

Czech University of Life Sciences Prague
Faculty of Economics and Management
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Diploma Thesis
Foreign direct investment. Case study –
Kazakhstan.

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Foreign direct investment. Case study – Kazakhstan

Objectives of thesis

In this Master thesis, the author is interested in studying the effect of Foreign Direct Investments on Economic growth of Kazakhstan. As one of the main sectors for foreign investors according to Pomfret (2005), is an oil and gas sector, the author wants to analyze how exactly the change in oil prices have been influencing the economic growth of Kazakhstan. Finally, the author wants to compare these two factors and analyze them both. How change of oil prices and Foreign Direct Investment inflows influence the economic growth of Kazakhstan.

Methodology

In this thesis, the author used the inductive research with reviews of theoretical and empirical literature and clearly explains the role of FDI and its effect of GDP. This research is based on statistical methods and econometric tools such as regression analysis, Ordinary least square (OLS) and all the necessary functions that run in excel and Gretl. For the author to be precise in statistical data, for the main factors were taken 4 variables such as: Oil Prices, FDI inflows, Exchange rate and Inflation rate. Quantitative research method was done, using secondary data which covered a time-series of 2000 to 2017. Empirical analysis was based on Multiple Linear Regression analysis that allowed us to conclude the impact of FDI on the economic growth of Kazakhstan. The variables that the author used are real GDP as a measure of economic growth, gross inflows of FDI and inflation rate, oil prices and exchange rate. However, the author claims that the given data was the most up to date, since the OECD, UNCTAD, KaznexInvest institutions didn't provide the further data for years 2018 and 2019. The author describes the methodology further on with the provided data.

The proposed extent of the thesis

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Keywords

Foreign direct investments, oil and gas sector, economy, GDP.

Recommended information sources

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- Neuhaus, M. (2006): The impact of FDI on economic growth: An analysis for the transition countries of central and Eastern Europe. Springer Science & Business Media.

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Declaration

I declare that I have been using only the resources mentioned above to bring a topic of “Foreign direct investment, case study - Kazakhstan.” As being an author of the diploma thesis, I declare the thesis doesn’t break any copyrights and doesn’t correspond to any plagiarism.

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I would like to say the heartiest thanks to Ing. Pavel Kotyza who tough me the basic aspects of world economy. Also, with his given explanations during lectures and seminars convinced me to write about my topic. I would also thank his supervisor doc. Ing. Irena Benešová for an additional information that was spoken in detail.

Foreign direct investment. Case study – Kazakhstan.

Abstract

The purpose of its research is to analyze Foreign Direct Investments. What and how the effect country's economy? The mission is to define the importance of FDI. This thesis will show a case study of Kazakhstan with FDI's that already operate in the country. Nevertheless, all foreign investments are very crucial for any country since it provides with an opportunity to decline an unemployment rate and increase GDP of economy. Additionally, in that topic the author investigated a relationship between FDI and economic growth and how they correlate with each other either positively or negatively. The author has dedicated to research the Foreign direct investment "case study of Kazakhstan" the author shows how a diversify economy can be supported by foreign direct investments. Also, this thesis will include all the definitions of indirect investments and what kind of aspects are involved in that sector. Moreover, the author describes what industries deserve more attention for FDI and how successful these sectors can become. What exactly could be done to improve human capital inside the country and what should be done to prevent recessions, downturns, and another economic disease in a long run.

The author will be using my own knowledge and skills gained during of 3 years of studying at CZU university, at Economics & Management department. The reason of that topic is to show possible opportunities of Kazakh Republic. Since the author was born in Kazakhstan, The author can affirm with the full confidence that having lived In Kazakhstan has helped me with a writing the topic.

Key words: Foreign Direct Investments, economy, oil prices, inflows, GDP

Přímé zahraniční investice. Případová studie Kazachstánu.

Souhrn

Účelem jeho výzkumu je analyzovat přímé zahraniční investice. Jaký a jaký je dopad ekonomiky země? Posláním je definovat význam PZI. Tato práce ukáže případovou studii Kazachstánu s PZI, které již v zemi působí. Všechny zahraniční investice jsou nicméně pro každou zemi velmi zásadní, protože poskytují příležitost snížit míru nezaměstnanosti a zvýšit HDP ekonomiky. V tomto tématu autor dále zkoumal vztah mezi přímými zahraničními investicemi a ekonomickým růstem a to, jak navzájem pozitivně nebo negativně korelují. Autor se věnoval výzkumu „případové studie Kazachstánu“ o přímých zahraničních investicích, autor ukazuje, jak lze diverzifikovanou ekonomiku podpořit přímými zahraničními investicemi. Tato práce bude také zahrnovat všechny definice nepřímých investic a to, jaké aspekty jsou v tomto sektoru zahrnuty. Autor dále popisuje, jaká odvětví si zaslouží větší pozornost PZI a jak úspěšná mohou být tato odvětví. Co přesně lze udělat pro zlepšení lidského kapitálu v zemi a co je třeba udělat, aby se zabránilo recesi, útlumu a další ekonomické nemoci v dlouhodobém horizontu.

Autor využije své vlastní znalosti a dovednosti získané během 3 let studia na ČVUT, na katedře ekonomiky a managementu. Důvodem tohoto tématu je ukázat možné příležitosti Kazašské republiky. Vzhledem k tomu, že se autor narodil v Kazachstánu, může autor s plnou důvěrou potvrdit, že to, že jsem žil v Kazachstánu, mi pomohlo s napsáním tématu.

Klíčová slova: Přímé zahraniční investice, ekonomika, cena ropy, přílil, HDP.

