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FOREIGN DIRECT INVESTMENT IN KAZAKHSTAN: A SUCCESS STORY OVER THE YEARS OF INDEPENDENCE OF THE REPUBLIC

The article analyzes the attraction of foreign direct investment to Kazakhstan since the country gained independence. During the period under review (1991-2020), the authors made a macroeconomic analysis of statistical data on the dynamics of Kazakhstan's real GDP according to the IMF, with an emphasis on the analysis of the cyclical nature of the national economy. We analyzed in detail the inflows of foreign direct investment to Kazakhstan by volume, by type of economic activity, by types of direct investors according to the databases of UNCTAD and the National Bank of the Republic of Kazakhstan. In addition, we also analyzed the trends in attracting foreign direct investment in the CIS and Central Asia region, based on which we assessed the position of the republic in these regions in terms of attracting foreign direct investment. In addition, we gave a brief overview of the global situation on them, taking into account the pre- and post-pandemic crisis. The authors attempted to assess the effectiveness of government measures to improve the investment attractiveness of Kazakhstan and analyze the prospects for the development of the policy of attracting foreign direct investment to the republic based on the assessments of international experts. In conclusion, we gave the recommendations to improve the policy of attracting foreign investors to Kazakhstan.

Key words: Kazakhstan, independence, foreign direct investment, investment attractiveness.

Introduction

The challenges of the times constantly impose new requirements on the participants of the world economy, regardless of their level of development and the place they occupy in it. Thirty years ago the collapse of the USSR, on the one, and the need to build an independent state with its own strong economy, on the other, became the main challenge for our country. With an acute shortage of our own financial resources, we needed to make an «industrial leap forward. To solve such a difficult task, it was important to build a competent process of including the national economy not only in the world economy, but also in the world capital market, which would allow the young republic to gain access to foreign capital and with its help solve its own problems.

By the end of the last century, transnational corporations from developed countries began to move most of their labor-intensive production in the form of foreign direct investment (FDI) to developing countries, where there is huge potential for cheap labor. As a result, the world has experienced the successful growth and development of emerging markets in Southeast Asia, China, India and some Latin American countries.

According to definition of UNCTAD FDI is defined as an investment reflecting a lasting interest and control by a foreign direct investor, resident

in one economy, in an enterprise resident in another economy (foreign affiliate). FDI inflows comprise capital provided by a foreign direct investor to a foreign affiliate, or capital received by a foreign direct investor from a foreign affiliate (UNCTAD 2020).

For countries with a characteristic lack of domestic investment capital, which includes Kazakhstan, external sources of financing in particular FDI are certainly necessary. Their significant advantage in comparison with domestic investment is that with the inflow of FDI various external effects of FDI on economic development, such as the inflow of new technologies for the host country, new knowledge and experience, know-how, etc. are observed in parallel. These processes can not be provided by domestic investors for different reasons, including the comparative weakness of the economies of such countries and their weakness to external shocks. At the same time, such conditions make FDI more perceptible and widespread influence on the development of national economies, given that the external effects of FDI do not require additional costs from the host country. This explains the high relevance of the issue of research on attracting FDI all over the world, including in our republic. Based on this, the purpose of the study is to analyze the achievements of Kazakhstan in attracting FDI and receiving benefits from it over the entire period of independence of the country.

Material and methods

The article uses general scientific methods, such as the logical method, analysis and synthesis, induction, generalization and comparison, as well as statistical methods of calculation.

First, the dynamics of the FDI inflow over the years of their attraction by decades was analyzed, with a graphic illustration of the used statistical data. A comparative analysis of FDI inflows with the dynamics of the country's real GDP for the period under consideration was carried out. Analyzed the measures taken by the government of the republic to form the investment attractiveness of the country through the achievements of Kazakhstan in the FDI Index and the Doing Business ranking. The position of the republic in the Central Asian region in terms of FDI inflow was assessed, the geography of direct investor countries of Kazakhstan and the structure of FDI by type of economic activity were analyzed. Global trends in FDI attraction in a pandemic situation and the global FDI outlook were also analyzed.

UNCTAD statistical databases for Kazakhstan from 1993 to 2020 (in millions of US dollars), data from the National Bank of Kazakhstan from 2013 to 2020 (in millions of tenge), the National Bureau of Statistics of Kazakhstan and NPP «Atameken» were used for the analysis.

Graphical illustrations are made in MS Excel application.

Literature review

For Kazakhstan, the strategic task of sustainable development of the national economy since the first years of independence has been implemented through the massive attraction of foreign investment. From the beginning the emphasis on their attraction was made in the Strategy «Kazakhstan-2030», then the process was marked in the Strategic Plan for Kazakhstan 2020 and the State program for accelerated industrial and innovative development of Kazakhstan for 2010-2014. Later Yelbasy outlined the main vector of the investment policy of the country which is realized for today in the Republic: «Kazakhstan has to become a regional magnet for investments. Our country should become the most attractive place in Eurasia for investment and for the transfer of technology (Strategy «Kazakhstan-2050» 2012).

Many researches in the world show that the impact of FDI is multidimensional and affects not only the issues of economic growth and development of the national economy, they can become a catalyst for various changes in the life of the society of the coun-

try. There are studies in the economic literature, the results of which are based on large-scale empirical studies on the impact of FDI on a large number of countries; they are classics when analyzing the degree of study of the problem of the impact of FDI on host countries (Aitken and Harrison 1999, Kokko 2003, Blomstrom 2003, Blalock and Gertler 2008).

