordance with this norm, Kazakh notaries and justice authorities explain that a foreigner who legally acquires housing (for example, through inheritance) must sell it within 1 year, as a foreigner without a residence permit doesn't possess the right to own housing in Kazakhstan. Additionally, as per the specified paragraph 1 of article 252, if the property is not alienated within the specified period, it becomes subject to compulsory alienation by court decision. The owner receives compensation for the value of the property minus the costs of its alienation.

Essentially, housing owned by a foreigner who doesn't reside in Kazakhstan and hasn't disposed of the housing within 1 year might be forcibly sold via court auction, and the proceeds (minus costs) would be transferred to the foreigner.

However, the legal procedure for such forced sales isn't currently established. No government agency has the authority to bring such claims to court, and in practice, these provisions of the law are not enforced. There are no penalties or sanctions for foreigners failing to dispose of their housing within 1 year. Consequently, presently, failure to comply with the deadline for housing sale by a foreigner does not result in negative consequences like housing repossession or monetary sanctions (Land Code of the Republic of Kazakhstan, 2003).

### Ownership of real estate owned by a foreigner who has lost citizenship of the Republic of Kazakhstan

If a citizen of the Republic of Kazakhstan acquired an apartment (or other real estate) and then lost his citizenship and/or left the Republic, it does not mean that his right to real estate is lost. He does not have to sell it and it cannot be taken away from him. The legislation does not contain any grounds or procedures for such actions (buyback, confiscation) in relation to real estate belonging to a former citizen of Kazakhstan. A former citizen of the Republic of Kazakhstan does not have to sell his real estate when he loses citizenship, nor does the law equate to the right for the state to seize his real estate. No time limits for the alienation of such real estate are established, no special conditions for sale in the form of increased tax rates exist, nor does the legislation limit the ownership period or specify a timeframe within which the disposal of real estate is necessary under the threat of its loss. An exception might apply to residential real estate, wherein the rules of article 252 of the Civil Code, discussed in the previous section, could potentially be applicable in case of loss of citizenship. However, in practice, forced sales of housing belonging to former Kazakh citizens who lost their citizenship are not enforced. Exceptions to the above rule are also outlined concerning land plots. As per paragraph 2 of article 23 of the Land Code (Land Code of the Republic of Kazakhstan, 2003), if a citizen renounces the citizenship of Kazakhstan and owns a land plot designated for running a peasant or farm enterprise, personal subsidiary plot, afforestation, gardening, or dacha construction, the right of ownership is subject to alienation or re-registration in accordance with article 66 of the Land Code. This article requires the land plot to be alienated within one year, or within a specified period, re-registered into a right that the subject may own – that is, a lease right. Additionally, according to paragraph 5 of article 24 of the Land Code (Land Code of the Republic of Kazakhstan, 2003), if a citizen who owns an agricultural land plot renounces Kazakh citizenship, the land plot must be returned to state ownership, or the right to the land

plot must be re-registered into a lease right for a period of up to 10 years within one year. When a land plot is returned to state ownership, the former owner is compensated the initial purchase price using funds obtained from the sale of land plots. In cases where the local executive body refuses to acquire the land plot, such a plot may be sold to a citizen of Kazakhstan (Land Code of the Republic of Kazakhstan, 2003).

A citizen of the Republic of Kazakhstan, married to a foreign national, has the right to acquire land plots for ownership or use (lease) in the usual established manner. The law does not provide for any special restrictions in this regard. At the same time, when acquiring land, as well as when acquiring housing, the foreign spouse will effectively become the owner of a share in the land plot, even if, due to established restrictions, they are unable to directly purchase the plot in their own name (Land Code of the Republic of Kazakhstan, 2003).

### Re-registration of property owned by a foreigner

Upon acquiring and registering property in their name, a foreigner is not obligated to periodically confirm their rights, re-register the property, or undertake other actions to maintain ownership rights. Kazakh legislation does not stipulate such requirements.

## 2.3. International competitiveness of Kazakhstan against the background of Central Asian countries

### 2.3.1. Competitiveness based on "Doing Business" for 2020 year by The World Bank

Based on Table 2.2 and the data presented across various economic activities, Kazakhstan ranked second among Central Asian countries (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan) in starting a business, with Uzbekistan leading. Kazakhstan's environment was more conducive to starting a business than Kyrgyzstan and Tajikistan. In dealing with construction permits, Kazakhstan topped the list, indicating a relatively easier process compared to the other three countries. In the category of getting electricity, Kazakhstan ranked second, with Uzbekistan providing a better environment for accessing electricity. Kazakhstan outperformed Kyrgyzstan and Tajikistan significantly.

In registering property, Kazakhstan was second, trailing Kyrgyzstan, which led in ease of registering property. Kazakhstan had a more efficient process than Uzbekistan and Tajikistan. In getting credit, Kazakhstan ranked third, with Tajikistan and Kyrgyzstan offering more favourable conditions for accessing credit. Regarding protecting minority investors, Kazakhstan was the leader, indicating stronger legal protections for shareholders compared to

the other countries. In paying taxes, Kazakhstan ranked first among these countries in ease of paying taxes, suggesting a relatively simpler tax compliance system.

In trading across borders, Kazakhstan was second to Kyrgyzstan, indicating moderate efficiency in its trade processes compared to Uzbekistan and Tajikistan. In enforcing contracts, Kazakhstan led, showing an efficient judicial system and processes for resolving commercial disputes. Kazakhstan also ranked first in resolving insolvency, indicating a more effective legal framework for addressing bankruptcy and insolvency cases.

**Table 2.2.** Characteristics of "Doing Business" for 2020 year in Kazakhstan compared to Central Asian countries

| | Kazakhstan | Uzbekistan | Kyrgyzstan | Tajikistan |
|---|---|---|---|---|
| **Starting a business (rank)** | **22** | **8** | **42** | **36** |
| Score of starting a business (0-100) | 94.4 | 96.2 | 93.0 | 93.2 |
| Procedures (number) | 4 | 3 | 4 | 3 |
| Time (days) | 5 | 3 | 10 | 7 |
| Cost (number) | 0.2 | 2.2 | 1.4 | 17.5 |
| Paid-in min. capital (% of income per capita) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Dealing with construction permits (rank)** | **37** | **132** | **90** | **137** |
| Score of dealing with construction permits (0-100) | 76.5 | 61.7 | 69.0 | 60.8 |
| Procedures (number) | 17 | 17 | 17 | 26 |
| Time (days) | 102.5 | 246 | 167 | 157 |
| Cost (% of warehouse value) | 2.1 | 3.0 | 1.7 | 3.0 |
| Building quality control index (0-15) | 13.0 | 11.0 | 11.0 | 12.0 |
| **Getting electricity (rank)** | **67** | **36** | **143** | **163** |
| Score of getting electricity (0-100) | 81.6 | 86.9 | 58.6 | 51.1 |
| Procedures (number) | 6 | 4 | 7 | 9 |
| Time (days) | 71 | 88 | 111 | 98 |
| Cost (% of income per capita) | 35.9 | 441.2 | 683.9 | 867.8 |
| Reliability of supply and transparency of tariff index (0-8) | 8 | 8 | 4 | 4 |
| **Registering property (rank)** | **24** | **72** | **7** | **77** |
| Score of registering property (0-100) | 82.4 | 67.9 | 90.3 | 66.4 |
| Procedures (number) | 4 | 9 | 3 | 4 |
| Time (days) | 4.5 | 43 | 3.5 | 33 |
| Cost (% of property value) | 0.0 | 0.7 | 0.2 | 2.8 |
| Quality of the land administration index (0-30) | 17.0 | 19.0 | 24.0 | 7.5 |
| **Getting credit (rank)** | **25** | **67** | **15** | **11** |
| Score of getting credit (0-100) | 80.0 | 65.0 | 85.0 | 90.0 |
| Strength of legal rights index (0-12) | 8 | 6 | 9 | 11 |
| Depth of credit information index (0-8) | 8 | 7 | 8 | 7 |
| Credit registry coverage (% of adults) | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit bureau coverage (% of adults) | 65.4 | 47.8 | 39.2 | 47.6 |
| **Protecting minority investors (rank)** | **7** | **37** | **128** | **128** |
| Score of protecting minority investors (0-100) | 84.0 | 70.0 | 40.0 | 40.0 |
| Extent of disclosure index (0-10) | 9.0 | 8.0 | 7.0 | 8.0 |
| Extent of director liability index (0-10) | 6.0 | 3.0 | 5.0 | 6.0 |
| Ease of shareholder suits index (0-10) | 9.0 | 7.0 | 8.0 | 6.0 |
| Extent of shareholder rights index (0-6) | 6.0 | 4.0 | 0.0 | 0.0 |
| Extent of ownership and control index (0-7) | 6.0 | 7.0 | 0.0 | 0.0 |
| Extent of corporate transparency index (0-7) | 6.0 | 6.0 | 0.0 | 0.0 |
| **Paying taxes (rank)** | **64** | **69** | **117** | **139** |
| Score of paying taxes (0-100) | 78.2 | 77.5 | 67.2 | 60.9 |
| Payments (number per year) | 10 | 9 | 26 | 7 |
| Time (hours per year) | 186 | 181 | 220 | 224 |
| Total tax and contribution rate (% of profit) | 28.4 | 31.6 | 29.0 | 67.3 |
| Postfiling index (0-100) | 48.9 | 48.2 | 37.4 | 40.4 |
| **Trading across borders (rank)** | **105** | **152** | **89** | **141** |
| Score of trading across borders (0-100) | 70.4 | 58.2 | 74.7 | 60.9 |
| **Enforcing contracts (rank)** | 4 | 22 | 134 | 76 |
| Score of enforcing contracts (0-100) | 81.3 | 71.9 | 50.4 | 60.7 |
| Time (days) | 370 | 225 | 410 | 430 |
| Cost (% of claim value) | 22.0 | 20.5 | 47.0 | 25.5 |
| Quality of judicial processes index (0-18) | 16.0 | 8.5 | 5.0 | 6.5 |
| **Resolving insolvency (rank)** | **42** | **100** | **78** | **153** |
| Score of resolving insolvency (0-100) | 66.7 | 43.5 | 50.0 | 28.4 |
| Recovery rate (cents on the dollar) | 39.8 | 34.4 | 40.6 | 29.6 |
| Time (years) | 1.5 | 2.0 | 1.5 | 1.7 |
| Cost (% of estate) | 15.0 | 10.0 | 9.5 | 17.0 |
| Strength of insolvency framework index (0-16) | 14.5 | 8.0 | 9.0 | 4.0 |

**Source:** own elaboration based on: (WorldBank, 2020).

Finally, to sum up the results, Kazakhstan generally ranks well among Central Asian countries across various indicators of economic activity. It leads in several key areas such as "protecting minority investors", "enforcing contracts", and "resolving insolvency". Kazakhstan's favourable rankings reflect its relatively efficient regulatory environment and business-friendly policies compared to its regional neighbours. This positions Kazakhstan as a competitive destination for business and investment within Central Asia.

### 2.3.2. Competitiveness based on "World Competitiveness Ranking" by The World Competitiveness Center[7]

The International Institute for Management Development (IMD), based in Lausanne, Switzerland, released updated data reflecting the level of competitiveness of economies around the world[8].

Table 2.3. shows analyses of the IMD World Competitiveness rankings for Kazakhstan from 2019 to 2023 years, the ranking was based on four main factors: "economic performance" which included aspects such as the domestic economy, international trade, international investment, employment, and prices. "Government efficiency" which focused on public finance, fiscal policy, institutional framework, business legislation, and societal framework. "Business efficiency" this factor evaluated productivity & efficiency, the labour market, finance, management practices, and attitudes and values. "Infrastructure" it typically included basic infrastructure, technological infrastructure, scientific infrastructure, health and environment, and education.

"Overall rank" showed fluctuations with a noticeable decline in 2020 and 2022, followed by slight recoveries in the subsequent years. "Economic performance" deteriorated significantly in 2022 and only slightly improved in 2023. "Government efficiency" showed a peak of inefficiency in 2020 but recovered somewhat by 2023. "Business efficiency" displayed minor fluctuations but a general stability across the year.

The "economic performance" deterioration in 2022 was reflected by global economic impacts, like COVID-19 disruptions, affecting domestic and international economic activities. The slight improvement in 2023 suggested some recovery but indicated ongoing challenges in fully rebounding to pre-2020 levels. Key areas of concern likely were international trade and

[7] Please note that a comparison of Kazakhstan with other Central Asian countries in the context of the World Competitiveness Index is not presented here, as other Central Asian countries are not included in the ranking.
[8] The World Competitiveness Center of the International Institute for Management Development publishes the World Competitiveness Ranking annually. It is worth noting that this ranking is based on a comprehensive study that includes 257 indicators. More than two-thirds of these indicators are based on statistical data, while the remaining third is derived from surveys.

investment flows, which are crucial for Kazakhstan's resource-driven economy. The significant dip in "government efficiency" in 2020 could be attributed to the immediate impacts of global economic challenges and perhaps domestic policy responses to these challenges. The recovery in the subsequent years might indicate effective governmental interventions and improvements in fiscal policies and public sector efficiency. Despite the economic challenges, "business efficiency" appeared relatively stable. This suggested that businesses in Kazakhstan might have adapted well to changing conditions, through improvements in management practices or through leveraging technology and innovation. The labour market and finance sectors would be critical areas to examine to understand how businesses maintained or even enhanced efficiency despite economic pressures (World Competitiveness Center, 2023).

**Table 2.3.** The overall ranking and factors on the IMD World Competitiveness for Kazakhstan from 2019 to 2023 years

| | **2019** | **2020** | **2021** | **2022** | **2023** |
|---|---|---|---|---|---|
| Overall rank | 34 | 42 | 35 | 43 | 37 |
| Economic performance | 45 | 48 | 45 | 58 | 57 |
| Government efficiency | 21 | 29 | 21 | 25 | 23 |
| Business efficiency | 29 | 34 | 28 | 32 | 31 |
| Infrastructure | 43 | 51 | 47 | 46 | 47 |

**Source:** own elaboration based on: (World Competitiveness Center, 2023).

### 2.3.3. Competitiveness based on "The Global Competitiveness Report" by World Economic Forum

The Global Competitiveness Report for 2019[9] year, published by the World Economic Forum, assesses the competitiveness landscape of countries around the world based on various factors. Here are some of them: Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan. These countries were evaluated on parameters such as "infrastructure", "macroeconomic stability", "health", "education", "innovation", "market size", "business sophistication", and more[10]. Table 2.4. presents the data from the Global Competitiveness Index (GCI) ratings and shows Kazakhstan in comparison to other Central Asian countries.

Kazakhstan had a GCI index rating of 62.9, placing it 55$^{th}$ in the world. This indicated a relatively strong competitive position on a global scale, especially among the countries listed. Uzbekistan followed with an index rating of 55, ranked 74$^{th}$ in the world. This placed Uzbekistan notably behind Kazakhstan in terms of global competitiveness. Kyrgyzstan had a GCI index rating of 54.4, with a global rank of 96. This positioned Kyrgyzstan as less competitive compared to both Kazakhstan and Uzbekistan. Tajikistan had the lowest GCI index

[9] There were no further editions, Global Competitiveness Report 2019 was the last available.
[10] The rankings and specific scores might have changed in subsequent reports.

rating among the group at 52.4, ranking 104th in the world. This suggested that Tajikistan faced more significant challenges in its competitive environment compared to its neighbours (Table 2.4.).

**Table 2.4.** Kazakhstan according to the GCI index and place in the world compared to Central Asian countries in 2019 year

| Country | Index rating | Place in the world |
|---|---|---|
| Kazakhstan | 62.9 | 55 |
| Kyrgyzstan | 54.4 | 96 |
| Uzbekistan | 55.0 | 74 |
| Tajikistan | 52.4 | 104 |

**Source:** own elaboration based on: (WorldEconomicForum, 2019).

Among the Central Asian countries listed, Kazakhstan holds the highest GCI rating and the best placement in the global rankings. This indicates that Kazakhstan possesses a more competitive economy with strengths likely in areas such as "infrastructure", "market size", "business dynamism", and "innovation capability" compared to its regional neighbours.

Within the context of Asian countries, Kazakhstan's position at 55th globally suggests it is among the more competitive economies in the broader Asian region, although it may still lag behind leading Asian economies such as those of China, Japan, South Korea, and Singapore, which typically occupy higher positions in the GCI due to their advanced technological infrastructure, higher innovation rates, and stronger institutional frameworks. Kazakhstan's ranking reflects its relative economic strengths and competitiveness on both a regional and global scale, highlighting areas of success while also implying areas for potential improvement to enhance its global standing further (WorldEconomicForum, 2019).

Table 2.5. The table gave an overview of Kazakhstan's performance in various pillars of competitiveness according to the GCI 4.0 for the year 2019. "Active environment" (Factors 1-4) represented the fundamental elements that facilitated a country's economic activity. Kazakhstan's average marks were as follows.:

- Factor 1 (Institutions): 55.6,
- Factor 2 (Infrastructure): 68.3,
- Factor 3 (ICT adoption): 68.0,
- Factor 4 (Macroeconomic stability): 86.2.

Kazakhstan performed best in macroeconomic stability, which was a positive indicator of its economic health and ability to attract investment. "Human capital" (Factors 5-6) assessed the education and skills of the workforce. Kazakhstan's scores were as follows:

- Factor 5 (Health): 71.0,

– Factor 6 (Skills): 67.5.

The scores suggested Kazakhstan had a relatively healthy and skilled workforce, which was essential for productivity and competitiveness. "Market" (Factors 7-10) evaluated the efficiency, openness, and size of the market:

– Factor 7 (Product market): 55.7,
– Factor 8 (Labor market): 67.8,
– Factor 9 (Financial system): 53.1,
– Factor 10 (Market size): 63.4.

The labour market and market size were relatively strong, but there was room for improvement in the product market and financial system. "Innovation ecosystem" (Factors 11-12) gauged the country's innovation capability:

– Factor 11 (Business dynamism): 66.6,
– Factor 12 (Innovation capability): 32.0.

Business dynamism in Kazakhstan was competitive; however, innovation capability was considerably lower, suggesting a need for enhanced innovation policies. The table also included average marks for groups of factors:

– Factors 1-4 (Active environment): 69.5,
– Factors 5-6 (Human capital): 69.3,
– Factors 7-10 (Market): 60.0,
– Factors 11-12 (Innovation ecosystem): 49.3.

**Table 2.5.** Assessment of the pillars of Kazakhstan's competitiveness according to GCI 4.0 2019

| Details | A place in the world in pillars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Active environment | | | Human Capital | | | Market | | | Innovation ecosystem | | |
| | F1 | F2 | F3 | F4 | F5 | F6 | F7 | F8 | F9 | F10 | F11 | F12 |
| Kazakhstan average mark in groups | 55.6 | 68.3 | 68.0 | 86.2 | 71.0 | 67.5 | 55.7 | 67.8 | 53.1 | 63.4 | 66.6 | 32.0 |
| | 69.5 | | | 69.3 | | | 60.0 | | | 49.3 | | |

**Source:** own elaboration based on data: (WorldEconomicForum, 2019).

The average marks indicated that Kazakhstan performed relatively well in creating an active environment for economic activities and in developing human capital. However, there was a notable dip in performance regarding market efficiency and the innovation ecosystem, highlighting areas where further improvement could enhance overall competitiveness.

Table 2.6 indicated that among the Central Asian countries, Kazakhstan had a consistent presence in the Global Competitiveness Index rankings from 2012 to 2019. Kazakhstan showed

relatively stable competitiveness, with slight fluctuations over the years. Kazakhstan's placement hovered around the 50th mark, with its best ranking being 42nd in 2015-2016 and its worst at 57th in 2017-2018. Overall, Kazakhstan's average rank was relatively strong, indicating that the country maintained a stable and competitive economic environment.

**Table 2.6.** Kazakhstan's global placement according to the GCI index compared to Central Asian countries from 2012 to 2019

| # | Country | Place in the world in years | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2019 |
| 1 | Kazakhstan | 51 | 50 | 50 | 42 | 53 | 57 | 55 |
| 2 | Kyrgyzstan | 127 | 121 | 108 | 102 | 111 | 102 | 96 |
| 3 | Tajikistan | 100 | | 92 | 80 | 77 | 79 | 104 |
| 4 | Turkmenistan | - | - | - | - | - | - | - |
| 5 | Uzbekistan | - | - | - | - | - | - | 74 |

**Source:** own elaboration based on: (WorldEconomicForum, 2019).

Kyrgyzstan has shown improvement over the years, moving from 127$^{th}$ in 2012-2013 to 96$^{th}$ in 2019. This upward trend suggests that Kyrgyzstan has been improving its economic policies and market conditions to become more competitive. Tajikistan rankings have fluctuated, with its best rank at 77$^{th}$ in 2016-2017 and a decline to 104$^{th}$ in 2019. These changes may reflect varying economic policies, market reforms, or external economic pressures. Turkmenistan data is not provided, which could suggest that it was not included in the index or that the data was not available for those years. Uzbekistan's placement is only available for 2019, where it was ranked 74$^{th}$. This single data point suggests a moderate level of competitiveness in 2019, but without historical data, it's difficult to infer a trend.

In the context of Central Asia, Kazakhstan is the clear leader in terms of competitiveness according to the GCI index, with rankings significantly better than its neighbours. The data implies that Kazakhstan has been more successful in creating an environment that is conducive to business, innovation, and economic growth. These rankings are influenced by a wide array of factors, including macroeconomic stability, infrastructure, the health and education of the labour force, market size, business dynamism, and innovation capability. A country's movement in the index can result from changes in these factors as well as changes in other countries' performances.

The factors that particularly influence Kazakhstan's competitiveness include the elements described below (WorldEconomicForum, 2019):

– in term of "infrastructure development": Kazakhstan has emphasized infrastructure growth, particularly in transportation, logistics, and telecommunications. Investments

in projects like the Khorgos-Eastern Gate Special Economic Zone have augmented its appeal to investors, positioning the nation as a vital link between China and Europe;

- in term of "economic stability": The stability of Kazakhstan's economy, reflected in low inflation rates, a stable exchange rate, and a predictable regulatory environment, has played a crucial role in attracting foreign direct investment. It's worth noting that the country showcased resilience during the global financial crisis of 2008, bolstering investor confidence;
- in term of "government policies and incentives": Kazakhstan's implementation of favourable policies, including tax incentives and special economic zones, has been instrumental in attracting foreign investors. These measures aim to streamline administrative procedures and create a welcoming environment for business operations;
- in terms of "market potential": The burgeoning consumer market in Kazakhstan, with its growing middle class, serves as a significant attraction for investors. Multinational corporations perceive Kazakhstan as an evolving market for various industries, ranging from consumer goods to services.

According to the World Economic Forum, although Kazakhstan has maintained a competitive position globally, there are areas to focus on to further enhance its competitiveness (WorldEconomicForum, 2019):

- reducing overreliance on resource-based industries by diversifying the economy, while emphasizing sectors like technology, manufacturing, and finance can provide resilience against market fluctuations;
- strengthening education and skill development programs to create a competent workforce, which is an essential asset for attracting high-value investments in emerging sectors;
- focusing on innovation and technological advancement by fostering an environment conducive to research, development and entrepreneurial ventures.

Kazakhstan's consistent positioning within the range of 55 to 60 in the Global Competitiveness Report reflects its strides in fostering an environment conducive to economic development. The nation's emphasis on infrastructure, economic stability, favourable policies, and market potential has attracted foreign investments. However, continued efforts in diversification, human capital investment, and fostering innovation remain crucial for Kazakhstan's sustained competitiveness and economic growth (WorldEconomicForum, 2019).

### 2.3.4. The Corruption Perceptions Index by Transparency International

The Corruption Perceptions Index (CPI[11]), published annually by Transparency International, is an important indicator for assessing the level of transparency and integrity within the public sectors of countries, and it can serve as a guide for policy reform, governance improvements, and anti-corruption measures.

Kazakhstan's position in the CPI has varied over the years, reflecting its efforts in addressing corruption within its institutions (TransparencyInternational, 2023).

Table 2.7 presented data on the CPI scores and world rankings of five Central Asian countries: Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, and Turkmenistan. The world rankings positioned these countries relative to others based on their CPI scores out of a total of 180 countries. Kazakhstan scored 39 out of 100, placing it 93rd among 180 countries. This suggested a moderate level of corruption perception, with Kazakhstan being closer to the middle in the global context. Uzbekistan had a score of 33 out of 100, ranking 121. This indicated a higher perception of corruption compared to Kazakhstan, with Uzbekistan falling into the lower middle tier globally. Tajikistan scored 20 out of 100, making it 162. This placed Tajikistan among the countries with a high perception of corruption, significantly lower than both Kazakhstan and Uzbekistan. Kyrgyzstan had a CPI score of 26 out of 100, with a world rank of 141. This suggested that Kyrgyzstan was seen as more corrupt than Kazakhstan but less so than Tajikistan. Turkmenistan scored the lowest among the group, with 18 out of 100 and a ranking of 170th. This positioned Turkmenistan near the bottom of the global list, indicating a very high level of perceived corruption.

[11] The CPI is a measure of perceived levels of public sector corruption according to experts and business people, and it ranges between 0 (highly corrupt) to 100 (very clean).

**Table 2.7.** Corruption Perceptions Index Scores and Global Rankings of Central Asian countries for 2023 year

| Country | Score CPI | World Rank |
|---|---|---|
| Kazakhstan | 39/100 | 93/180 |
| Uzbekistan | 33/100 | 121/180 |
| Tajikistan | 20/100 | 162/180 |
| Kyrgyzstan | 26/100 | 141/180 |
| Turkmenistan | 18/100 | 170/180 |

**Source** own elaboration based on: (TransparencyInternational, 2023).

In conclusion, Kazakhstan was perceived as the least corrupt among Central Asian countries, while Turkmenistan was perceived as the most corrupt. All the countries listed had scores below the midpoint of 50/100, indicating a general perception of corruption in their public sectors. Kazakhstan's position at 93/180 showed it to be in the better half globally, while all other countries ranked in the lower half of the index. These scores and rankings significantly impacted foreign investment, economic development, and international relations. Higher levels of perceived corruption deterred investment and aid, while lower levels enhanced a country's attractiveness as a business destination. Kazakhstan's standing in the Corruption Perceptions Index experienced fluctuations, reflecting changing perceptions of corruption within the country's public sector. (Transparency International, 2023).

The table 2.8 outlined the Corruption Perceptions Index score changes from 2013 to 2023 for five Central Asian countries. Kazakhstan showed a gradual improvement in its CPI score over the decade, starting at 26 in 2013 and rising to 39 by 2023. The most substantial growth occurred between 2019 and 2020, jumping from 34 to 38. By 2023, Kazakhstan had the highest CPI score among the listed countries, suggesting improvements in tackling corruption. Uzbekistan's CPI score consistently improved year-on-year, from 17 in 2013 to 33 in 2023. The upward trend indicated ongoing and steady efforts to address corruption. The consistent increase suggested effective anti-corruption measures and reforms were in place. Tajikistan's CPI score fluctuated, with an initial increase from 22 in 2013 to 26 in 2015, followed by a decrease and stabilization until a drop to 20 in 2023. The recent decline suggested that perceived corruption levels worsened or that reforms had stalled or reversed. Kyrgyzstan's CPI score improved until it peaked at 31 in 2020, then declined to 26 by 2023. This decline indicated potential setbacks in anti-corruption efforts or challenges in maintaining previous gains. Turkmenistan's CPI score remained relatively unchanged, with only minor fluctuations and a slight decrease to 18 in 2023. This suggested persistent challenges in combating corruption with little to no significant improvement over the decade.

**Table 2.8.** Corruption Perceptions Index Scores of Central Asian Countries for 2013-2023 years

| Country | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Kazakhstan | 26 | 29 | 28 | 29 | 31 | 31 | 34 | 38 | 37 | 36 | 39 |
| Uzbekistan | 17 | 18 | 19 | 21 | 22 | 23 | 25 | 26 | 28 | 31 | 33 |
| Tajikistan | 22 | 23 | 26 | 25 | 21 | 25 | 25 | 25 | 25 | 24 | 20 |
| Kyrgyzstan | 24 | 27 | 28 | 28 | 29 | 29 | 30 | 31 | 27 | 27 | 26 |
| Turkmenistan | 17 | 17 | 18 | 22 | 19 | 20 | 19 | 19 | 19 | 19 | 18 |

**Source:** own elaboration based on:(TransparencyInternational, 2023).

Summarizing table 2.8., it was concluded that there was a general trend of improvement in the region, with Kazakhstan and Uzbekistan showing the most progress. Despite these improvements, all countries remained below the midpoint of 50/100, indicating ongoing issues with corruption that still needed to be addressed. The rate and consistency of change varied significantly between countries, reflecting different political wills, policy effectiveness, and possibly varying levels of international engagement and support for reforms. The data suggested that while there were ongoing efforts to combat corruption in Central Asia, the effectiveness and sustainability of these efforts differed from country to country, with Kazakhstan and Uzbekistan showing more substantial progress compared to their neighbours.

In recent years, Kazakhstan's position in the CPI has shown a moderate trajectory. The country's CPI scores have typically ranged between 30 and 35 out of 100, signaling a perceived moderate level of corruption. However, it's important to note that these scores are relative and subject to variations from year to year based on several factors. (Transparency International, 2023). Factors influencing the perception of corruption in Kazakhstan according to Transparency International are presented in table 2.9.

**Table 2.9.** Factors influencing Kazakhstan's corruption perceptions

| | |
|---|---|
| **Governance and Institutional Reforms** | Kazakhstan has undertaken institutional reforms to combat corruption. Measures such as enhancing transparency, improving legal frameworks, and strengthening anti-corruption agencies have been implemented to address corruption challenges. These initiatives have contributed to altering perceptions, albeit gradually. |
| **Economic Development and Investment Climate** | Efforts to improve the investment climate and promote economic growth have led to initiatives aimed at reducing corruption in the business sector. Kazakhstan's pursuit of economic diversification and the attraction of foreign direct investment align with efforts to combat corruption and improve its CPI standings. |
| **Civil Society and Media** | Civil society organizations and media play crucial roles in exposing corruption and advocating for transparency. Kazakhstan's steps to support civil society and promote media freedom have contributed to raising awareness about corruption issues, influencing public perception and, consequently, CPI scores. |

**Source:** own elaboration based on: (TransparencyInternational, 2023).

Despite Kazakhstan's progress in addressing corruption, significant challenges remain. Transparency International highlights several key areas needing attention: tackling high-level corruption, as cases involving top officials reveal the need for ongoing efforts to ensure accountability and transparency at all governance levels; ensuring an independent judiciary,

which is crucial for effective anti-corruption measures and strengthening the rule of law; and enhancing transparency in public sector operations, particularly in procurement processes and decision-making. (TransparencyInternational, 2023)

To sum up, Kazakhstan's position in the Corruption Perceptions Index reflects its efforts in combating corruption within its institutions. While the country has implemented reforms and taken steps to address corruption, challenges persist. Continuous commitment to governance reforms, judicial independence, transparency, and accountability will be pivotal for Kazakhstan's sustained progress in combating corruption and improving its standing in the Corruption Perceptions Index (TransparencyInternational, 2023).

### 2.3.5. The Middle Corridor – Kazakhstan's strategic geographical location

The Middle Corridor, part of the broader Trans-Caspian International Transport Route (TITR), aims to establish efficient trade and transport connections between Europe and Asia, utilizing Kazakhstan's strategic geographical location. The World Bank has recognized Kazakhstan's pivotal role in this initiative, emphasizing its significance in regional connectivity and international trade (worldbank.org, 2023).

Kazakhstan plays an important role in the Central Corridor. In particular, it should be pointed out (WorldBank, 2023):

1. geographical advantage – Kazakhstan's position as a land bridge between Europe and Asia positions it as a crucial transit hub within the Middle Corridor. The country's vast territory provides opportunities for transit and logistics development, linking China to Europe through rail and road networks;
2. infrastructure development – Kazakhstan has invested in enhancing its transport infrastructure, particularly rail and road networks, to facilitate the smooth movement of goods. Initiatives like the Khorgos-Eastern Gate Special Economic Zone have bolstered Kazakhstan's role as a transit corridor by establishing modern logistics and trade facilities;
3. trade facilitation – Kazakhstan has implemented measures to simplify customs procedures and border crossings, reducing transit times and enhancing trade facilitation. This commitment aligns with the Middle Corridor's objectives of streamlining trade and transport along the route;
4. multilateral cooperation – Kazakhstan actively engages in multilateral partnerships and agreements to strengthen the Middle Corridor. Collaboration with neighbouring

countries, international organizations, and private sector stakeholders is integral to optimizing the corridor's efficiency and attractiveness for trade.