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Acronyms

APEC Statistical Office of the European Communities

BITs Bilateral investment treaties

CIS Commonwealth of Independent States

CNPC China National Petroleum Corporation

CPC Caspian Pipeline Consortium

EUROSTAT European Statistical Office

FDI Foreign Direct Investment

FEZs Free Economic Zones

GDP Gross Domestic Product

HDI Human Development Index

IMF International Monetary Fund

KMG KazMunayGas

KPO Karachaganak Petroleum Operating

KZT Kazakh Tenge

M&As Mergers and Acquisitions

MNEs Multinational Enterprises

OECD Organization for Economic Cooperation and Development

OLS Ordinary Least Square

R&D Research and Development

RBC Responsible Business Conduct

RK Republic of Kazakhstan

SEZs Special Economic Zones

SOEs State-Owned Enterprises

SPEs Special Purpose Accounts

TCO Tengizchevroil

UNCTAD United Nations Conference on Trade and Development

UNDP United Nations Development Program

WTO World Trade Organization

1.Introduction

For the last two decades, the Republic of Kazakhstan had demonstrated enormous economic indicators, literally in every direction of economy. This actively demonstrates that Kazakhstan has become a very interesting object for researchers in various areas of the economy. There are so many studies that consider Kazakhstan as an example of being completed. But every year, circumstances change, and all the economic factors become to be unpredicted. The traditional advantage of Kazakhstan in global economy are the natural and mineral resources. Kazakhstan has a great potential in natural resources, having a whole periodic table withing its territory. Kazakhstan is one of the largest exporters of energy products. This Master thesis is dedicated to oil and gas sector of Kazakhstan, since it is one of the main sectors in the country. A significant part of this sector also plays foreign direct investments, big companies that produce and export the fuel and energy abroad. As an example, the author will take a Chevron company (USA) that operates in Kazakhstan since 1993. The oil is one of the most important raw materials in the modern economy. Petroleum products are widely recognized and used in various industries. Due to high global dependence on oil products, the relationship between oil prices and different economic indicators have received much attention from economists over decades. Nowadays, there are a lot of literature dealing with issues but still not fully examined the effect of oil prices. Hamilton's (1983) study has particular importance for analysis of oil prices. He stressed out that there is a strong relationship between sharp rise in the oil prices and it follows economic downturns of US economy. His research caused enormous interest from economists. A large number of literature and papers had considered the relationship between oil prices and economic growth for a number of countries based on different theoretical linkages, such as Romer's (1990) empirical research on technological changes over the years. The effect of oil price fluctuations could have an impact in many different ways, in oil-importing and oil-exporting countries. An increase in oil prices usually leads to positive consequences for the oil-exporting country and vice versa.

In this Master thesis we are first of all interested in studying the effect of oil prices on economic growth of Kazakhstan. Two of the main variables the author is interested in are Oil

price(OP) and Inflows of Foreign Direct Investments(FDI's inflows). As an example, an author took an oil sector as a primary sector that potentially interests investors. Attraction and effective use of foreign direct investors is essential, especially for the developing countries. FDI affects economy by creating employment, technology development, stimulating domestic investments and etc. Today there are so many studies and empirical literature that investigate effect of FDI on economic growth. Many studies and researches claim that there is a positive impact of FDI on economic growth of the host country. Many authors such as Blomström, M (1994) , Neunhaus (2006), Ewing and Yang (2009) have concluded that FDI have concluded the positive impact, depending on economic conditions of host countries.

Nevertheless, there are studies that have concluded exactly opposite. For instance, Carkovic and Levine (2002) argue that FDI does not increase a robust influence on economic growth. Lee, Baimukhamedova and Akhmetova (2009) pointed out that FDI has a minimum or statistically insignificant impact on GDP growth in Kazakhstan.

The master thesis is organized in the following way. The first part is devoted to explanation and description of Foreign Direct Investments and its concepts such: Types of investments, policy investments, recent global trends of FDI, advantages and disadvantages of FDI. The second part describes the economy of Kazakhstan, considers the main stages of the oil and gas sector, how many shares of oil&gas sector belong to investors in (%) equivalent. As an exemplary case, the author showed investor's "Chevron" financial performance on the territory of Kazakhstan and highlighted its activities. The third chapter presents an empirical research with a secondary data, where the author analyzes oil prices and foreign direct investment inflow's effects on economy of Kazakhstan. The chapter also provides overviews of methodologies, data and presents our results. The fourth chapter is dedicated to conclusion, the author summarizes major facts of the study.

2. Main goals and objective of the project

In this Master thesis, the author is interested in studying the effect of Foreign Direct Investments on Economic growth of Kazakhstan. As one of the main sectors for foreign investors according to Pomfret (2005), is an oil and gas sector, the author wants to analyze how exactly the change in oil prices have been influencing the economic growth of Kazakhstan. Finally, the author wants to compare these two factors and analyze them both. How change of oil prices and Foreign Direct Investment inflows influence the economic growth of Kazakhstan.

2.1 Hypothesis

- 1) Oil price increases have a clear and positive effect on the oil exporter's GDP growth.
- 2) Attracting foreign direct investment has a positive effect for GDP growth.

Methodology summary

In this thesis, the author used the inductive research with reviews of theoretical and empirical literature and clearly explains the role of FDI and its effect of GDP. This research is based on statistical methods and econometric tools such as regression analysis, Ordinary least square (OLS) and all the necessary functions that run in excel and Gretl. For the author to be precise in statistical data, for the main factors were taken 4 variables such as : Oil Prices, FDI inflows, Exchange rate and Inflation rate. Quantitative research method was done, using secondary data which covered a time-series of 2000 to 2017. Empirical analysis was based on Multiple Linear Regression analysis that allowed us to conclude the impact of FDI on the economic growth of Kazakhstan. The variables that the author used are real GDP as a measure of economic growth, gross inflows of FDI and inflation rate, oil prices and exchange rate. However, the author claims that the given data was the most up to date, since the OECD, UNCTAD, KaznexInvest, BP Statistical Review of World Energy 2017, Kazakhstan Statistic Agency institutions didn't not provide the further data for years 2018 and 2019. The author describes the methodology further on with the provided data. The author focuses mostly on econometric model. All equations and its parameters are denoted in econometric model.