The experience of developing countries boils down to the following benefits in the form of positive direct and indirect effects of FDI in the national economy:

1. Increased productivity and growth in average per capita income in the host country.
2. Increased employment through direct and backward linkages of foreign companies with other firms, through changes in employment policies and practices.
3. The creation of new jobs in the sector of the most qualified labor force.
4. New methods of organizing management and adopting the experience of local companies.
5. Development of scientific and technological progress (STP) in the host country.
6. Stimulation of growth of export revenues by changing the structure of exports.

A reviewed of the existing literature on the impact of FDI on the economy of developing countries showed a large number of works about analysis and evaluation of the impact of FDI on various economic indicators, including social indicators. In light of them the researches on the impact of FDI on the social welfare of host countries are interesting (Rondinelli 2002, Herman et al 2004, Lehnert et al 2013, Gorodnichenko et al 2014, Choi et al 2017, Ahmad et al 2018).

Several studies (Buchanan et al 2012, Baltabaev 2014, Kurul 2017, Adhikary 2017, Mahmood et al 2019, Majeed et al 2021) analyze the external effects of FDI in developing countries, considering the rapidly changing global trends of national economies.

Regarding the research on the impact of FDI in Kazakhstan, a research (Waikar et al. 2011) found a positive impact of FDI on its macroeconomics as a whole, but they did not consider it by sector of the economy. The study (Rakhmatullayeva et al. 2015) also found no negative impact of FDI on six socio-economic indicators in the regions of Kazakhstan. The once of last studies about FDI in Kazakhstan (David M. Kemme et al 2021) analyzed the impact of integration of countries in the EAEU on FDI flows attracted by these countries. In addition, the authors analyzed the impact of infrastructure, royalties, the financial crisis of 2008, the situation with Russia (the introduction of sanctions against it) and other factors when analyzing data on the EAEU countries. As it turned out, the integration of countries has nothing to

do with their ability to attract FDI, thus FDI flows are more determined by subjective national factors.

Results and discussion

At present Kazakhstan has faced the challenges of the 21st century – Industry 4.0, the transition to a «green economy», instability in oil prices, the glob-

al financial crisis, digitalization and the COVID-19 pandemic, which require new weighted decisions and competent effective policy of the country's leadership. Over the 30 years of independence, our country has experienced five major economic crises (the fifth has not yet been overcome – author's note), which have strongly influenced the dynamics of real GDP in Kazakhstan (Figure 1).

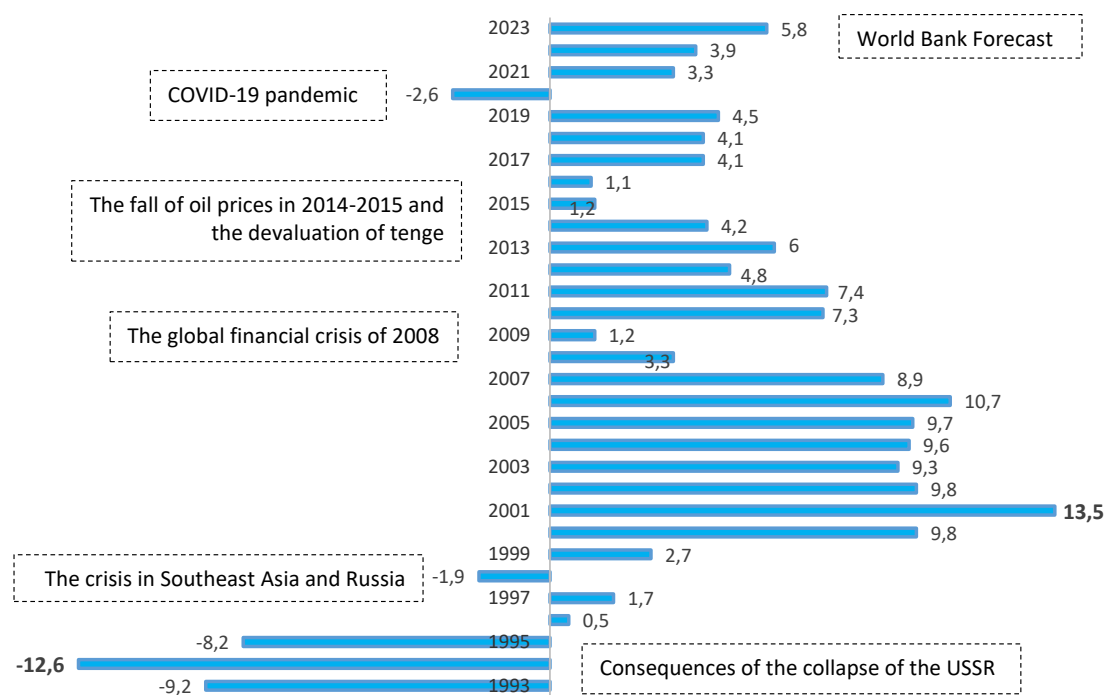


Figure 1 – Dynamics of Kazakhstan's real GDP over the years of independence, % (IMF 2021)

As can be seen from the diagram, in different years Kazakhstan's real GDP has been negatively affected by external shocks related to the situation in the world market. In the first years of independence, a decrease in real GDP was observed in 1994 – by 12.6%, which was caused by the consequences of the disintegration of the USSR and the introduction of the national currency. This decline was the largest in significance since the country gained its independence, but the competent policy of the republic's leadership made it possible to achieve the first positive GDP growth of 0.5% already after two years.