While Kazakhstan holds a pivotal position in the Middle Corridor, challenges persist. These may include the issues identified below (WorldBank, 2023).

Continued infrastructure investment will focus on further enhancing the efficiency of transport networks throughout the corridor. Regulatory alignment involves creating space for harmonizing and aligning regulations between countries, which will help reduce trade barriers and facilitate smoother cross-border movement. Kazakhstan's active involvement in the Middle Corridor initiative highlights its dedication to promoting regional connectivity and international trade. By leveraging its geographical position and infrastructure investments, Kazakhstan significantly boosts trade flows between Europe and Asia, supporting the broader goal of regional economic integration and development along the Middle Corridor. (WorldBank, 2023).

### 2.3.6. Index of Economic Freedom by The Heritage Foundation

The Index of Economic Freedom, produced by The Heritage Foundation and The Wall Street Journal, provides an extensive analysis of countries' economic policies, regulatory environments, rule of law, and openness to trade and investment. This index serves as a comprehensive tool for evaluating the economic freedom landscape of nations across the globe. In the context of Central Asia, encompassing Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan analysing their respective economic freedom rankings unveils a nuanced picture of their policy frameworks and market dynamics.

The data from 2022, provided in Table 2.10, reflected the standings of Central Asian countries according to the Index of Economic Freedom by the Heritage Foundation. Kazakhstan led the Central Asian region in economic freedom, with a score that ranked it 64th in the moderate range of freedom. It held a relatively high rank globally, indicating a better environment for business and investment compared to its neighbours. Uzbekistan's score placed it significantly lower than Kazakhstan, at 117th place, suggesting that there were more restrictions on economic freedom. Despite this, it was not far behind Kyrgyzstan and was ahead of Tajikistan and Turkmenistan, indicating some progress in economic reforms. Kyrgyzstan's score was marginally better than Uzbekistan's, but it placed just one rank higher globally at 116th place. This close ranking suggested that both countries had similar levels of economic freedom and faced comparable challenges. Tajikistan's index value was below the midpoint of 50, which placed it among the countries with more economic restrictions at 147th place. Its

global rank indicated significant room for improvement in economic policy and legal structures to enhance economic freedom. Turkmenistan had the lowest index value among the listed countries, reflecting substantial economic restrictions and challenges.

**Table 2.10.** Central Asian countries according to the Index of Economic Freedom by the Heritage Foundation for 2022 year

| Country | Index value | Place |
|---|---|---|
| Kazakhstan | 64.4 | 64 |
| Uzbekistan | 55.7 | 117 |
| Tajikistan | 49.7 | 147 |
| Turkmenistan | 46.2 | 165 |
| Kyrgyzstan | 55.8 | 116 |

**Source:** own elaboration based on: (Miller, Kim, & Roberts, 2022).

Summing up Table 2.10, there was a significant range of economic freedom levels among Central Asian countries, with Kazakhstan leading the region. The lower-ranked countries, Tajikistan and Turkmenistan, had significant potential for economic reform to improve their standings. The levels of economic freedom directly impacted these countries' economic development, attractiveness for foreign investment, and overall economic growth prospects.

The data suggested that while Kazakhstan was comparatively ahead in economic freedom, other Central Asian countries were still grappling with economic reforms and opening up their markets to achieve higher levels of economic freedom. The rankings and index values were indicative of the regulatory and policy environments that affected business operations, property rights, trade openness, and the rule of law in these countries.

Kazakhstan, with its vast energy resources and strategic geographic location, has pursued economic reforms to attract investment and promote market liberalization. Its economic freedom score has typically ranged between moderate to moderate-high. The country’s improvements in business freedom, fiscal health, and investment freedom reflect its commitment to creating a conducive business environment. Initiatives to simplify tax structures, privatize state-owned enterprises, and enhance business regulations have contributed to Kazakhstan’s economic progress. Kyrgyzstan, characterized by its agricultural base and significant gold reserves, has experienced moderate levels of economic freedom. The country’s economic freedom score reflects a mix of improvements and challenges. While it has made strides in trade freedom and fiscal health, Kyrgyzstan faces hurdles related to regulatory efficiency and the rule of law. Efforts to strengthen property rights protection, reduce corruption, and streamline business regulations are integral to enhancing economic freedom.

Uzbekistan, historically known for its cotton production and natural resources, has undertaken substantial reforms to liberalize its economy. The country's economic freedom score has shown a positive trajectory due to advancements in trade freedom, investment freedom, and fiscal health. Reforms aimed at attracting foreign investment, privatizing state-owned enterprises, and diversifying the economy beyond traditional sectors signal Uzbekistan's commitment to economic liberalization. Tajikistan, characterized by its agricultural sector and remittances, faces challenges in its economic freedom landscape. The country's score remains in the lower range, reflecting obstacles related to government integrity, property rights protection, and labour freedom. Although Tajikistan has shown progress in fiscal health, regulatory efficiency, and trade freedom, efforts to improve governance, reduce corruption, and enhance the ease of doing business are crucial for fostering economic freedom (Miller, Kim, & Roberts, 2022).

Central Asian countries share common challenges and opportunities in the pursuit of greater economic freedom (Miller, Kim, & Roberts, 2022):

- strengthening the rule of law, combating corruption, and enhancing government integrity are fundamental for fostering economic freedom across the region;
- streamlining regulations, reducing bureaucratic obstacles, and improving the ease of doing business are vital for attracting investment and promoting economic growth;
- increasing trade openness, attracting foreign investment, and diversifying economies beyond natural resources are essential strategies for enhancing economic freedom and resilience in the face of global economic uncertainties.

Central Asian countries exhibit diverse economic landscapes and varying degrees of economic freedom. Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan have made strides in certain areas while facing challenges in others. Sustained reforms aimed at improving governance, fostering a conducive business environment, and attracting investment are pivotal for advancing economic freedom in the region. These nations have the opportunity to leverage their strengths, embark on comprehensive reforms, and collaborate to achieve greater economic freedom, thereby fostering sustainable economic growth and development in Central Asia (Miller, Kim, & Roberts, 2022).

### 2.3.7. Legatum Prosperity Index

The Legatum Prosperity Index is a comprehensive measure that describes the prosperity of nations through a multidimensional framework, including economic wealth and social wellbeing across various domains such as "economic quality", "business environment", "governance", "education", "health", "safety & security", "personal freedom", "social capital",

and the "natural environment"[12]. It uses a combination of over 100 variables, offering an extensive assessment of prosperity for over 140 countries worldwide. This index not only ranks countries based on their level of prosperity but also provides insights into how prosperity can be enhanced through policy interventions in areas such as education, governance, and economic policies (The Legatum Prosperity Index, 2023).

**Table 2.11.** The Legatum Prosperity Index – Kazakhstan compared to Central Asian countries for 2023 year

| Rank | Country | Safety & security | Personal freedom | Governance | Social capital | Investment environment | Enterprise conditions | Infrastructure & market access | Economic quality | Living conditions | Health | Education | Natural envirmnet |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 69 | Kazakhstan | 81 | 126 | 99 | 108 | 74 | 83 | 91 | 38 | 53 | 77 | 35 | 126 |
| 94 | Kyrgyzstan | 71 | 103 | 108 | 100 | 99 | 124 | 110 | 88 | 84 | 76 | 85 | 95 |
| 100 | Uzbekistan | 53 | 147 | 123 | 46 | 107 | 121 | 104 | 79 | 103 | 49 | 73 | 162 |
| 107 | Turkmenistan | 66 | 161 | 156 | 24 | 121 | 153 | 121 | 67 | 66 | 54 | 66 | 159 |
| 113 | Tajikistan | 76 | 145 | 129 | 52 | 122 | 135 | 125 | 109 | 105 | 75 | 81 | 150 |

**Source:** own elaboration based on: (The Legatum Prosperity Index, 2023).

Based on the table 2.11. it is possible to conduct a comparative analysis of the prosperity pillars for Kazakhstan and its Central Asian neighbours – Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan. Kazakhstan ranks 69$^{th}$ overall in the 2023 Legatum Prosperity Index, making it the highest-ranked Central Asian country in the index. This positioning is notable when considering the components that contribute to its ranking: Kazakhstan performs well in areas like the "investment environment" and "infrastructure & market access", indicating a relatively robust economic framework and openness to trade and investment.

[12] The "safety & security" pillar measures the degree to which war, conflict, terror, and crime have destabilised the security of individuals, both immediately and through longer lasting effects. The "personal freedom" pillar measures progress towards basic legal rights, individual liberties, and social tolerance. The "governance" pillar measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The "social capital" pillar measures the strength of personal and social relationships, institutional trust, social norms, and civic participation in a country. The "investment environment" pillar measures the extent to which investments are adequately protected and are readily accessible. The "enterprise conditions" pillar measures the degree to which regulations enable businesses to start, compete, and expand. The "infrastructure & market access" pillar measures the quality of the infrastructure that enables trade, and distortions in the market for goods and services. The "economic quality" pillar measures how well an economy is equipped to generate wealth sustainably and with the full engagement of the workforce. The "living conditions" pillar measures the degree to which a reasonable quality of life is experienced by all, including material resources, shelter, basic services, and connectivity. The "health" pillar measures the extent to which people are healthy and have access to the necessary services to maintain good health, including health outcomes, health systems, illness and risk factors, and mortality rates. The "education" pillar measures enrolment, outcomes, and quality across four stages of education (pre-primary, primary secondary, and tertiary education), as well as the skills in the adult population. The "natural environment" pillar measures the aspects of the physical environment that have a direct effect on people in their daily lives and changes that might impact the prosperity of future generations (The Legatum Prosperity Index, 2023).

Kazakhstan's overall position suggests a moderate performance in providing quality education and health services to its citizens. "safety & security" and "governance" are crucial areas for prosperity, and Kazakhstan's ranking implies challenges but also areas of strength within its institutional frameworks and efforts to ensure the safety and security of its people. As the highest-ranked Central Asian country, Kazakhstan likely outperforms its neighbours in several key pillars, reflecting its more advanced development stage and potentially more stable economic and political environment. Central Asian countries, including Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, have varying performances across the pillars of prosperity. Given Kazakhstan's rank, it's reasonable to infer that it has stronger institutions, a more favourable investment climate, and better access to health and education compared to its neighbours. However, it's also essential to recognize that each country faces unique challenges and opportunities, impacting its prosperity. Focusing on Kazakhstan's strengths, such as its relatively high rankings in Investment Environment and Enterprise Conditions, is crucial. These pillars suggest that Kazakhstan has been successful in creating a conducive environment for business and investment, crucial for economic diversification and growth. Additionally, Kazakhstan's efforts in improving infrastructure and market access are likely contributing factors to its regional leadership in prosperity. However, challenges remain, particularly in enhancing personal freedoms, governance, and social capital. Addressing these areas could further elevate Kazakhstan's prosperity and serve as a model for its Central Asian neighbours.

## 2.4. Risk of foreign direct investment in Kazakhstan based on rankings

Based on the information from the Global Risks Report 2023 (World Economic Forum, 2023), the key risks identified for Central Asian countries, specifically Kazakhstan, Kyrgyzstan, are as follows[13]:

- Kazakhstan:

1. geoeconomic confrontation,
2. rapid and/or sustained inflation,
3. geopolitical contestation of resources,
4. interstate conflict,
5. severe commodity price shocks.

[13] Unfortunately, there is no specific risks listed for Uzbekistan, Tajikistan and Turkmenistan within sections of the Global Risks Report 2023.

– Kyrgyzstan:

1. interstate conflict,
2. debt crises,
3. state collapse,
4. severe commodity supply crises,
5. infectious diseases.

Kazakhstan's risks are more oriented towards geopolitical and economic confrontations, likely due to its larger economy and significant natural resources. The fear of geoeconomic confrontation and commodity price shocks reflects its reliance on exports of natural resources. Kyrgyzstan's risks highlight concerns about stability (interstate conflict, state collapse) and health (infectious diseases), in addition to economic challenges (debt crises, commodity supply crises). This suggests a broader range of vulnerabilities, possibly due to its more varied economic base and internal as well as external challenges to its stability. The absence of specific risk data for Uzbekistan in the report's findings limits a comprehensive comparative analysis. Given Uzbekistan's significant economic reforms and regional influence, understanding its risk profile would be crucial for a full regional analysis. The highlighted risks for Kazakhstan and Kyrgyzstan indicate a complex interplay of geopolitical, economic, and societal challenges within Central Asia, reflecting both global trends and regional specifics (World Economic Forum, 2023).

Table 2.12. provides a comparative analysis of the risk levels associated with Kazakhstan and its neighbouring Central Asian countries (Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan) according to evaluations by five different rating agencies. These agencies include Atradius, EULER Hermes Global, Coface for Trade, AM Best Rating Services, and the OECD. Atradius Ranking (Q4 2023) is rated Kazakhstan as "Moderate-low risk", indicating a relatively better risk profile compared to all other Central Asian countries listed, which are rated as either "Moderate risk" or "Moderate high risk". EULER Hermes Global (January 2024) is given to Kazakhstan a C4 rating, denoting "high risk for enterprise" but is not differentiated from Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan, which also share a D4 rating with the same risk implication. This suggests that while the level of risk for enterprises is considered high across the board, Kazakhstan's position within this category isn't explicitly superior or inferior based on this criterion alone. According to COFACE FOR TRADE (Q4 2023) Kazakhstan is assessed with a B rating, indicating a relatively favourable risk environment for trade. This contrasts with Uzbekistan, which also has a B rating, suggesting comparable conditions for trade in both countries. However, Kazakhstan stands out

positively when compared to Turkmenistan and Tajikistan (both rated D) and Kyrgyzstan (rated C), indicating a less risky environment in Kazakhstan for trade activities. AM Best Rating Services (Q4 2023) receiving Kazakhstan a CRT-4 rating, which places it in a somewhat riskier position compared to Uzbekistan (CRT-5) but shows no direct comparison with Turkmenistan, Kyrgyzstan, and Tajikistan due to the absence of ratings for these countries. This suggests that, from an insurance perspective, Kazakhstan is considered to have a slightly less risky profile than Uzbekistan but is not directly comparable to the other Central Asian countries based on this data. According to the OECD (Q4 2023), Kazakhstan and Uzbekistan both have a rating of 5, indicating comparable levels of country risk according to the organization's assessment. In contrast, Turkmenistan, Kyrgyzstan, and Tajikistan are rated 7, reflecting a higher level of risk as perceived by the OECD.

**Table 2.12.** Country risk – Kazakhstan compared to Central Asian countries

| Countries | Rankings | | | | |
|---|---|---|---|---|---|
| | **Atradius** | **EULER Hermes global** | **COFACE FOR TRADE** | **AM Best Rating Services** | **OECD** |
| | **Q4 2023** | **January 2024** | **Q4 2023** | **Q4 2023** | **Q4 2023** |
| Kazakhstan | Moderate-low risk | C4 (high risk for enterprise) | B | CRT-4 | 5 |
| Uzbekistan | Moderate risk | D4 (high risk for enterprise) | B | CRT-5 | 5 |
| Turkmenistan | Moderate high risk | D4 (high risk for enterprise) | D | - | 7 |
| Kyrgyzstan | Moderate high risk | D4 (high risk for enterprise) | C | - | 7 |
| Tajikistan | Moderate high risk | D4 (high risk for enterprise) | D | - | 7 |

**Source:** own elaboration based on: (Country Risk Map, 2024; EULER Hermes global, 2024; Country Risk Assessment , 2024; AM Best's country risk , 2024; Risk Governance Scan, 2024).

In conclusion Kazakhstan stands out among its Central Asian counterparts with generally lower or comparable risk ratings across different metrics. It has the highest rankings in terms of trade risk (B rating from Coface for Trade) and is viewed more favourably by Atradius as “Moderate-low risk”. While it shares a high risk for enterprises with other countries in the region according to EULER Hermes and has a comparable OECD rating with Uzbekistan, Kazakhstan’s overall risk profile suggests a relatively more stable and safer environment for investment and economic activities among the Central Asian countries analysed.

# Chapter 3 Foreign direct investment in Kazakhstan

## 3.1 Foreign direct investment in Central Asian countries

The United Nations Conference on Trade and Development (UNCTAD) plays a crucial role in addressing the data needs of countries by analysing and disseminating statistics on foreign direct investment and by enhancing the capacity of government agencies to collect and report FDI and transnational corporation (TNC) date. UNCTAD maintains the most comprehensive global databases on FDI and TNC activities, covering more than 200 economies over a period of 40 years. This wealth of data includes information on FDI flows and stocks, mergers and acquisitions, and the activities of the largest TNCs, along with regulatory changes affecting FDI (UNCTAD, 2024).

Table 3.1. illustrates the inward stock of foreign direct investment for various economies in Central Asia for the year 2022. The total FDI in-stock across Central Asia was recorded at approximately 216.45 billion USD. Kazakhstan, being the largest economy within the table, held an FDI inward stock of around 154.18 billion USD. Kyrgyzstan, on the other hand, presented a significantly lower FDI inward stock, totaling approximately 3.77 billion USD. In a similar vein, Tajikistan's FDI inward stock was relatively small, amounting to roughly 3.33 billion USD. Turkmenistan's FDI inward stock stood at approximately 41.54 billion USD, while Uzbekistan reported an FDI in-stock of about 13.63 billion USD.

**Table 3.1.** FDI inward stock Central Asian countries in 2022 year (millions of dollars)

| Region/economy | Value of FDI inward stock |
|---|---|
| Kazakhstan | 154 183.3 |
| Kyrgyzstan | 3 767.9 |
| Tajikistan | 3 329.5 |
| Turkmenistan | 41 537. |
| Uzbekistan | 13 630.7 |
| **Central Asia** | **216 448.5** |

**Source:** own elaboration based on: (UNCTAD, 2023).

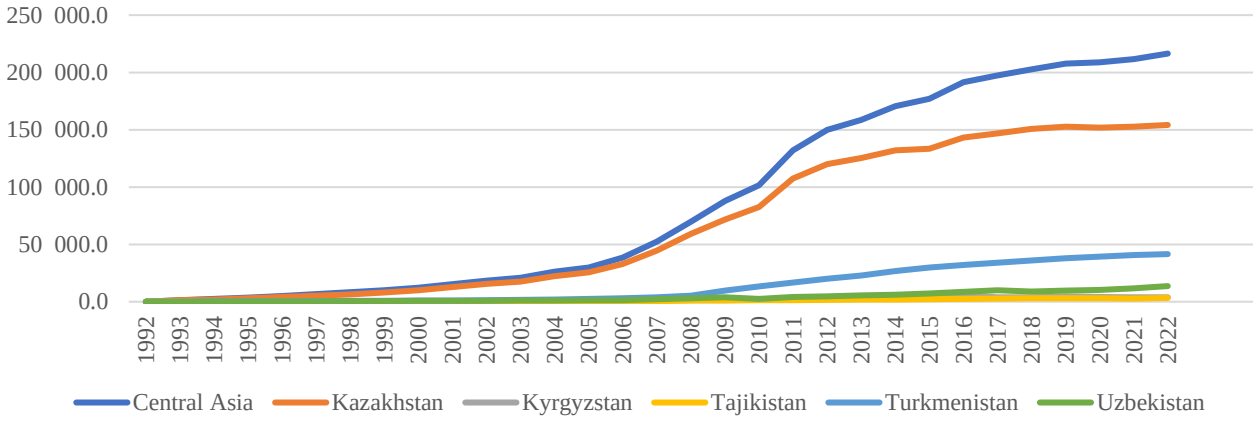
Based on the data presented in table 3.1., it was concluded that Kazakhstan clearly led in FDI inward stock within this group of Central Asian countries, holding the largest share by a substantial margin. This indicated a more developed economy, a better investment climate, or more opportunities for foreign investors compared to its neighbours. Kyrgyzstan and Tajikistan recorded the lowest FDI inward stocks, suggesting these economies were either less attractive to foreign investors, had smaller economies in general, or both. The difference between the

highest (Kazakhstan) and the lowest (Kyrgyzstan and Tajikistan) FDI inward stocks was significant, demonstrating economic disparity within the region regarding attractiveness and capacity for foreign investment. Turkmenistan and Uzbekistan fell between the extremes, with Turkmenistan having a notably higher FDI inward stock than Uzbekistan. This might have been due to differences in natural resources, economic policies, political stability, or other factors that could influence foreign investment decisions. The aggregate figure for Central Asia showed a significant amount of foreign investment in the region, which could imply that, as a bloc, Central Asia was becoming an important destination for foreign investors, potentially due to its strategic location, natural resources, or economic reforms.

Figure 3.1. shows the FDI inward stock, for Central Asian countries from 1992 to 2022. A general trend of growth in FDI inward stock across Central Asian region from 1992 to 2022 was observed. This trend was indicative of increasing foreign investment interest in Central Asia, likely due to the region's development, economic reforms, and natural resource potential. The collective FDI inward stock in Central Asia grew from 18 million USD in 1992 to 216.45 billion USD in 2022. This substantial increase resulted from the combined economic growth and investment opportunities in the region.

Starting from virtually no FDI in 1992, Kazakhstan showed a significant and relatively steady increase in FDI inward stock, reaching 154.18 billion USD in 2022. It had the largest FDI inward stock among the listed countries, reflecting its status as the region's largest economy and potentially its oil and mineral resources. Kyrgyzstan's FDI inward stock also grew but remained small compared to Kazakhstan. It saw fluctuations, particularly a peak around 2014, followed by a decline and then a slight recovery by 2022. Beginning with 9 million USD in 1992, Tajikistan experienced growth in FDI inward stock, though it displayed some variability over the years. It reached a peak in 2014 and 2015 and had some fluctuations, with a slight decrease in 2021 before increasing again in 2022. Turkmenistan witnessed a significant increase in FDI inward stock since 1992. Notable jumps were observed in certain years, such as between 2008 and 2009 and then again from 2009 onwards, which could be attributed to specific large-scale investment projects or initiatives. Uzbekistan's FDI inward stock showed a steady increase with some fluctuations, with a noticeable rise from 2009 onwards. It grew significantly from 9 million USD in 1992 to 13.63 billion USD in 2022. The growth may have indicated an improving investment climate and economic reforms in recent years.

**Figure 3.1.** FDI inward stock, Central Asian countries, from 1992 to 2022 (millions of dollars)




**Source:** own elaboration based on: (UNCTAD, 2023).

After analysing figure 3.1., it was concluded that the consistent increase in FDI inward stock across the region suggested an environment conducive to foreign investment. This environment was potentially driven by the development of natural resources, strategic economic initiatives, and political reforms that attracted foreign capital. There were periods of particularly rapid growth, such as the early 2000s and the years following 2009, which might have corresponded to global economic trends, regional developments, or significant changes in the investment policies of these countries. The data might also have reflected the impact of global economic and financial events, such as the late-2000s financial crisis, as visible fluctuations in FDI stocks were observed during these periods.

Kazakhstan's dominant share of the FDI inward stock indicated a more diversified and stable economy, attractive investment laws, or a specific focus on industries that drew substantial foreign investment, like oil and gas. The lower levels of FDI inward stock for Kyrgyzstan and Tajikistan could have suggested smaller economies with fewer investment opportunities or less favourable investment conditions. The sharp increases in Turkmenistan and Uzbekistan in some years could have suggested the completion of large investment projects or the opening up of significant sectors to foreign investment. The data pointed to varying degrees of economic openness and differing success in attracting foreign investment among the Central Asian countries.

Table 3.2. provided data on FDI inward stock for Central Asia and individual Central Asian economies for selected years: 1992, 2002, 2012, and 2022. The total FDI inward stock in Central Asia increased dramatically from 18 million USD in 1992 to over 216 billion USD in 2022. A significant leap in FDI stock occurred between 1992 and 2002, and it continued to rise steadily over the next two decades. Starting from no recorded FDI in 1992, Kazakhstan

showed the most significant increase among the listed countries. By 2022, Kazakhstan's FDI inward stock had reached 154.18 billion USD, indicating robust economic growth and a favorable environment for foreign investors.

**Table 3.2.** FDI inward stock, by region and economy, 1992, 2002, 2012, 2022 (millions of dollars)

| Region/economy | 1992 | 2002 | 2012 | 2022 |
|---|---|---|---|---|
| Kazakhstan | 0.0 | 15 464.3 | 119 943.9 | 154 183.3 |
| Kyrgyzstan | 0.0 | 479.1 | 3 553.3 | 3 767.9 |
| Tajikistan | 9.0 | 181.7 | 1 599.3 | 3 329.5 |
| Turkmenistan | 0.0 | 1 395.2 | 19 963.0 | 41 537.2 |
| Uzbekistan | 9.0 | 846.4 | 4 740.4 | 13 630.7 |
| **Central Asia** | **18.0** | **18 366.8** | **149 799.8** | **216 448.5** |

**Source:** own elaboration based on: (UNCTAD, 2023).

Kyrgyzstan, also starting from zero in 1992, experienced growth in FDI stock over the 30-year span. Its growth to 3.77 billion USD by 2022 suggested a developing investment climate, although it remained the smallest among the nations listed after Tajikistan. With an initial 9 million USD in 1992, Tajikistan's FDI inward stock showed steady growth, reaching 3.33 billion USD in 2022. The more than threefold increase from 2012 to 2022 could indicate recent reforms or developments that made the country more attractive to foreign investors.

Turkmenistan saw substantial growth from no FDI in 1992 to 41.54 billion USD in 2022. The country's FDI stock rose, especially in the last decade, which might be attributed to the exploitation of natural resources or new investment policies. Starting with 9 million USD in 1992, Uzbekistan's FDI inward stock grew consistently, reaching 13.63 billion USD in 2022. The growth was considerable, especially between 2002 and 2012, and then continued to increase, reflecting potential improvement in the investment environment.

Table 3.2. showed an overall positive trend for the region, with increasing foreign investment likely driven by resource development, economic reforms, and geopolitical strategic interests. Kazakhstan's dominant position suggested a more diversified and stable economic structure that was particularly attractive to foreign investors. Kyrgyzstan and Tajikistan, while growing, remained relatively small in FDI stock, indicating potential areas for improvement in attracting foreign capital. Turkmenistan's and Uzbekistan's significant growth might be associated with specific sectors, likely the energy sector, given the region's rich natural gas and oil reserves. The progressive increase in FDI across all countries suggested improving macroeconomic stability and investor confidence in the region's future.

Table 3.3. provided data on the inflow of foreign direct investment into Central Asia and individual Central Asian countries for the year 2022. The region of Central Asia received

a total FDI inflow of approximately 10.04 billion USD in 2022. This figure represented the combined FDI received by all countries listed in the region for that year. Kazakhstan had the highest FDI inflow in the region, with approximately 6.11 billion USD in 2022. This accounted for more than half of the total FDI inflow into Central Asia, highlighting Kazakhstan's significant role in attracting foreign investment in the region. Kyrgyzstan received an FDI inflow of approximately 290.9 million USD in 2022. Compared to Kazakhstan, Kyrgyzstan attracted a much smaller amount of FDI, which could be indicative of its smaller economy or less favourable investment conditions. Tajikistan's FDI inflow was around 174 million USD in 2022, suggesting that Tajikistan was receiving a relatively modest amount of foreign investment compared to its neighbouring countries. Turkmenistan saw an FDI inflow of approximately 936 million USD in 2022. The amount was significant, suggesting that Turkmenistan had potential investment opportunities that were being realized, possibly in the natural resources sector. Uzbekistan received an FDI inflow of about 2.53 billion USD in 2022. This indicated that Uzbekistan was a substantial recipient of FDI in the region, potentially due to ongoing economic reforms and a favorable investment climate.

**Table 3.3.** FDI inflows in Central Asian countries in 2022 year (millions of dollars)

| Region/economy | Value of the FDI inflow of |
|---|---|
| Kazakhstan | 6 108.4 |
| Kyrgyzstan | 290.9 |
| Tajikistan | 174.0 |
| Turkmenistan | 936.0 |
| Uzbekistan | 2 531.3 |
| **Central Asia** | **10 040.7** |

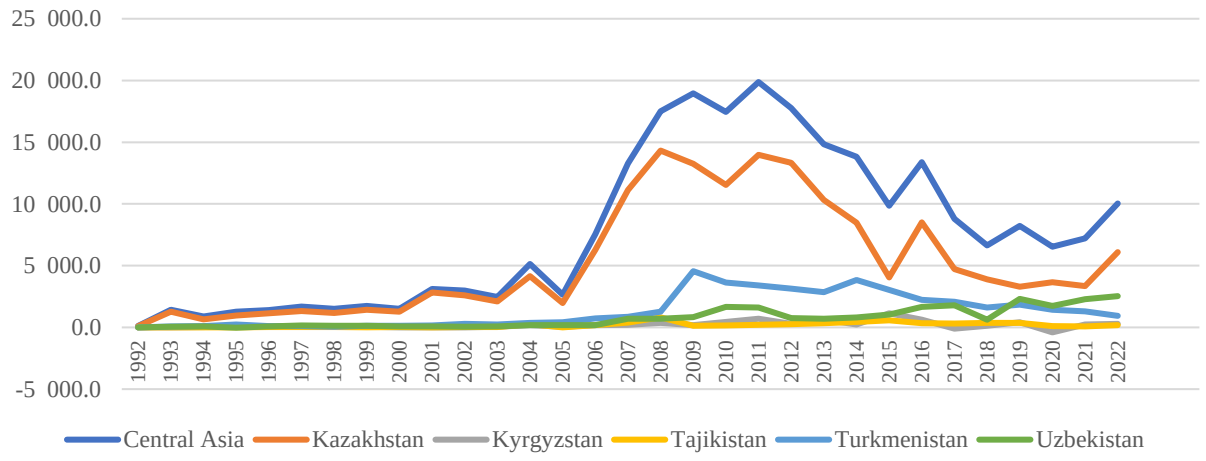
**Source:** own elaboration based on: (UNCTAD, 2023).

The distribution of FDI across the countries suggested that there were disparities in the investment attractiveness and potential of each economy. Kazakhstan's dominance in FDI inflow could be attributed to its larger size, resource wealth, particularly in oil and minerals, and potentially more developed financial and legal institutions. The lower FDI figures for Kyrgyzstan and Tajikistan suggested that these countries might have less favourable investment climates or smaller markets that attracted less foreign investment. Turkmenistan and Uzbekistan's substantial FDI inflows could indicate specific sectors attracting foreign capital or the success of recent policy measures to improve their respective investment climates.

The overall FDI inflow into Central Asia reflected the geopolitical and economic significance of the region, which is rich in natural resources like hydrocarbons and minerals. It also suggested a growing interest from foreign investors to establish a presence in these

emerging markets. However, the variation in FDI across the countries also highlighted the differing economic environments and challenges that investors might face, including market size, regulatory frameworks, political stability, and economic policies.

**Figure 3.2** FDI inflows in Central Asian countries from 1990 to 2022 (millions of dollars)




**Source:** own elaboration based on: (UNCTAD, 2023).

Figure 3.2. showed the inflow of FDI into Central Asia and its economies from 1992. The FDI inflow into Central Asia experienced significant growth over the 30-year period, with a remarkable increase from 118 million USD in 1992 to 10.04 billion USD in 2022. Peaks in FDI inflow were visible in 2007, 2009, and 2011, which may have reflected periods of intensified investment interest or economic initiatives in the region. Kazakhstan stood out with substantial growth in FDI inflow, beginning with 100 million USD in 1992 and reaching 6.11 billion USD in 2022. It consistently was a leading recipient of FDI in the region, with noticeable peaks in 2007, 2011, and 2012. Starting from no FDI in 1992, Kyrgyzstan's FDI inflow showed variability with a decline in 1999 and 2000 but reached 290.9 million USD in 2022. The volatility in FDI inflow might have been due to political or economic changes affecting investor confidence. Tajikistan's FDI inflow showed gradual growth from 9 million USD in 1992 to 174 million USD in 2022. Like Kyrgyzstan, Tajikistan had a small economy, and FDI inflows reflected modest but consistent investor interest. Turkmenistan experienced fluctuations in FDI inflow, with no FDI in 1992 but a significant spike to 936 million USD in 2022. Large jumps in FDI inflow, especially in 2009, might have reflected specific large-scale investments, possibly in the energy sector. Starting with 9 million USD in 1992, Uzbekistan's FDI inflow saw steady growth, with some years of decline, but it reached 2.53 billion USD in 2022. The fluctuation and eventual rise may have indicated periods of economic reform or liberalization affecting FDI.