3. Literature Review

In that chapter, the author shortly discusses and presents ideas and opinions of what Foreign Direct Investment possess and involve. The author selected a few study-guides and extracted the most relevant information that could help us to find-out different types of correlations between FDI and economy growth, how technology, capital, and labor force function together. The author also describe what kind of investments could be realized through bounds and stocks. What are the horizontal and vertical FDI and extra?

Table 1: Summary of selected study-guides on FDI

Study guide	Sample	Interpretation	Results
Johnson(2006)	Overview of 90 countries, from 1980 to 2002	It implies the importance of absorption capacity in assessing the positive impacts of FDI	FDI has a positive impact on growth in developed, but not in developing.
Neunhaus (2006)	Overview of 13 countries from 1991 to 2002	FDI had a significant 11 positive impact on the rate of economic growth in Central and Eastern Europe Countries	FDI has a positive impact on growth.
Ewing and Yang (2009)	Overview of 48 states in USA, from 1977 to 2001	States with a higher stock of human capital grow faster and might benefit from FDI to a higher extent	FDI has a positive impact on growth but vary across states.
Blomström, M (1994)	Overview of 28 countries, for 1970-2003 period	FDI triggers growth whereas the low-income countries cannot enjoy the growth effect of FDI	FDI has a positive impact only in 4 out of 28.

Romer (1990)	Empirical research of technological change	Growth in this model is driven by technological change that arises from intentional investment	Invention of “new” capital goods triggers productivity and economic growth
Aghion and Howitt (1992)	Based on Romer(1986) research.	Importance of research and development activities for sustained long-run growth rates	So called “creative destruction” leads up to economic growth.

Source: Own processing, Based on bibliography.

3.1 Concept of FDI

The use of foreign investment is an objective necessity, due to the participation of the country’s economy in the international division of labor and overflow of capital in highly profitable business. Foreign investment makes it possible to obtain a higher quality investment (i.e. higher return of investment compared to the national investment market of the investor (due to the higher price of assets in foreign investment markets, a higher growth rate of the currency in the country where the investment is made in relation to the currency of the investor, less risk compared to purely national investments) however, investment abroad is associated with a certain risk of a fall in the value of assets in various national markets and the exchange rate of investments, currency risk is a feature of the portfolio of foreign investments. (Romanov, 1995).

In addition, when analyzing the profitability of a portfolio of foreign investments, it is difficult to separate the component of its quality, due to success, from the component, due to its skillful management. It should be noted that investments abroad are usually associated with additional transaction costs, including a higher commission for intermediaries in foreign investment market, a fee for processing investment transactions and a fee for managers of foreign investments (De Gregorio. J, 2003). But despite these difficulties, complications and risks associated with investments abroad, their volume is very high and constantly growing.

The question is thought, what is the reason to invest in another country?

Ricardo (1817) claims that the main benefit for the host country is to have at its disposal additional resources, including capital, technology, managerial experience, and skilled labor. FDI stimulates the development of the national economy, increases product and income production, and accelerates economic growth and development. For donor countries, the main benefit of FDI is the ability to maximize profits, including by reducing taxation and risk diversification compared with similar domestic investments. Deardorff (1980) stated that foreign direct investments can be used in two different ways in any host country: Establish a very new enterprise or buy or merge with existing companies.

Romanov (1995) claims that foreign investors may have multiple motives for seeking to obtain profit in another country. But in principle, they have two main choices when deciding how to allocate their capital. They can make portfolio investments, for example, by buying stocks or bonds, often with the intention of obtaining short-term speculative financial gain, without becoming an active participant in the day-to-day running of the business. they can invest in. They can also take a long-term, direct approach, investing in businesses in another country to acquire control or significantly influence the management of the firm (which usually means a minimum of 10 percent). At its most extreme, investors can build new properties from scratch while maintaining complete control over operations (Romanov,1995). This commitment to long-term engagement is a critical component of private equity. A portfolio investor can sell stocks or bonds quickly to either consolidate gains or avoid losses. Most corporations entering foreign markets through direct investment are expected to have significant influence or control over the management of the enterprise for a long time.

However, several factors influence a company's decision to undertake direct investment, including an analysis of the costs of trading with a foreign country. If these costs, including tariffs, import taxes, trade barriers such as quotas, and transportation costs, are higher than the costs of establishing a presence in a foreign country, including the cost of manufacturing overseas (OECD, 2001) the business will maximize its profit through direct Investment. Companies can invest with the intention of producing components that become

part of a larger product. An automobile manufacturer may invest in a plant to make transmissions that are sent to a final assembly plant in another country. These so-called vertical direct investment accounts for a significant proportion of advanced economies' investment in developing countries. The cost benefits of investing in a foreign country (and, in many cases, only doing part of the manufacturing process in that country) are the driving force behind such investments. Abundant or unique natural resources or low labor costs influence the decision to relocate production overseas and import intermediate or final products of subsidiaries in host countries into the country of the parent company or another words, intra-firm data (Ricardo, 1817).