This positive trend could have continued, but the crisis in the countries of Southeast Asia, which had a negative impact on the development of the Russian economy and led to the first devaluation of the Russian ruble, had a negative impact on the economy of Kazakhstan, which was reflected in a decline of real GDP in 1998 by 1.9%. However, in the following year the national economy began to gain momentum,

and the positive dynamics of GDP growth continued until 2007, reaching a peak of 13.5% in 2001, and this phenomenon was dubbed the «economic miracle» of Kazakhstan at that time. This trend was broken by the global financial crisis in 2008, which engulfed the entire world economy, and as a result of this negative impact the real GDP of Kazakhstan declined from 8.9% in 2007 to 1.2% in 2009.

Between 2010 and 2014, real GDP growth did not exceed 6% per year; during this period, growth peaked in 2011 (7.4%). The decline in world oil prices that began in 2014 led to the fact that Kazakhstan's economy, which exports large amounts of mineral resources and is highly sensitive to oil price volatility, began to experience difficulties, and the country's government and the National Bank of Kazakhstan decided to devalue the tenge. As a result, the country's real GDP declined to 1.1% in 2016.

In the next three years, real GDP growth did not exceed 4% annually until the onset of the COVID-19

related pandemic, which also made its corrections. The negative impact of the pandemic was reflected in the President's declaration of a state of emergency and lockdown, which together caused Kazakhstan's real GDP to decline to 2.6% in 2020. As Figure 1 shows, the pandemic decline in real GDP was stronger than the decline under the influence of the 2008 global financial crisis. The country's small and medium-sized businesses were hit hardest, unemployment and inflation rose, but the positive effects of the pandemic in the form of accelerating digitalization of the economy were also observed in parallel.

Analysis of the dynamics of real GDP in Kazakhstan since independence showed that, despite various negative and difficult periods in the development of the young country, it has made great efforts to ensure sustainability and a positive track of growth and development of the national economy. This is confirmed by the forecasts of international organizations such as UNCTAD, IMF and the World Bank. For example, according to the IMF forecast,

real GDP growth in Kazakhstan may reach 5.8% by 2023, although by 2025 the figure may decrease by 1-1.5% (IMF 2021).

From macroeconomic theory, we know about the close proportional relationship between investment and GDP; moreover, according to Keynesian theory, investment growth has a multiplicative effect on increasing production in the country. Nowadays Kazakhstan as well as all the rest of the world is experiencing the consequences of pandemic crisis, which require new balanced decisions and implementation of effective policy by the country's leadership. Despite the current situation in the world, connected with decrease in global flows of FDI, the urgency of attraction of foreign capital, especially in the form of FDI, is still high and growing to this day.

Trends in attracting FDI flows to Kazakhstan since independence are presented in Table 1, which calculates the share of FDI inflows by decade (World Investment Report 2021).

Table 1 – FDI inflows to Kazakhstan for the period 1991-2020, US\$ million

Indicator	1991-2000	2001-2010	2011-2020	Total
Inward FDI	9335,3	70157,8	73736,9	153230
Share in the total volume, %	6	45,8	48,1	100

A substantive analysis of the data presented in Table 1 and illustrated in Figure 2, according to the UNCTAD statistical database, shows different dynamics in FDI inflows to the country by year. In the first decade of independence, the total FDI inflow to Kazakhstan was US\$9.3 billion, in the second decade it was US\$70.2 billion, and in the third decade it was US\$73.7 billion. As can be seen from the dynamics by decades, the FDI inflow increased 7.5 times in the second decade and almost 8 times in the third decade compared to the first one. In summary, over the years of independence Kazakhstan has attracted FDI to the amount of 153.23 billion U.S. dollars (UNCTAD 2021).

These figures prove that Kazakhstan is the most attractive place to attract FDI in the Central Asian region for foreign investors, and that the government of the republic is implementing an effective policy aimed at opening the national economy to the outside world. This fact is confirmed by the positive dynamics of values of the Regulatory FDI Restrictions Index (hereinafter – FDI Index), calculated by OECD since 2003 (World Investment Report 2021). The index measures the restrictiveness of host country regulations with respect to FDI, taking into account

four main types of restrictions:

- restrictions on foreign capital;
- discriminatory screening or approval mechanisms;
- restrictions on key foreign personnel;
- operational constraints.

The FDI index was formulated by the Investment Division and the OECD Department of Economics and is used to identify trends in product market regulation policy priorities. The range of values of this index ranges from 0 to 1, with the closer the index value is to 1, the more restrictions the countries have on the activities of foreign investors, and the closer the value is to 0, the more countries are open to FDI inflows. The analysis of this index is of especial importance for Kazakhstan, since the country has set a course to join the top 30 countries of the world by 2050, in accordance with the Message of the Leader of the Nation «The Third Modernization of Kazakhstan: Global Competitiveness. Data for our Republic is presented in Table 2 (reduction of values means positive dynamics – author's note).