The overall trend suggested an increasing appeal of Central Asian economies to foreign investors, possibly due to the region's natural resources, strategic location, and improving economic policies. Kazakhstan's dominance in the FDI figures indicated its significant role in the region's economy, likely due to its natural resource wealth and more developed market infrastructure. Periods of sharp increase or decrease in FDI inflow for the individual economies may have corresponded with global economic trends, regional developments, or changes in national policies affecting investment climates. The fluctuations in FDI inflow into Kyrgyzstan, Tajikistan, and Uzbekistan suggested these markets might have been perceived as riskier or less predictable by investors, or they may have reflected the impact of regional and domestic challenges.

## 3.2. Foreign direct investment in Kazakhstan

### 3.2.1. Foreign direct investment statistics in Kazakhstan – methodological issues

Analysis of data regarding the scale and structure of direct investments border and enterprises with the participation of foreign capital requires an explanation of the recording rules adopted by the occupying institutions data collection. Monitoring foreign capital in Kazakhstan is mainly carried out by: National Bank of Kazakhstan (NBK), Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, Kazakh Invest.

Each of the indicated institutions uses a different collection methodology data on the inflow of foreign capital to Kazakhstan.

**The National Bank of Kazakhstan** bases its methodological principles of FDI statistics on the guidelines formulated in the fourth edition of the OECD's Benchmark Definition of Foreign Direct Investment and the sixth edition of the International Monetary Fund's Balance of Payments and International Investment Position Manual. The NBK presents data on the direct values of foreign investments in USD in the study Kazakhstan: Balance of Payments and External Debt'. Information on foreign investments is considered with the asset/liability principle in tables regarding the international investment position. In assessing the inflow of foreign direct investment, divisions into equity, shares of investment funds, and substantial instruments are acknowledged. The study provides data on FDI stocks, flows, and income. Additionally, the NBK's records of foreign direct investment flowing into Kazakhstan consider the divisions according to the type of activity and the country of residence of the foreign company investor (NBK, 2023).

**The Agency for Strategic Planning and Reforms of the Republic of Kazakhstan** collects and publishes information on various subjects, including enterprises with foreign capital. The data presented pertains to the analysis of information about entities with foreign capital that are produced and operating within Kazakhstan. Such data are detailed in the study titled "Main Indicators of the Number of Entities in the Republic of Kazakhstan". The bulletin also contains tips of the statistical register of entrepreneurs is based on lists of persons, legal entities, branches, and representative offices registered or re-registered in the Ministry of Justice, as well as individual entrepreneurs who have been registered or re-registered as members of the State Revenue Committee. The study includes information on the number of registered and operating entities according to size, type of ownership, region, and type of activity. Activities are classified in accordance with the applicable Nomenclature of Types of Economic Activities (OKED 5-digit). Against this backdrop, the data also cover enterprises with full participation of foreign capital and private companies with foreign capital participation (joint ventures), against the backdrop of all legal entities, foreign branches, and branches of foreign legal entities (The Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, 2024).

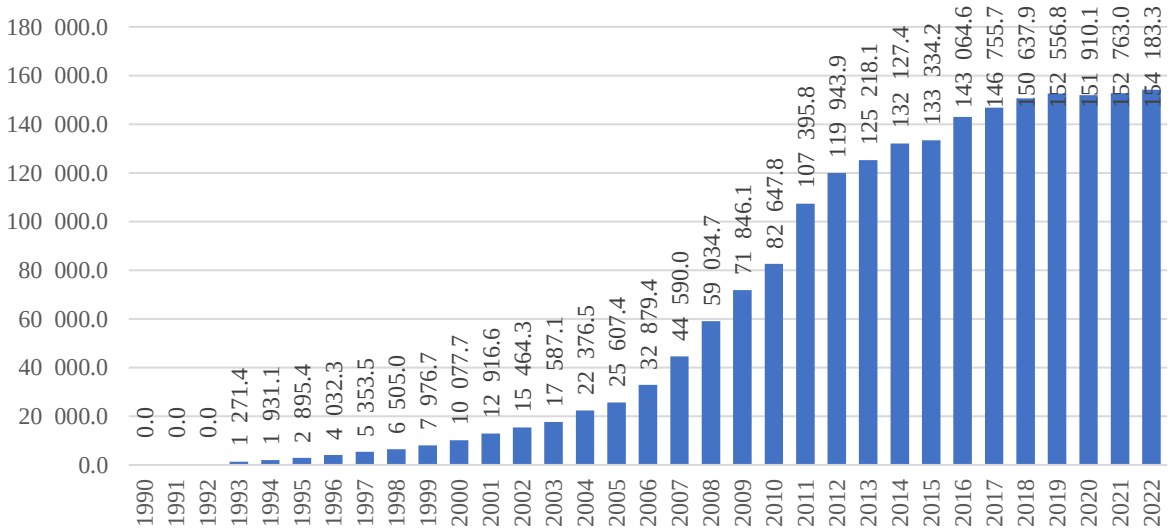
**The Kazakh Invest JSC NC** was established to promote the sustainable socio-economic development of the Republic of Kazakhstan by attracting foreign investments to priority economic sectors and providing comprehensive support for investment projects. The primary source of data on foreign direct investment is a register of investment projects maintained by this institution. Kazakh Invest acts as the sole negotiator on behalf of the Government of the Republic of Kazakhstan, discussing the prospects and conditions for implementing investment projects. It serves as a "One-Stop Shop" for investors, offering public services, including state support in the form of investment preferences and assistance in obtaining various permits required for the implementation and operation of investment projects. Kazakh Invest utilizes a specialized CRM system to monitor and control the progress of investment projects, enabling investors to submit inquiries and initiatives while ensuring transparency throughout all investment stages. In 2023, with the support of Kazakh Invest, Kazakhstan saw the implementation of 47 new production facilities that involved foreign participation. These projects were valued at about 1.1 billion US dollars and created more than 4500 jobs. Additionally, construction and installation work commenced on 42 projects worth over 3 billion US dollars. Among these, notable projects include the production of thermal insulation materials by the Italian company Cormatex and the construction of a new KIA plant,

which alone is expected to create 1,500 jobs with an investment of 250 million US dollars (JSC "NC "Kazakh Invest", 2023).

### 3.2.2. Foreign direct investment scale in Kazakhstan

Table 3.4 showed the FDI inward stock for Kazakhstan from the years 1990 to 2022. The FDI inward stock for Kazakhstan was non-existent in 1990 and remained so until 1992. As it was mentioned above in 1993, there was positive recorded FDI inward stock, with an initial value of approximately 1.27 billion USD. The values consistently increased year over year, without any decreases, up to 2022. The initial growth was observed from 1993 to 1999. There was a rapid increase in the initial years, especially from 1993 to 1999, where the FDI stock grew from about 1.27 billion USD to nearly 8 billion USD. Then there was a steady increase from 2000 to 2006. The early 2000s saw a continuation of this trend, with FDI stock growing steadily and crossing the 10 billion USD mark in 2000, reaching over 32 billion USD by 2006. In the years 2007 to 2011, there was a significant increase in FDI inward stocks. A period of substantial growth occurred between 2007 and 2011, where the FDI inward stock more than doubled from approximately 44.59 billion USD to over 107.4 billion USD. Stabilization and fluctuations were observed from 2012 to 2022. After 2011, the growth rate slowed, and the values began to stabilize, with slight fluctuations. The FDI inward stock peaked at about 133.33 billion USD in 2016 before a slight dip and then resumed growth, reaching approximately 154.18 billion USD by 2022.

**Table 3.4.** FDI inward stock of Kazakhstan from 1990 to 2022 years (millions of dollars)




**Source:** own elaboration based on: (UNCTAD, 2023).

In conclusion, several key points were outlined. The consistent upward trend indicated that Kazakhstan had been increasingly successful in attracting and retaining foreign investment

over the past three decades. The rapid increase in the mid-2000s, followed by even more significant growth in the late-2000s to early 2010s, could be linked to global oil prices and Kazakhstan's development of its oil and gas sectors, which attracted substantial foreign investment. The relative stabilization of FDI inward stock after 2012, with less pronounced annual increases, suggested that while the economy continued to attract foreign investment, the pace of new investment might have slowed, or that some investments had been liquidated or withdrawn. The slight drop in 2020 could be seen in the context of the global economic situation, likely influenced by the COVID-19 pandemic's impact on global markets and investment flows. The continued growth post-2020 indicated a recovery and resilience in Kazakhstan's ability to attract FDI, potentially due to economic reforms or an improved investment climate. Overall, the data reflected Kazakhstan's growing role in the global economy and its successful efforts to attract foreign investment, particularly in its key natural resource sectors. The figures also suggested that the country might be diversifying its economy or improving its investment environment to maintain a steady increase in FDI stock.

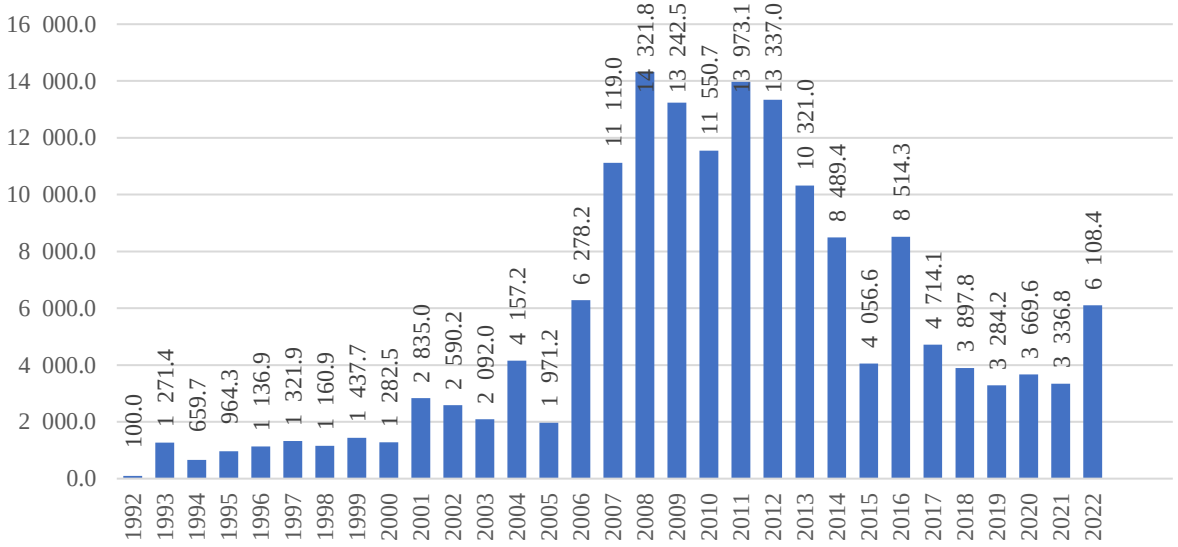
Table 3.5. provided data on FDI inflows into Kazakhstan from 1990 to. From 1990 to 1991, there were no FDI inflows recorded for Kazakhstan. Starting in 1992, FDI inflows appeared at 100 million USD, increasing significantly in the following years. The data was presented annually, showing fluctuations in the amount of FDI received by Kazakhstan.

In the early years of 1992-1999, after an initial recording of FDI in 1992, there was a substantial increase in FDI inflows during the early to late 1990s, peaking at 1.44 billion USD in 1999. This early growth could be associated with Kazakhstan opening its economy to foreign investment following its independence from the Soviet Union in 1991. From 2000 to 2006, there was a drop in FDI inflows in 2000, followed by a sharp increase in 2001. The years 2002 to 2006 saw fluctuations but generally an upward trend, with FDI reaching over 6 billion USD in 2006. The fluctuations could be influenced by global economic conditions, commodity prices, and changes in investment climate.

During the boom period of 2007-2009, there was a dramatic increase in FDI inflows, with the peak in 2009 at 14.32 billion USD. This period may coincide with commodities boom and the aftermath of Kazakhstan's significant hydrocarbon finds, attracting considerable investment into its oil and gas sector. Post-global financial crisis from 2010 to 2015, there was a noticeable drop in FDI inflows, with amounts varying year by year and a significant dip to 4.06 billion USD in 2015. This decline could be due to the global economic downturn affecting foreign investment and oil prices, which are significant for Kazakhstan's FDI.

From 2016 onwards, FDI inflows began to recover, with some annual fluctuations. The amount rose to 8.51 billion USD in 2016, followed by a decrease and then a steady increase again to 6.11 billion USD in 2022. The recovery and subsequent increases could reflect an improvement in the global economy and Kazakhstan's efforts to diversify its economy and improve its investment environment.

**Table 3.5.** FDI inflows in Kazakhstan from 1990 to 2022 years (millions of dollars)




**Source:** own elaboration based on: (UNCTAD, 2023).

Overall, the FDI inflow trends suggested that Kazakhstan's economy was sensitive to external economic conditions, particularly global oil prices and foreign investors' sentiments. The data indicated periods of high economic attractiveness to foreign investors, especially during the commodities boom and periods of high oil prices. Recent years showed resilience and a capacity to attract foreign investment despite fluctuations, possibly due to ongoing reforms and economic diversification efforts.

The table 3.6. provided historical data on Kazakhstan's International Investment Position (IIP). As of the 1st of January, 2001, Kazakhstan's total external financial liabilities amounted to 15833.9 million USD. Within this figure, direct investment liabilities constituted a major portion, totalling 10184.6 million USD. This direct investment was further broken down into equity and investment fund shares worth 3097.7 million USD and debt instruments, which stood at 7,086.9 million USD. Ten years later, on the 1st of January, 2011, the nation's total liabilities had increased substantially to 155783.9 million USD. The composition of these liabilities shifted notably in favor of direct investments, which surged to 85730.2 million USD. Under this broader category, equity and investment fund shares grew more than tenfold to 33455.4 million USD. Similarly, debt instruments also experienced significant growth,

reaching 52274.7 million USD. By the 1st of January, 2021, Kazakhstan's total liabilities had expanded further to 232,516.4 million USD. Direct investments almost doubled from the 2011 figure to 167069.7 million USD. This growth was mirrored in the equity and investment fund shares, which nearly doubled to 64529.5 million USD. Debt instruments saw a substantial increase, amounting to 102540.2 million USD, which suggested an increased reliance on external borrowing or the issuance of debt securities. The latest snapshot of Kazakhstan's IIP on the 1st of October, 2023, showed a continued increase in total liabilities to 251383.7 million USD. Direct investments increased marginally to 173385.0 million USD. Equity and investment fund shares continued their upward trend, reaching 81196.6 million USD. However, debt instruments experienced a decrease to 92188.3 million USD, indicating a possible decrease in new debt issuance or an active repayment of existing debts.

In summary, Kazakhstan's IIP portrayed a country that significantly increased its external liabilities over the two-decade span, with notable expansion in foreign direct investments and equity shares, pointing to rising investor confidence and increased foreign capital inflows.

**Table 3.6.** Kazakhstan's financial overview: Liabilities and Investments for 2001, 2011, 2021, 2023 (National Bank of Kazakhstan)

| | **01.01.2001** | **01.01.2011** | **01.01.2021** | **01.10.2023** |
|---|---|---|---|---|
| **Liabilities** | 15 833.9 | 155 783.9 | 232 516.4 | 251 383.7 |
| Direct investment | 10 184.6 | 85 730.2 | 167 069.7 | 173 385.0 |
| Equity and investment fund shares | 3 097.7 | 33 455.4 | 64 529.5 | 81 196.6 |
| Debt instruments | 7 086.9 | 52 274.7 | 102 540.2 | 92 188.3 |

**Source:** own elaboration based on: (International Investment Position, 2024).

### 3.2.3. Foreign direct investment structure in Kazakhstan (sectoral, by country)

The table 3.7. contains on the IIP of Kazakhstan, broken down by types of economic activities. The IIP essentially reflected the financial balance between Kazakhstan's assets and liabilities in the international investment landscape, with a specific focus on direct investment liabilities for various economic sectors. The total liabilities, including direct investment for Kazakhstan, amounted to 169207 million USD.

**Table 3.7.** FDI inward stock in Kazakhstan by type of activity (as of 2022; millions of dollars) (%)

| Types of economic activities | Liabilities including: direct investment | Percentage of Total IIP (%) |
|---|---|---|
| Total | 169 207 | 100 |
| Agriculture forestry and fishing | 220.4 | 0.13 |
| Mining and quarrying | 129 617.40 | 76.62 |
| Manufacturing | 11 525.50 | 6.81 |
| Electricity, gas, steam and air conditioning supply | 1 137.50 | 0.67 |
| Water supply; sewerage, waste management and remediation activities | 75.9 | 0.04 |
| construction | 1 471.40 | 0.87 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 6 020.30 | 3.56 |
| Transportation and storage | 4 661.50 | 2.75 |
| accommodation and food service activities | 353.4 | 0.21 |
| Information and communication | 709.9 | 0.42 |
| Financial and insurance activities | 4 724.60 | 2.79 |
| Real estate activities | 1 202.40 | 0.71 |
| Professional, scientific and technical activities | 5 960.60 | 3.52 |
| Administrative and support service activities | 367 | 0.22 |
| Education; human health and social work activities | 148.1 | 0.09 |
| Activities of households as employers; undifferentiated goods and services-producing activities of households for own use | 623 | 0.37 |

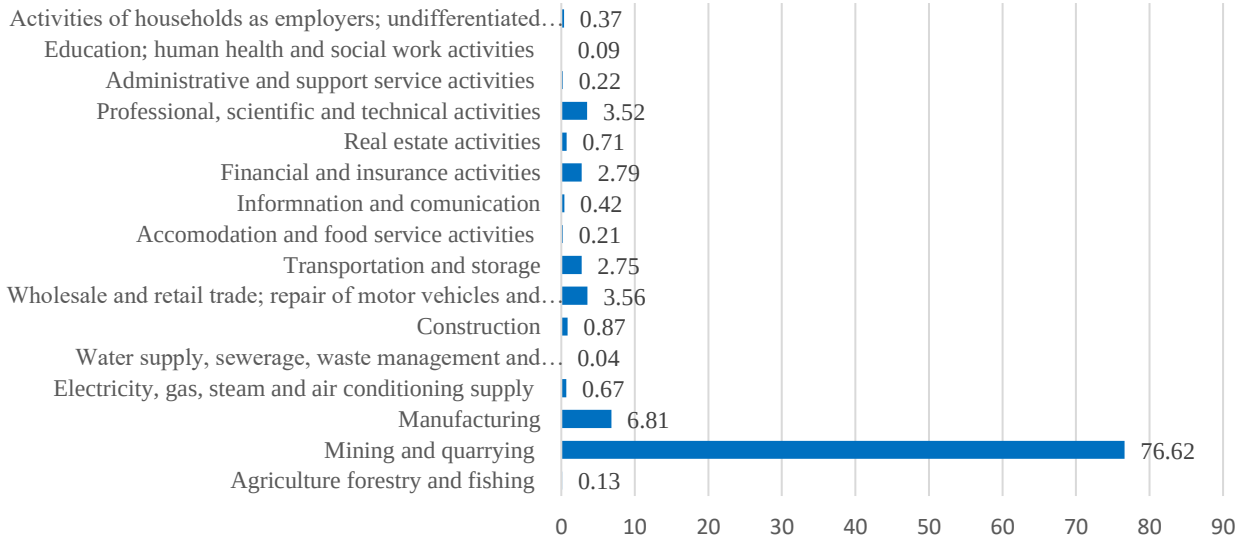
**Source:** own elaboration based on: (Balance of Payments and External Debt, 2022).

As at the end of 2022, the sector “Agriculture, Forestry, and Fishing” had a relatively small liability at 220.4 million USD, suggesting it was a smaller sector in terms of international investment. The “Mining and Quarrying” sector showed a significant investment liability of 129,617.4 million USD, indicating it was a major sector for international investors, likely due to Kazakhstan’s rich natural resources. The “Manufacturing” sector had liabilities worth 11,525.5 million USD, showing a moderate level of international investment. “Electricity, Gas, Steam, and Air Conditioning Supply” – this essential services sector had 1,137.5 million USD in investment liabilities. A smaller sector, “Water Supply; Sewerage, Waste Management, and Remediation Activities”, with 75.9 million USD in investment liabilities. The “Construction” sector with 1,471.4 million USD had a substantial investment, which may have reflected development and infrastructure projects. Commercial sector – “Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles” – had a liability of 6,020.3 million USD, which was significant, showing the vibrancy of the trade industry. The “Transportation and Storage” sector’s liability was at 4,661.5 million USD, critical for a country’s infrastructure and economic development. “Accommodation and Food Service Activities”, a relatively small sector, had 353.4 million USD, possibly reflecting the size of the tourism and hospitality

industry. The growing sector "Information and Communication" had liabilities of 709.9 million USD. "Financial and Insurance Activities" with liabilities amounting to 4724.6 million USD showed the significant role of financial services in attracting foreign investment. "Real Estate Activities" at 1202.4 million USD suggested a healthy real estate market with considerable foreign investment. "Professional, Scientific, and Technical Activities" sector had high liabilities at 5960.6 million USD, indicating robust international interest in these services. "Administrative and Support Service Activities" with 367 million USD indicated a moderate investment level. "Education; Human Health and Social Work Activities" sector seemed to have low investment liabilities of 148.1 million USD, which might have been due to the fact that these areas are often publicly rather than privately funded. "Activities of Households as Employers; Undifferentiated Goods and Services-producing Activities of Households for Own Use" with 623 million USD represented various household activities and small-scale productions.

The high investment in "Mining and Guarrying" underscored Kazakhstan's role as a resource-rich country. Sectors with lower investment, like "Water Supply" and "Education", might have indicated areas with less international investment focus, potentially due to lower returns or public funding. The financial and insurance sector, along with professional, scientific, and technical activities, indicated an advanced services sector attracting foreign investment.

**Table 3.8.** FDI inward stock in Kazakhstan by type of activity in 2022 (%)




**Source:** own elaboration based on: (Balance of Payments and External Debt, 2022).

From table 3.8., it was observed that the economy showed diversification, with investments in both resource-based sectors and service-oriented sectors. Investments in the "Energy Supply" and "Construction" sectors indicated ongoing development and infrastructure

expansion. The smaller investment figures in accommodation, food services, and education may have reflected opportunities for growth or a strategic focus on other sectors. In summary, Kazakhstan's IIP table highlighted where the country stood in terms of attracting foreign direct investment across various sectors. It showed a concentration in natural resources, but also a significant spread across several service sectors, reflecting a multifaceted economic structure.

Table 3.9. presented the distribution of Kazakhstan's FDI liabilities in 2022, broken down by the countries of origin of the investors. Analysing the data from the table, it could be seen that dominant investor countries were the Netherlands and the USA. The Netherlands was the largest foreign investor in Kazakhstan with liabilities worth 61626.5 million USD. The United States of America followed with 43780.9 million USD in liabilities, reflecting significant American business interests in Kazakhstan. There was also a significant European presence. Countries like France, Switzerland, the United Kingdom, Luxembourg, and Germany had considerable investments, signalling Kazakhstan's strong economic relations with Europe. The table contained countries from offshore financial centers. Bermuda and the British Virgin Islands were listed, which might suggest the use of these jurisdictions for financial structuring by investors for tax or regulatory reasons. Asian economies like China, Japan, Hong Kong, and South Korea were also notable investors, consistent with Kazakhstan's strategic position in Central Asia and its involvement in regional trade and economic initiatives.

The presence of a diverse set of countries from various regions reflected the global interest in Kazakhstan's economy. It indicated a wide range of sectors attracting foreign investment, such as natural resources, manufacturing, and services. The percentages in table 3.8 reflected the proportion of FDI each country had in Kazakhstan, providing insight into where the most substantial foreign investments originated. The Netherlands and the USA were the largest investors, while Belgium and South Korea had the smallest shares among the listed countries. This distribution gave a picture of Kazakhstan's economic connections around the world. Each country's FDI liability as a percentage of the total was calculated to understand the relative investment scale. The percentages highlighted which countries' investors were the most significant stakeholders in Kazakhstan's economy and could influence economic policy and bilateral relations.

**Table 3.9.** FDI inward stock in Kazakhstan according to the countries of origin of foreign investors (as of 2022; USD million, according to the Balance of Payments)

| Country | Liabilities including direct investment | Percentages of FDI liabilities for Kazakhstan by country (%) |
|---|---|---|
| Netherlands | 61 626.50 | 36.42 |
| United States of America | 43 780.90 | 25.87 |
| France | 12 938.50 | 7.64 |
| Bermuda | 9 455.20 | 5.58 |
| China | 5 993.30 | 3.54 |
| Japan | 5 660.40 | 3.34 |
| Russia | 4 738.10 | 2.88 |
| Switzerland | 3 153.80 | 1.86 |
| Hong Kong | 2 804.20 | 1.66 |
| United Kingdom | 2 778.20 | 1.64 |
| British Virgin Islands | 2 716.00 | 1.61 |
| United Arab Emirates | 1 393.40 | 0.82 |
| Luxembourg | 1 321.60 | 0.78 |
| Turkey | 1 149.70 | 0.68 |
| Germany | 1 073.90 | 0.63 |
| South Korea | 729 | 0.43 |
| Belgium | 723.8 | 0.43 |
| **Total** | **169 207** | **100.00** |

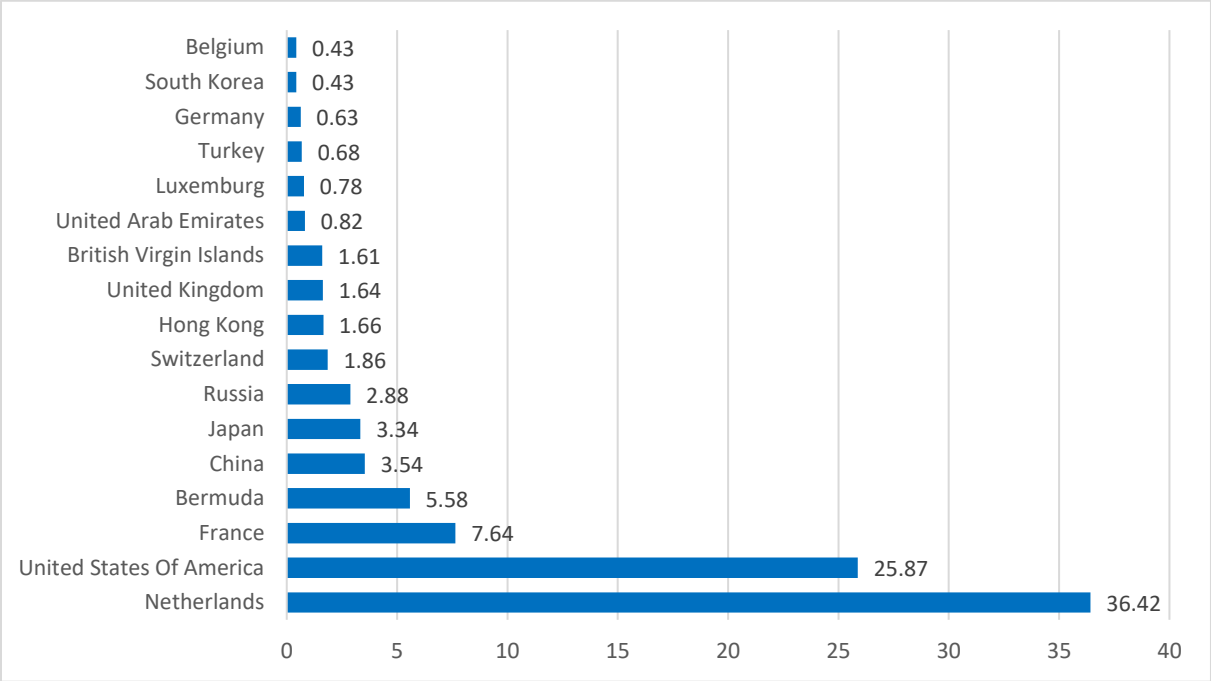
**Source:** own elaboration based on: (Balance of Payments and External Debt, 2022).

**Notes:** The percentage of foreign direct investment commitments for Kazakhstan by country was calculated, based on a total commitment of 169 207 million USD.

The distribution of FDI sources aligned with Kazakhstan's geopolitical interests, trade partnerships, and economic agreements. It affected how Kazakhstan negotiated on the international stage, prioritized its economic policies, and managed its resources. The FDI contributed to the transfer of technology, improvement in employment rates, and enhancement of competitiveness in the host country. However, it also posed the risk of excessive foreign control over national industries and economic sectors.

The FDI landscape for Kazakhstan, as reflected in the table 3.10., showcases the country as an attractive destination for a variety of international investors, with a particularly strong influx from the Netherlands and the USA. The broad mix of countries from different continents and of varying economic profiles emphasizes Kazakhstan's strategic economic positioning and potential as a hub for investment in the region.

**Table 3.10.** FDI inward stock in Kazakhstan by country (%)




**Source:** own elaboration based on: (Balance of Payments and External Debt, 2022).

### 3.2.4 Entities with foreign capital in Kazakhstan and their place in the country's economy

Table 3.11. outlines the composition of registered legal entities in Kazakhstan by size category (total, small, medium, large) and type of ownership (state, private, foreign, joint ventures with foreign participation). Additionally, it provided the percentages of joint ventures with foreign participation and fully foreign-owned entities compared to the total number of registered legal entities. The general composition for the end of 2023 year looked like this: there were 526703 registered entities in total. The majority were private (452143), with a small fraction being state-owned (25616). Foreign-owned and joint ventures with foreign participation made up a smaller segment but represented important elements of the business landscape.

Small enterprises dominated the count (517684), indicative of an economy with a strong small business sector. Medium-sized entities (6543) and large entities (2476) were much less in number but could still play significant roles given their potentially larger individual impact.

The state had a stake in a relatively small number of entities, with some participation in all size categories. Joint ventures with foreign participation and foreign ownership were more prevalent in larger enterprises than in smaller ones, which might be due to the larger capital requirements and strategic interests at this scale.

Joint ventures with foreign participation accounted for 9.3% of all entities, with a slightly higher presence in small entities (9.4%) than in the total count. Foreign-owned entities

represented 2.1% of the total entities. This percentage was consistent across small entities but doubled (4.4%) for large entities, indicating a stronger foreign presence in larger-scale operations.

The significant number of small entities suggested a thriving entrepreneurial environment or a large number of subsistence-level businesses. The presence of foreign capital in medium and large enterprises suggested these were the sectors where foreign investment felt more confident to enter, likely due to the stability and predictability associated with larger scales. Policymakers might have focused on providing more support to medium and large enterprises to boost their numbers and economic impact. Foreign investment policies could have been tailored to encourage more foreign direct investment in small and medium-sized enterprises.

**Table 3.11.** Enterprises with foreign capital compared to all enterprises in Kazakhstan in 2023

| | **Total** | **Including by forms and types of ownership** | | | | | **Percentage of to the total number of registered legal entities (%)** | **Percentage of FOE to the total number of registered legal entities (%)** |
|---|---|---|---|---|---|---|---|---|
| | | **state** | **private total** | **of them** | | **foreign** | | |
| | | | | **with the participation of the state (without foreign participation)** | **JV foreign** | | | |
| Total | 526 703 | 25 616 | 452 143 | 328 | 11 283 | 48 944 | 2.1 | 9.3 |
| small | 517 684 | 20 873 | 448 366 | 262 | 11 005 | 48 445 | 2.1 | 9.4 |
| medium | 6 543 | 3 582 | 2 668 | 30 | 168 | 293 | 2.6 | 2.6 |
| large | 2 476 | 1 161 | 1 109 | 36 | 110 | 206 | 4.4 | 8.3 |

**Notes:** JV foreign – joint ventures with foreign participation); FOE - foreign-owned entities.
**Source:** own elaboration based on: (Statistics of enterprises, 2023).

The data indicated a robust small business sector with a moderate but important level of foreign involvement in the Kazakhstani market. There was a notable trend towards more foreign investment and participation in larger companies, which may have had significant implications for the country's economic development strategies and international business relations.