The company can also invest in a foreign country, duplicating the production processes of the country of origin. This can be done for the supply of goods or services to the foreign market. This approach is called horizontal direct investment (EUROSTAT,2017). In countries that apply tariffs or other barriers to imports, the establishment of local businesses may allow a foreign firm to bypass these barriers. Even though trade tax cuts over the years, this way of avoiding tariffs is still a common way to enter markets where access to the local market provides the greatest benefit from direct investment. Access to a market for skilled workers and technology is another determinant of horizontal direct investment, between advanced economies. Unlike vertical direct investment, horizontal direct investment tends to compete directly with local firms for domestic market share (Aghion&Howitt,2009). Of course, the investment doesn't have to be pure horizontal or vertical. Foreign subsidiary the company can supply goods to the parent company and getting services from headquarters is a clear example of vertical direct investment. But the same subsidiary can also supply goods to the local market as part of the parent company's horizontal direct investment strategy. Direct investments have various forms and types. A company can enter a foreign market through so-called greenfield direct investments, in which a direct investor provides funds for the construction of a new plant, distribution center or store, for example, to establish a presence in the host country (Maneschi, 1998). But a company may also prefer direct investment in developed assets. Instead of establishing a new presence, the company invests in or takes control of an existing local company. Investing in mature assets means acquiring

existing assets, suppliers, and operations, and often the brand itself.

3.2 FDI in theory. Capital Deepening and technology and productivity effect

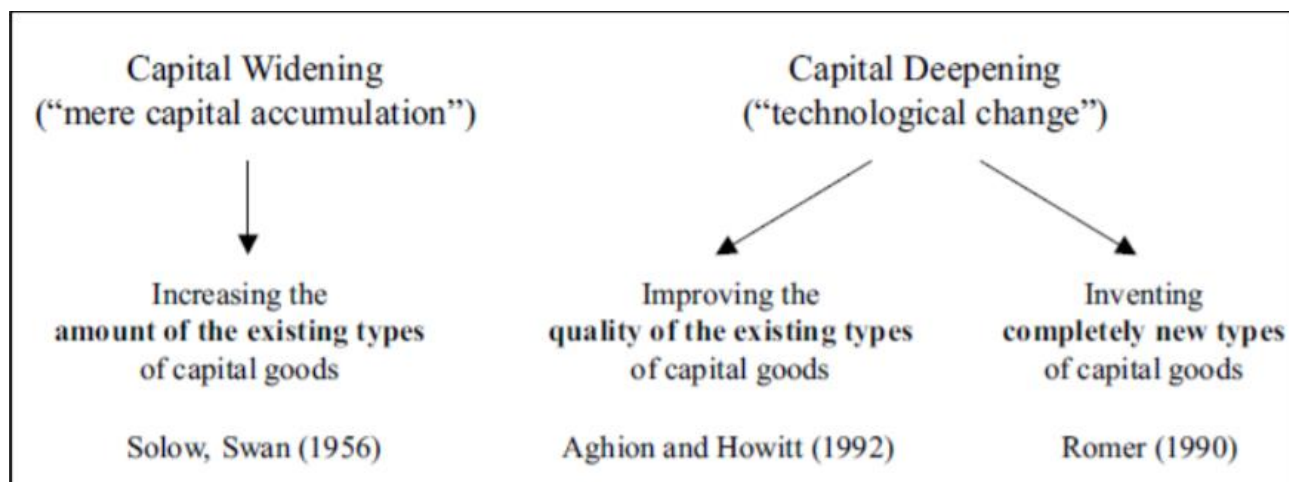
Capital Deepening, the definition of it is quite simple. Meaning that an increase in capital per working hour will eventually increase the productivity of labor force. So, it involves technology aspect as well as an increase of capital available. Since Foreign Direct Investment, physically moving their capital to the host country with all equipment, it is expected to anticipate an increase in in the stocks. According to the model of Neoclassical growth by (Solow, 1956). The economy is boosted significantly by three main factors labor, capital, and technology). It argues that, when economy is limited with labor and capital, the technology contribution is limitless both in short-run and long-run. Therefore, countries with capital-scarce , the capital deepening might eventually affect a huge gain for economic agents. Because of that, FDI plays an important role for host countries as growth-enhancing factor. Likewise, a brown-field investment, see (Johnson,2006) and (Ewing and Yang, 2009) may not achieve such a big success in a country with all the resources. My assumption is close to discussions of these two articles. FDI does not have any impact on a host country with a technology potential.

The author assumes that capital deepening statement triggers productivity of labor, the author also can say that in the long run the growth increases with FDI. The model of Frankel(1962) and Romer(1986) AK growth model assumes that during accumulation of capital, externality could help to gain returns from falling. According to the AK model, as country keeps on attracting FDIs, its capital stock increases as well as productivity level increases. It that case, externalities rea made of “learning-by-doing” argument of Arrow(1962) and spillovers effect. Out of it, the author can assume, it is a chain that enlarges with a short and long-run.

The Schumpeterian model by Aghion and Howitt(1992) stays that research and development (R&D) is very important and eventually (R&D) activities affect economic growth. The main difference between Romer(1990) and Schumpeterian model, lies in their assumption how capital goods increase economic growth. As it was mentioned above the

Romer model reflects that economic growth and productivity are triggered by creation of new capital goods. Nonetheless, the Schumpeterian model is focused on the improving the quality of existing types of capital goods, simply saying, by doing research and development activities, firms will get more knowledge in R&D sector therefore, eventually, will improve the quality of existing capital goods. That process is so called “creative destruction” mentioned above. See table 1. In that case, the economy can sustain long-run growth as it keeps innovating by carrying research and development activities. In an open economy, country will produce innovative technology together with FDI inflows, and a new improving approach would boost the productivity and economic growth.