For comparison, in OECD countries the average value of the indicator is 0.063 in 2020, which is almost 2 times lower than in Kazakhstan. However, not all

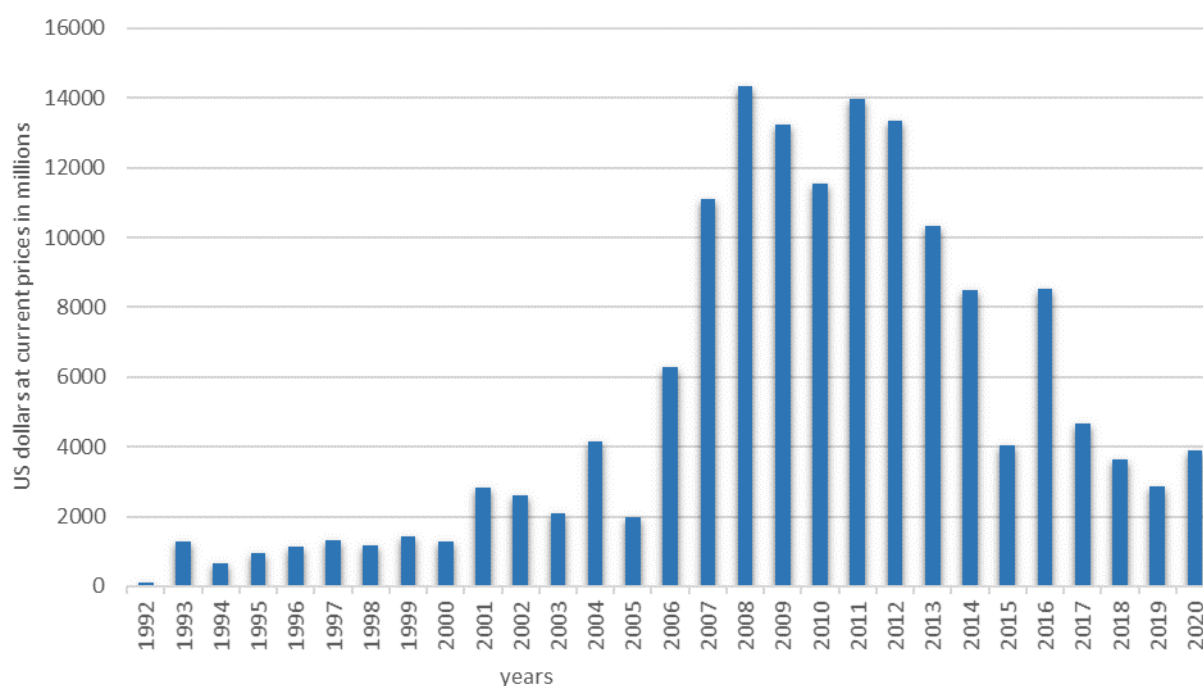


Figure 2 – Dynamics of FDI inflows to Kazakhstan since the beginning of independence, million US dollars (UNCTAD 2021)

OECD member countries are widely open to foreign investors, many of them including developed countries, have values above the average, for example, Canada has the index value – 0.162. The following countries have some of the lowest values of FDI index: Luxembourg

– 0.004, Portugal – 0.007, Romania – 0.009; Germany – 0.023, France – 0.045. In Russia the index shows a value of 0.262, double that of Kazakhstan. Among the post-Soviet countries, Armenia has the lowest index – 0.019. (World Investment Report 2021)

Table 2 – Kazakhstan's FDI Index for the period 2010-2020

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.149	0.149	0.146	0.139	0.139	0.140	0.113	0.113	0.113	0.113	0.113

A comparative analysis of Kazakhstan's FDI Index values with other countries shows the effectiveness of government policies to deal and work with foreign investors, and in this regard our country has significant advantages, in relation to neighboring countries in the Central Asian (CA) region. It is important to know that the FDI Index is used to assess the restrictiveness of FDI policies for OECD candidate countries. As we know, becoming an OECD member country is an important and strategic goal for Kazakhstan in the future.

Kazakhstan has an absolute advantage in attracting FDI in Central Asia, as evidenced by the UNCTAD statistics database at the end of October 2021: in the period from 1992 to 2020 Kazakhstan attracted FDI totaling \$ 153.23 billion, which is 69% of the total amount of FDI in Central Asia. The

curves in the chart (Figure 3) clearly demonstrate this fact. From the beginning of independence until 2008, the rate of FDI inflows to the CA region is almost identical to that of Kazakhstan.

Based on the data on FDI inflows (in current prices, million US dollars) to the Central Asian countries as a whole and the data on FDI inflow to Kazakhstan for the period from 1992 to 2020, inclusive, the «Share of FDI inflows to Kazakhstan in total FDI in CA countries» was calculated for the specified period. The visualization of this indicator can be seen in Figure 3, which clearly shows Kazakhstan's leadership in attracting FDI among other CA countries.