Table 3.12. provided a detailed breakdown of registered legal entities in Kazakhstan by region, categorized by ownership type and highlighting the percentages of joint ventures with foreign participation and fully foreign-owned entities compared to the total number of registered legal entities. There were 526703 registered entities across Kazakhstan, with notable concentrations in Almaty City (148540) and Astana City (99564), reflecting the economic significance of these urban centers.

State ownership accounted for a relatively small portion of the total entities, with private ownership being the predominant form. This suggested a market-oriented economy with room for state participation.

**Table 3.12.** Enterprises with foreign capital compared to all enterprises in Kazakhstan by region in 2023

| | Total | Including by forms and types of ownership | | | | | Percentage JV foreign to the total number of registered legal entities (%) | % of FOE to the total number of registered legal entities |
|---|---|---|---|---|---|---|---|---|
| | | state | private Total | of them | | foreign | | |
| | | | | with the participation of the state (without foreign capital) | JV foreign | | | |
| Abai | 8 261 | 1 094 | 6 954 | 5 | 98 | 213 | 1.2 | 2.6 |
| Akmola | 15 123 | 1 980 | 12 592 | 20 | 243 | 551 | 0.1 | 3.6 |
| Aktobe | 19 846 | 1 497 | 17 321 | 9 | 284 | 1 028 | 1.4 | 5.2 |
| Almaty | 19 503 | 1 281 | 17 397 | 11 | 298 | 825 | 1.5 | 4.2 |
| Atyrau | 14 544 | 1 052 | 12 423 | 5 | 376 | 1 069 | 0.0 | 7.4 |
| Batys Kazakhstan | 12 549 | 1 354 | 10 091 | 15 | 198 | 1 104 | 1.6 | 8.8 |
| Zhambyl | 15 239 | 1 623 | 11 595 | 21 | 116 | 2 021 | 0.8 | 13.3 |
| Zhetisu | 8 292 | 1 082 | 7 044 | 22 | 111 | 166 | 0.3 | 2.0 |
| Karaganda | 29 017 | 1 588 | 25 923 | 15 | 596 | 1 506 | 2.1 | 5.2 |
| Kostanai | 15 132 | 1 791 | 11 966 | 4 | 285 | 1 375 | 1.9 | 9.1 |
| Kyzylorda | 10 915 | 1 267 | 9 508 | 8 | 51 | 140 | 0.1 | 1.3 |
| Mangystau | 16 983 | 798 | 14 985 | 24 | 345 | 1 200 | 2.0 | 7.1 |
| Pavlodar | 17 865 | 1 305 | 15 579 | 8 | 293 | 981 | 1.6 | 5.5 |
| Soltustik Kazakhstan | 11 522 | 1 404 | 9 391 | 22 | 303 | 727 | 0.2 | 6.3 |
| Turkistan | 17 665 | 2 274 | 15 210 | 40 | 137 | 181 | 0.8 | 1.0 |
| Ulytau | 3 015 | 469 | 2 510 | 5 | 35 | 36 | 1.2 | 1.2 |
| Shygys Kazakhstan | 14 980 | 1 179 | 13 053 | 11 | 361 | 748 | 0.1 | 5.0 |
| Astana city | 99 564 | 902 | 88 423 | 27 | 2 101 | 10 239 | 2.1 | 10.3 |
| Almaty city | 148 540 | 1 122 | 124 067 | 39 | 4 548 | 23 351 | 3.1 | 15.7 |
| Shymkent city | 28 148 | 554 | 26 111 | 17 | 504 | 1 483 | 0.1 | 5.3 |
| **Kazakhstan** | 526 703 | 25 616 | 452 143 | 328 | 11 283 | 48 944 | 2.1 | 9.3 |

**Source:** own elaboration based on: (Statistics of enterprises, 2023).

The Republic of Kazakhstan as a whole had a relatively modest percentage of joint ventures with foreign participation (9.3%) and foreign-owned entities (2.1%), indicating a presence of international business but with significant room for growth. Almaty City had the highest percentage of foreign-owned entities (15.7%), underscoring its role as a commercial hub. Batys Kazakhstan and Zhambyl showed high percentages of joint ventures with foreign participation, suggesting regions of specific interest to international partnerships. Regions like Kyzylorda and Turkistan had low foreign participation, indicating potential areas for future

foreign investment development. Urban centers and regions with natural resources or strategic importance tended to have higher rates of foreign participation. Regions with lower foreign investment might have required targeted policies to attract international investors and could represent untapped potential.

Policymakers looked to bolster foreign investment in regions with currently low participation, possibly by improving infrastructure, offering incentives, or reducing bureaucratic barriers. The data informed decisions on regional development, trade agreements, and the strategic direction for economic diversification. The table 4.2. illustrated the diversity and complexity of Kazakhstan's business landscape, with varying degrees of foreign participation across different regions. The higher percentages of foreign ownership and joint ventures in certain areas reflected local economic policies, resource distribution, and the overall business climate conducive to foreign investment. This analysis helped guide strategic economic planning, including measures to attract more foreign direct investment across the country.

The table 3.13. presents the distribution of registered legal entities in Kazakhstan across various economic sectors, detailing their ownership types and highlighting the percentages of joint ventures with foreign participation and completely foreign-owned entities. The "Agriculture, Forestry, and Fisheries sector" had a high number of total entities but relatively low foreign involvement. The "Mining and Quarrying" sector showed higher percentages of both joint ventures and foreign companies indicative of international interest in Kazakhstan's natural resources. The "Manufacturing Industry" sector reflected balanced foreign interest with equal percentages in joint ventures and total foreign ownership. The "Energy Supply" sector had slightly higher foreign participation, essential for infrastructure support. The "Water Supply and Waste Management" sector had moderate foreign involvement, suggesting potential areas for development. The "Construction" was a significant sector with notable foreign investment, essential for Kazakhstan's infrastructure growth. The "Trade and Repair Services" was the largest sector by count, with average foreign participation, suggesting a vibrant domestic market. The "Transport and Warehousing" sector showed a high level of foreign participation, critical for Kazakhstan's logistics and trade. The "Hospitality Services" had notably high foreign ownership, reflecting potential attractiveness to tourism and international business. "Information and Communication" had very high foreign ownership, signalling the sector's strategic importance and potential for innovation and technology transfer. The "Financial Services" sector indicated essential foreign interest in Kazakhstan's financial markets. The "Real Estate" sector had average foreign participation, with the potential for growth given the

importance of the sector for economic development. The “Professional Services” sector had a high percentage of foreign participation, reflecting the global integration of professional services. The “Administrative Services” sector had high foreign ownership, potentially indicating a demand for international standards in business operations. The “Public Administration” sector virtually had no foreign involvement, as expected for governmental functions. The “Education” sector had moderate foreign ownership, could reflect international educational programs and institutions. The “Healthcare” sector had moderate foreign involvement, potentially in private healthcare services. The “Arts and Entertainment had higher foreign involvement, which may be linked to cultural exchanges and international collaborations. “Other Services” was a catch-all category with average foreign participation. Extraterritorial Organizations had negligible data, not significant for analysis.

Foreign investment tended to concentrate in sectors with high capital demand, technological sophistication, or strategic importance, such as mining, information and communication, and professional services. Sectors with lower foreign involvement may have represented untapped potential for future international partnerships and investment. The government might have focused on attracting more foreign investment in sectors with low foreign presence to stimulate competition, innovation, and capital influx. The presence of foreign entities and joint ventures could have been an indicator of a sector’s maturity, competitiveness, and integration into the global economy.

The overall economic landscape depicted by the table 3.13. suggested Kazakhstan was successfully attracting foreign investment in several key sectors, which was essential for its economic diversification and growth. Some sectors showed room for increased foreign involvement, potentially offering opportunities for economic development strategies focused on attracting more international business partnerships.

**Table 3.13.** Enterprises with foreign capital compared to all enterprises in Kazakhstan by type of activity in 2023

| | **Total** | **Including by forms and types of ownership** | | | | | **Percentage of Joint Ventures (with foreign participation) to the total number of registered legal entities (%)** | **Percentage of foreign-owned entities to the total number of registered legal entities (%)** |
|---|---|---|---|---|---|---|---|---|
| | | state | private Total | of them | | foreign | | |
| | | | | with the participation of the state (without foreign participation) | joint ventures (with foreign participation) | | | |
| Agriculture, Forestry and Fisheries | 21 188 | 59 | 20 766 | 12 | 373 | 363 | 1.8 | 1.7 |
| Mining and Quarrying | 5 307 | - | 4 803 | 7 | 318 | 504 | 6.0 | 9.5 |
| Manufacturing Industry | 26 507 | 23 | 24 213 | 15 | 1 330 | 2 271 | 5.0 | 5.0 |
| Supply of Electricity, Gas, Steam, Hot Water and Air Conditioning | 1 921 | 122 | 1 679 | 15 | 111 | 120 | 5.8 | 6.2 |
| Water Supply; Collection, Treatment and Disposal of Waste, Activities for the Elimination of Pollution | 2 810 | 231 | 2 456 | 33 | 76 | 123 | 2.7 | 4.4 |
| Construction | 70 130 | 49 | 65 518 | 22 | 971 | 4 563 | 1.4 | 6.5 |
| Wholesale and Retail Trade; Car and Motorcycle Repair | 146 854 | 37 | 127 163 | 8 | 3 555 | 19 654 | 2.4 | 2.4 |
| Transport and Warehousing | 21 491 | 55 | 19 593 | 20 | 461 | 1 843 | 2.1 | 8.6 |
| Provision of Accommodation and Food Services | 10 233 | 17 | 8 981 | 3 | 275 | 1 235 | 2.7 | 12.1 |
| Information and Communication | 17 727 | 100 | 14 168 | 43 | 526 | 3 459 | 3.0 | 19.5 |
| Financial and Insurance Activities | 8 021 | 38 | 7 358 | 27 | 252 | 625 | 3.1 | 3.1 |
| Operations and Real Estate | 24 786 | 51 | 23 764 | 16 | 427 | 971 | 1.7 | 3.9 |
| Professional, Scientific and Technical Activity | 34 724 | 478 | 30 965 | 40 | 926 | 3 281 | 2.7 | 9.4 |
| Activity in the Field of Administrative and auxiliary services | 24 904 | 79 | 22 389 | 17 | 336 | 2 436 | 1.3 | 9.8 |
| Public Administration and Defense; Mandatory Social Security | 9 586 | 9 486 | 95 | 2 | 3 | 5 | 0.03 | 0.03 |
| Education | 29 485 | 11 959 | 16 418 | 18 | 173 | 1 108 | 0.6 | 3.8 |
| Public Health and Social Services | 10 718 | 1 277 | 9 028 | 13 | 151 | 413 | 1.4 | 3.9 |
| Arts, Entertainment and Recreation | 7 932 | 1 521 | 5 821 | 7 | 142 | 590 | 1.8 | 7.4 |
| Provision of Other Types of Services | 52 378 | 34 | 46 965 | 10 | 877 | 5 379 | 1.7 | 1.7 |
| Activities of Extraterritorial Organizations and Bodies | 1 | - | - | - | - | 1 | - | 1 |
| **Total** | **526 703** | **25 616** | **452 143** | **328** | **11 283** | **48 944** | **2.1** | **9.3** |

**Source:** own elaboration based on: (Statistics of enterprises, 2023)

Table 3.14. listed the operating branches of foreign legal entities in Kazakhstan by types of economic activity and by region. With 894 branches, the "Provision of Other Types of Services" sector had the highest number of foreign entity branches, indicating a wide range of services provided by foreign businesses. The “Agriculture, Forestry, and Fisheries” sector with 13 branches had the least presence of foreign branches, indicating either a lack of foreign interest or barriers to entry. “Mining and Quarrying” sector had high activity with 56 branches, reflecting Kazakhstan’s rich natural resources and the sector’s attractiveness to foreign investors. The “Construction” sector with 336 branches was a significant area of foreign investment, likely due to ongoing development projects. “Wholesale and Retail Trade” with a high number of branches (343) indicated a robust market presence and consumer demand that attracted foreign companies.

Almaty City stood out with the highest number of foreign branches across multiple sectors, affirming its status as a major business and financial hub. Astana City showed significant foreign presence, aligning with its role as the nation’s capital and a growing economic center. Akmola and Aktobe regions had lower numbers that may have suggested either less economic development or a focus on industries not represented in the data.

In the “Professional, Scientific, and Technical Activity” sector, Almaty City led with 266 branches, implying a concentrated pool of expertise in the area. “Financial and Insurance Activities” sector, while fewer in overall number (21), had a presence in the major cities, aligning with financial hubs. The “Arts, Entertainment and Recreation” sector had the minimal presence indicating either a nascent stage of development or less interest from foreign entities. There was a clear divide between urban centers (Almaty, Astana, Shymkent) and other regions, with urban areas attracting significantly more foreign branches. Foreign entities were not evenly spread across sectors; they were concentrated in areas like trade, professional services, and construction, likely reflecting the market demand and investment opportunities in these areas.

The presence and distribution of foreign entity branches served as indicators of regional economic development, with a higher number of foreign branches possibly reflecting more developed and business-friendly environments. Regions with fewer foreign branches might have needed targeted policies to attract FDI, such as tax incentives or regulatory reforms. The government might have considered strategies to incentivize foreign investment in underrepresented sectors, such as agriculture and healthcare, to diversify economic growth and technology transfer. Efforts to balance foreign investment across regions could lead to more uniform economic development, reducing the disparity between urban and rural areas.

**Table 3.14.** Operating branches of foreign legal entities by types of activity and regions in Kazakhstan in 2023

| | Kazakhstan | Abai | Akmola | Aktobe | Almaty | Atyrau | Batys Kazakhstan | Zhambyl | Zhetisu | Karaganda | Kostanai | Kyzylorda | Mangystau | Pavlodar | Soltustik Kazakhstan | Turkistan | Ulytau | Shygys Kazakhstan | Astana | Almaty | Shymkent |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Kazakhstan | 2 456 | 5 | 12 | 29 | 30 | 106 | 41 | 14 | 2 | 57 | 31 | 17 | 83 | 34 | 16 | 14 | 2 | 20 | 498 | 1 390 | 55 |
| Agriculture, forestry and fisheries | 13 | - | - | - | 2 | - | - | 1 | - | - | - | - | - | - | - | 1 | - | - | 1 | 6 | 2 |
| Mining and quarrying | 56 | - | - | 3 | 1 | 11 | 6 | - | - | - | - | 1 | 16 | - | - | - | - | - | 6 | 12 | - |
| manufacturing industry | 55 | - | 1 | 2 | 2 | 3 | 1 | - | 1 | 2 | - | 1 | 3 | 4 | 1 | - | - | 1 | 14 | 15 | 4 |
| Supply of electricity, gas, steam, hot water and air conditioning | 10 | - | - | - | - | - | - | - | - | 1 | - | - | 1 | - | - | - | - | - | 4 | 4 | - |
| Water supply; collection, treatment and disposal of waste, activities for the elimination of pollution | 10 | - | - | 1 | - | - | - | - | - | - | - | - | 1 | - | - | - | - | 1 | 5 | 2 | - |
| Construction | 336 | - | 1 | 6 | 7 | 21 | 5 | 3 | 1 | 13 | 5 | 7 | 14 | 8 | 1 | 6 | - | 9 | 107 | 111 | 11 |
| Wholesale and retail trade; car and motorcycle repair | 343 | - | 3 | 8 | 7 | 16 | 5 | 3 | - | 11 | 12 | - | 12 | 6 | 6 | 4 | - | 5 | 71 | 160 | 14 |
| Transport and warehousing | 64 | - | 1 | 2 | 1 | 2 | 3 | - | - | 4 | - | - | 9 | 1 | 2 | - | - | - | 12 | 24 | 3 |
| Provision of accommodation and food services | 6 | - | - | - | - | - | - | - | - | 2 | - | - | - | - | - | - | - | - | 2 | 2 | - |
| Information and communication | 71 | - | - | - | - | 2 | 1 | - | - | - | - | - | - | - | 1 | - | - | - | 22 | 44 | 1 |
| Financial and insurance activities | 21 | 1 | - | - | - | - | - | 1 | - | - | - | - | - | 1 | - | - | - | - | 7 | 10 | 1 |
| Operations and real estate | 13 | - | - | 1 | - | - | 1 | - | - | - | 1 | - | 1 | - | - | - | - | - | 1 | 8 | - |
| Professional, scientific and technical activity | 488 | 3 | 5 | 2 | 7 | 31 | 16 | 4 | - | 8 | 6 | 7 | 14 | 9 | - | 1 | - | 2 | 101 | 266 | 6 |
| Activity in the field of administrative and auxiliary services | 38 | - | 1 | - | - | 8 | 3 | - | - | 5 | 2 | - | 2 | - | 1 | - | - | - | 4 | 11 | 1 |
| Education | 25 | - | - | 1 | - | 2 | - | - | - | - | 2 | - | 1 | - | 1 | - | - | - | 6 | 11 | 1 |
| Public health and social services | 9 | - | - | - | - | - | - | 1 | - | - | - | - | - | 1 | - | - | - | - | 2 | 3 | 2 |
| Arts, entertainment and recreation | 4 | - | - | - | - | - | - | - | - | - | - | - | - | 2 | - | - | - | - | - | 2 | - |
| Provision of other types of services | 894 | 1 | - | 3 | 3 | 10 | - | 1 | - | 11 | 3 | 1 | 9 | 2 | 3 | 2 | 2 | 2 | 133 | 699 | 9 |

**Source:** own elaboration based on: (Statistics of enterprises, 2023)

The table suggests that Kazakhstan's economic engagement with foreign entities is robust in certain sectors and regions, indicating areas of strength and potential growth. Urban centers like Almaty and Astana are particularly attractive to foreign investors, while other regions present opportunities for increased foreign engagement.

### 3.2.5. Investment Development Path of Kazakhstan

The Investment Development Path (IDP) theory, as introduced by Dunning and Narula (1996), provides a framework to understand how a country's foreign direct investment inflows and outflows evolve with its economic development. The IDP suggests that a country's stage of economic development influences its position as either a recipient or a source of FDI. This evolution through the stages reflects the changing nature of a country's investment relationships with the rest of the world, based on its economic maturity and competitiveness (Dunning & Narula, 1996).

Initially, the theory outlined four stages, but it was later expanded to five, detailing the progression from a country primarily receiving FDI due to its low labour costs and resource endowments, to a stage where the country becomes a significant outward investor, reflecting its firms' competitiveness and the maturity of its economy.

Each stage of the IDP reflects a country's economic structure, the competitiveness of its firms, and its integration into the global economy. As a country moves through these stages, the nature of both its inward and outward FDI transforms, marking its transition from a developing to a developed economy. This theoretical framework helps in understanding the dynamic relationship between FDI and economic development, offering insights into policy formulation aimed at enhancing a country's attractiveness to foreign investors and supporting its firms' overseas investments (Dunning & Narula, 1996).

Figure 3.3. showed FDI flows and net outflows in Kazakhstan from 1990 to 2022. FDI inflows (Grey Line) represented the total amount of foreign investment coming into Kazakhstan. The general trend showed growth over time, particularly starting from the early 2000s, which might reflect increased investor confidence and the opening up of Kazakhstan's economy post-independence. After 2008, there was noticeable volatility, likely reflecting the impacts of global economic conditions, such as the financial crisis in 2008 and subsequent economic downturns, on investment inflows. FDI outflows (Orange Line), represented the investments made by entities from Kazakhstan in other countries. The line exhibited fluctuations but, unlike inflows, did not show a clear upward trend. There were periods of increased outflows, such as around 2007 and between 2013 and 2015,

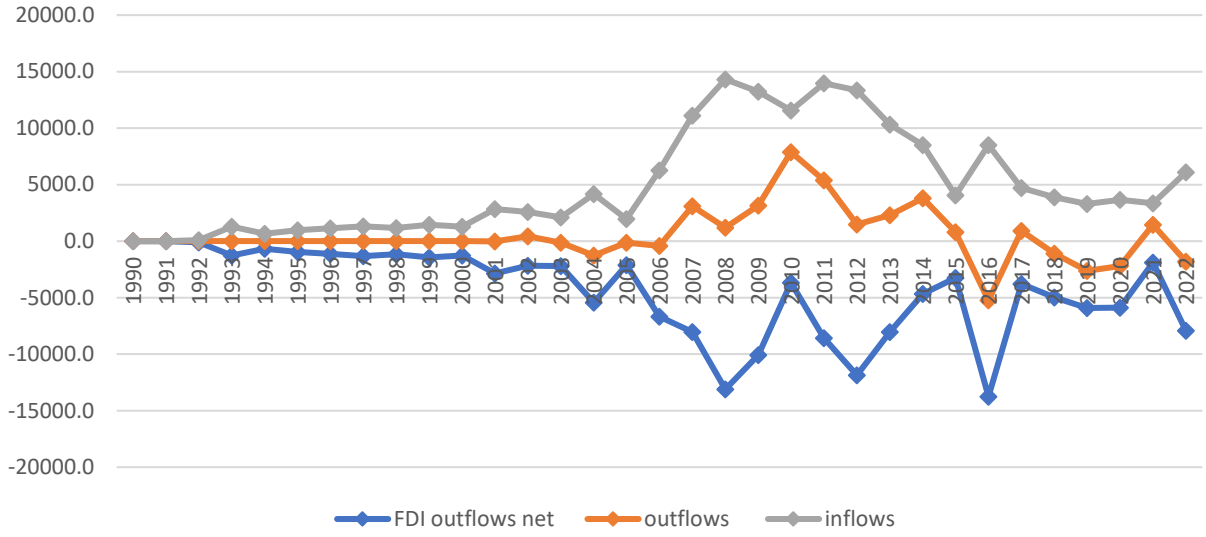
which could have been due to Kazakhstan businesses expanding abroad or investments in foreign assets. FDI net outflows (Blue Line) were calculated by subtracting the inflows from the outflows. A negative value indicated that inflows exceeded outflows (more investment was coming into the country than going out), which is typical for a developing economy attracting foreign capital. Kazakhstan's net FDI outflows remained negative throughout the period, although they got less negative in the mid-2000s, which might have been a sign of the country's businesses beginning to invest more abroad.

The trend analysis was divided into periods:

- Early Stage (1990-2000) was characterized by small volumes of FDI inflows and outflows as the country established its independent economy.
- Growth Stage (2000-2008) – there was a significant increase in FDI inflows due to the country's rich natural resources, particularly oil, gas, and minerals. Global commodity booms likely contributed to this rise.
- Maturity and Diversification Stage (2008-2022) – after the 2008 financial crisis, there was more volatility in FDI. Kazakhstan's efforts to diversify its economy away from oil and gas may have attracted more varied FDI inflows and increased outflows as domestic companies became more active internationally.
- Recent Trends (Post-2016) – fluctuations in FDI flows could have reflected global economic challenges, such as fluctuations in oil prices, geopolitical tensions, or other macroeconomic factors. The government's initiatives, such as establishing the Astana International Financial Centre, aimed to make Kazakhstan a financial hub and could impact future FDI trends.

Overall, the chart suggested that Kazakhstan had been successful in attracting foreign investment, especially during times of high commodity prices, given its resource-rich economy. The net negative outflows indicated that the country had been a net recipient of FDI, which is expected for a developing economy focused on attracting foreign capital to support growth and development. However, increasing outflows in some years showed that Kazakhstan was also beginning to establish a presence abroad.

**Figure 3.3.** FDI flows and FDI net outflows in Kazakhstan from 1990 to 2022 (millions of dollars)




**Source:** own elaboration based on: (UNCTAD, 2023).

Figure 3.4. represented Kazakhstan's FDI from 1990 to 2022, with three categories of FDI being depicted: FDI net outward stock (Blue Bars) represented the total value of investor equity held by Kazakhstan's entities in foreign affiliates, subtracting inward FDI from outward FDI. Negative values indicated that the country had more inward FDI than outward FDI, which is common for developing economies that typically attract foreign investment rather than investing abroad. FDI outward stock (Orange Bars) referred to the value of Kazakhstan's outward FDI, showing the country's investments in foreign enterprises. Visible data points suggested occasional investments abroad, which might have reflected specific strategic investments made by Kazakhstani companies. FDI inward stock (Grey Bars) indicated the inward FDI, representing foreign investments into Kazakhstan. The height of these bars consistently exceeded those of the outstock, highlighting that Kazakhstan had been a recipient of foreign investment over the observed period.

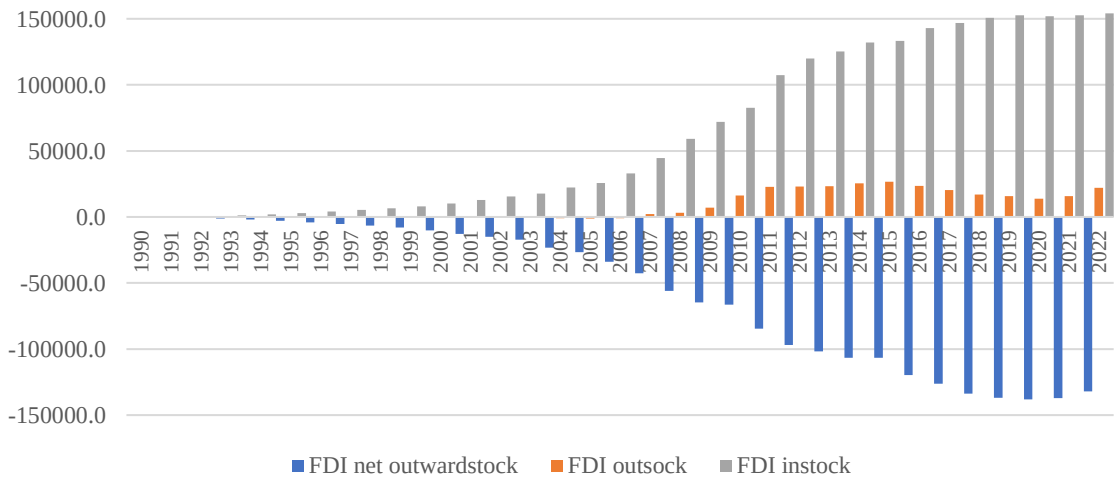
Time trend analyses were divided into five phases:

- Early phase (1990s) – after independence, there was minimal FDI, which aligned with Kazakhstan's early efforts to establish a market economy and attract foreign investors.
- Rapid growth (2000s) – as Kazakhstan opened its economy and capitalized on its natural resources, FDI inward stock increased, indicating a surge in foreign investment, particularly in the oil and gas sectors.

– Global Financial Crisis (2008-2009) – economic challenges during this period led to a reduction in both FDI inward stock and outward stock, which is common as investors pull back during economic downturns.
– Post-Crisis Recovery (2010s) – the post-crisis period saw a return to growth in FDI inward stock, suggesting recovery and continuing attractiveness to foreign investors. The FDI net outward stock also became less negative, indicating a balance between inward and outward FDI.
– Recent Years (2020-2022) – the latest data points showed a substantial net outward FDI, which could suggest a significant increase in outbound investment from Kazakhstan.

Figure 3.4. illustrates Kazakhstan's progression from a net recipient of FDI to a more balanced stance where outward FDI plays a larger role, reflecting the country's maturing economy and its entities' increasing international investment activities. The trends in FDI are indicative of Kazakhstan's integration into the global economy and its evolving role from primarily an investment destination to also being an investor in the global marketplace.

**Figure 3.4.** FDI net outward stock in Kazakhstan from 1990 to 2022 (millions of dollars)

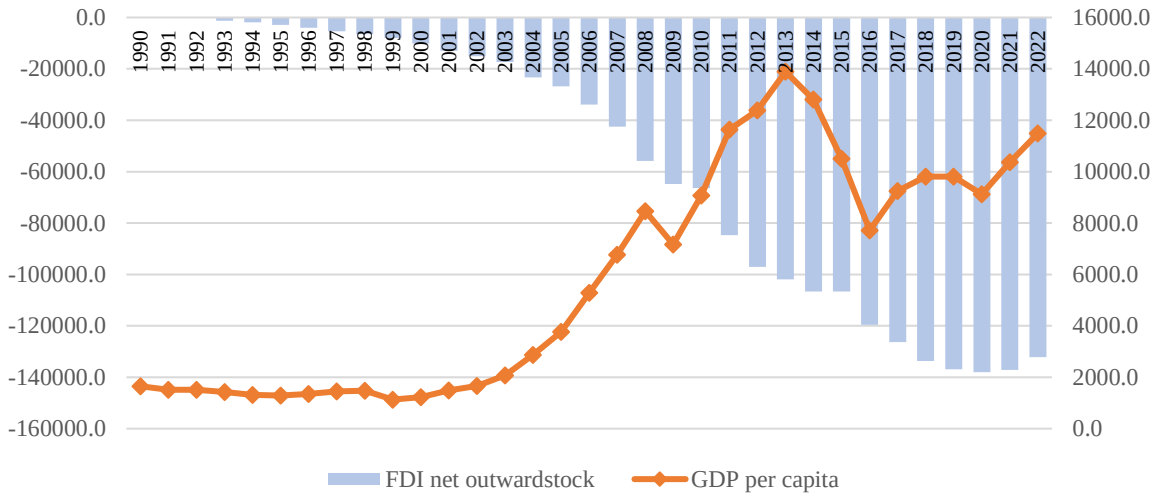



**Source:** own elaboration based on (UNCTAD, 2023).

Figure 3.5. compares the net outward FDI stock (NOI) and gross domestic product (GDP) per capita for Kazakhstan from 1990 to 2022. Net outward FDI stock (Blue Bars) – displayed as vertical bars represent the difference between FDI Outward stock and FDI inward stock. Negative values suggest that inward FDI is greater than outward FDI, which is typical for developing economies. GDP per capita (Orange Line) is an indicator of the

country's economic performance and citizens' economic prosperity. There's a noticeable upward trend, especially from the early 2000s onwards, indicating that the standard of living and economic output per person have been improving over time.

**Figure 3.5.** The relationship between net outward FDI stock (NOI) and GDP per capita of Kazakhstan from 1990 to 2022




**Source:** own elaboration based on (UNCTAD, 2023).

The relationship between NOI and GDP per capita is not directly proportional but indicates that as Kazakhstan's economy has grown, it has become more active in outward investment. This suggests a maturing economy that is not only attracting foreign capital but also investing abroad. However, the persistent negative NOI values indicate that Kazakhstan remains a net recipient of FDI, which is consistent with its status as a developing economy seeking foreign investment to fuel growth. The improving GDP per capita alongside a less negative NOI suggests increasing economic diversification and potential growth in domestic firms' capabilities to invest abroad.

Empirical research indicates that Kazakhstan is currently in the second stage of its investment development path, marked by a notable influx of market-seeking foreign direct investment that is beginning to attract labor-intensive manufacturing sectors[14]. Predominantly, investments in Kazakhstan are focused on the extraction of natural resources. The country's economy has grown especially in last post pandemic years, as reflected by the increase in GDP per capita, and this has been accompanied by a decrease in the negative NOI, indicating a gradual rise in outward FDI relative to inward FDI. This progression suggests an increasing capability and interest of Kazakhstani firms to engage in outward FDI, although the country has not yet become a net outward investor.

[14] For a consideration of FDI determinants in Kazakhstan, see Chapter IV of this dissertation.

# Chapter 4. Foreign direct investment determinants in Kazakhstan

## 4.1. Determinants and motives of foreign direct investment in Kazakhstan – research review

Foreign direct investment plays a crucial role in Kazakhstan's economic development, attracting global attention due to its rich natural resources, strategic geopolitical location, and ongoing economic reforms. Determinants and motives guiding FDI in Kazakhstan is pivotal for policymakers, investors, and researchers alike.

This chapter aims to identify the determinants and motives influencing FDI inflows into Kazakhstan.

The determinants and motives[15] guiding FDI in Kazakhstan are multifaceted and interconnected. While natural resources and economic stability continue to drive FDI, efforts in diversification, market potential, and strategic positioning shape FDI patterns. Understanding these dynamics is vital for policymakers and investors to foster sustainable economic growth and capitalize on FDI opportunities in Kazakhstan.

This comprehensive chapter elaborates on the determinants and motives of FDI in Kazakhstan, drawing from scientific articles, research papers, and references to support each point.