Figure 1: Effect of capital in economic growth models



Source: Neuhaus, 2008

3.2.1 Impact of FDI's on GDP

Today, there are many detailed studies that have investigated the impact of FDI on economic growth of the host country, unfortunately such researches don't consider Kazakhstan as an example, and it is very hard to find.

Many studies on FDI have found a positive influence on economy growth of the country. For instance, Alfaro (2003), found that the inflows of FDI to growth depends on the sector of the economy. She finds a positive relationship between manufacturing sectors and economic growth, while FDI to the primary sector tends to have negative impact of FDI on economic growth. Alfaro (2003) provided evidence that the impact of FDI on growth depends on the local conditions of the host country. Better local conditions can attract FDI but also allow the host country to maximize the benefits of foreign investments.

Borensztein (1998) argue that FDI has a positive impact on economic growth as well, although he stresses out a human capital availability as one of the main factor. He stated that with a very low levels of human capital the direct influence of FDI to economy is negative. However, Blomstrom (1994) found no evidence that, education level is critical. It only shows an evidence when FDI has a positive effect when a host country is sufficient in a field of education.

Despite the fact that FDI contributes to economic growth, the growth also has an affect on FDI in the country. Studies of Chowdhury & Mavrotas (2003) investigated a casual relationship between economic growth and FDI. The study examined developing countries such as, (Malaysia, Chile and Thailand) from 1969 to 2000. The outcomes were, Malaysia and Chile had a bi-directional causality. They also found evidences of FDI contribution to growth, depends on such factors as degree of economic openness and human capital.

Hansen & Rand (2004) have investigated causal relationship between FDI and GDP of 31 developing countries, timing from 1970 – 2000. Their results proposed that a higher ration of FDI in gross capital formation has a positive impact on the level of GDP and hence on growth as well. Finally, they discovered a positive relation between FDI and GDP.

Many studies have proved a positive relationship between these two factors, however there are many studies that proved an absolutely opposite relation. For instance, Carkovic & Levine (2002) find that FDI inflows do not influence an economic growth. They claim that the lack of positive effect of FDI on growth do not depend on human capital, level of economic development or openness of economy.

According to De Gregorio (2003) FDI is beneficial for economic growth. He said that technologies and knowledge in a host country can be held together with FDI and lead to increase in productivity of the whole economy. A few authors have found interesting facts, for instance, Rappaport (2000) stresses out that FDI could also improve productivity of the firms that receive investments and at the same time improve the firms of the host country as a result of technological spillovers. Lall (2002) stated that FDI inflows affect many factors of economy and vice versa.

There are not so many studies done for Kazakhstan however, Lee, Baimukhamedova and Akhmetova (2009) studied a relationship between FDI, exchange rate and economic growth for 10 years, from 1997 to 2006. They concluded that FDI has a minimum or not statistically significant impact of GDP growth. They also argued that FDI in Kazakhstan have less chances of achieving economic growth and national competitiveness of the country.

Khoich and Madiyarova (2011) investigated the impact of FDI on economic growth of Kazakhstan from 1991 – 2009. Their conclusion was, 70 percent of all FDI inflows involved in primary sector and geological exploration. On the other hand, less than 10 percent falls on manufacturing sector. They noted that Kazakhstan is an attractive place for FDI but it highly depends on energy sectors, such dependencies can lead to negative effect of economy.

All literature reviews indicate debates about impact of FDI on economic growth, some of them indicate a positive relationship and some of them don't.

3.2.2 Impact of Oil Prices on GDP

Today, there are so many studies about central Asia and its economic development. Nevertheless, few studies have so far focused on the relationships between oil prices and economic growth of Kazakhstan. Most of the researchers agree that after the World War II, oil prices shocks are important economic events. Based on Hamilton's study (1983) that can be considered as a seminal research on oil shocks. His research still carries a particular importance for macroeconomic analysis of shocks to oil prices. Hamilton (1983) pointed a strong relation between sharp rise in oil prices and subsequent economic recessions of US economy. Other economists paid a respectful and recognized attention to his work. Mork (1989) confirmed Hamilton's results regarding a strong negative correlation between oil prices increases and economic growth. His focus was on asymmetric impacts and he found evidence that the effects of oil prices increases were different from those which were decreasing, but also that oil prices not statistically significant in USA. Mork's contribution proved to be very significant, after his work, many economists such as Hamilton (2003), Jimenez-Rodriguez and Sanchez (2004), Cologni & Manera (2006) found asymmetry between oil prices decreases by the GDP growth, and concluded that the decreases are statistically insignificant.

Jimenez-Rodriguez & Sanchez (2004) studied the effect of oil prices shocks on the real economic activity in the main industrialized OECD countries. They used Multinarrative VAR analysis. They found evidence of a non-linear impact of oil prices on real GDP. They stated that oil prices increases influence an impact on GDP growth of a larger extent than that of oil prices declines, with the latter being statistically insignificant in most cases.

Rautava (2002) states that in a long run 10 % of either decrease or increase in international oil prices, are usually associated with 2.2% growth / fall in the level of Russian GDP. Rautava's analysis were based on VAR methodology, timing from 1995 of 1st Q – 2001 of 3rd Q. The results identified a strong dependency of fiscal revenues on output and oil prices fluctuations

According to Tazhibaeva (2008), countries where oil sector is directly linked with the economy, oil prices changes affect the economic cycle only through their impact on fiscal

policy. If fiscal changes are removed, oil prices shocks do not have a significant independent effect on the economic cycle. The research was based on impact of oil prices shocks on the underlying non-oil economic cycle in oil-exporting countries, using panel VAR.

Korhonen & Ledyeva (2009) studied the impact of oil prices shocks on oil-producer and oil-consuming economies. They also used VAR models for different countries. Results were following oil producers (Russia and Canada) benefit from oil prices shocks, the direct effect of positive oil price shocks turned to be negative for Japan, USA, China, Finland, Germany, UK and Switzerland.