President of the country K.K. Tokayev continues the active policy on stimulation of FDI in the country,

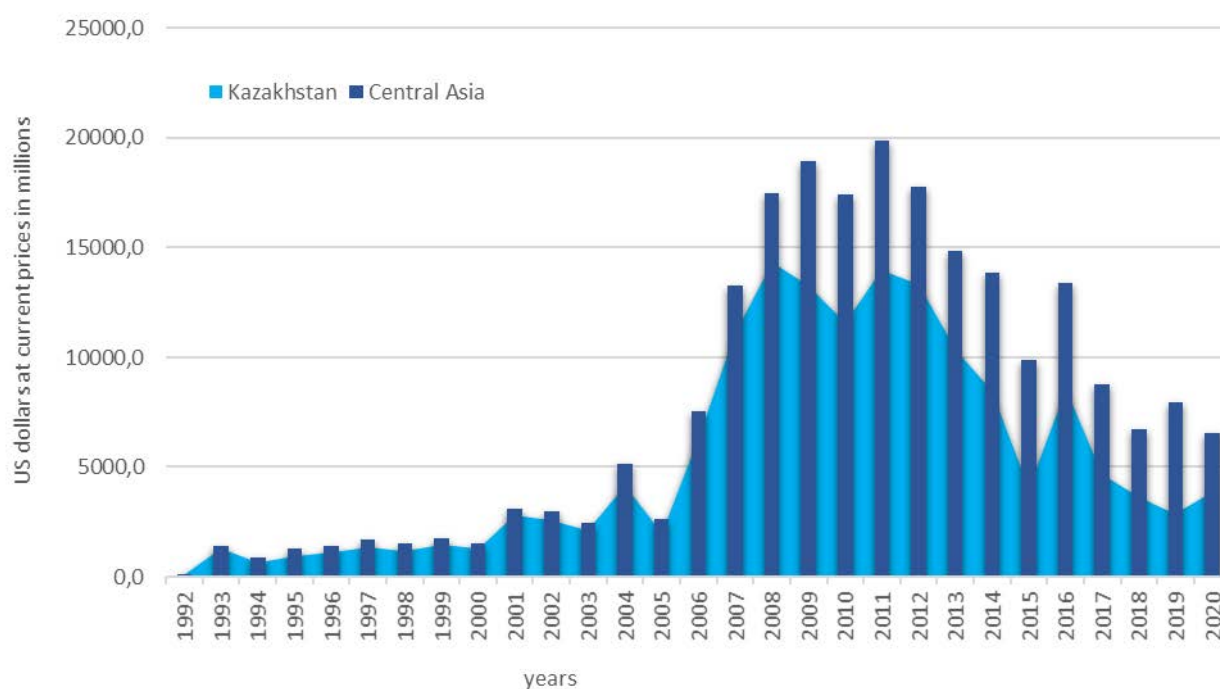


Figure 3 – Comparative dynamics of FDI inflows to Kazakhstan and Central Asia for the period 1992-2020, million US dollars (World Investment Report 2021)

outlined by Elbasy. Today the policy on attraction of FDI to Kazakhstan has undergone significant changes and has become more targeted and aimed at stimulating the inflow of FDI on the basis of a new systematic approach outlined in the National Development Plan of Kazakhstan until 2025 and in the National Investment Strategy of Kazakhstan. This approach is aimed at «further creating favorable conditions for attracting and retaining investment by increasing the level of protection of investors' rights, improving infrastructure, as well as increasing the transparency of the regulation of investment activities (National Plan 2018).

The main document in the field of FDI regulation in the republic is the state program «National Investment Strategy» (NIS GP), adopted in 2015 and later complemented by the support of such programs as «Business Road Map – 2020», National Export Strategy, Digital Kazakhstan, etc. The main operators are the Ministry of Foreign Affairs of the Republic of Kazakhstan, KazInvest NC JSC, Kazakhstan Industry and Export Center JSC (KIEC JSC), QazTech Ventures JSC.

The purpose of the National Investment Strategy of the Republic of Kazakhstan is to create a favorable investment climate and attract investment, focused on improving efficiency (NIS GP 2015). To achieve these goal three main directions were identified:

1. Improvement of the investment climate of Kazakhstan.

2. Realization of effective operational measures and development of new approaches to attraction of investments.

3. Compliance of the privatization plan and public-private partnership mechanisms with the priorities of foreign investment attraction.

Within these directions the following tasks were identified (NIS GP 2015):

- creation of favorable conditions for attracting investments;
- increase the level of protection of investors' rights;
- improvement of trade logistics and development of production and marketing relations between foreign investors and local companies
- improvement of institutional mechanisms to attract, accompany and support investors;
- forming proactive approaches to attracting and retaining investment;
- ensuring the participation of foreign investors in the privatization process;
- attracting investment in public-private partnership (PPP) projects.

All of the above tasks to date are actively implemented and have high performance, as evidenced by the data of the National Statistics Bureau of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan (NSB ASPR RK 2021), which indicated in a Table 3.

Table 3 – Results of the implementation of the «National Investment Strategy» GP by 2021

Indicator	2015	2016	2017	2018	2019	2020
The volume of external investments in fixed assets of the non-resource sector of the economy, billion tenge	752	779	837	1 029	1 235	1 075
Growth, %	-	3,6	7,5	22,9	20,0	-13,0

The content analysis of the data in Table 3 shows that over the six years of implementation of GP NIS the volume of external investments in fixed capital raised by 43.0%. This is a very significant result for the national economy, indicating a gradual and consistent change in the focus of interest of foreign investors in the republic, proving the effectiveness of PPP projects and a positive trend towards diversification of the national economy. Of course, the indicator showed a decrease in 2020, which is quite explainable by the negative consequences of the pandemic crisis.