[15] Determinants of FDI are external factors in the host country that attract foreign investments, such as economic conditions and legal frameworks, acting as "pull factors". In contrast, motives of FDI are the internal strategic reasons driving a company to invest abroad, ranging from market expansion to resource acquisition, highlighting the company's goals for international investment.

**Table 4.1.** Review of research on determinants of foreign direct investment in Kazakhstan

| # | Autor/s | Year of publication | Main determinants of FDI | Research method | Survey results |
|---|---|---|---|---|---|
| 1 | Azam | 2010 | Market size, Official development assistance, Inflation | Empirical investigation simple linear, regression model and the method of least squares | The results of the study showed underscore importance of market size, official development assistance and inflation as determinants of FDI inflows in Kazakhstan. In particular, the study found that implementing effective measures based on these determinants can enhance FDI inflows in Kazakhstan, emphasizing its stronger susceptibility to these factors compared to Azerbaijan. |
| 2 | Anıl, Armutlulu, Canel & Porterfield | 2011 | Market seeking motivation, Resource seeking motivation | Questionnaire survey | The analysis showed that the majority of firms investing in Kazakhstan demonstrate a pronounced preference for market-oriented opportunities, highlighting a strategic emphasis on capturing market advantages rather than solely pursuing natural resources. |
| 3 | Doytch & Eren | 2012 | Natural resources, Cheap labour, State of democracy, Skilled labour | Extensive analyses | The analysis focused on agricultural and manufacturing sectors which are particularly sensitive to the host country's democratic state and investment profile, indicating that these sectors' FDI is heavily influenced by institutional quality. In contrast, FDI services are more attracted by human capital quality, suggesting a nuanced relationship between economic, institutional, and human capital factors in attracting FDI to different sectors. |
| 4 | Sattarov | 2012 | Market size, Economic stability and reliability | Seemingly unrelated regressions (SUR) | The findings align with major FDI theories, particularly the OLI paradigm. Furthermore, the study found that economic stability, reflected by inflation, as a critical factor influencing FDI inflows. |
| 5 | Sadvakassov & Orazgaliyev | 2015 | Natural reserves, Political stability, Favourable economic policies, Tax incentives and an accommodating investment climate for transnational corporations | Combined quantitative, qualitative methods for FDI analysis | Survey results highlight Kazakhstan's oil and gas resources as the key attractor of FDI, overshadowing other potential investment influences. |

| | | | | | |
|---|---|---|---|---|---|
| 6 | Yerkinbayev, Kadyrov & Tokenov | 2017 | Insufficient level of innovative planning and management, Government measures and effectiveness, Importance of the oil and gas sector, | Secondary research method | The survey results highlight that labour cost is a crucial determinant for FDI inflows into Kazakhstan, with investments particularly attracted to sectors with lower labour costs for maximizing profit, such as in the mining industry. Alongside labour cost, factors like natural resources, political stability, and the exchange rate significantly influence the country's ability to attract foreign investment and contribute to its economic growth. |
| 7 | Akhemetzaki & Mukhamediyev | 2017 | Well-developed infrastructure, High level of education of the population | Fixed Effects Model , Control Variables | The survey results reveal that while market size, infrastructure development, and secondary education enrolment positively influence foreign direct investment in the Eurasian Economic Union countries, the establishment of the Customs Union has had a negative impact on such investments. |
| 8 | Abuova & Ra | 2018 | Transparency distance, Regional integration (Eurasian Customs Union), Natural resources, and Host-country experience | Binomial logit regression analysis | The study highlights that corruption levels, regional integration, host-country experience, and the demand for natural resources are key determinants influencing foreign direct investment strategies in Kazakhstan, leading to a preference for wholly-owned subsidiaries (WOS) over joint ventures (JV) in specific contexts. |
| 9 | Ulzii-Ochir | 2019 | Good condition of the economy, High degree of openness to international trade | Panel Data Analysis, Natural Experiments, Policy Analysis, Gravity Model of Trade | The study found that Kazakhstan has well-developed infrastructure, low corporate income tax rate, high level of corruption. |
| 10 | World Bank | 2019 | Government policies | Policy analysis | Effective policies, such as tax breaks, streamline FDI attraction. |
| 11 | Ashurov, Othman, Rosman, & Haron | 2020 | Gross Domestic Product, Labour Force, Trade Openness, Tax Regulations | Quantitative methods | The study found that GDP, labour force availability, trade openness, favorable tax regulations, and previous year's FDI are the main determinants of foreign direct investment in Central Asia, with economic opportunities from major investor countries and political stability also playing significant roles. |

| | | | | | |
|---|---|---|---|---|---|
| 12 | Lee, Chernikov & Nagy | 2022 | Market-seeking motivation, GDP as a facilitator, Natural resource-seeking motivation | Empirical research | The study concludes that South Korean FDI in Kazakhstan, Russia, and Uzbekistan primarily seeks markets and natural resources, with GDP being a significant facilitator, highlighting the importance of economic opportunities and market size in these CIS countries. |
| 13 | Jaworek, Karaszewski, Kuczmarska, & Kuzel | 2022 | Natural resources, Location | Case study, interviews; Questionnaire survey | Research findings revealed that internal factors were considered the primary drivers for development of subsidiaries in Kazakhstan. Top-rated factors included effective leadership, company image, managerial commitment, and competencies. Respondents – foreign investors highly valued Kazakhstan's location advantages – geographic positioning and potential for local collaboration. They also emphasized the host country's natural resources, internal technology, and marketing activities as significant development stimulants. Conversely, identified destimulants were institutional – high corruption levels and extensive bureaucracy. |

**Source:** own elaboration based on selected academic databases: EBSCO, Emerald, Google Scholar, JSTOR, ScienceDirect, Scopus, Springer, Web of Science, Wiley: (Azam, 2010; Anıl, Armutlulu, Canel, & Porterfield, 2011; Dotych & Eren, 2012; Sattarov, 2012; Sadvakassov & Orazgaliyev, 2015; Yerkinbayev, Kadyrov, & Tokenov, 2017; Akhmetzaki & Mukhamediyev, 2017; Abuova & Ra, 2018; Katenova, 2018; Ulzii-Ochir, 2019) (WorldBank, Kazakhstan economic update, 2019; Ashurov, Othman, Rosman, & Haron, 2020; Syzdykova & Azretbergenova, 2021; Lee, Chernikov, & Nagy, 2021; Jaworek, Karaszewski, Kuczmarska, & Kuzel, 2022).

The table 4.1. contains a detailed table summarizing 15 different studies on the main determinants of foreign direct investment in Kazakhstan, spanning from 2010 to 2022. Each study focuses on various factors influencing FDI and employs a range of research methods.

M. Azam (2010) identified market size, official development assistance (ODA), and inflation as the significant determinants of foreign direct investment inflows into Kazakhstan, especially in contrast to Azerbaijan. These factors illustrated the importance of economic stability and growth prospects (market size), support from international development agencies, and a stable price level (inflation) in attracting foreign investment. The study employed empirical investigation alongside simple linear regression analysis to explore the relationship between FDI inflows and its determinants within Kazakhstan. This methodological approach allowed for a quantitative assessment of how specific variables – market size, ODA, and inflation – impacted FDI, providing a clear indication of their significance and influence. The survey results underscored that market size, ODA, and inflation were crucial in determining FDI inflows into Kazakhstan, distinguishing its investment appeal from that of Azerbaijan. The findings suggested that a larger market size, indicative of potential high consumer demand, combined with international financial support and controlled inflation levels, created a conducive environment for foreign investors, enhancing Kazakhstan's attractiveness as an investment destination (Azam, 2010).

The study by I. Anıl, I. Armutlulu, C. Canel & R. Porterfield (2011) highlighted that firms investing in Kazakhstan were predominantly market-oriented, emphasizing the strategic market advantages as the critical determinants of foreign direct investment over the country's natural resources. This shift indicated a preference for factors such as market potential, access to consumers, and competitive positioning within the Kazakhstani market. The research employed a questionnaire survey to gather data from firms investing in Kazakhstan. This approach allowed the researchers to directly capture the perceptions and investment motivations of firms, offering insights into the factors they considered most important when deciding to invest in the country. The survey likely included a range of questions designed to assess the relative importance of various investment determinants, including market factors and natural resources. The survey results revealed a significant orientation towards market-related factors among firms investing in Kazakhstan, suggesting that strategic market advantages were valued more highly than the country's natural resource endowments. This finding indicated a nuanced understanding of investment motivations, where despite Kazakhstan's wealth in natural resources, foreign investors were more attracted by the opportunities presented by the market

itself, including the potential for growth, access to local and regional markets, and the strategic benefits of establishing a presence in Kazakhstan (Anıl, Armutlulu, Canel, & Porterfield, 2011).

N. Doytch & M. Eren (2012) found that the determinants of foreign direct investment in Kazakhstan varied significantly across different sectors. In agriculture and manufacturing, the host country's level of democracy and its investment profile were key influencers. This suggested that political stability and a favourable investment climate were crucial for attracting FDI into these sectors. For the services sector, however, the quality of human capital emerged as the primary determinant, indicating that investments were drawn to regions with skilled and educated workforces. The study employed extensive analyses, likely including econometric modelling and statistical analysis, to investigate the relationships between FDI inflows and various determinants such as democracy levels, investment profiles, and human capital quality. This comprehensive approach enabled the authors to isolate the effects of these variables across different sectors, providing a nuanced understanding of what attracted foreign investment to each. The survey results revealed that the agriculture and manufacturing sectors in Kazakhstan benefited from foreign investments when the country exhibited strong democratic principles and a favourable investment profile. This indicated that investors in these sectors prioritized political and economic stability. Conversely, in the services sector, the emphasis shifted towards the availability of a skilled labour force, suggesting that human capital quality was a critical factor in attracting FDI (Dotych & Eren, 2012).

K. Sattarov (2012) emphasized the importance of economic stability and inflation as critical determinants of foreign direct investment inflows. This perspective suggested that the attractiveness of a host country for foreign investors was significantly influenced by its economic environment, where stability and low inflation were seen as indicators of a favourable investment climate. The study employed Seemingly Unrelated Regressions, a statistical technique that allowed for the simultaneous analysis of multiple equations that may have correlated error terms. This method was particularly useful in examining the impact of economic stability and inflation on FDI, as it could capture the complex interdependencies between these factors across different sectors or time periods. The findings of Sattarov reinforced the notion that economic stability and controlled inflation were paramount in attracting FDI. By utilizing the OLI paradigm within the SUR framework, the study provided empirical evidence that a stable economic environment, characterized by predictable and moderate inflation, enhanced a country's appeal to foreign investors, supporting the strategic decision-making process in international investment (Sattarov, 2012).

D. Sadvakassov & S. Orazgaliyev (2015) identified Kazakhstan's oil and gas resources as the primary attractors of foreign direct investment into the country. Their research underscored the critical importance of natural resources, particularly in the energy sector, as a key driver for FDI, reflecting the global demand for energy resources and the strategic significance of Kazakhstan's reserves in the international energy market. The study employed a mixed-methods approach, combining quantitative data analysis with qualitative insights to explore the significance of Kazakhstan's oil and gas sector in attracting FDI. This comprehensive methodology likely involved the examination of FDI trends, investment patterns, and sector-specific dynamics, supplemented by interviews or case studies to gain deeper insights into the motivations behind foreign investment in Kazakhstan's energy sector. The findings of the study highlighted that, despite the presence of various factors that could influence FDI, the availability and exploitation of oil and gas resources in Kazakhstan emerged as the most significant determinant. This aligned with the broader understanding that resource-rich countries often attract investment specifically in sectors where these resources are present, offering substantial returns on investment due to the high global demand for energy (Sadvakassov & Orazgaliyev, 2015).

K. Yerkinbayev, B. Kadyrov & D. Tokenov (2017) revealed through their study that labour costs, natural resources, political stability, and exchange rates were significant determinants influencing FDI in Kazakhstan. This indicated a multifaceted approach to understanding FDI inflows, where the cost efficiency of labour and the abundance of natural resources served as primary attractions, while political stability and favourable exchange rates further enhanced Kazakhstan's attractiveness to foreign investors. The study used secondary data, which involved the collection and analysis of existing data and literature to understand the factors affecting FDI in Kazakhstan. This method allowed the researchers to synthesize findings from various sources, including previous studies, reports, and economic data, to identify and evaluate the impact of these determinants on FDI without the need for primary data collection. The findings from Yerkinbayev, Kadyrov, & Tokenov's study highlighted the complexity of factors that attracted FDI to Kazakhstan. Labour costs emerged as a crucial competitive advantage, suggesting that lower labour expenses relative to productivity could draw foreign investment, particularly in labour-intensive industries. Simultaneously, the presence of valuable natural resources, a stable political environment, and a favourable exchange rate regime were identified as key elements that further incentivized FDI, underlining the importance of a holistic approach to creating a conducive investment climate (Yerkinbayev, Kadyrov, & Tokenov, 2017).

Ye. Akhemetzaki & B. Mukhamediyev (2017) found that market size, infrastructure quality, and the level of education were positive determinants of foreign direct investment in Eurasian Economic Union (EAEU) countries. These factors suggested that a larger domestic market, well-developed infrastructure, and a highly educated workforce made a country more attractive for FDI. Conversely, their study indicated that membership in the Customs Union had a negative impact on FDI, implying that the regulatory and tariff structures associated with this union might deter foreign investors. The study employed quantitative methods, likely involving statistical and econometric analyses, to examine the relationship between FDI inflows and various determinants within EAEU countries. By analyzing data on market size, infrastructure, education levels, and the effects of the Customs Union, the researchers were able to quantify the impact of these variables on FDI, offering a comprehensive view of the factors that influenced investment decisions in the region. The results from Akhemetzaki & Mukhamediyev's research highlighted the complexity of factors affecting FDI in the EAEU. The positive influence of market size, infrastructure, and education underscored the importance of economic and social development in attracting foreign investment. Meanwhile, the negative effect of Customs Union membership suggested that economic integration mechanisms, while beneficial in some respects, might also present challenges for attracting FDI, possibly due to increased regulatory burdens or limitations on trade with non-member countries (Akhmetzaki & Mukhamediyev, 2017).

A. Abuova & W. Ra (2018) identified corruption, regional integration, and the demand for natural resources as significant determinants in the strategic decisions of foreign direct investment in Kazakhstan, specifically influencing the preference for establishing wholly-owned subsidiaries over joint ventures. The findings suggested that higher levels of corruption and the demand for natural resources pushed foreign investors towards maintaining greater control over their investments, hence the preference for wholly-owned subsidiaries. Conversely, regional integration appeared to provide a conducive environment for such investment structures by possibly offering more predictable and stable business conditions. The study employed a binomial logit regression analysis, a quantitative method that analyzed the relationship between a set of independent variables (corruption, regional integration, and demand for natural resources) and a binary dependent variable (the choice between wholly-owned subsidiaries and joint ventures). This method allowed for the examination of how the likelihood of choosing one investment structure over another changed with variations in the key determinants. The survey results from Abuova & Ra's analysis indicated that the strategic choice of investment structure in Kazakhstan was significantly influenced by the business

environment's characteristics. Specifically, the adverse effects of corruption led investors to prefer wholly-owned subsidiaries to mitigate risks associated with local partnerships. Meanwhile, positive factors such as regional integration and a high demand for natural resources also played crucial roles in shaping investment strategies, as they increased the attractiveness of maintaining full control over operations to capitalize on the market opportunities these conditions presented (Abuova & Ra, 2018).

N. Ulzii-Ochir (2019) identified a well-developed infrastructure, low corporate income tax rates, and a high level of corruption as significant factors influencing foreign direct investment decisions. These findings suggested a nuanced interplay between positive economic incentives and the challenges posed by governance issues. Specifically, the study indicated that while infrastructural development and favourable tax policies could attract FDI by reducing operational costs and enhancing profitability, corruption presented a complex barrier that investors had to navigate, potentially affecting the overall investment climate. The study employed quantitative methods, likely including statistical analysis and econometric modelling, to examine the relationship between FDI inflows and the identified determinants. This approach allowed for a systematic assessment of how each factor – infrastructure quality, corporate income tax rates, and corruption levels – contributed to making a country more or less attractive to foreign investors. By analysing data across these variables, Ulzii-Ochir provided empirical evidence on their impact on FDI. The results from Ulzii-Ochir's research highlighted the importance of both economic and non-economic factors in attracting foreign investment. The positive impact of well-developed infrastructure and low corporate income tax rates underscored the value of creating a conducive economic environment for FDI. At the same time, the significant role of corruption as a determinant suggested that governance issues and the transparency of business practices were crucial considerations for investors, potentially offsetting the benefits of other positive attributes. This complex picture emphasized the need for balanced policy approaches that addressed both the facilitation of investment through economic incentives and the reduction of barriers related to governance and corruption (Ulzii-Ochir, 2019).

The World Bank's 2019 policy analysis identified government policies, particularly tax breaks, as effective tools for streamlining foreign direct investment attraction. This analysis suggested that strategic policy measures, such as providing tax incentives to foreign investors, played a crucial role in making a country more appealing for FDI. By reducing the tax burden on corporations, these policies enhanced the competitive advantage of a country as a destination for foreign investment. Given the source, the World Bank likely employed comprehensive

policy analysis combining both qualitative and quantitative data from various countries to assess the impact of government policies on FDI attraction. This approach would have involved analyzing policy frameworks, tax structures, and FDI inflows across different jurisdictions to determine the effectiveness of tax breaks and other policy measures in attracting foreign investment. The findings from the World Bank's policy analysis highlighted the significant role of government interventions in the form of tax incentives in attracting FDI. By offering tax breaks, governments effectively increased the attractiveness of their country as an investment destination, thereby facilitating greater foreign investment inflows. This conclusion supported the notion that proactive and investor-friendly policy measures were essential for countries looking to enhance their share of global FDI (WorldBank, 2019).

S. Ashurov, A.H. Othman, R. Rosman & R. Haron (2020) identified the significance of several factors in attracting foreign direct investment to Kazakhstan. These factors included the volume of the previous year's investment inflows, the GDP size, labour resources availability, the degree of economic openness, and the efficiency of the tax system. These determinants highlighted the importance of both economic fundamentals and policy-related aspects in influencing FDI. The study employed quantitative methods to analyse the impact of various factors on FDI inflows. This approach likely involved the use of statistical and econometric models to quantitatively assess how each identified determinant affected the volume of FDI. By analysing data over a specified period, the research provided insights into the relative importance of these factors in attracting foreign investment. The findings from Ashurov et al. underscored the multifaceted nature of FDI attraction in Kazakhstan. The results indicated that not only did the economic indicators like the previous year's FDI, GDP, and labour resources play a crucial role, but policy and openness measures, such as economic openness and tax policies, were also vital. The study highlighted the need for a balanced approach that considered both improving the country's economic fundamentals and implementing favourable policies to enhance FDI inflows (Ashurov, Othman, Rosman, & Haron, 2020).

H-S. Lee, S.U. Chernikov & S. Nagy (2022) concluded that South Korean FDI in Kazakhstan and other CIS countries was driven by market-seeking and natural resource-seeking motivations. This conclusion highlighted that South Korean investors were attracted to these regions both for their market potential, including consumer bases and economic scale, and for their abundant natural resources. GDP served as a facilitator in this process, indicating that higher economic output made these countries more attractive for investment. The study employed empirical research, analysing data and trends related to South Korean FDI in Kazakhstan and other CIS countries. This research method allowed the authors to

systematically examine the motivations behind FDI flows, identifying key patterns and drivers. By focusing on empirical evidence, the study provided a grounded analysis of investment trends and motivations. The research findings demonstrated that South Korean investors were significantly influenced by the pursuit of new markets and natural resources in their FDI decisions concerning Kazakhstan and the CIS region. The facilitative role of GDP in this dynamic underscored the importance of economic performance as a critical factor in attracting FDI. These insights pointed to the strategic considerations of foreign investors, emphasizing the dual attraction of market potential and resource availability in shaping investment strategies (Lee, Chernikov, & Nagy, 2021).

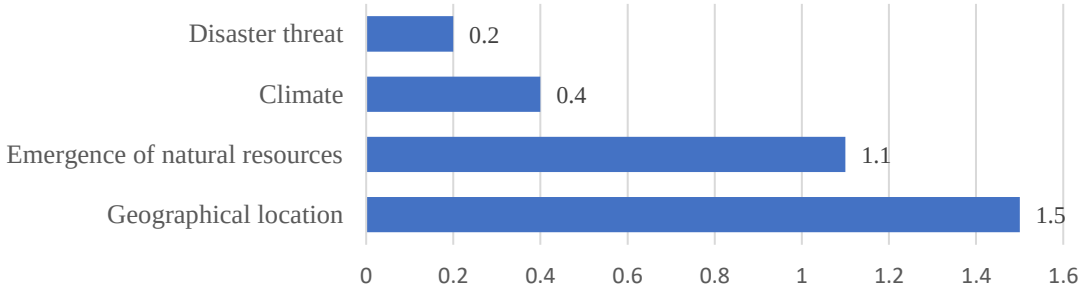
M. Jaworek, W. Karaszewski, M. Kuczmarska & M. Kuzel (2022) revealed through case studies, interviews, and survey questionnaires for mother companies and subsidiaries that internal factors such as leadership and company image were primary drivers of development. Additionally, location and natural resources also played a significant role in attracting foreign direct investment. Conversely, they found that high levels of corruption and bureaucracy served as major deterrents. The researchers conducted case studies and interviews, allowing them to gather in-depth insights into the factors influencing FDI. This qualitative approach provided a nuanced understanding of how internal and external elements affected investment decisions, directly from the perspectives of business leaders and stakeholders involved in the FDI process. The findings from Jaworek et al.'s study highlighted the critical importance of strong leadership and positive company image as key determinants in the success and development of FDI initiatives. The strategic importance of a country's location and its natural resources also emerged as significant factors. However, the presence of high corruption and extensive bureaucracy were identified as substantial barriers, deterring potential investors and negatively impacting the FDI landscape (Jaworek, Karaszewski, Kuczmarska, & Kuzel, 2022).

Research on foreign direct investment in Kazakhstan highlighted various factors influencing FDI inflows, including economic stability, market size, natural resources, and institutional quality. Studies indicated that corruption and bureaucratic barriers deterred investment, while factors like GDP growth, trade openness, and a skilled workforce attracted FDI. The oil and gas sector's innovation management emerged as a crucial aspect, pointing to the need for enhancing innovation for better competitiveness. Comparative studies showed a preference for market-seeking investments in Kazakhstan, distinct from resource-seeking motives in neighbouring countries. Overall, these observations underscored the complexity of FDI determinants in Kazakhstan, emphasizing economic, institutional, and strategic factors as key to attracting foreign investment.

## 4.2. Determinants and motives of foreign direct investment in Kazakhstan – own research results

The figure 4.1. presents ratings for various natural factors that could influence investment decisions. The factors listed are the country's geographical location, the emergence of natural resources, the threat of disasters, and the climate. Geographical location factor (1.5), the high score suggests that investors consider Kazakhstan's geographical position as quite favourable for investment. A score of 1.5 is closer to the positive end of the scale, indicating that the location is seen as an advantage, potentially due to factors such as connectivity, proximity to other markets, or strategic positioning for trade routes. Emergence of natural resources (1.1), this positive score indicates that the availability or discovery of natural resources is viewed favourably by investors, though not as strongly as the geographical location. Kazakhstan is known to have abundant natural resources, and a score of 1.1 reflects the attractiveness of these resources to investors. The score of climate (0.4) shows that while climate is a consideration, it is not a major concern for investors. The positive score indicates a mildly favourable climate or that climate considerations have a modest impact on the investment environment in Kazakhstan. Disaster threat (0.2) – the low positive score indicates that investors recognize there is a threat from natural disasters, but it is not seen as a significant deterrent to investment. It suggests that such risks are perceived to be manageable or infrequent enough not to have a severe impact on investment decisions.

**Figure 4.1.** Natural factors affecting decision to undertake FDI in Kazakhstan




**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

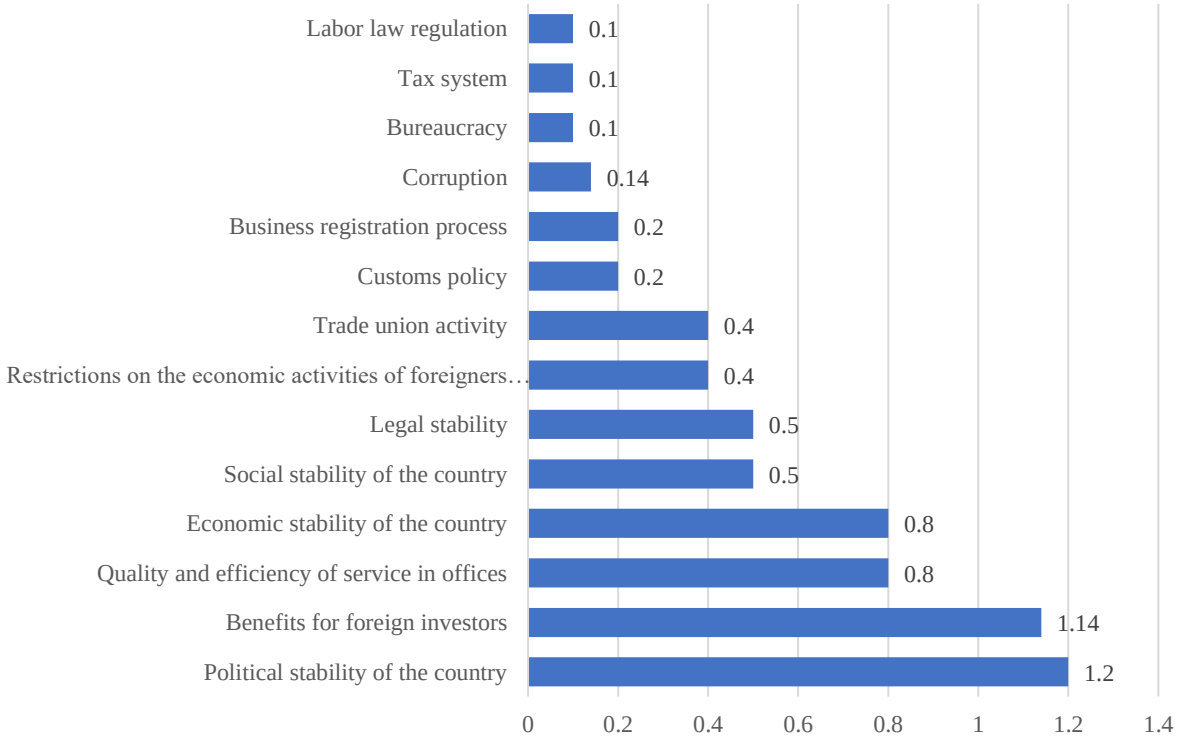
**Source:** own elaboration based on the research results.

The overall positive scores for all factors indicate a generally favourable perception of Kazakhstan's natural factors among the responding investors. This suggests that these factors contribute positively to the attractiveness of Kazakhstan as a destination for foreign direct investment.

The data from the figure 4.2. represents various institutional and legal factors, as well as aspects related to the ease of doing business in Kazakhstan. Political stability of the country factor (1.2) has received a positive average score, indicating that investors perceive the political environment as relatively stable, which is conducive to investment. Benefits for foreign investors (1.14) was rated positively, slightly below political stability, suggesting that investors recognize and appreciate the benefits offered to them in Kazakhstan, such as tax incentives or investment protection. Quality and efficiency of service in offices (0.8) / economic stability of the country (0.8) – both of these factors have equal scores and are moderately positive. This implies that investors find the services they interact with to be fairly reliable and efficient, and they perceive the economic environment as stable enough for investment. Social stability of the country (0.5) / legal stability (0.5) – these scores indicate a neutral to slightly positive perception of social and legal stability, important factors that can influence the predictability of investment outcomes. Restrictions on the economic activities of foreigners (0.4) / trade union activity (0.4) – these received lower but still positive scores, suggesting that while there are some perceived restrictions on foreign economic activities and notable trade union activity, they do not pose significant concerns for investors. Customs policy (0.2) / business registration process (0.2) – investors rated these lower, pointing to potential challenges or inefficiencies in customs and business registration that could be improved for better ease of doing business. Corruption (0.14) this received a low score, which suggests that corruption is perceived to be present but not to a degree that it severely hinders business activities. Nonetheless, it remains an area for improvement. Bureaucracy (0.1) / tax system (0.1) / labour law regulation (0.1) – these factors have the lowest scores, implying significant concerns or negative perceptions among investors. These areas may be seen as cumbersome or restrictive, possibly impacting the decision-making process for FDI.

From these results, it is clear that while political and economic stability, along with investor benefits, are seen as strong points for Kazakhstan, there are areas such as corruption, bureaucracy, taxation, and labour law regulation that require attention and improvement. Enhancing these aspects could make the country even more attractive to foreign investors and positively impact its economic growth.

**Figure 4.2.** Institutional and legal factors / Ease of doing business factors affecting decision to undertake FDI in Kazakhstan




**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

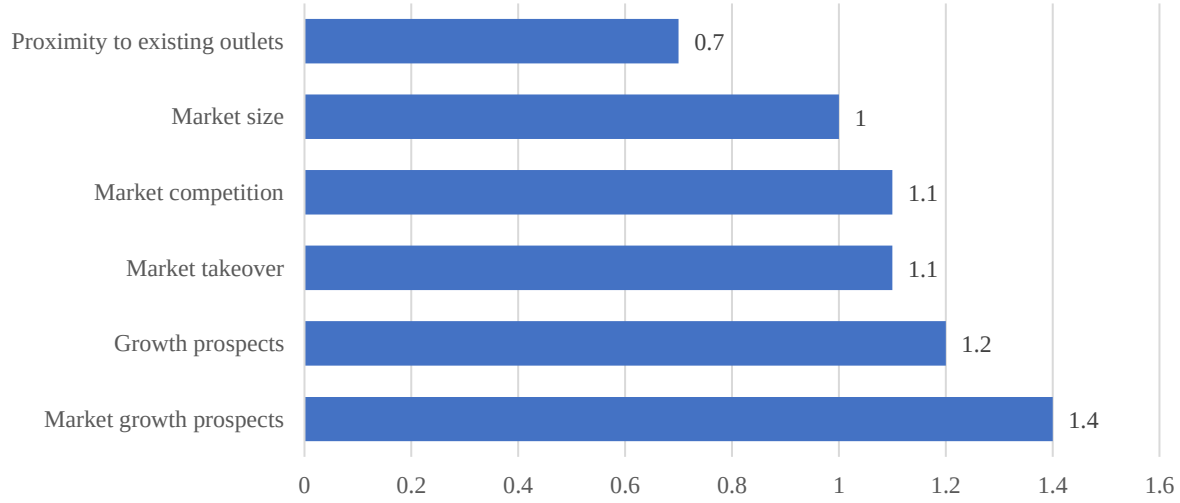
**Source:** own elaboration based on the research results.

Figure 4.3. presented in the questionnaire outlines various market-related economic factors influencing FDI in Kazakhstan. Market growth prospects (1.4) receiving the highest score, this suggests that investors view Kazakhstan as having strong potential for market growth. This is the most attractive feature for investors as it points to future opportunities for return on investment. Growth prospects (1.2) also rated positively, this reflects investor confidence in the country's overall economic growth potential, albeit slightly less than the specific market growth prospects. It turned out that not only market growth prospects but also market absorptive capacity were important for investors. A market with high absorptive capacity is one with strong demand. Market absorption (1.1) a slightly positive score indicates that investors see feasible opportunities to enter the market and possibly acquire existing operations or secure significant market share. Market competition (1.1) this factor is seen in a neutral to slightly positive light, implying that while there is competition, it is not viewed as a major barrier to new entrants. Investors might see the competitive landscape as challenging but manageable. Market size (1.0) with a neutral score, this factor is seen as neither particularly strong nor weak. It suggests that while the market may not be very large, it still holds sufficient potential to attract FDI. Proximity to existing outlets (0.7) – the lowest score among the factors

indicates a concern regarding the logistical aspects of distribution and market access. Investors may perceive challenges related to the distance or accessibility of existing outlets, which could affect the efficiency and cost of market entry and product distribution.

In summary, the factors that investors in Kazakhstan find most appealing are related to growth potential, indicating optimism about future expansion and profitability in the market. On the other hand, logistics and distribution, as indicated by the proximity to existing outlets, may pose concerns that need strategic planning and investment to mitigate. Improving this aspect could make the market even more attractive to investors. The moderate to positive scores across most factors suggest a generally favourable environment for FDI in Kazakhstan, with room for improvement in certain logistical areas.