Now consider some studies that analyses effect of oil prices on the economy of Kazakhstan. Korhonen & Mehrotra (2009) investigated the effect of oil prices shocks on real exchange rate and output in four large energy-producing countries: Iran, Venezuela, Kazakhstan and Russia. They found that oil prices shocks have a positive and statistically significant effect on GDP, with the exception of Iran. They also argued that a positive shock to real oil prices leads to an appreciation of the real exchange rate only in Iran and Venezuela, in terms of Kazakhstan and Russia, their role is negligible. In their study Korhonen and Mehrotra used structural vector autoregressive model. After analysis of various international literature, which examined the effect of oil price shocks on the macroeconomic activity we consider some research that captured impact of oil price on the economy of Kazakhstan.

Nurmakhanova and Kretzschmar (2010) studied the relationship between real Kazakh GDP, real exchange rates and oil prices. They used Multivariate VAR analysis and Granger causality tests to capture oil price change effects. Their analysis covered the period from 2000Q1 to 2010Q1(time series data). Nurmakhanova and Kretzschmar proofed that both, linear and non-linear impact of oil prices shocks on real GDP and real exchange rate. Also, they pointed out that one of the key effects of oil prices on real economic activity relates to the real effective exchange rate.

3.3 Types of investments

According to Acemoglu (2009) there are many types of investment, there is a concise description of all. Also, Acemoglu (2009) claims that in a modern economy, sometimes it is

very hard to distinguish which one is which. Acemoglu (2009), divided all types of a few categories.

- Real investment is a contribution to a long-term project with the acquisition of new production of facilities abroad.
- Fixed foreign investment is a joint investment of the state and private investors carried out abroad.

Depending on the nature of use:

- Entrepreneurial investment is an investment in a business, aimed at making a profit in the form of dividends.
- Loan investments, it is associated with the provision of funds on a loan basis to obtain interest.

Depending on the object of investment:

- Foreign direct investment - investments of foreign investors with the subsequent right to control and participate in the management of the enterprise in the territory of another state.
- Portfolio investment - an investment of securities with the aim of generating income in the form of interest or dividends.
- Other investments - deposits in banks, trade loans, loans of the government of foreign countries, other loans, etc. Nevertheless, all the investments mentioned above help to stabilize an economy and potentially growth it.

Barro (2004) explains, that portfolio investments are investments whose purpose is to profit from interest or dividends, while the investor does not set as his task the management of an enterprise or project in which money is invested. Portfolio, as a rule, differ in volume from direct investments. It is most convenient to do them through the exchange. Portfolio investment instruments can be debt securities such as bonds, bills of exchange or equity for example, stocks. In addition, portfolio investments are usually designed for a shorter period than direct investments. Portfolio investments have greater liquidity. Moreover, in the event of unfavorable conditions, the investor has the opportunity to leave the market by selling

securities. Which usually happens, (Sala-i-Martin,2004). Massive withdrawal of investors from portfolio investments, (i.e., sale of securities on the market and reorientation to alternative investments, leads to stock market crises. There is no absolutely clear border between direct and portfolio investments. So, in some cases, investors specializing in direct investment, however, may not interfere in the management of the enterprise. Conversely, portfolio investments can turn into direct ones, for example, with a drop in market liquidity. In most cases, portfolio investments bring less income, because in the risk-return ratio they are at a lower level (Blomstrom,1994). The main portfolio investors are private individuals, banks, and other financial organizations, as well as funds.

3.4 Global effect of FDI.

In 2018, global foreign direct investment (FDI) continued to decline, falling 13% to \$ 1.3 trillion. This continued decline in FDI flows for three consecutive years is mainly attributable to the large-scale repatriation by multinational enterprises (MNEs) of the United States' accumulated overseas profits during the first two quarters of 2018, following tax reforms in that country at the end of 2017.

UNCTAD (2020a) concluded that, Investment inflows to developing countries remained stable, increasing by 2%. As a result of this increase and abnormal decline in FDI in developed countries, the share of developing countries in global FDI increased to a record 54%.

- FDI flows to Africa increased by 11% to \$ 46 billion, despite declining investment in many large recipient countries. This increase has been fueled by continued investment in natural resource development, a small amount of diversified investment, and a recovery in South Africa following several years of weak capital inflows.

- Investment inflows to developing Asia, the largest recipient region, increased by 4%. A sign of further intensification of growth is the doubling of the cost of new investment projects, there has been an increase here after the pause of 2017.

- UNCTAD (2020a) showed that, FDI in Latin America and the Caribbean declined by 6%, thus stalling the growth that began in 2017 after a prolonged decline. FDI in the region is still 27% lower than at the peak of the commodity boom.

FDI inflows to countries with economies in transition continued to decline in 2018, declining by 28% to \$ 34 billion due to a 49% decrease in investments in the Russian Federation.

UNCTAD (2020a) showed the fall in FDI due to tax reasons was mitigated by an increase in the number of transactions in the second half of 2018. The cost of cross-border mergers and acquisitions (M & As) rose 18% as US MNEs utilized tax-free liquidity from their overseas affiliates. FDI in developed economies is expected to pick up in 2019 as the effects of tax reform wear off. Future growth is evidenced by reports of new projects, which point to plans for future expenditures: in 2018, they are up 41% compared to the low level in 2017. Despite this, projections of global FDI dynamics show only modest 10% growth to \$ 1.5 trillion, below average indicator for the last 10 years. Long-term FDI dynamics remain sluggish. Trade friction is also a risk factor that could lead to a decline in investment in 2019 and beyond.