The results of the NIS GP and the clear-cut work of its main operators – KazInvest NC JSC, KCIE JSC

– are confirmed by the reduction in the FDI Index for Kazakhstan (OECD, 2021), as well as an increase in the country's position in the «Doing Business» rating. Kazakhstan, according to the results of «Doing Business-2020» report, ranked 25th in the world (WB 2021), improving its position in the ranking by 3 points, compared to 2019 (Table 4).

Out of 10 indicators taken into account by the World Bank experts, the best positions of our country are in contract enforcement (4th place in the world); the lowest values – in international trade (105th place in the world). The results of last year's ranking put Kazakhstan in first place among the EAEU member countries (NPP Atameken 2021).

Table 4 – Structure of the index of Doing Business in Kazakhstan in 2020 (WB 2021)

Indicators	DB 2013	DB 2020
Starting a Business	30	22
Dealing with Construction Permits	145	37
Getting Electricity	87	67
Registering Property	18	24
Getting Credit	86	25
Protecting Minority Investors	22	7
Paying Taxes	18	64
Trading across Borders	186	105
Enforcing Contracts	27	4
Resolving Insolvency	54	32

Analysis of the indicators of the Doing Business index for doing business in the republic makes it possible to assess the effectiveness of government measures and the implementation of adopted programs. Compared to 2013, all but two indicators have a significant decrease, which improves the country's business climate for foreign companies.

The importance of the «Doing Business» ranking is increased by the fact that since 2012 it includes the «FDI per capita» indicator, which makes it also a tool for assessing the investment climate of the country. Therefore efforts to improve the indicators in this

rating, will contribute to the growth of not only economic, but also other beneficial effects of FDI in the country. Because in a broader sense, FDI includes a full list of intangible assets: production technologies and know-how, other objects of intellectual property, managerial, marketing experience and skills, knowledge of world markets and opportunities of access to them and some others (Rakhmatullayeva 2015). This is supported by a large number of foreign empirical studies on the role of FDI in host countries, proving that it is an important source of capital, complements domestic private investment and tends to be related.

Information on foreign investors investing FDI in various economic activities in Kazakhstan is presented in Figure 4. The Netherlands (46% of total

FDI inflows), the United States (29%) and France (10%) are by far the largest direct investors (National Bank 2021).

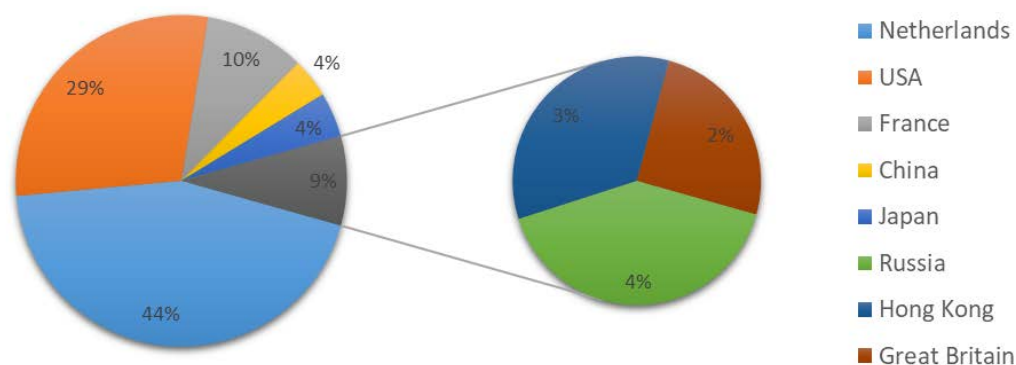


Figure 4 – Share of FDI by large investors, % (NB)

In fact, the geography of countries for FDI in Kazakhstan is very broad and includes 89 countries from

different continents of the planet. Table 4 presents 20 countries with FDI in excess of \$500 million (Table 5).

Table 5 – Geography of countries of FDI in Kazakhstan, million US dollars (NB 2021)

No	Name of countries	FDI inflows	No	Name of countries	FDI inflows
	Netherlands	60 076,0	11.	Luxembourg	1 316,2
	USA	39 492,8	12.	UAE	1 196,4
	France	13 394,1	13.	South Korea	1 176,6
	China	5 248,8	14.	Turkey	1 060,5
	Japan	5 908,5	15.	Germany	1 000,2
	Russia	4 826,6	16.	Canada	942,8
	Hong Kong	4 052,0	17.	Cyprus	938,7
	Great Britain	2 987,7	18.	Singapore	669,5
	Virgin Islands (British)	2 555,4	19.	Belgium	615,3
	Switzerland	2 255,8	20.	Bermuda (British)	548,6

As Table 5 indicates, the top 20 investors include developed countries in Europe, North America, and Asia. FDI in these countries differs by type of economic activity. It is well known that

the prevailing part of FDI is directed to the oil industry of the country, nevertheless, there are FDI inflows in other spheres of the national economy (Table 6).