**Figure 4.3.** Market factors affecting decision to undertake FDI in Kazakhstan




**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

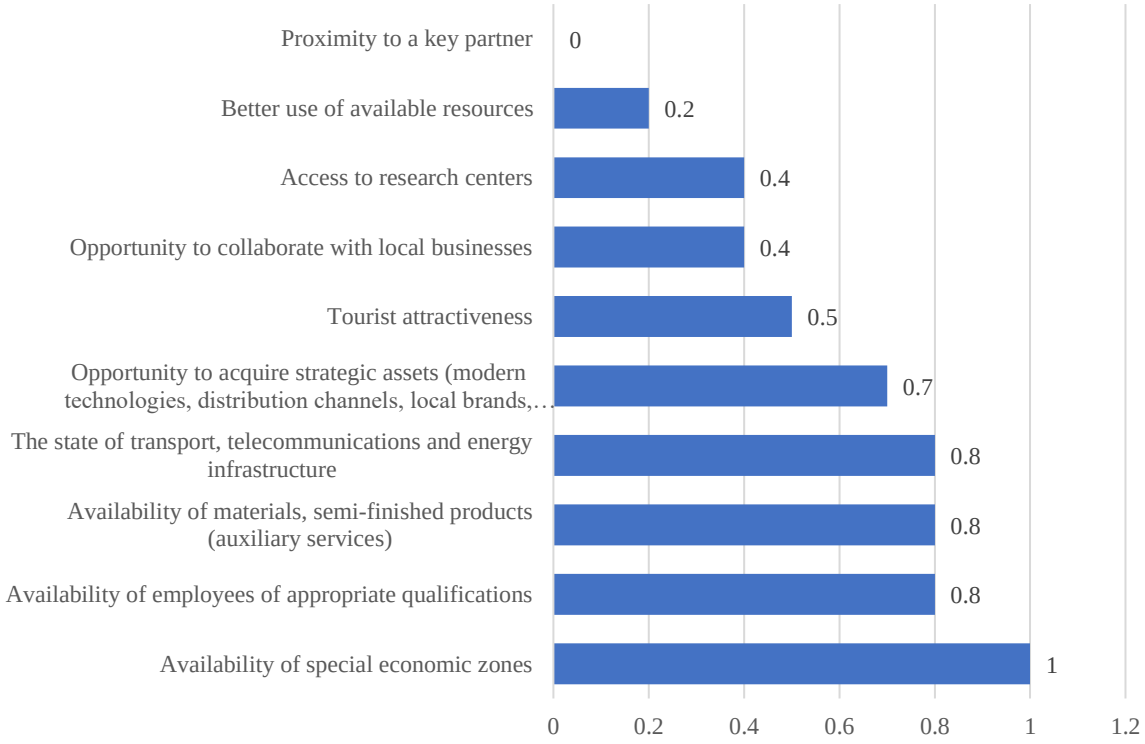
**Source:** own elaboration based on the research results.

Figure 4.4. reflects investors' perceptions of various resource-related economic factors affecting FDI in Kazakhstan.

Availability of special economic zones (1.0) with the highest score, this suggests that the presence of special economic zones, which often offer tax incentives and relaxed regulatory policies, is considered favourable and possibly a key driver for FDI. Availability of employees of appropriate qualifications (0.8) this positive score indicates that Kazakhstan is perceived to have a reasonably good supply of skilled labour, which is essential for companies looking to maintain high standards of operation. Availability of materials, semi-finished products (auxiliary services) (0.8) is viewed as good, which is important for production and can reduce supply chain costs. The score of state of transport, telecommunications, and energy

infrastructure (0.8) suggests that the existing infrastructure is adequate to support business operations, which is critical for the efficiency and logistics of any company. Opportunity to acquire strategic assets (0.7) with a fairly positive score, it appears that there are good opportunities for acquiring local assets that can offer strategic advantages, such as technology or brand names. Tourist attractiveness (0.5) factor received a moderate score, implying that while Kazakhstan may not be a top tourist destination, its tourism potential is recognized and may contribute to the service sector's appeal for investment. Opportunity to collaborate with local businesses (0.4) – a lower score in this area indicates that while there are some opportunities for collaboration, investors may see room for improvement in the integration with local businesses. The score of access to research centres (0.4) suggests that connections with research centres are available but not seen as a significant factor by investors, which might be due to either a limited number of centres or a mismatch between research outputs and business needs. Proximity to a key partner (0.0), indicates a lack of emphasis on or absence of proximity to key partners as a factor for investment. It may suggest that for investors, other factors take precedence over geographical closeness to strategic partners, or that such partnerships are not currently well-developed in Kazakhstan.

**Figure 4.4.** Resource factors affecting decision to undertake FDI in Kazakhstan




**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

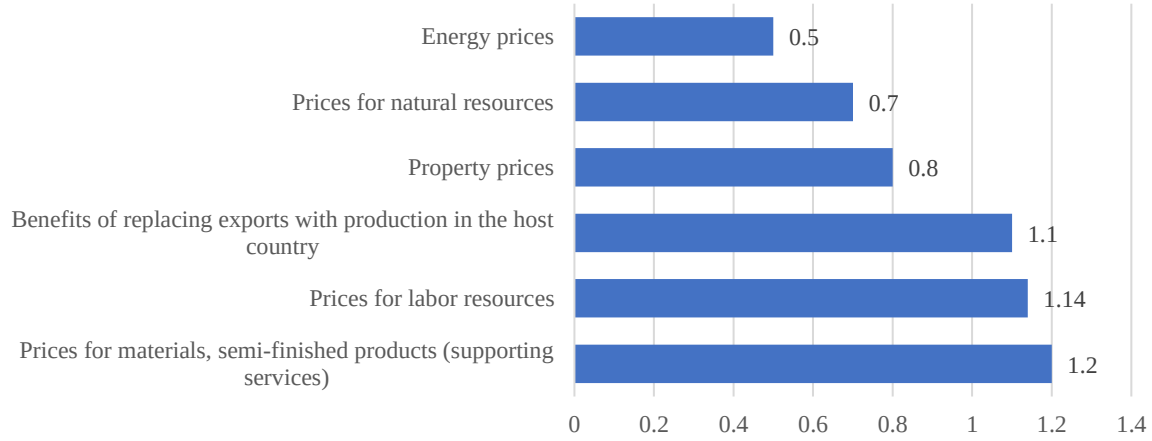
**Source:** own elaboration based on the research results.

In summary, Kazakhstan's economic environment for FDI is perceived positively in terms of the availability of special economic zones, skilled labour, materials, and infrastructure. However, there is a suggestion of untapped potential in better resource utilization and a need to enhance strategic partnerships and collaboration with local businesses. The relatively low scores for collaboration, research centre access, and the use of available resources suggest areas where policy makers and business leaders could focus to further improve the investment climate.

Figure 4.5. evaluates the impact of various cost-related factors on the efficiency and economic appeal of FDI in Kazakhstan. Prices for materials, semi-finished products (supporting services) (1.2) – with the highest score suggests that investors find the prices for materials and supporting services reasonably economical in Kazakhstan, which can reduce production costs and improve profit margins. The score of prices for labour resources (1.14) indicates that labour costs are competitive, enhancing the country's attractiveness for investment, particularly in labour-intensive industries. Benefits of replacing exports with production in the host country (1.1) – investors perceive a good level of advantage in localizing production within Kazakhstan rather than exporting to the country. This suggests that local production could be cost-effective and possibly supported by government policies. The score of property prices (0.8) shows that property prices are moderately attractive, which could reflect affordability in real estate, reducing the initial investment needed for setting up business operations. Prices for natural resources (0.7) – score slightly below the mid-range indicates that while the cost of natural resources is not the most attractive factor, it is still competitive enough to be considered a positive aspect by investors. Energy prices (0.5) – the lowest score among these factors suggests that energy costs are not a strong point for Kazakhstan's economic appeal. However, the score above zero indicates that while it might be a concern, it's not a significant deterrent.

In analysing these factors, it's evident that Kazakhstan's FDI attractiveness is bolstered by competitive pricing in key areas like materials and labour. The perception that it's economically viable to produce goods locally rather than import them strengthens the country's position as a potential manufacturing hub. However, there is a recognition that costs associated with natural resources and energy could be improved to enhance overall efficiency and appeal to foreign investors even further. These factors should be of particular focus for policymakers looking to boost FDI by offering more competitive pricing or developing strategies to offset higher costs in these areas.

**Figure 4.5.** Efficiency factors affecting decision to undertake FDI in Kazakhstan




**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

**Source:** own elaboration based on the research results.

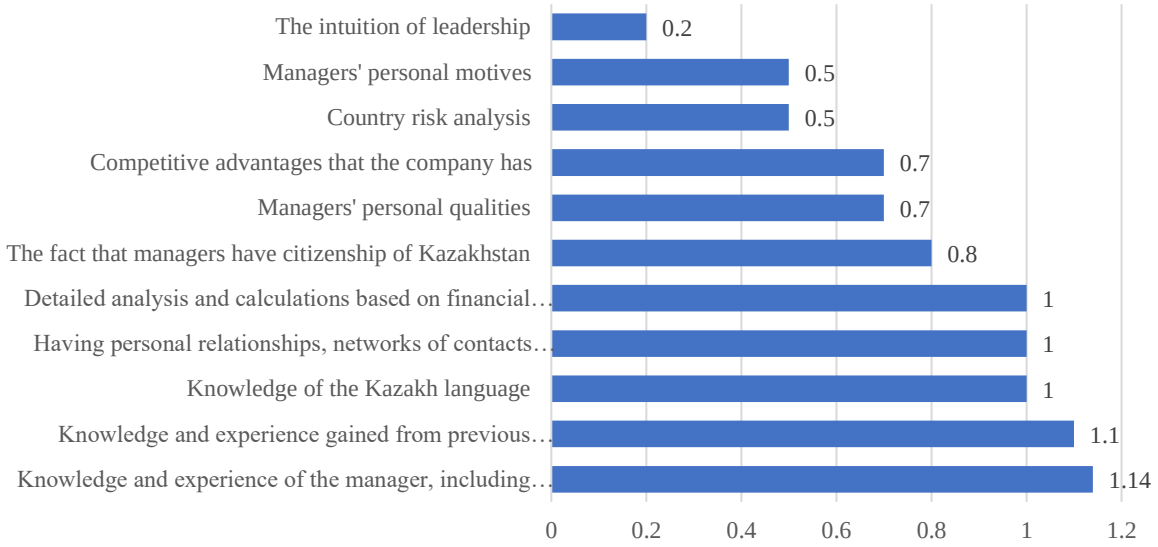
The figure 4.6. shows list of motives (internal factors, including behavioural ones) that have influenced the FDI decision in Kazakhstan. Knowledge and experience of the manager (1.14) – this factor has the highest score, indicating that it has more than a positive influence on the decision for FDI. The expertise of the manager and their ability to gather information from contractors or competitors are crucial for making informed investment decisions. Knowledge and experience from previous work in Kazakhstan (1.1) – prior experience in Kazakhstan is almost as influential as general managerial experience, highlighting the importance of local knowledge. Knowledge of the Kazakh language (1.0) – this indicates that language proficiency is seen as a key factor, likely facilitating better communication and understanding of local markets and regulations. Having personal relationships (1.0) – in Kazakhstan are deemed critical, suggesting that business in this context may rely heavily on personal connections. The same importance is placed on the ability to perform detailed financial analysis and calculations (1.0), indicating a balance between qualitative insights and quantitative rigor. Manager's citizenship of Kazakhstan (0.8) – somewhat less influential but still significant is whether managers hold Kazakhstani citizenship, perhaps due to legal advantages or deeper cultural understanding.

Manager's personal qualities (0.7) and competitive advantages of the company (0.7) were rated similarly, suggesting these are moderately influential factors. Country risk analysis (0.5) and Manager's personal motives (0.5) – both are considered to have a moderate influence on the FDI decision. This could mean that while these factors are relevant, they are secondary

to the manager's expertise and relationships. The intuition of leadership (0.2) – this is deemed the least influential factor, which could imply that decisions are expected to be more data-driven and less reliant on gut feelings.

Overall, the figure suggests a multifaceted approach to FDI decisions, where expertise and personal connections are highly valued, but factors like personal motives and intuition play a less significant role. This kind of table could inform strategies for companies looking to invest in Kazakhstan, emphasizing the need to develop strong local ties and expertise.

**Figure 4.6.** Motives (internal factors) affecting decision to undertake FDI in Kazakhstan




**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

**Source:** own elaboration based on the research results.

Table 4.7. highlights the most influential factors across various sectors that impact FDI decisions in Kazakhstan. Here's a comprehensive summary and analysis of the key factors by their influence score:

Top influence factors (scores above 1.1):

- Geographical location (1.5) – this is the most influential factor, indicating that Kazakhstan's location is strategically advantageous for investors, potentially due to its connectivity to large markets or natural trade corridors.
- Market growth prospects (1.4) – high growth potential of the market is a strong driver for FDI, as it promises higher returns on investment.
- Political stability of the country (1.2) – a stable political climate ensures predictability in investment and operations, making it a vital consideration.

Prices for materials and services (1.2) – investors value competitive pricing for inputs as it impacts the overall profitability and sustainability of business operations.

- Benefits for foreign investors (1.14) – incentives for foreign investors play a significant role, suggesting that policies and regulations that favour foreign businesses are critical for attracting FDI.
- Prices for labour resources (1.14) – competitive labour costs are important, which could indicate that investors are cost-conscious and seek to optimize operational expenses.
- Emergence of natural resources (1.1) – the availability of natural resources is an attractive factor for industries that rely on these inputs.

Moderate Influence Factors (score of 1):

- Availability of special economic zones – SEZs offer benefits like tax exemptions and regulatory ease, which are influential but not as much as other top factors.

Lower influence factors (scores below 1):

- Availability of qualified employees (0.8), materials (0.8), and infrastructure (0.8): These factors, while important, are less influential than others, indicating that although the availability of employees, materials, and infrastructure meets a certain threshold for investment, they do not stand out as exceptional factors that drive FDI on their own.

The pattern of the scores reveals that both macro-level factors (like geographical location and political stability) and micro-level factors (such as managerial knowledge and experience) are vital in shaping FDI decisions. The high rating of geographical location may reflect Kazakhstan's potential as a logistical hub, offering access to significant regional markets.
The emphasis on market growth prospects aligns with an investor's fundamental goal of capital appreciation and profit maximization. Combined with competitive prices for labour and materials, it illustrates a focus on operational efficiency and potential cost advantages.

Managerial knowledge and experience being rated equally with benefits for foreign investors underscores the value of human capital and well-informed leadership in making strategic investment decisions. This indicates that businesses do not operate in isolation but are influenced by the ecosystem, including competitive practices, regulatory frameworks, and the knowledge base of industry leaders.

The relatively lower scores for availability of qualified employees, materials, and infrastructure suggest these are considered foundational rather than exceptional attributes.

**Table 4.7.** Main factors influencing FDI decisions in Kazakhstan across different domains

| Location factor | Type of factor | Score |
|---|---|---|
| Geographical location | Natural factors | 1 |
| Market growth prospects | Economic factors (market) | 1.4 |
| Growth prospects | Economic factors (market) | 1.2 |
| Political stability of the country | Institutional and legal Factors/Ease of doing business | 1.2 |
| Prices for materials, semi-finished products (supporting services) | Economic factors (efficiency) | 1.2 |
| Benefits for foreign investors | Institutional and Legal Factors/Ease of doing business | 1.14 |
| Prices for labor resources | Economic factors (efficiency) | 1.14 |
| Emergence of natural resources | Economic factors (resource) | 1.1 |
| Availability of special economic zones | Economic factors (resource) | 1 |
| Availability of employees of appropriate qualifications | Economic factors (resource) | 0.8 |
| Availability of materials, semi-finished products (auxiliary services) | Economic factors (resource) | 0.8 |
| The state of transport, telecommunications and energy infrastructure | Economic factors (resource) | 0.8 |

**Explanations:** the impact index ranges from -2.0 to 2.0, with -2 meaning the impact definitely negative, and 2 definitely positive (according to a 5-point Likert scale).

**Source:** own elaboration based on the research results.

In summary, while Kazakhstan has foundational strengths in labour, materials, and infrastructure, its most compelling attractions for FDI lie in the intersection of strategic geographical advantage, strong market growth potential, stable political conditions, and an environment conducive to foreign investment. These factors combined suggest that Kazakhstan is viewed as a country with solid potential for sustainable business operations and growth, albeit with areas that could be further developed to strengthen its appeal to investors. Enhancing the effectiveness of SEZs, along with improving the utilization of human and material resources and infrastructure, could bolster Kazakhstan's competitive position in attracting FDI.

To stimulate and regulate foreign direct investment effectively and enhance the national competitiveness and competitiveness of export-oriented sectors of the Kazakhstan economy, state policy should prioritize the development and implementation of comprehensive strategies. These strategies should focus on enhancing the appeal of special economic zones by offering more robust incentives such as tax breaks and streamlined regulatory processes to attract investors looking for operational efficiencies and cost advantages. Additionally, efforts should be made to improve the business environment by reducing bureaucracy, combating corruption, and simplifying the business registration processes to foster a more transparent and investor-

friendly climate. Strengthening educational programs and vocational training can boost the availability of skilled labour, which in turn enhances the productivity and competitiveness of the workforce. Furthermore, the government should invest in upgrading infrastructure, particularly in transport, telecommunications, and energy, to support business operations and logistics effectively. By addressing these strategic areas, Kazakhstan can better leverage its geographical location, political stability, and market growth prospects, thereby attracting more robust and diversified foreign direct investment flows that contribute to sustainable economic growth.

For exemplifying market determinants, the author of the work also attempted to examine the relationship between GDP per capita and FDI. The parameters of the econometric model used for this purpose are presented in Chapter 5.

# Chapter 5 The impact of FDI on the economic growth in Kazakhstan

## 5.1. The impact of FDI on the economic growth – research review

The table 5.1. presents a comprehensive analysis of various studies that investigate the impact of FDI on Kazakhstan's economic growth and other related factors. Each study employs different research methodologies to explore the multifaceted effects of FDI, ranging from its influence on GDP growth and socio-economic development to its role in enhancing investment attractiveness and contributing to economic diversification.

J-W. Lee, G. Baimukhamedova & S. Akhmetova used multivariate regression analysis to examine the effects of FDI inflows, exchange rates, economic growth, industrial production, fixed capital investment, employment ratio, and retail trade turnover on Kazakhstan's GDP growth. They discovered that FDI's influence on GDP growth in Kazakhstan was minimal or statistically insignificant, challenging the common perception of FDI as a straightforward enhancer of economic growth. The research highlighted the complexity of FDI's role in a country's economic development, suggesting that resource-seeking FDI might not always contribute effectively to the economic growth and competitiveness of developing countries, with a particular focus on Kazakhstan. This study added to the critical discourse on the strategic implications of foreign direct investments in developing economies and underscored the need for nuanced policies to leverage FDI effectively (Lee, Baimukhamedova, & Akhmetova, 2010).

The research by A. Waikar, L. Jepbarova, S. Lee, L. Gardner & J. Johnson analyzed the impact of FDI on Kazakhstan's economic growth and per-capita income using simple regression analyses. Their findings indicated a generally positive, albeit moderate, effect of FDI on the nation's economic development. Interestingly, the study also revealed that FDI had adverse effects on certain sectors, particularly agriculture and manufacturing, suggesting a crowding-out effect on domestic investment in these areas. This nuanced exploration provided valuable insights into the sector-specific impacts of FDI, raising important considerations for policymakers regarding the optimization of FDI flows to enhance their positive outcomes while mitigating negative sectoral impacts (Waikar, Jepbarova, Lee, Gardner, & Johnson, 2011).

B.-Y. Chang & A. Kassymbekova's study employed multiple linear regression time series analysis and Granger causality tests to investigate the relationship between FDI per capita and GDP per capita in Kazakhstan. Their research presented significant findings, showing that

each dollar increase in FDI per capita inflow led to a 30.4 dollars increase in GDP per capita. This substantial impact underscored the potential of FDI as a lever for economic enhancement in Kazakhstan. The study offered a critical examination of the conditions under which FDI could be most beneficial for the host country's economy, suggesting a strategic approach to maximizing the positive effects of foreign investments (Chang & Kassymbekova, 2012).

F. Gürsoy, A. Sekreter & H. Kalyoncu conducted a study exploring the causality between FDI and GDP in Central Asian countries, including Kazakhstan, using Johansen cointegration and Granger causality tests. Their research revealed varied levels of integration among the countries, highlighting the diverse impacts of FDI on their GDPs. This comprehensive investigation into the causal relationships between FDI inflows and economic growth across several nations contributed to a deeper understanding of the dynamics at play in Central Asia's economic development. The study's findings highlighted the importance of considering country-specific factors when assessing the potential benefits of FDI (Gürsoy, Sekreter, & Kalyoncu, 2013).

The study by D.Zh. Rakhmatullayeva, V.N. Bobkov & E.B. Zhatkanbayev applied the Analytic Hierarchy Process (AHP) and regression analysis to assess the social impact of FDI across Kazakhstan. Their findings revealed a uniformly positive social impact of FDI, improving employment, health, poverty levels, and consumption without any detected negative effects on regional socio-economic development. The research suggested leveraging the RPF[16] rating to bolster socio-economic policy and public-private partnerships, thus enhancing the benefits of FDI. This study shed light on the broader implications of FDI beyond mere economic metrics, highlighting its potential as a catalyst for comprehensive socio-economic advancement (Rakhmatullayeva, Bobkov, & Zhatkanbayev, 2015).

T. Azatbek and A. Ramazanov employed correlation and regression analysis to examine the relationship between FDI, GDP, and net exports in Kazakhstan. They discovered that a 1 tenge increase in FDI significantly boosted GDP by 10.5 tenge, emphasizing the critical role of foreign investments in the nation's economic expansion. The study particularly highlighted how FDI influenced net exports in sectors such as minerals, oil, gas condensate, and metals. It stressed the importance of attracting investments into the processing industry and manufacturing of high value-added products to secure lasting economic benefits, advocating

[16] The RPF Rating helps define the priority of various factors impacting population welfare and living quality in these regions, and to calculate the aggregate social effect of FDI. It considers multiple socio-economic development indicators to allocate the effects of FDI on six distinct factors regionally, such as employment, health, poverty levels, and general consumption.

for a strategic shift towards diversification and higher value addition in Kazakhstan's economy (Azatbek & Ramazanov, 2016).

The study conducted by D. Rakhmatullayeva, I. Kuliyev, Z. Beisenbaiyev & T. Tabeyev using multiple linear regression analysis examined the impact of FDI on Kazakhstan's economic growth and inflation. The analysis did not reveal a negative impact of FDI on economic growth. However, it highlighted that the positive relationship between FDI inflows and economic growth was not significant, suggesting that the impact of FDI might depend on other factors such as education or research and development. This study contributed to the nuanced understanding of FDI's role in Kazakhstan, indicating the complex interplay between foreign investments and various aspects of economic development (Rakhmatullayeva, Kuliyev, Beisenbaiyev, & Tabeyev, 2020).

D.Zh. Rakhmatullayeva, A.V. Khazhieva & O.R. Abduraimov utilized macroeconomic analysis and statistical analysis to review the impact of FDI on Kazakhstan's economic growth since independence. Their findings underscored Kazakhstan's significant benefits from FDI, which had been instrumental in driving technological advancement and economic growth. The study positioned Kazakhstan as a prime FDI destination in Central Asia, thanks to strategic government measures to enhance its investment climate. This research provided a comprehensive overview of Kazakhstan's journey in attracting FDI and leveraging it for sustained economic progress, offering valuable lessons for other developing countries (Rakhmatullayeva, Khajiyeva, & Abduraimov, 2021).

N. Bagayeva, A. Arystanova & A. Musakhanova applied regression analysis and SPSS to evaluate the impact of FDI and TNCs' investment activities on Kazakhstan's GDP growth compared to Russia. Their findings indicated that Kazakhstan's GDP growth benefited less from FDI compared to Russia, suggesting a need for Kazakhstan to refine its FDI attraction strategy. This study highlighted the importance of targeting FDI towards sectors that could significantly contribute to economic development, particularly emphasizing the processing industry and the production of high value-added products (Bagayeva, Arystanova, & Musakhanova, 2022).

A.R. Issayeva used OLS regression analysis and a time-series study to analyze the impact of FDI, Gross Capital Formation, and the Labor Force on Kazakhstan's GDP. The study found that FDI did not significantly impact GDP in Kazakhstan, whereas Gross Capital Formation played a critical role in economic development. This research underscored the importance of domestic investment and strategic allocation of resources for achieving

sustainable economic growth, suggesting a nuanced approach to leveraging both domestic and foreign investments for economic development (Issayeva, 2023).

M. Yuldashev, U. Khalikov, F. Nasriddinov, N. Ismailova, Z. Kuldasheva & M. Ahmad explored the impact of FDI and human capital on economic growth and income inequality using an interactive model, the Augmented Mean Group (AMG) approach, and the Westerlund co-integration test. The findings revealed that FDI negatively impacted income inequality but became more effective with the presence of human capital. This research emphasizes the dual role of economic growth and FDI in influencing income distribution, highlighting the need for policies that enhance human capital to optimize the benefits of FDI in reducing income inequality (Yuldashev, et al., 2023).

B. Beisengaliyev, A. Turekulova & Y. Beisengaliyev conducted an in-depth analysis using desk research, comparative methods, the Beri model, and both quantitative and qualitative methods of analysis to assess the impact of FDI on Kazakhstan's economy. Their findings noted a rebound in foreign capital attraction in 2021 but also highlighted ongoing challenges like the dominance of foreign investors' income over net investment inflow and high external debt. The study underscored the need for investing in the processing industry and high value-added production for sustainable economic advantages, pointing out the strategic need for diversification and enhancement of the investment climate to attract and retain valuable FDI (Beisengaliyev, Turekulova, & Beisengaliyev, 2023).

K.K. Nurasheva et al. employed a systematic approach to examine Kazakhstan's investment potential and attractiveness within the Central Asian subregion. They found that Kazakhstan led in economic growth through institutional reforms and openness to integration, facing challenges like the investment climate and regional tensions. Yet, the country saw opportunities in agriculture, construction, ecology, and IT, benefiting from its strategic location and natural resources. This study highlighted Kazakhstan's potential as a leader in regional economic development, advocating for targeted efforts to improve the investment climate and diversify the economy (Nurasheva, Shalabayev, Abdikerimova, Kuluanova, & Mergenbayeva, 2024).

M. Hersi, F. Khan & S. Ramzani in their 2024 study used Multiple Linear Regression to assess the impact of FDI on the economic growth of developing countries, including Kazakhstan and Pakistan. Their findings indicated that FDI significantly impacted the economic growth of these countries, with increasing inflows of FDI leading to economic expansion. This study underscored the crucial role of FDI in fostering economic development

in developing countries, emphasizing the need for strategic policies to attract and utilize FDI effectively for sustainable growth (Hersi, Khan, & Ramzani, 2024).

The comprehensive analysis across various studies reveals the multifaceted effects of FDI on Kazakhstan's economic growth and socio-economic development. While some studies, like Lee, Baimukhamedova & Akhmetova (2010), found minimal or insignificant impacts of FDI on GDP growth, others, such as Chang & Kassymbekova (2012), identified significant positive effects, highlighting the potential of FDI as a lever for economic enhancement. The research collectively underscores the complexity of FDI's role in development, pointing to both opportunities and challenges. Key insights include the need for nuanced policies to leverage FDI effectively, the importance of targeting FDI towards sectors with high value-added potential, and the strategic role of government measures in enhancing the investment climate. These studies contribute to a nuanced understanding of FDI's impact, suggesting a balanced approach to optimizing its benefits while mitigating adverse effects on certain sectors or aspects of socio-economic development.

**Table 5.1.** Review of research on impact of FDI factors on Kazakhstan's economy

| | Autor/s | Year of publication | Main factors | Research method | Survey results |
|---|---|---|---|---|---|
| 1 | J.W. Lee, G. Baimukhamedova, Sh. Akhmetova | 2010 | FDI inflows, exchange rate, economic growth, industrial production, fixed capital investment, employment ratio, retail trade turnover | Multivariate regression analysis | FDI has a minimal or statistically insignificant impact on the GDP growth of Kazakhstan. The study suggests that resource-seeking FDI might not effectively contribute to the economic growth and competitiveness of developing countries, especially in the context of Kazakhstan. |
| 2 | A. Waikar, L. Jepbarova, S. Lee, L. Gardner, J. Johnson | 2011 | GDP per-capita income, sectors of the economy | Simple regression analyzes | Study found that FDI generally had a positive, albeit moderate, effect on Kazakhstan's economic growth and per-capita income. FDI had an adverse impact on some sectors, especially agriculture and manufacturing, indicating crowding-out of domestic investment. |
| 3 | B.-Y. Chang, A. Kassymbekova | 2012 | GDP and Economic Freedom Index | Multiple linear regression time series analysis and Granger causality test | The results of the study showed FDI per capita's impact on GDP per capita is 30.4 dollars increase in GDP per capita by one dollar increase in FDI per capita inflow |
| 4 | F. Gürsoy, A. Sekreter, H. Kalyoncu, | 2013 | FDI inflows, GDP | Johansen cointegration and Granger causality tests | This study investigated the causality between FDI and GDP using the Granger causality test for Azerbaijan, Kyrgyz Republic, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan from 1997 to 2010. The results from the Augmented Dickey-Fuller (ADF) unit root test showed that the Kyrgyz Republic, Kazakhstan, Tajikistan, and Uzbekistan had varying levels of integration. |
| 5 | D.Zh. Rakhmatullayeva, V.N. Bobkov, E.B. Zhatkanbayev | 2015 | FDI, socio-economic development, quality of life | Analytic Hierarchy Process (AHP), Regression Analysis | The study revealed that FDI has a uniformly positive social impact across Kazakhstan, improving employment, health, poverty levels, and consumption, without any detected negative effects on regional socio-economic development. It suggests using the RPF Rating to bolster socio-economic policy and public-private partnerships, enhancing the benefits of FDI. |
| 6 | T. Azatbek, A. Ramazanov | 2016 | FDI, GDP, Net Exports | Correlation and regression analysis | The study revealed that in Kazakhstan, a 1 tenge increase in FDI notably boosts GDP by 10.5 tenge, underscoring the nation's reliance on foreign investments for economic expansion, particularly |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | highlighting how FDI profoundly influences net exports in key sectors such as minerals, oil, gas condensate, and metals, and stressed the critical need for attracting investments into the processing industry and manufacturing of high value-added products to secure a lasting positive multiplier effect. |
| 7 | D. Rakhmatullayeva, I. Kuliyev, Zhaksylyk Beisenbaiyev, Talgat Tabeyev | 2020 | FDI inflows, GDP, inflation | Multiple linear regression analysis | The regression analysis did not reveal a negative impact of FDI on economic growth in Kazakhstan. However, it indicated that the positive relationship between FDI inflows and economic growth was not significant. The study suggests that the impact of FDI varies and may depend on other sectors such as education or research and development. |
| 8 | D. Zh. Rakhmatullaeva, A.V. Khazhieva, O.R. Abduraimov | 2021 | FDI, Real GDP, Investment Attractiveness | Macroeconomic analysis, Statistical analysis | Since independence, Kazakhstan has significantly benefited from FDI, driving technological advancement and economic growth, establishing itself as a prime FDI destination in Central Asia through strategic measures to enhance its investment climate. |
| 9 | N.U. Bagayeva, A.K. Arystanova, A.Zh. Musakhanova | 2022 | FDI, GDP, TNCs' investment activities | Regression analysis, SPSS | The study highlighted that FDI's contribution to GDP growth in Kazakhstan was significantly lower compared to Russia, suggesting the need for Kazakhstan to refine its FDI attraction strategy, particularly in the processing industry and high value-added product sectors, to positively impact economic development. |
| 10 | A.R. Issayeva | 2023 | FDI, Gross Capital Formation, Labor Force | OLS regression analysis, Time-series study | The analysis showed that FDI does not have a significant impact on GDP in Kazakhstan. However, Gross Capital Formation significantly affects GDP, indicating its vital role in economic development. |
| 11 | M. Yuldashev, U. Khalikov, F. Nasriddinov, N. Ismailova, Z. Kuldasheva, M. Ahmad | 2023 | FDI, Human Capital, Economic Growth | Interactive model, Augmented Mean Group (AMG) approach, Westerlund co-integration test | FDI impacts income negatively, more effective with human capital. Economic growth also influences income inequality. |
| 12 | B. Beisengaliyev, A. Turekulova, Y. Beisengaliyev | 2023 | FDI, GDP, Investment Climate, Economic Diversification Desk research, | Comparative methods, the Beri model, Quantitative and qualitative methods of analysis | The study noted a 2021 rebound in foreign capital attraction in Kazakhstan but highlighted ongoing challenges like the dominance of foreign investors' income over net investment inflow and high external debt, underscoring the necessity for investment in the processing industry and high value-added production for sustainable economic advantages. |

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|---|---|---|---|---|---|
| 13 | K. Nurasheva, I. Shalabayev, G. Abdikerimova, D. Kuluanova, A. Mergenbayeva | 2024 | Investment potential, Direct investment, Portfolio investment, Competitiveness, Economic growth, Central Asian subregion Analysis, | synthesis, induction, deduction, comparison, abstraction, statistical methods of analysis, systematic approach | The study found that Kazakhstan, leading Central Asia's economic growth through institutional reforms and openness to integration, faces challenges like investment climate and regional tensions, yet sees opportunities in agriculture, construction, ecology, and IT, benefiting from its strategic location and resources. |
| 14 | M. Hersi, F. Khan, S. Ramzani | 2024 | Foreign Direct Investments, Economic Growth, Developing Countries | Multiple Linear Regression | The study indicates a highly significant impact of FDI on the economic growth of developing countries, including Kazakhstan and Pakistan. Increasing the inflow of FDI leads to growth in the economies of these countries. |

**Source:** own elaboration based on: (Lee, Baimukhamedova, & Akhmetova, 2010; Waikar, Jepbarova, Lee, Gardner, & Johnson, 2011; Chang & Kassymbekova, 2012; Gürsoy, Sekreter, & Kalyoncu, 2013; Rakhmatullayeva, Bobkov, & Zhatkanbayev, Modeling of Social Effect of Foreign Direct Investment in the Regions of Kazakhstan, 2015; Azatbek & Ramazanov, 2016; Rakhmatullayeva, Kuliyev, Beisenbaiyev, & Tabeyev, 2020; Rakhmatullayeva, Khajiyeva, & Abduraimov, Foreign Direct Investment in Kazakhstan: A Success Story Over the Years of Independence of the Republic, 2021; Bagayeva, Arystanova, & Musakhanova, 2022; Issayeva, 2023) (Yuldashev, et al., 2023; Beisengaliyev, Turekulova, & Beisengaliyev, 2023; Nurasheva, Shalabayev, Abdikerimova, Kuluanova, & Mergenbayeva, 2024; Hersi, Khan, & Ramzani, 2024)

## 5.2. Econometric models – own research results

### 5.2.1. Time series models – analysis of internal structure in economic processes

Time series analysis is a crucial statistical technique used to model and analyse data points sequentially indexed over time. It helps in understanding the underlying patterns of time-dependent data, which is particularly relevant in economic processes. A fundamental concept in time series analysis is stationarity, which involves the stability of the mean, variance, and autocorrelation structure of a series over time.