OECD (2018) reports that, 10 years ago long-term FDI dynamics since 2008 has remained anemic. Excluding situational factors such as tax reforms, mega-deals and volatility in financial flows, FDI grew only 1% over the past decade, compared with 8% in 2000-2007 and more than 20% before 2000. This is due to number of factors, including declining returns on FDI, the proliferation of forms of investment that do not require investment in high-value assets, and a generally less favorable investment climate.

In 2018, a long-term decline in investment in new production facilities in the manufacturing industry stopped, as a result of which the value of announced projects increased by 35% compared to the low level in 2017. Among developing countries where investment in manufacturing are key to industrial development, growth has been largely concentrated in Asia and has been fueled by capital-intensive projects in the natural processing industries.

3.4.1 FDI trends in 2019

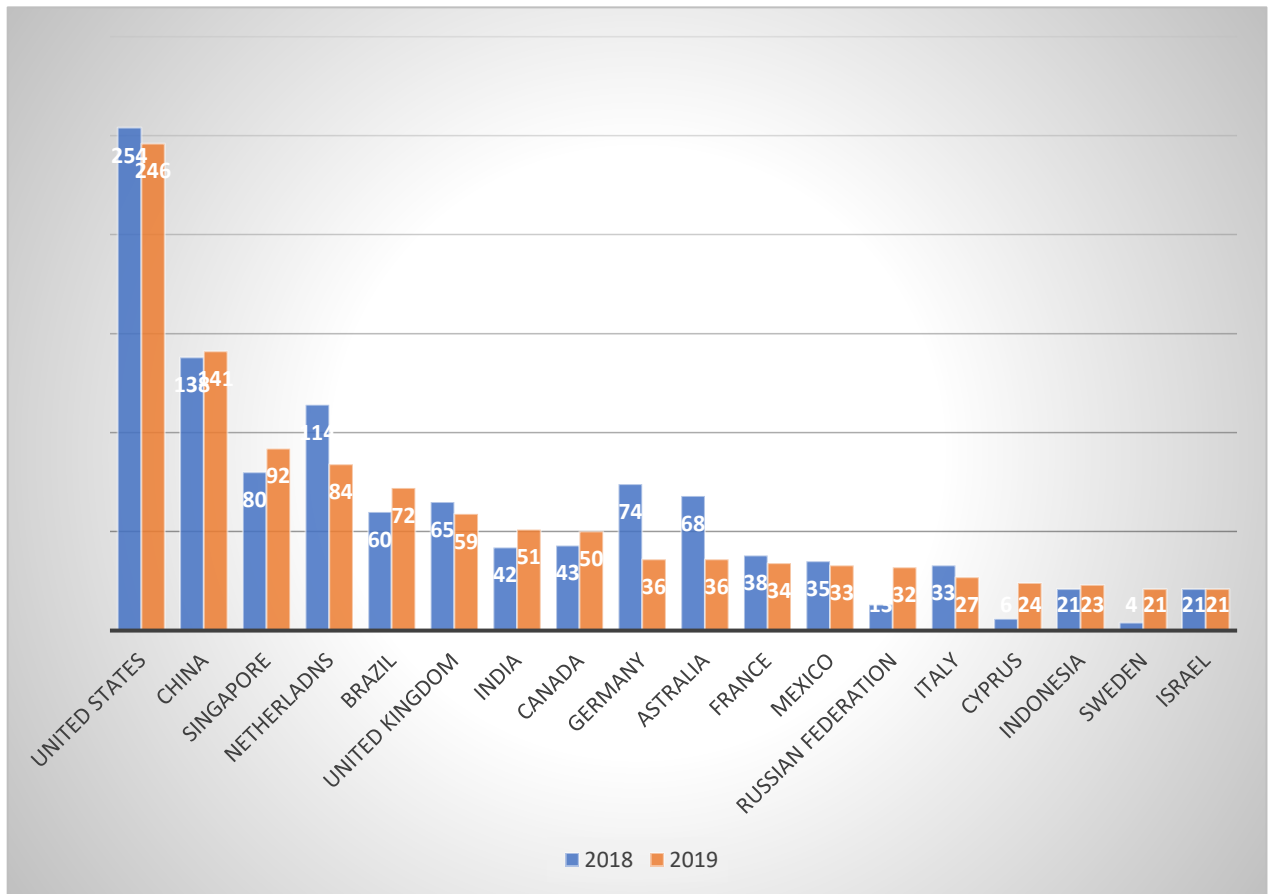
a) FDI flows to developed economies rose by 5 per cent, to \$800 billion, from their revised level of \$761 billion in 2018. (UNCTAD FDI/MNE database)

That increase occurred, despite policy unclarity for investors with all the trade tensions and exit of United Kingdom from EU (Brexit). These trends were mainly based by FDI dynamics in Europe, where inflows have increase by 18 per cent, accounted \$429 billion. In quite a few European countries, volatility level was quite high. For example, inflows to Ireland reached \$79 billion in 2019, comparing in 2018 it was - \$28 billion . FDI in some of the largest economies have decreased. Inflows twicely decreased in Germany as well as in France and UK. Flows remained the same in North America, at \$297 billion dollars. Despite a slight decline of FDI in USA (-3 per cent)they remained the largest recipient of FDI. Australia also registered a decline of FDI, due to a decrease in the value of cross-border M&As. Since 2019, flows to developing economies have been quite stable. A big decline was noticed in Africa, by 10 per cent, accounted \$ 45 million, it was driven by more sensible economic growth and lower demand for goods and services around the worlds. Inflows have been reduced in such countries like South Africa, Morocco, and Ethiopia as well as commodity-exporting economies, Nigeria, and Sudan.