Table 6 – Dynamics of growth in net FDI inflows by type of economic activity, %

Type of economic activity	2016	2017	2018	2019	2020	Change by 2019,%
Mining and quarrying	2 147,1	4 418,5	4 889,3	2 088,2	2 330,4	+11,6%
Manufacturing industry	163,5	342,5	-132,0	864,5	487,7	-43,6%
Electricity, gas, steam and air conditioning	1,6	-248,8	390,3	-40,1	78,3	+295,3%
Water supply; sewerage system, control over the collection and distribution of waste	4,6	-4,6	9,0	10,7	36,2	+238,3

Continuation of table 6

Construction	1 044,8	-138,5	234,9	462,7	386,1	-16,6%
Wholesale and retail trade; car and motorcycle repair	322,8	366,0	381,1	677,1	289,5	-57,2%
Information and communication	132,0	93,9	-423,8	-131,3	136,3	+203,8%
Financial and insurance activities	52,0	429,8	-375,9	405,7	848,7	+109,2
Real estate transactions	175,9	126,4	-120,6	8,7	-193,8	-2327,6%
Professional, scientific and technical activities	4 689,0	-22,2	266,4	375,5	-42,3	-111,3%
Administrative and support services activities	140,8	169,2	-18,9	10,3	-28,2	-373,8%
Education, health and social services, arts, entertainment and recreation	16,7	-9,0	-7,8	3,7	11,1	+200,0%
Note – the «-» sign means an outflow of investments.						

As Table 6 indicates, the volume of FDI inflows in different years varies greatly by economic activity, according to the National Bank of Kazakhstan. There are both positive and negative trends by years in different spheres, which is due to both internal and external reasons. In the years of devaluation of the national currency, the indicator of net FDI inflows in many areas of economic activity decreased compared to the previous period, and the values of the indicator in recent years were strongly affected by external shocks.

The growth of FDI in mining, transport, financial services, telecommunications and energy in 2020 has compensated for the decline in FDI inflows in construction, metallurgy and trade, which have been particularly affected by the effects of the pandemic. Most of the FDI in the country's major oil and gas sector was related to the Tengiz mega-project with Chevron (USA), which is expected to be completed by 2022. The QazTechna bus plant project was also put into operation, and the construction of the DoubleStar rubber and tire plant with Chinese capital began in 2020. In the field of telecommunications, a new international project with Russia was launched. According to macroeconomic theory, investment is the most sensitive component of aggregate demand, highly dependent on investors' optimism, the country's domestic policy, the country's vulnerability to external shocks and other reasons that increase investment risks for foreign investors.

According to the BCG, for Kazakhstan to date, the issue of foreign investor retention in the country is strategically important and so far remains a «weak» link in the overall chain of measures to deal with FDI (BCG Report 2019). Therefore, for Kazakhstan today the task is not to attract FDI, but to retain the capital of direct investors in the domestic market is more relevant, given the significant volume of repatriation of profits of foreign companies from the country. World practice proves that the multidimensional impact of FDI on the economic development of the host coun-

try depends largely on the original conditions prevailing in the national economy, on the policy of foreign investors themselves and directly on the policy with regard to FDI in the host country. At the same time it is important to note that foreign companies, to a large extent, themselves predetermine the direction of FDI behavior and its impact on the host country's economic development. Thus, this influence largely depends on the strategy of the company itself, the nature and form of its interaction with the state and domestic business. Reflection of current situation with repatriation of large volumes of profit from invested FDI is one of the important tasks of current investment policy with foreign investors in Kazakhstan, which should also contribute to the task of diversification of the national economy. In this regard, it is important to analyze the conclusions of existing theories and models of FDI and «learn lessons» from the experience of those countries that have managed to achieve a high level of economic development and increase the competitiveness of the national economy with the help of foreign capital.

Thus, for effective investment policy in the field of FDI it is necessary to constantly improve the process of state regulation of the economy, including effective measures of the state to improve the investment climate of all regions of Kazakhstan, not only raw material ones. State investment policy should provide not only attraction of FDI, but also its targeted use on strategically important innovative directions of development. All this is successfully realized in the republic today, however Kazakhstan did not avoid the negative influence of the coronation crisis, which engulfed the whole world.

Over the past two years, the global economy has been ravaged by the COVID-19 pandemic, which has caused FDI flows to decline sharply by 35% in 2020, compared to 2019. According to UNCTAD experts, this is almost 20% below the 2009 low after the global financial crisis, and the drop in FDI was much sharper than the drop in GDP and trade. It should be

noted that the pandemic crisis had a stronger impact on FDI in developed countries than in developing countries, where FDI declined by 8 percent versus 58 percent (see Figure 6). Meanwhile, the relative stability of developing countries' FDI flows was mostly

due to Asian investment (FDI inflows to China and Hong Kong actually increased by 6%), thanks to sustained economic growth, efforts to promote investment, and the ongoing liberalization of investment in these countries (World Investment Report 2021).

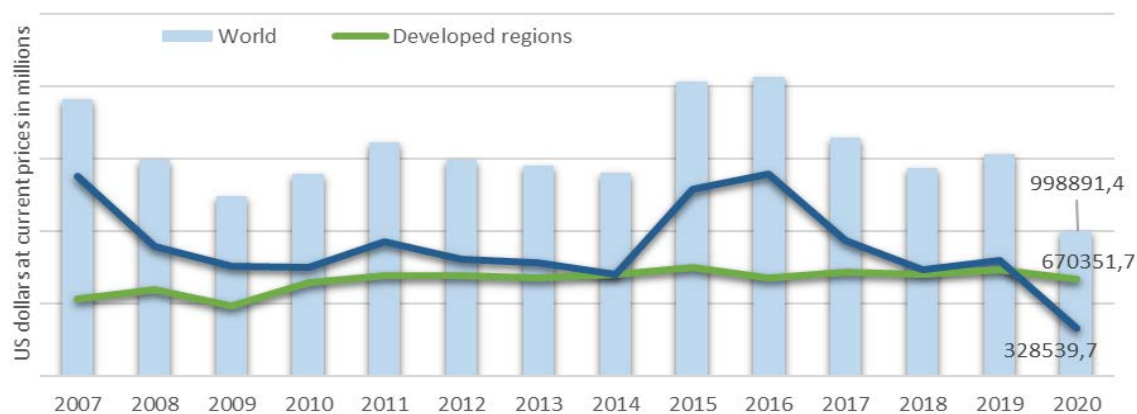


Figure 6 – Global FDI inflows by regions of the world, before and after the pandemic, million US dollars (UNCTADStat 2021)