A stationary time series has statistical properties that remain unchanged over time, meaning the mean, variance, and autocorrelation structure do not depend on when the series is observed. The mean of the series stays constant, the variance remains stable, and the correlation between observations is consistent, depending only on the interval between them, not the actual timing. In contrast, many economic time series are non-stationary, particularly in their means, which may vary due to trends, cyclicality, or structural breaks. Trends indicate a consistent upward or downward movement over a long period, such as a continuous increase in GDP representing economic growth. Cyclicality refers to fluctuations in economic conditions like growth phases and downturns that deviate from a long-term trend but are not tied to a specific calendar pattern. Structural breaks are abrupt changes that significantly alter the direction or pace of an economic series, often triggered by external events or policy changes. Analysing non-stationary data directly can lead to misleading results in inferential statistics. Therefore, it is crucial to first identify and then transform non-stationary data into a stationary form before further analysis. Common methods to achieve stationarity in time series data include differencing, transformation, and detrending. Differencing involves subtracting the current value of the series from the previous value, a technique highlighted by (P. Box, M. Jenkins, & Reinsel, 2015) for its effectiveness in stabilizing the mean by eliminating changes in the level of a series. Transformation, such as applying logarithmic or square root transformations, can help stabilize the variance, as noted by (Tsay, 2005).Detrending, which removes the underlying trend from the series, allows for a focus on the stochastic processes influencing the data, thus aiding in achieving a more stationary series. These methods are essential for analyzing time series data accurately, especially in fields like economics where non-stationarity is common.(Hamilton, 1994).

*Trend models*

Among the dynamic models (indicating changes in the level of the studied phenomenon over time), trend models are distinguished, where the role of the independent variable is played by the time variable *t* (being the successive number of a quarter, month, week, year). The most commonly used trend models are:

- polynomial trend models,
- exponential trend models,
- logistic trend models,
- S-curve trend models (exponential-hyperbolic model).

If we do not have any information about what the form of the trend function should be, we use the following most flexible form (Osińska, 2007) :

$$P_t = \sum_{J=0}^{r} \alpha_j t^j$$

where:

$t$ – time variable assuming values $t$ = 1, 2, …, n,

$r$ – degree of the trend polynomial,

$\alpha_j$ – parameters of the trend model.

Depending on the parameter $r$, the model hypotheses take the following forms:

for r = 0 $Y_t = \alpha_0 + \eta_t$

for r = 1 $Y_t = \alpha_0 + \alpha_1 t + \eta_t$

for r = 2 $Y_t = \alpha_0 + \alpha_1 t + \alpha_2 t^2 + \eta_t$

for r = 3 $Y_t = \alpha_0 + \alpha_1 t + \alpha_2 t^2 + \alpha_3 t^3 + \eta_t$

## Selection of the degree of polynomial trend based on the F-Fisher test (statistical approach)

The choice of the polynomial model is made through the *F*-Fisher test for the polynomials of degree 1, 2, 3, 4, etc. In economics, trend models with a degree no higher than 4 are most often used.

The procedure for selecting a trend model is as follows (Osińska, 2007):

1. We estimate the parameters of the linear trend model and calculate the residual variance ($S_1^2$),

$$\text{Model I: } y_t = \alpha_0 + \alpha_1 t + \eta_t,$$

2. We estimate the parameters of the quadratic trend model and calculate the residual variance ($S_2^2$),

$$\text{Model II: } y_t = \alpha_0 + \alpha_1 t + \alpha_2 t^2 + \eta_t,$$

3. We choose the trend model from the trend models characterized by the same parameters standing at the highest power of the time variable. In the *F*-Fisher test, we test the hypothesis of equality of variances of the linear trend model and the quadratic trend model. The null hypothesis and the alternative hypothesis may take the form (Osińska, 2007):

$$H_0: \sigma_1^2 = \sigma_2^2$$
$$H_1: \sigma_1^2 = \sigma_2^2$$

The value of the F statistic from the sample is determined by the formula (Osińska, 2007):

$$F = \frac{s_1^2}{s_2^2} \sim F_{\alpha, r_1, r_2,}$$

where:$s_1^2$ – residual variance of model I (linear trend),

$s_2^2$– residual variance of model II (quadratic trend).

$\alpha$ – level of significance,

$r_1$ – degrees of freedom of the numerator ($r_1 = n_1 - k_1 - 1$)

$r_2$ – degrees of freedom of the denominator (,$r_2 = n_2 - k_2 - 1$,),

$n_1$– number of observations in model I,

$n_2$– number of observations in model II,

$F_{\alpha, r_1, r_2}$– critical value of the F statistic read from the F-distribution table for the given level of significance α and degrees of freedom $r_1$ and $r_2$,

$k_1$ – number of explanatory variables in model I,

$k_2$ – number of explanatory variables in model II,

Decisions are taking based on the specific rules: If the *p-value* is lower than the significance level α (or test statistics $F \geq F_{\alpha r_1, r_2}$), we reject the null hypothesis $H_0$, which means the residual variance of the quadratic trend model (model II) is significantly lower than that the residual variance of the linear trend model (model I). There is a significant decrease in variance, then model II (quadratic trend model) is better than model I (linear trend model). If we choose quadratic trend model (model II), then we need to check if there is significant decrease in variance in cubic trend model (model III).. This simple trend model selection procedure ends if the condition *p-value* is greater than the significance level (or statistic $F < F_{\alpha r_1, r_2}$) is met; then we reject the null hypothesis $H_0$.

The next steps of the procedure are as follows:

4. We estimate the parameters of the third-degree trend model and calculate the residual variance $s_3^2$.

$$\text{Model III: } y_1 = \alpha_0 + \alpha_1 t + \alpha_2 t^2 + \alpha_3 t^3 + \eta_t,$$

If the parameter standing next to the $t^3$ variable in model II turns out to be significant, we compare model II (quadratic trend) with model III (third-degree trend) using the *F*-Fisher test. The hypotheses are as follows:

$$H_0: \sigma_2^2 = \sigma_3^2$$

$$H_1: \sigma_2^2 > \sigma_3^2$$

The *F*-statistic for a given case is determined by the formula:

$$F = \frac{s_2^2}{s_3^2}$$

If the condition $F < F_{\alpha,r_2,r_3}$ (*p-value* is greater than the significance level) is met, then there is no basis for rejecting the null hypothesis $H_0$. Therefore, there is no significant decrease in variance when moving from the quadratic trend model to the cubic trend model, so we choose the simpler model (the quadratic trend model). This completes the procedure for selecting the degree of the polynomial trend.

If the condition $F \geq F_{\alpha,r_2,r_3}$ (*p-value* is lower than the significance level α) is met, we reject the null hypothesis $H_0$ in favor of the alternative hypothesis $H_1$.The third-degree trend model has a significantly lower variance than the quadratic trend model. The next step would be to compare the third-degree trend model with a fourth-degree model. The procedure is analogous to the above.

***Autoregressive models***

The autoregressive model of order p (AR(p)) is presented as follows:

$$Y_t = \alpha_1 Y_{t-1} + \alpha_\alpha Y_{t-2} + \alpha_3 Y_{t-3} \ldots + \alpha_P Y_{t-P} + \varepsilon_t$$

or in a more compact form:

$$Y_t = \sum_{i=1}^{P} \alpha_i Y_{t-i} + \varepsilon_t$$

where:

$p$ – the order of the autoregression, i.e., the maximum delay of the variable,

$\alpha_1, \alpha_2, \alpha_3 \ldots \alpha_p$ – parameters of the autoregressive model,

$\varepsilon_t$ – the process of white noise (white noise).

The white noise process in the autoregressive model is characterized by the following properties:

1. $E(\varepsilon_t) = 0$ (the mean of the process is zero),
2. $D^2(\varepsilon_t) = \sigma^2$ (the variance of the process is constant over time),

3. $K(\varepsilon_t \varepsilon_s) = 0$ for $t \neq s$ (the covariance between observations from different times $t$ and $s$ is zero, which means the lack of autocorrelation).

The process that satisfies these three properties is called white noise.

Substituting into equation appropriately p = 1, p = 2, p = 3, we obtain:

- first-order autoregressive process (p = 1):$Y_t = \alpha_1 Y_{t-1} + \varepsilon_t$,
- second-order autoregressive process (p = 2):$Y_t = \alpha_1 Y_{t-1} + \alpha_2 Y_{t-2} + \varepsilon_t$,
- third-order autoregressive process (p = 3): $Y_t = \alpha_1 Y_{t-1} + \alpha_2 Y_{t-2} + \alpha_3 Y_{t-3} + \varepsilon$, etc.

### 5.2.2. Concept of construction of a dynamic consistent model

The dynamic consistent model can refer to econometric modeling of economic processes, which are also dynamic by their ~~very~~ nature, and to the modeling of unitary (single-variable) time series as well as multivariate time series. A consistent model refers to a process that deals with endogenous $Y_t$ and exogenous $X_t$ processes, where the residual process remains white noise. The internal dynamic structure encompasses both the stationary and non-stationary components, such as trends, seasonality, and autoregression, which occur with varying emphasis in each of the analyzed processes.

*Construction of a consistent model with two stationary processes*

Let $X_t$ and $Y_t$ be stationary autoregressive processes of the form (Osińska, 2007):

(1) $A_{(u)}X_t = \varepsilon_{x_t}$ where: $X_t = \sum_{i=1}^{p} \alpha_i X_{t-i} + \varepsilon_{x_t}$, and

(2) $B_{(u)}Y_t = \varepsilon_{y_t}$, where:$Y_t = \sum_{i=1}^{q} \beta_i Y_{t-i} + \varepsilon_{y_t}$.

A model describing the dependency of the process $Y_t$ on $X_t$ must be constructed. The starting point for constructing the consistent model is the following relation:

$$\varepsilon_{y_t} = p\varepsilon_{x_1} + \varepsilon_t$$

where $p$ is the parameter of the model adjusting structure as well as $\varepsilon_t$, the residual white noise. Equation (3) will be called the equation adjusting the structure. Using (1) and (2), by substitution for $\varepsilon_{x_t}$ and $\varepsilon_{y_t}$, we obtain (Osińska, 2007) :

(3) $$Y_t - \sum_{i=1}^{q} \beta_i Y_{t-i} = p\left(X_t - \sum_{i=1}^{p} \alpha_i X_{t-i}\right) + \varepsilon_t$$

$$Y_t - \sum_{i=1}^{q} \beta_i Y_{t-i} = pX_t - p\sum_{i=1}^{p} \alpha_i X_{t-i} + \varepsilon_t$$

The model consistent with two stationary processes takes the following form:

$B(u)Y_t = pA(u)X_t + \varepsilon_t$, where: $A(u) = \sum_{i=0}^{p} \alpha_i u^i$,

or $Y_t = B(u)Y_t + pA(u)X_t + \varepsilon_t$, where: $B_1(u) = \sum_{i=1}^{p} \beta_i u^i$

Short-run and long-run elasticities are key concepts in econometrics and economic modelling, helping to understand how variables react to changes in other variables over different time horizons.

Short-run elasticities measure the immediate response of a dependent variable to changes in an independent variable. In econometric terms, these elasticities are often derived from models that consider only short-term adjustments. The calculation typically uses a simple regression model or a more complex error correction model (ECM) if the data series are non-stationary and cointegrated. In an ECM, the short-run elasticity is typically represented by the coefficients of the lagged differences of the independent variables. These coefficients reflect the immediate impact of changes in the independent variable on changes in the dependent variable, adjusted for the relationship's return to a long-term equilibrium.

Long-run elasticities measure the response of a dependent variable to changes in an independent variable over a longer time period, once all short-run adjustments have been made and the variables have returned to equilibrium. These elasticities are especially important in economics as they provide insights into the sustained impacts of policy changes, economic shocks, or structural shifts. Calculating long-run elasticities often involves cointegration analysis when dealing with non-stationary time series data. This approach is predicated on the idea that although individual series may be non-stationary, there exists a long-term equilibrium relationship between them that remains stable over time (Piłatowska, 2004).

## Various diagnostic tests applied to econometric models

The Cumulative Sum (CUSUM) test is used to detect structural changes in the regression coefficients over time. It assesses the stability of parameters by cumulating the recursive residuals and plotting them against critical bounds. If the CUSUM statistic falls outside the critical bounds, it indicates parameter instability (Brown, Durbin, & Evans, 1975).

White's test checks for the presence of heteroskedasticity (non-constant variance of the residuals) in a regression model. The test involves regressing the squared residuals of the original regression on the original regressors and their squares and cross-products. A significant test statistic suggests heteroskedasticity (White, 1980).

Normality of residuals assesses whether the residuals of a regression model are normally distributed. The test combines skewness and kurtosis of residuals to form a test statistic, with a significant value indicating deviation from normality (Jarque & Bera, 1980).

The Lagrange Multiplier (LM) test for autocorrelation checks for the presence of first-order autocorrelation in the residuals of a regression model. It is based on the regression of

current residuals on their lagged values. A significant test statistic indicates autocorrelation, violating the independence of errors (Breusch & Godfrey, 1981).

Test for Non-linearity (Logarithms), often utilizing Ramsey's RESET test, checks for mis specified functional forms in regression models. It detects omitted variables and non-linear relationships by adding higher-degree terms (like squares or cubes of the predicted values) to the model and testing if these additional terms are statistically significant (Ramsey, 1969).

### 5.2.3. Empirical results of analysis between FDI and GDP per capita in Kazakhstan

Table 5.2. presents the results of two regression models estimating the effects on GDP per capita. The observations are taken from the years 1993-2022, with a sample size of 30 (N = 30). The linear model shows a significant positive trend over time, indicating a strong and significant increase in GDP per capita annually. The quadratic model adds a squared time term (Sq_time) which is statistically significant, indicating the rate of increase in GDP per capita changes over time.

The F-statistic indicates that both models are statistically significant at conventional levels.

When deciding on the degree of the polynomial for the trend, the F-test statistic was utilized. The F-test statistic of 1.216 is lower than the critical value of the test (F* = 1.897), indicating there is no basis to reject the null hypothesis of equal variances between the linear and quadratic trend models. Consequently, the linear trend model is the appropriate choice for describing the GDP per capita trend.

**Table 5.2.** OLS Estimation of linear trend and quadratic trend model for GDP per capita

| **Variables** | **Linear Trend** | | **Quadratic trend** | |
|---|---|---|---|---|
| **Term** | **Coefficient** | **Standard Error** | **Coefficient** | **Standard Error** |
| Constant | 6.896 (***) | 0.150 | 6.459 | 0.213 |
| Time | 0.096 (***) | 0.008 | 0.178 | 0.031 |
| Sq_time | | | -0.002 | 0.0009 |
| The choice affects the linear trend for the GDP variable | | | | |
| Standard error for linear trend (S1) = 0.01<br>Standard error for quadratic trend (S2) = 0.364<br>F – statistic value = 1.216<br>F*– statistic value = 1.897<br>F<F*<br>The F – value being lower than the critical F–value suggests that the increase in model complexity from linear to quadratic does not significantly reduce variance, indicating the linear model may be sufficient. | | | | |

Significance Levels: *** p<0.001, ** p<0.05, * p<0.1

**Source:** own elaboration.

Table 5.3. shows the parameters of linear trend, quadratic trend and cubic trend, as well results of test F. The linear model shows a significant positive coefficient for time (0.166), with

a very low standard error (0.008), suggesting a strong linear trend over time. The constant term is significant, indicating a substantial baseline level of FDI inward stock.

The quadratic trend adds a squared time term (Sq_time), which is significantly negative (-0.005), suggesting that the relationship between time and FDI inward stock is non-linear. A decrease in the standard error from the linear model (S1 = 0.425) to the quadratic model (S2 = 0.126) indicates a better fit to the data with the quadratic term. The F-statistic (11.41796) is greater than the critical value (F* = 1.897), leading to the rejection of the null hypothesis and confirming that the quadratic model provides a significantly better fit than the linear model.

Introduction of the cubic term (T3) yields a positive coefficient (0.0001) with a standard error (3.87909e-05), indicating a further complex relationship. However, when comparing the standard error for the quadratic trend model (S2 = 0.126) and the cubic trend model (S3 = 0.107), the decrease is less pronounced than when comparing the linear to quadratic models. The F – statistic (1.372) for the cubic term is lower than the F* – statistic (1.921), suggesting that the cubic term does not significantly improve the model's fit beyond the quadratic trend.

The FDI inward stock appears to have a complex relationship with time. Initially, a linear trend is apparent, but the quadratic model reveals a non-linear relationship, potentially suggesting a slowing growth rate of FDI over time.

**Table 5.3.** Linear Trend, Quadratic Trend, Cubic Trend of FDI Inward Stock

| | **Linear Trend** | | **Quadratic Trend** | | **Cubic Trend** | |
|---|---|---|---|---|---|---|
| Term | Coefficient | Standard Error | Coefficient | Standard Error | Coefficient | Standard Error |
| Constant | 7.833*** | 0.159 | 6.860*** | 0.073 | 7.072*** | 0.089 |
| Time | 0.166*** | 0.008 | 0.348*** | 0.010 | 0.272*** | 0.024 |
| Sq_time | | | -0.005 | 0.0003 | 0.00012 | 0.001 |
| T3 | | | | | 0.00013 | 3.879 |
| The choice affects the linear trend for the GDP variable | | | | | | |
| Standard error for linear trend (S1) = 0.425<br>Standard error for quadratic trend (S2) = 0.126<br><br>F – statistic value = 11,427<br>F* – statistic value = 1,897<br>F>F*<br>The quadratic model significantly outperforms the linear model, as evidenced by the F – statistic that warrants rejecting the null hypothesis. | | | Standard error for linear trend (S2) = 0.126<br>Standard error for quadratic trend (S3) = 0.107568<br><br>F – statistic value = 1,372<br>F* – statistic value = 1,921<br>F<F*<br>The F – statistic below the critical value suggests the Cubic Trend does not significantly enhance the Quadratic trend model's fit. | | | |

Significance levels: *** p<0.001, ** p<0.01, * p<0.05

**Source:** own elaboration.

Table 5.4. showed that the significant PACF–FDI at the first two lags justified the use of an autoregression model, which accounted for the effects of the first two previous periods in

predicting the value of the current period. The PACF–GDP showed the significance level at lags 1.2 and 6.

**Table 5.4.** Test results of the order of autoregression for FDI and GDP based on the partial autocorrelation function

| Economic Process | Lag 1 | Lag 2 | Lag 3 | Lag 4 | Lag 5 | Lag 6 |
|---|---|---|---|---|---|---|
| PACF-FDI | 0.8782* | -0.3331* | -0.1703 | -0.1368 | -0.2546 | -0.1594 |
| PACF-GDP | 0.8577* | -0.4773* | -0.1703 | -0.2242 | -0.1539 | -0.2964 |

**Source:** own elaboration.

Table 5.5. summarizes the findings regarding the internal structure used in econometric models for two economic processes FDI inward stock and GDP per capita. The model structures reflect how these economic variables are understood in terms of their time-series characteristics. For FDI, the quadratic trend and second-order autoregression suggest more complex dynamics compared to GDP per capita, which follows more straightforward linear and direct lag relationships. These differences in model structures could be due to the underlying economic behaviours of these variables, with FDI potentially being influenced by a wider range of economic conditions and policies, while GDP per capita changes more consistently over time.

**Table 5.5.** Internal structure of analyzed variables

| Economic proces | Degree of polinomial trend | Autoregression |
|---|---|---|
| FDI | 2 | 2 |
| GDP per capita | 1 | 1 |

**Source:** own elaboration.

Two models of the following form were built in this work:

(1) Model for FDI

$$FDI_t = \gamma_{10} + \gamma_{11}t + \gamma_{12}t^2 + \alpha_{11}FDI_{t-1} + \alpha_{12}FDI_{t-2} + \beta_{11}GDP_t + \beta_{12}GDP_{t-1} + e_t$$

(2) Model for GDP per capita

$$GDP_t = \gamma_{20} + \gamma_{21}t + \gamma_{22}t^2 + \alpha_{21}GDP_{t-1} + \beta_{21}FDI_t + \beta_{22}\,FDI_{t-1} + \beta_{23}FDI_{t-2} + u_t$$

First formula explains FDI as a function of time, time squared, its own lagged values, and current and lagged values of GDP. Secon formula explains GDP per capita as a function of time, time squared, its own lagged values, and current and lagged values of FDI.

Where:

- the coefficients $\gamma_{.0}, \gamma_{.1}, \gamma_{.2}$, represent the structural parameters for trend component.
- $\alpha_{11,}\alpha_{12}$ and $\beta_{21,}\beta_{22}, \beta_{23}$ represent the coefficients for the lagged values of FDI.
- $\alpha_{21}$, and $\beta_{11}, \beta_{12}$ represent the coefficients for the current and lagged values of GDP.
- $e_t$ and $u_t$ represent a random component

Table 5.6. shows the results of two regression models (Full Model and Refined Model) for FDI inward stock as a function of time, its square, and GDP per capita, including lagged values of FDI inward stock.

In the Refined Model, the current period's GDP per capita becomes highly significant, suggesting a stronger relationship with FDI inward stock than when lagged variables are included. The lagged value of FDI inward stock (one period prior) is a strong predictor in ~~both~~ models. The high R-squared values in both models show that they explain nearly all the variance in FDI inward stock.

**Table 5.6.** Regression Analysis for FDI inward stock

| **FDI** | **Full Model** | | | **Refined Model** | | |
|---|---|---|---|---|---|---|
| **Variable** | **Coefficient** | **Standard Error** | **t-Statistic** | **Coefficient** | **Standard Error** | **t-Statistic** |
| Constant | 1.581*** | 0.583 | 2.710 | 1.255*** | 0.464 | 2.702 |
| Time | 0.078*** | 0.034 | 2.252 | 0.055*** | 0.026 | 2.120 |
| Sq_time | -0.001*** | 0.001 | -2.464 | -0.001*** | 0.0004 | -2.513 |
| l_GDPpercapita | 0.090 | 0.069 | 1.307 | 0.142*** | 0.028 | 5.002 |
| l_GDPpercapita_1 | 0.043 | 0.071 | 0.6102 | 0.727*** | 0.076 | 9.476 |
| l_FDIinwardsto_1 | 0.878*** | 0.211 | 4.160 | | | |
| l_FDIinwardsto_2 | -0.203 | 0.183 | -1.108 | | | |

Significance levels: *** p<0.001, ** p<0.01, * p<0.05
**Source:** own presentation.

Table 5.7. shows the results of two regression models (Full Model and Refined Model) for GDP per capita as a function of time. In both models, the lagged GDP per capita shows a significant impact on current GDP per capita, indicating potential autocorrelation or persistence in economic growth. The model formula for GDP is:

$$GDP_t = \gamma_0 + \gamma_1 t + \gamma_2 t^2 + \delta_1 GDP_{t-1} + \delta_2 FDI_t + \delta_3 FDI_{t-1} + \delta_4 FDI_{t-2} + u_t$$

In the refined model, the impact of lagged FDI inward stock on GDP per capita is positive and significant, suggesting that past FDI contributes positively to current economic performance. The refined model, having removed non-significant variables, presents a more parsimonious explanation with slightly improved fit as indicated by the adjusted R-squared. The negative coefficient for l_FDIinwardsto_2 in the refined model could indicate a potential correction or mean-reversion effect, where periods of high FDI may be followed by lower levels, possibly due to saturation effects or other economic adjustments.

**Table 5.7.** Regression analysis for GDP

| GDP | Full Model | | | Refined Model | | |
|---|---|---|---|---|---|---|
| **Variable** | **Coefficient** | **Standard Error** | **t-Statistic** | **Coefficient** | **Standard Error** | **t-Statistic** |
| Constant | 2.122 | 1.991 | 1.066 | -0.665*** | 0.437 | -1.523 |
| Time | 0.158 | 0.111 | 1.420 | - | - | - |
| Sq_time | -0.002 | 0.001 | -1.378 | - | - | - |
| l_FDIinwardstock | 0.827 | 0.632 | 1.307 | 1.080 *** | 0.299 | 3.602 |
| l_FDIinwardsto_1 | -0.302 | 0.857 | -0.3529 | - | - | - |
| l_FDIinwardsto_2 | -0.692 | 0.549 | -1.259 | -0.719*** | 0.225 | -3.188 |
| l_GDPpercapita_1 | 0.730*** | 0.146 | 4.981 | 0.604*** | 0.110 | 5.456 |

Significance levels: *** p<0.001, ** p<0.01, * p<0.05

**Source:** own elaboration.

Table 5.8. shows the stability of the parameters in the FDI and GDP models was confirmed by the CUSUM test, where the test probability (p-value) exceeds the alpha significance level (alpha = 0.05), which means there are no grounds to reject the null hypothesis about the stability of the parameters. In White's Test for Heteroskedasticity, P-values for FDI=0.844 and for GDP=0.636 suggest that there is no significant evidence of heteroskedasticity, meaning that the variance of residuals is approximately constant across different values of the independent variables. Normality of Residuals test with p-values for FDI is 0.433 and for GDP 0.197, there is no significant evidence to reject the null hypothesis of normal distribution of residuals. This indicates that the residuals are normally distributed, satisfying one of the key OLS assumptions. In LM Test for First-Order Autocorrelation, P-values are equal 0.517 and 0.236, both variables are above the typical significance level (0.05), indicating no significant first-order autocorrelation in the residuals. Test for Non-linearity (Logarithms) showed P-values 0.754 and 0.114, suggest that there is no significant evidence of non-linearity in the relationships modelled, supporting the use of linear models for these data.

Table 5.8. presents the results, that have two models being evaluated for their statistical robustness based on several diagnostic tests. Both models (FDI and GDP) perform well across the range of diagnostic tests, indicating no violation of the key assumptions for linear regression models, such as significance and stability of parameters, normality of residuals, homoskedasticity, autocorrelation of residuals, and linearity. The verification of the models indicates that both built models meet the statistical assumptions regarding parameters, the random component and the correlation between variables.

**Table 5.8.** Statistical robustness based on several diagnostic tests

| Diagnostic tests | FDI model | | GDP model | |
|---|---|---|---|---|
| | Test statistic | p-value | Test statistic | p-value |
| CUSUM Test for Parameter Stability | 0.150 | 0.881 | -1.592 | 0.125 |
| White's Test for Heteroskedasticity | 7.980 | 0.844 | 7.010 | 0.636 |
| Normality of Residuals | 1.673 | 0.433 | 3.247 | 0.197 |
| LM Test for First-Order Autocorrelation | 0.431 | 0.517 | 1.477 | 0.236 |
| Test for Non-linearity (Logarithms) | 1.195 | 0.754 | 5.935 | 0.114 |

**Source:** own elaboration.

The table 5.9. summarize short-run (SR) and long-run (LR) elasticities of two economic variables: FDI inward stock and GDP per capita.

The given equation for determining long-term multipliers is:

$$\beta = \frac{\sum_{i=1}^{p} \beta_i}{1-\sum_{i=1}^{q} \alpha_i},$$

where the parameters are obtained from models consistent with FDI and GDP.

**1. FDI's inward stock impact on GDP per capita**

Short-Run Elasticity (1.080) suggests that in the short run, a 1% increase in FDI is associated with approximately a 1.080% increase in GDP per capita. It indicates a more than proportional positive relationship between FDI and GDP per capita in the short term.

Long-Run Elasticity (0.910) – over the long run, a 1% increase in FDI is associated with around a 0.910% increase in GDP per capita. This indicates that while the relationship remains positive in the long term, the effect is slightly less than proportional.

**2. GDP per Capita's Impact on FDI inward stock**

Short-Run Elasticity (0.142): A 1% increase in GDP per capita is associated with a 0.142% increase in FDI in the short run. This implies a positive but less elastic relationship, meaning GDP per capita has a smaller proportional effect on FDI in the short term.

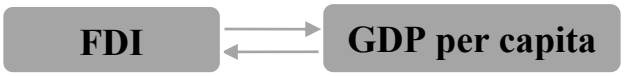
Long-Run Elasticity (0.523) – for the long term, a 1% increase in GDP per capita is associated with a 0.523% increase in FDI. This shows a stronger effect in the long run compared to the short run, but still less than proportional.

**Table 5.9.** Statistical robustness based on several diagnostic tests

| | Short-run coefficient | Long-run coefficient |
|---|---|---|
| FDI ⟶ GDP per capita | 1.080 | 0.910 |
| GDP per capita ⟶ FDI | 0.142 | 0.523 |

**Source:** own elaboration.

**Figure 5.1.** Bi-directional relationship between GDP pc and FDI in Kazakhstan




**Source:** own elaboration.

These elasticities show into how interrelated FDI and GDP per capita are and can be indicative of how one might influence the other over different time horizons. Such metrics are valuable for policymakers and economists when formulating strategies for economic growth and investment.