The impact of the pandemic on global FDI was concentrated in the first half of 2020, and while certain types of FDI recovered to a large extent in the second half of the year, nevertheless investment in new projects, which are more important for developing countries, has continued its negative trend since early 2020 until now. In the transi-

tion region, including the CIS, pre-existing problems and economic sensitivities, such as heavy reliance on investment in natural resources (among some large CIS countries), have worsened. Inflows more than halved in the CIS, to their lowest level since 2003, and this drop was significantly greater than the global average (Figure 7).

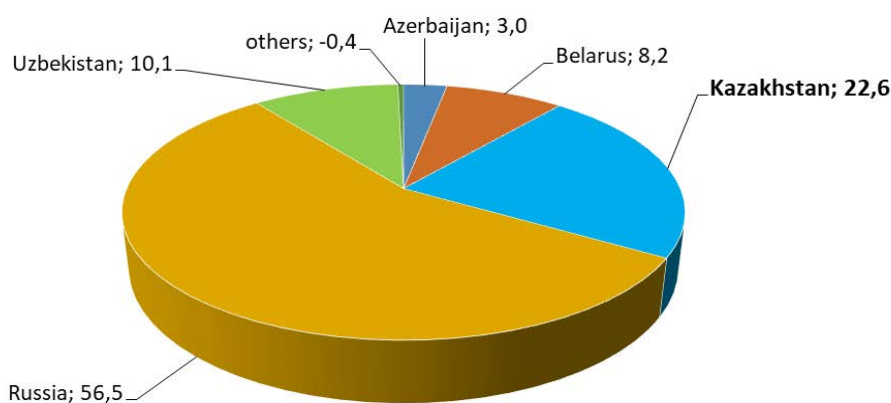


Figure 7 – The country's share of FDI inflows in the total volume of FDI in the CIS region (UNCTADStat 2021)

Although these negative trends have been observed overall, only three countries in the region registered higher FDI inflows in 2020 compared to 2019 – Kazakhstan, Belarus, and Montenegro (World Investment Report 2021).

Conclusion

According to UNCTAD experts, despite the overall decrease in FDI inflows to the CIS region, the Republic of Kazakhstan was an «exception» – FDI

inflows to the country increased by 35%. This was because Kazakhstan launched two new projects in 2020:

- A rubber and plastic products plant with an investment of \$192 million (with the PRC),
- airport terminal project with an investment volume of 244 million U.S. dollars (Netherlands-Russia).

In addition, the republic has adopted a package of measures to combat the effects of the pandemic, which includes preferential loans, support for agriculture, tax incentives, and low-interest loans and targeted financing. The point is that from the beginning of 2021 the state reimbursement of up to 20% of expenses on construction and assembly works of investment projects as well as on purchase of equipment within the framework of such projects has been introduced in Kazakhstan. Because of the introduction of these measures, procedures for public procurement at the conclusion of investment agreements have been greatly simplified. In addition, the Government of Kazakhstan offers special investment contracts for companies investing in the country's healthcare industry complex. Such companies are offered tax preferences, exemption from customs duties, state subsidies (covering up to 30% of all costs) and investment subsidies.

Thus, the situation in our republic is more optimistic relative to other CA and CIS countries (except Russia). However, despite this, it is necessary to take into account the global forecasts in the field of FDI offered by UNCTAD experts, who believe that, despite the countries' efforts to restore their economies,

a return to the pre-pandemic levels of FDI inflows in the coming years is unlikely for the following reasons (World Investment Report 2021):

- Slow economic growth rates affecting FDI inflows;
- The limitations of the pandemic, which hinder rapid diversification of the economy;
- Economic sanctions and geopolitical instability in some parts of the region.

Analysis of the experience of past recessions in FDI flows (e.g. after the 2008 global financial crisis) shows that a real recovery of investment may take a long time. Policy responses that shape the future investment landscape will be important factors. Global FDI flows are expected to increase partially by 10-15% in 2021, but this is still below the pre-pandemic period, and the outlook is bleak – a full recovery of FDI is not guaranteed, as it tends to lag other macroeconomic indicators.

To conclude, let us cite the assessments of international organizations on Kazakhstan's FDI achievements, for example, the OECD noted, «Kazakhstan's good performance in attracting FDI in a region with a higher level of accumulated investment in gross domestic product than most neighboring countries.» The U.S. Department of State in its review of the investment climate around the world notes that «Kazakhstan has made significant progress in building a market economy and has achieved significant results in its efforts to attract foreign investment» (Dodonov 2021). On this basis, the success of the National Investment Strategy implemented in the country and the results of thirty years of efforts to attract foreign capital can be called a success story of Kazakhstan.

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