Summarizing the research on positive impact of FDI on GDP and economic growth of Kazakhstan, it was found that several studies, such as: (Chang & Kassymbekova, 2012; Azatbek & Ramazanov, 2016; Hersi, Khan, & Ramzani, 2024). For instance Chang & Kassymbekova (2012) reported 30.4 dollars increase in GDP per capita for every dollar increase in FDI per capita. On the other hand, minimal impact on GDP growth showed the research by Lee, Baimukhamedova & Akhmetova (2010). The paper indicated that FDI has a minimal or statistically insignificant impact on the GDP growth of Kazakhstan. This finding contrasts with the research in this work, which showed that FDI affects economic growth positively.

The time series analysis showed that a linear model was sufficient to describe GDP per capita trends over time. The regression analysis for FDI inward stock revealed a strong positive impact of FDI on GDP per capita. Thus, there res no grounds to reject the fourth hypothesis, which states that there is a significant positive relationship between FDI inflows and economic growth in Kazakhstan.

# Conclusions

This PhD thesis aimed to provide an in-depth analysis of FDI in Kazakhstan, focusing on its determinants and impacts on economic growth. The research spanned three fundamental areas: assessing the scale and structure of FDI in Kazakhstan from 1991 to 2022, identifying the determinants of FDI, and evaluating the impact of FDI on economic growth.

Kazakhstan has experienced a significant increase in foreign direct investment stock over the years. Starting from a negligible amount in the early 1990s, the FDI stock has grown substantially. In 1993, Kazakhstan recorded an initial FDI inward stock value of approximately 1.27 billion dollars. This figure rose steadily, reaching nearly 8 billion dollars by 1999. The early 2000s saw further growth, with the FDI stock crossing the 10 billion dollars mark in 2000 and exceeding 32 billion dollars by 2006. A period of rapid growth occurred between 2007 and 2011, where the FDI stock more than doubled from approximately 44.59 billion dollars to over 107.4 billion dollars. By 2022, the FDI inward stock had reached approximately 154.18 billion dollars.

The investments have been primarily directed towards various key sectors. As of the end of 2022, the “Mining and Quarrying” sector held a significant portion of the FDI stock, amounting to 129617.4 million USD, reflecting Kazakhstan’s rich natural resources. The “Manufacturing” sector also attracted considerable FDI, with liabilities worth 11525.5 million dollars. Other notable sectors included “Electricity, Gas, Steam, and Air Conditioning Supply” and “Construction”, which also saw substantial investments.

The results of the analysis of Kazakhstan’s FDI structure showed a predominant concentration of FDI in the “Mining and Quarrying” sectors. The rich natural resources of Kazakhstan have been a primary driver of FDI inflows. Thus, there is no basis for rejecting the first hypothesis of the study, which states that the significant increase in interest in Kazakhstan as a destination for capital flows from 1993 to 2022 was primarily due to its natural resource wealth, with the “Mining and Quarrying” sector consistently maintaining a dominant share of inward FDI. This hypothesis was confirmed by the data.

The PhD thesis meticulously examined the evolution of FDI in Kazakhstan, highlighting significant growth since the country’s independence. The analysis revealed that Kazakhstan has consistently attracted substantial foreign investments, particularly in the “Oil and Gas” sectors. This growth trajectory aligns with the Investment Development Path theory, suggesting

Kazakhstan’s transition from a primary FDI recipient due to natural resource wealth to a more diversified economy engaging in outward FDI as well.

The research identified several key determinants influencing FDI inflows into Kazakhstan. These include economic stability, market size, natural resource availability, and institutional quality. The quantitative survey results underscored that while natural resources remain a significant attractor, factors like market potential and strategic positioning are increasingly influential. Additionally, economic reforms, policy measures, and improvements in infrastructure significantly enhance Kazakhstan’s appeal to foreign investors.

There is no basis for rejecting the second hypothesis, which states that the influx of inward FDI correlates with an improvement in GDP per capita and a gradual increase in the country’s outward FDI, indicating a movement from Stage 1 to Stage 2 of the Investment Development Path. The findings supported this hypothesis, demonstrating a positive correlation between FDI inflows and improvements in GDP per capita. Moreover, Kazakhstan's increasing outward FDI signifies its progression along the Investment Development Path.

Similarly, there is no basis for rejecting the third hypothesis, which states that market size, political stability, economic policies, and the presence of natural resources are key determinants that significantly influence the decision of foreign investors to allocate capital to Kazakhstan. This hypothesis was validated through both literature review and empirical research. The determinants identified include market size, political stability, economic policies, and natural resources, all of which play crucial roles in attracting FDI.

The econometric models developed in this PhD thesis provided robust evidence of the positive correlation between FDI inflows and economic growth in Kazakhstan. The results indicated that FDI contributes to GDP growth. Thus, there res no grounds to reject the fourth hypothesis, which states that there is a significant positive relationship between FDI inflows and economic growth in Kazakhstan.

The PhD thesis highlights several policy recommendations to enhance Kazakhstan’s investment climate and maximize the benefits of FDI. Simplifying procedures, reducing bureaucratic barriers, and ensuring the protection of investors’ rights are essential to improving the legal and regulatory frameworks. Continued investment in infrastructure, including transport, telecommunications, and energy, is crucial for attracting and retaining foreign investors. Additionally, reducing dependency on natural resources by promoting investments in other sectors will help create a more resilient economy. Encouraging FDI in high-tech and innovative sectors can foster technological advancement and facilitate knowledge sharing, thereby promoting innovation and technology transfer.

This PhD thesis has contributed to a deeper understanding of the dynamics of FDI in Kazakhstan, highlighting both the opportunities and challenges associated with attracting foreign investments. By addressing the identified determinants and implementing strategic policy measures, Kazakhstan can further enhance its attractiveness as a destination for FDI, fostering sustainable economic growth and development.

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**Appendix 1.**


**Research questionnaire of the project "Foreign direct investment in Kazakhstan – determinants and impact on the economic growth"**

*The information collected through the survey is confidential and will be used for scientific purposes only.*

***Please insert an 'X' in the box next to your chosen answer.***

**1. The decision on foreign direct investment takes into account the widest possible spectrum of locational factors, including positive and negative ones. The predominance of one over the other is decisive. Please rate the factors: (2) – positive influence, (1) – rather positive influence, (0) – neutral, (-1) – influence rather negative, (-2) – negative influence.**

| Factors | The nature of the impact | | | | |
|---|---|---|---|---|---|
| | +2 | +1 | 0 | -1 | -2 |
| **I. Natural factors in the Republic of Kazakhstan** | | | | | |
| Geographical location | ☐ | ☐ | ☐ | ☐ | ☐ |
| Emergence of natural resources | ☐ | ☐ | ☐ | ☐ | ☐ |
| Disaster threat | ☐ | ☐ | ☐ | ☐ | ☐ |
| Climate | ☐ | ☐ | ☐ | ☐ | ☐ |
| Others, what? | ☐ | ☐ | ☐ | ☐ | ☐ |
| **II. Institutional and Legal Factors / Ease of Doing Business in the Republic of Kazakhstan** | | | | | |
| Economic stability of the country | ☐ | ☐ | ☐ | ☐ | ☐ |
| Political stability of the country | ☐ | ☐ | ☐ | ☐ | ☐ |
| Social stability of the country | ☐ | ☐ | ☐ | ☐ | ☐ |
| Legal stability | ☐ | ☐ | ☐ | ☐ | ☐ |
| Tax system | ☐ | ☐ | ☐ | ☐ | ☐ |
| Customs system | ☐ | ☐ | ☐ | ☐ | ☐ |
| Labor law regulation | ☐ | ☐ | ☐ | ☐ | ☐ |
| Business registration process | ☐ | ☐ | ☐ | ☐ | ☐ |
| Restrictions on the economic activities of foreigners (for example, the acquisition of real estate) | ☐ | ☐ | ☐ | ☐ | ☐ |
| Benefits for foreign investors | ☐ | ☐ | ☐ | ☐ | ☐ |
| Corruption | ☐ | ☐ | ☐ | ☐ | ☐ |
| Trade union activity | ☐ | ☐ | ☐ | ☐ | ☐ |
| Quality and efficiency of service in offices | ☐ | ☐ | ☐ | ☐ | ☐ |
| Bureaucracy | ☐ | ☐ | ☐ | ☐ | ☐ |
| **III$_A$. Economic factors – the market** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Market size | ☐ | ☐ | ☐ | ☐ | ☐ |
| Market absorption | ☐ | ☐ | ☐ | ☐ | ☐ |
| Market growth prospects | ☐ | ☐ | ☐ | ☐ | ☐ |
| Proximity to existing retail outlets | ☐ | ☐ | ☐ | ☐ | ☐ |
| Prospects for economic growth | ☐ | ☐ | ☐ | ☐ | ☐ |
| Market competition | ☐ | ☐ | ☐ | ☐ | ☐ |
| Others, what? | ☐ | ☐ | ☐ | ☐ | ☐ |
| **IIIB. Economic factors – a resource** | | | | | |
| Availability of appropriately qualified staff | ☐ | ☐ | ☐ | ☐ | ☐ |
| Availability of materials, semi-finished goods (ancillary services) | ☐ | ☐ | ☐ | ☐ | ☐ |
| Opportunity to acquire strategic assets (modern technology, distribution channels, local brands, market knowledge) | ☐ | ☐ | ☐ | ☐ | ☐ |
| State of transport, telecommunications and energy infrastructure | ☐ | ☐ | ☐ | ☐ | ☐ |
| Better use of existing resources | ☐ | ☐ | ☐ | ☐ | ☐ |
| Access to research centres | ☐ | ☐ | ☐ | ☐ | ☐ |
| Availability of special economic zones | ☐ | ☐ | ☐ | ☐ | ☐ |
| Opportunity to cooperate with local businesses | ☐ | ☐ | ☐ | ☐ | ☐ |
| Proximity to a key partner | ☐ | ☐ | ☐ | ☐ | ☐ |
| Tourist attraction | ☐ | ☐ | ☐ | ☐ | ☐ |
| Others, what? | ☐ | ☐ | ☐ | ☐ | ☐ |
| **IIIC. Economy and efficiency factors** | | | | | |
| Prices on natural resources | ☐ | ☐ | ☐ | ☐ | ☐ |
| Prices on materials, semi-finished goods (ancillary services) | ☐ | ☐ | ☐ | ☐ | ☐ |
| Labour prices | ☐ | ☐ | ☐ | ☐ | ☐ |
| Energy prices | ☐ | ☐ | ☐ | ☐ | ☐ |
| Property prices | ☐ | ☐ | ☐ | ☐ | ☐ |
| Benefits of replacing exports with production in the host country | ☐ | ☐ | ☐ | ☐ | ☐ |
| Others, what? | ☐ | ☐ | ☐ | ☐ | ☐ |

**2. Please rate the extent to which the following factors influenced the FDI decision:**

| **Factors** | **The nature of the impact** | | | | |
|---|---|---|---|---|---|
| | **+2** | **+1** | **0** | **-1** | **-2** |
| Personal qualities of managers | ☐ | ☐ | ☐ | ☐ | ☐ |
| Knowledge and experience of the manager, including information from contractors or competitors | ☐ | ☐ | ☐ | ☐ | ☐ |
| Knowledge and experience gained from previous work in Kazakhstan (e.g. export) | ☐ | ☐ | ☐ | ☐ | ☐ |

| | | | | | |
|---|---|---|---|---|---|
| Competitive advantages that the company has | ☐ | ☐ | ☐ | ☐ | ☐ |
| Guidance intuition | ☐ | ☐ | ☐ | ☐ | ☐ |
| Managers' personal motives | ☐ | ☐ | ☐ | ☐ | ☐ |
| The fact that managers have citizenship of Kazakhstan | ☐ | ☐ | ☐ | ☐ | ☐ |
| Knowledge of the Kazakh language | ☐ | ☐ | ☐ | ☐ | ☐ |
| Having personal relationships, networks of contacts with people from Kazakhstan | ☐ | ☐ | ☐ | ☐ | ☐ |
| Detailed analysis and calculations based on financial models | ☐ | ☐ | ☐ | ☐ | ☐ |
| Country risk analysis | ☐ | ☐ | ☐ | ☐ | ☐ |
| Others, what? | ☐ | ☐ | ☐ | ☐ | ☐ |

**3. Was the decision to invest in Kazakhstan (at the time it was made)...**

☐ Optimal (the best in terms of the decision assessment criteria you have adopted)
☐ Satisfactory (meets minimum requirements)

**4. Would you decide to invest in Kazakhstan again?**

☐ Yes
☐ No

## CHARACTERISTICS OF THE ENTERPRISE

**5. Company name (optional)**

**6. Year of commencement of activity in Kazakhstan (optional)**

**7. The main activity of the enterprise**

☐ goods ☐ services ☐ trade

**8 How did your enterprise come to Kazakhstan?**

☐ Created from scratch
☐ An operating enterprise was bought or an organized part of an operating enterprise was bought

**9. Form of foreign direct investment:**

☐ Independent business – subsidiary (100% ownership)
☐ Joint activity with a partner from Kazakhstan (joint venture)
☐ Joint venture with a partner from outside Kazakhstan (joint venture)

**Thank you for participating in the study!**

## Appendix 2: List of 100 largest foreign direct investors in Kazakhstan

| Company Name | Industry |
|---|---|
| China National Petroleum Corporation | Oil and Gas |
| COMECO | Oil and Gas |
| European Bank for Reconstruction and Development | Finance/Banking |
| Eurasian Development Bank | Finance/Development |
| Eurasian Resources Group | Metallurgy/Mining |
| Deutsche Bank | Finance/Banking |
| General Electric | Manufacturing/Technology |
| Deloitte Touche Tohmatsu Limited | Consulting/Audit |
| JPMorgan Chase & Co. | Finance/Banking |
| Knauf Gips KG | Building Materials |
| Baker & McKenzie International | Legal Services |
| ArcelorMittal S.A. | Metallurgy |
| Anadolu Group | Diversified Corporation |
| Asian Development Bank | Financial Development |
| VEON Ltd. | Telecommunications |
| Microsoft Corporation | Technology/Software |
| Baker Hughes Company | Oil and Gas |
| L'Air Liquide S.A. | Chemical Industry |
| Citigroup Inc. | Finance/Banking |
| PricewaterhouseCoopers International | Consulting/Audit |
| KPMG International | Consulting/Audit |
| INPEX Corporation | Oil and Gas |
| The World Bank | Financial Development |
| Ernst & Young Global Limited | Consulting/Audit |
| ENI S.p.A. | Oil and Gas |
| Exxon Mobil Corporation | Oil and Gas |
| Chevron Corporation | Oil and Gas |
| TMK (Pipe Metallurgical Company) | Metallurgy |
| TotalEnergies SE | Energy/Oil and Gas |
| Sembol İnşaat | Construction |
| Santo Company | Pharmaceuticals |
| United Company Rusal PLC | Metallurgy |
| Polymetal International plc | Mining |
| Mitsubishi Corporation | Trade/Investments |
| Metro AG | Retail |
| Marubeni Corporation | Trade/Investments |
| PJSC Lukoil | Oil and Gas |
| Tengizchevroil LLP | Oil and Gas |
| Karachaganak Petroleum Operating B.V. | Oil and Gas |
| MMG | Media/Advertising |
| Japan Tobacco International | Tobacco Industry |
| KAZ Minerals PLC | Mining |
| North Caspian Operating Company N.V. | Oil and Gas |
| British American Tobacco | Tobacco |

| | |
|---|---|
| Eurasian Resources Group (Kazchrome Division) | Metallurgy/Mining |
| Tele2 AB | Telecommunications |
| PJSC VimpelCom (Beeline) | Telecommunications |
| AKAB | Needs specification |
| Samsung Electronics | Electronics/Technology |
| Continent Online | Needs specification |
| BG Group plc | Oil and Gas |
| Chevron Corporation | Oil and Gas |
| Kcell JSC | Telecommunications |
| Kazakhstan Electricity Grid Operating Company | Energy/Utilities |
| Carlsberg Group | Beverage |
| Coca-Cola İçecek A.Ş. | Needs specification |
| Schlumberger Limited | Oilfield Services |
| China Petroleum & Chemical Corporation | Oil and Gas |
| Sberbank of Russia | Finance/Banking |
| Petrosun | Oil and Gas |
| SK Hotline | Oil and Gas |
| Maten Petroleum | Oil and Gas |
| Fluor Corporation | Engineering/Construction |
| Bogatyr Access Komir | Mining |
| Russian Copper Company (AMK Division) | Metallurgy |
| Borusan Makina ve Güç Sistemleri | Machinery/Equipment |
| National Atomic Company Kazatomprom | Nuclear Energy |
| KOA | Needs specification |
| ArcelorMittal | Steel/Metallurgy |
| Anadolu Efes Biracılık ve Malt Sanayii A.Ş. | Beverage |
| Sarens NV | Heavy Lift and Transport |
| ASBIS Enterprises PLC | Information Technology |
| RG Gold LLP | Mining |
| Telecon | Telecommunications |
| Alfa-Bank | Finance/Banking |
| HireBee Kazakhstan | HR/Technology |
| Polymetal International plc | Mining |
| LG Electronics Inc | Electronics/Technology |
| Ersai Caspian Contractor LLC | Oil and Gas Services |
| Rakhat JSC | Food Production |
| KazRosGas LLP | Oil and Gas |
| AAEngineering Group LLP | Engineering/Consulting |
| Appak LLP | Nuclear Energy |
| Industria de Diseño Textil, S.A. | Retail/Fashion |
| Foodmaster LLC | Food and Beverage |
| Sportmaster Kazakhstan | Retail/Sporting Goods |
| Glencore International AG | Mining and Commodities |
| HeidelbergCement AG | Building Materials |
| Hamle Company | Food Production |
| European Bank for Reconstruction and Development | Finance/Development |

| | |
|---|---|
| Xinxing | Oil and Gas Services |
| Ramstore Kazakhstan | Retail |
| TAV Havalimanları Holding A.Ş. | Transportation/Infrastructure |
| Ust-Kamenogorsk Titanium and Magnesium Plant JSC | Metallurgy |
| KBE | Needs specification |
| Global Trade Asia Ltd. | Trading/Logistics |
| TMK | Steel Manufacturing |
| Alfa-Bank Kazakhstan | Finance/Banking |
| HireBee Kazakhstan | HR/Technology |
| LG Electronics | Electronics/Technology |

**Source:** (StateRevenueCommittee, 2022)**.**

**Appendix 3. Cover letter**

NICOLAUS COPERNICUS UNIVERSITY IN TORUŃ

Toruń, 6.06.2023 r.

**Dear Sir,**

I kindly invite your Company to participate in the research conducted under my supervision within the framework of the scientific project entitled: "Foreign direct investment in Kazakhstan – determinants and impact on the economic growth".

The project is carried out as part of the scientific research activities of the Faculty of Science and Management of the Nicolaus Copernicus University in Toruń. Its aim is to deepen knowledge of the determinants of foreign direct investment in Kazakhstan and its impact on the country's economy. We have invited companies representing the 100 largest foreign investors in Kazakhstan to participate in the survey.

Your involvement in the survey will allow us to illuminate an important issue that has been little recognised so far. In the belief that the results of the study will be of significant scientific and cognitive and applied importance, I will be very grateful for your kind acceptance of this proposal. For my part, I undertake to make the research report available to you. I assure you that the information and data obtained will be used exclusively for scientific purposes.

I kindly ask you to send back the completed questionnaire by 30.06.2023 using the enclosed envelope:

The questionnaire is also posted at the link: https://bit.ly/KazakhstanEN
So, you can return it online after completion.

If you have any questions, please send an e-mail to mjaworek@umk.pl or contact me by phone – Tel: +48 608 871 717 (language of conversation: English, Kazakh, Russian).

With best regards,

**QR code for the questionary**

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# Streszczenie

Praca poświęcona jest wybranym zagadnieniom napływu kapitału w postaci bezpośrednich inwestycji zagranicznych (BIZ) do Republiki Kazachstanu. W kontekście potrzeby modernizacji gospodarki Kazachstanu, będącej jednym z zasadniczych warunków zwiększania jej międzynarodowej konkurencyjności, przedmiot rozprawy wydaje się bardzo istotny. Dotychczas główne źródło rozwoju gospodarki Kazachstanu stanowiła bogata baza zasobów naturalnych. W dłuższej perspektywie czerpanie z tego źródła stanie się dalece niewystarczające. Kazachstan, podobnie jak inne kraje byłego Związku Radzieckiego, odczuwa deficyt kapitału. Istniejące przy tym ograniczenia wewnętrzne sprawiają, że zewnętrzne wsparcie kapitałowe, będącego nośnikiem nowoczesnych, innowacyjnych rozwiązań technologicznych, organizacyjnych, marketingowych itd., może stać się bardzo ważnym impulsem rozwojowym kraju.

Jako cele badawcze autor przyjął dokonanie:

- oceny zmian skali i struktury BIZ w Kazachstanie w latach 1991-2022**,** a więc od momentu uzyskania przez kraj niepodległości (cel I);
- identyfikacji determinant BIZ w Kazachstanie, w tym wybranych aspektów klimatu inwestycyjnego (cel II);
- oceny wpływu BIZ na wzrost gospodarczy Kazachstanu (cel III)**.**

Dla realizacji pierwszego celu badawczego wykorzystano dane statystyczne ogłaszane przez Konferencję Narodów Zjednoczonych ds. Handlu i Rozwoju (UNCTAD) w corocznych raportach *World Investment Report*, a także dane zamieszczane w krajowych opracowaniach statystycznych Kazachstanu. Cel drugi osiągnięto w drodze przeprowadzenia badania własnego, którym autor objął grupę największych zagranicznych inwestorów bezpośrednich w Kazachstanie. Cel trzeci został zrealizowany z zastosowaniem modeli ekonometrycznych.

Kierunki badań przeprowadzonych dla osiągnięcia przyjętych celów badawczych wytyczyły następujące hipotezy:

$H_1$: Znaczący wzrost zainteresowania Kazachstanem jako miejscem lokat bezpośrednich inwestycji zagranicznych w latach 1993–2022, wynikał przede wszystkim z jego bogactwa zasobów naturalnych, a sektor wydobywczy utrzymywał dominującą pozycję w strukturze napływu BIZ według rodzaju prowadzonej działalności.

$H_2$: Napływ bezpośrednich inwestycji zagranicznych stał się jednym z czynników wzrostu PKB *per capita*. Zaowocował jednocześnie stopniowym zwiększaniem wartości BIZ wychodzących

z Kazachstanu, co wskazuje na przejście kraju z etapu 1 do etapu 2 Ścieżki Rozwoju Inwestycji J.H. Dunninga.

$H_3$: Wielkość rynku, stabilność polityczna, polityki gospodarcze, obok posiadanych zasobów naturalnych stanowią kluczowe determinanty decyzji zagranicznych inwestorów bezpośrednich o alokacji ich kapitału w Kazachstanie.

$H_4$: Istnieje znaczący pozytywny związek między napływem BIZ a wzrostem gospodarczym w Kazachstanie.

Praca składa się z pięciu rozdziałów, wstępu i zakończenia.

Pierwszy rozdział rozpoczyna omówienie definicji i istoty BIZ – lokat kapitału dokonywanych poza krajem osiedlenia inwestora bezpośredniego dla osiągnięcia korzyści z prowadzonej tam działalności gospodarczej w ramach przedsiębiorstwa bezpośredniego inwestowania. Przedstawiono podział BIZ według sposobu wejścia inwestora do kraju przyjmującego, wyróżniając inwestycje od podstaw (ang. *greenfield investment*) oraz akwizycje, a w nich inwestycje *brownfield*. Zaprezentowano główne teorie objaśniające BIZ, w tym teorię przewag własnościowych, teorię cyklu życia produktu oraz paradygmat eklektyczny J.H. Dunninga. W tej części pracy omówiono także determinanty podejmowania inwestycji zagranicznych. Rozdział kończą, ważne z punktu widzenia celu pracy, krótkie dywagacje dotyczące oddziaływań BIZ na gospodarkę kraju przyjmującego, a więc korzyści i ryzyka, jakie niosą BIZ, w tym transfer nowoczesnych technologii, tworzenie miejsc pracy, ale także możliwe zagrożenia dla miejscowej przedsiębiorczości wywołane potencjalną dominacją przedsiębiorstw z udziałem kapitału zagranicznego.

Treść rozdziału drugiego została poświęcona prezentacji Republiki Kazachstanu jako miejsca lokat kapitału w postaci BIZ. Przedstawiono warunki formalno-prawne podejmowania przez nierezydentów działalności gospodarczej w Kazachstanie, ogólne charakterystyki gospodarki kraju, ukazujące jej stabilność makroekonomiczną. Zwrócono uwagę na bogactwa zasobów naturalnych, którymi Kazachstan przyciąga inwestorów. W oparciu o wyniki badań przeprowadzanych przez światowe ośrodki naukowo-badawcze przedstawiono obraz poziomu międzynarodowej konkurencyjności Kazachstanu. W konkluzji, opierając się między innymi na rankingach „Ease of Doing Business" i „World Competitiveness Ranking", wskazano, że Kazachstan, mimo pewnych ryzyk, takich jak zależność od cen surowców i napięcia geopolityczne, oferuje korzystny klimat inwestycyjny, wyróżniając się w tym zakresie wśród krajów Azji Centralnej.

W rozdziale trzecim przedstawiono zmiany wartości rocznych napływów BIZ do Kazachstanu (ang. *FDI inflows*) oraz wartości zobowiązań Kazachstanu wobec zagranicy z tytułu BIZ (ang. *FDI instock*) w okresie 1992-2022, w porównaniu z pozostałymi krajami Azji Centralnej. Omówiono strukturę BIZ według kraju pochodzenia oraz rodzaju prowadzonej działalności, a także charakterystyki statystyczne przedsiębiorstw z kapitałem zagranicznym. W podsumowaniu wyrażony został pogląd, że dzięki bogactwu zasobów naturalnych i rosnącej stabilności gospodarczej Kazachstan przyciągnął znaczną część inwestycji w regionie.

Czwarty rozdział został poświęcony czynnikom wpływającym na wybór Kazachstanu jako miejsca lokat BIZ. Wyniki autorskiego badania ankietowego, przeprowadzonego wśród największych inwestorów zagranicznych w Kazachstanie, wskazały, że oprócz dostępu do surowców naturalnych, inwestorzy w swych decyzjach lokalizacyjnych kierowali się głównie potencjałem rynkowym, stabilnością ekonomiczną i strategicznym położeniem Kazachstanu. Wyniki badania ujawniły także destymulanty lokowania kapitału w Kazachstanie takie jak korupcja i biurokracja.

W rozdziale piątym zostały przedstawione wyniki oceny wpływu BIZ na gospodarkę Kazachstanu dokonanej przy zastosowaniu modeli ekonometrycznych. Wskazały one, że napływ BIZ znacząco wpływa na wzrost PKB oraz rozwój różnych sektorów gospodarki, zwłaszcza w kontekście stabilności gospodarczej i transferu technologii. Modele potwierdzają, że BIZ przyczyniają się do wzrostu gospodarczego, choć efekty mogą się różnić w zależności od sektora i okresu.

Pracę kończą wnioski, w których podkreślono istotne znaczenie BIZ w rozwoju gospodarczym Kazachstanu. Autor postuluje kontynuację reform zmierzających do poprawy klimatu inwestycyjnego, w tym zmniejszenie biurokracji, radykalnej walki z korupcją oraz rozwoju infrastruktury technicznej i społecznej. Sformułowano praktyczne rekomendacje dla polityki gospodarczej, wyrażając przekonanie, że mogą one wpłynąć na poprawę skuteczności działań zmierzających do przyciągania znaczących dla gospodarki inwestycji zagranicznych.

# Summary

This work addresses selected issues related to the inflow of capital in the form of foreign direct investment (FDI) to the Republic of Kazakhstan. In the context of the need to modernize Kazakhstan's economy, which is essential for enhancing its international competitiveness, the topic of this dissertation seems very significant. To date, the main source of Kazakhstan's economic development has been its rich base of natural resources. In the long term, relying on this source will become increasingly insufficient. Kazakhstan, like other countries of the former Soviet Union, experiences a capital deficit. The existing internal constraints mean that external capital support, which brings modern, innovative technological, organizational, marketing, and other solutions, can become a crucial development stimulus for the country.

The research objectives set by the author include:

- The assessment of the scale of foreign direct investment in Kazakhstan in the years 1991-2022, that is, from the moment the Republic of Kazakhstan became a sovereign country, to the end of the second decade of this century, as well as presenting the structure of these investments.
- The identification of the determinants and motives of foreign direct investment in Kazakhstan against the background of the selected elements of the investment climate.
- The assessment of the impact of foreign direct investment on economic growth in Kazakhstan.

To achieve the first research objective, statistical data announced by the United Nations Conference on Trade and Development (UNCTAD) in the annual *World Investment Report*, as well as data published in national statistical reports of Kazakhstan, were used. The second objective was achieved through a survey conducted by the author, covering the largest foreign direct investors in Kazakhstan. The third objective was realized using econometric models.

The directions of the research conducted to achieve the set objectives outlined the following hypotheses:

$H_1$: The significant increase in interest in Kazakhstan as a destination for FDI from 1993 to 2022 was primarily due to its natural resource wealth, with the mining sector consistently maintaining a dominant share of inward FDI.

$H_2$: The influx of inward FDI correlates with an improvement in GDP per capita and a gradual increase in the country's outward FDI, indicating a movement from Stage 1 to Stage 2 of the Investment Development Path.

$H_3$: Market size, political stability, economic policies, and the presence of natural resources are key determinants that significantly influence the decision of foreign investors to allocate capital to Kazakhstan

$H_4$: There is a significant positive relationship between FDI inflows and economic growth in Kazakhstan.

The work consists of five chapters, an introduction, and a conclusion.

The first chapter begins with a discussion of the definition and essence of FDI – capital placements made outside the investor's country of residence to gain benefits from economic activities conducted there through a direct investment enterprise. It presents the division of FDI according to the method of investor entry into the host country, distinguishing greenfield investments and acquisitions, including brownfield investments. Major theories explaining FDI, including ownership advantages theory, product life cycle theory, and J.H. Dunning's eclectic paradigm, are discussed. This part of the work also addresses the determinants of making foreign investments. The chapter concludes with brief reflections, important from the work's objective perspective, on the impacts of FDI on the host country's economy, including the benefits and risks FDI brings, such as the transfer of modern technologies, job creation, but also potential threats to local entrepreneurship caused by the possible dominance of foreign capital enterprises.

The content of the second chapter is dedicated to presenting the Republic of Kazakhstan as a destination for FDI. It outlines the formal and legal conditions for non-residents to conduct economic activities in Kazakhstan, general characteristics of the country's economy showing its macroeconomic stability, and highlights the wealth of natural resources that attract investors to Kazakhstan. Based on research results from global scientific and research centers, the level of Kazakhstan's international competitiveness is portrayed. In conclusion, relying on rankings such as "Ease of Doing Business" and "World Competitiveness Ranking", it is indicated that despite certain risks like dependency on commodity prices and geopolitical tensions, Kazakhstan offers a favorable investment climate, standing out in this regard among Central Asian countries.

The third chapter presents changes in annual FDI inflows to Kazakhstan and the value of FDI inward stock flows from 1992 to 2022, compared with other Central Asian countries.

The structure of FDI by country of origin and type of activity is discussed, along with statistical characteristics of foreign-capital enterprises. The summary expresses the view that due to its wealth of natural resources and growing economic stability, Kazakhstan has attracted a significant portion of the region's investments.

The fourth chapter is devoted to factors influencing the choice of Kazakhstan as a destination for FDI. Results from the author's survey, conducted among the largest foreign investors in Kazakhstan, indicated that apart from access to natural resources, investors primarily considered market potential, economic stability, and Kazakhstan's strategic location in their location decisions. The survey results also revealed disincentives for capital allocation in Kazakhstan, such as corruption and bureaucracy.

The fifth chapter presents the results of the assessment of the impact of FDI on Kazakhstan's economy using econometric models. These indicated that FDI inflows significantly impact GDP growth and the development of various economic sectors, especially in terms of economic stability and technology transfer. The models confirm that FDI contributes to economic growth, although the effects may vary by sector and period.

The work concludes with insights emphasizing the significant role of FDI in Kazakhstan's economic development. The author advocates for continued reforms aimed at improving the investment climate, including reducing bureaucracy, radical anti-corruption efforts, and developing technical and social infrastructure. Practical recommendations for economic policy are formulated, expressing the belief that they can enhance the effectiveness of efforts to attract economically significant foreign investments.