Few countries received higher inflows in 2019. Based on flows to Egypt, (UNCTAD,2019) concluded that Egypt was the highest recipient of FDI, as well as Africa reached 11 per cent, accounted \$9 billion. In 2019, flows into the developing Asian countries, declined by 5 per cent, accounted \$474 billion. Despite the decline, Asia remained the largest host of investments, reached 30 per cent of global FDI flows. The largest recipients were China, Hong Kong, Singapore, Indonesia and India. China ranked the second largest recipient after USA. Inflows into Latin America and Caribbean increased by 10 per cent, accounted \$164 billion. Brazil, Chile, Columbia, and Peru also experienced an increase of investment in utilities and services. Due to economic reforms established by government, Egypt has also improved macroeconomic stability and strengthened investor confidence in the country. Even though, FDI was mostly focused on oil and gas industries, investment performance was also noticeable in non-oil economy such as telecommunications, consumer

good and real estate. Majority of t FDI went to the industrial sector (\$450 million), followed by energy (\$300 million) and services (\$95 million). There was a sharp decrease of investment in the services sector.

Graph 1: Top 18 host economies of FDI inflows Billion dollars.



Source: own processing, source by UNCTAD,2019

b) FDI outflows.

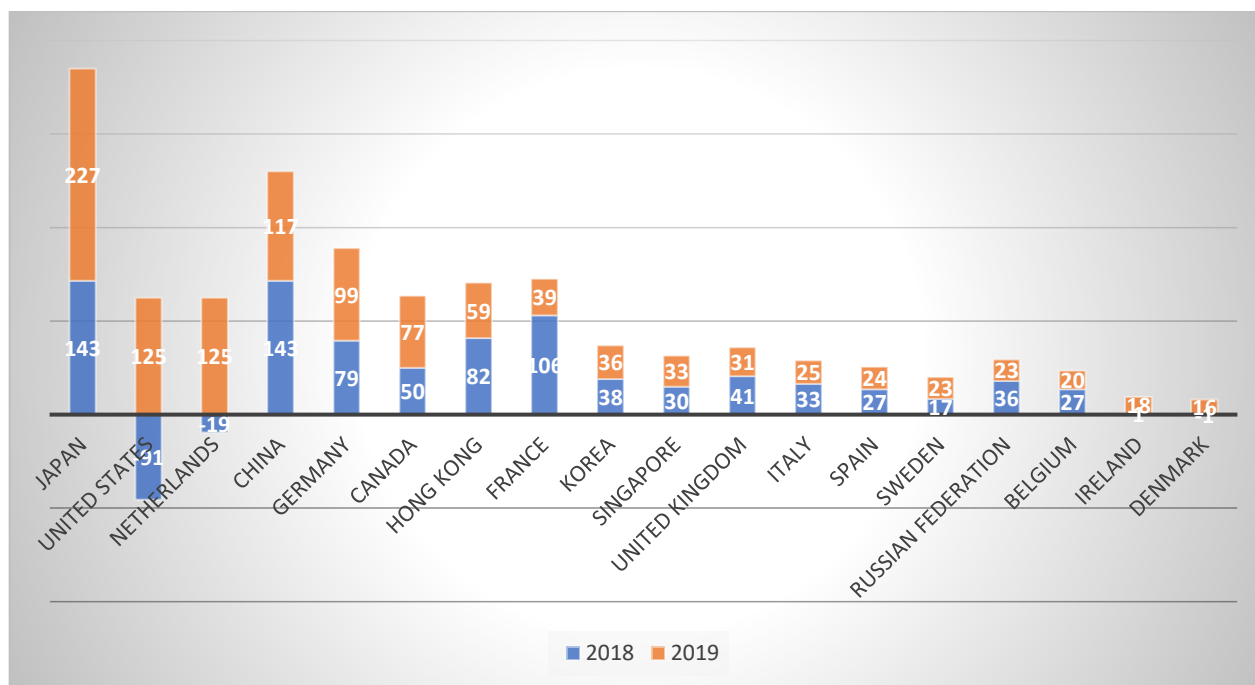
Investments that were based on MNEs in developed economies ramped up significantly as the majority of returns in 2018 of accumulated foreign earnings by United States MNEs failed thus, they ended up in a positive outflow. In 2019, MNEs from developed economies invested over 917 billion abroad. Outflows from MNEs in Europe

increased by 13%, due to large investments by MNEs in the Netherlands and Germany in that case doubled their reinvested earnings abroad. On another hand, France, and Switzerland which both were leading countries in outflows in 2018, have both declined by 63% and 82 %. MNEs investments which are based in North America have reached 200 billion. Canadian MNEs increased by 54 %. Japan remained the major investor in the world, its investment rose by 58%, accounted in 227\$ billion, due to the spike in cross-border M&As. Investments of Japan have doubled in Europe and North America.(UNCTAD, 2019).

Outflows from Asia decreased by 19 per cent as well as outflows from China declined for the third year in a row. The decrease of Chinese M&A purchases abroad was the highest for the past 10 year. All the downturns were linked with continuous restrictions on outward investments, geopolitical pressure, global trades, and investment policy environment. Latin American MNEs have increased sharply in 2019, to over 42\$ billion. The biggest increases were recorded in Mexico, Brazil, and Chile. Due to the decrease of domestic interest rate, Brazilian companies stopped collecting funds through foreign affiliates to support financially all the operations at home.

Russian Federation is accounted for all outward FDI. MNEs of Russia are still afraid about foreign expansion, specifically in developed market economies. Since Russian Federations comes into collision with all restrictions in access to international finance and technology, plus international sanctions around the globe. (UNCTAD,2018)

Graph 2: Top 18 home economies of FDI outflows in 2018 and 2019 Billions of dollars



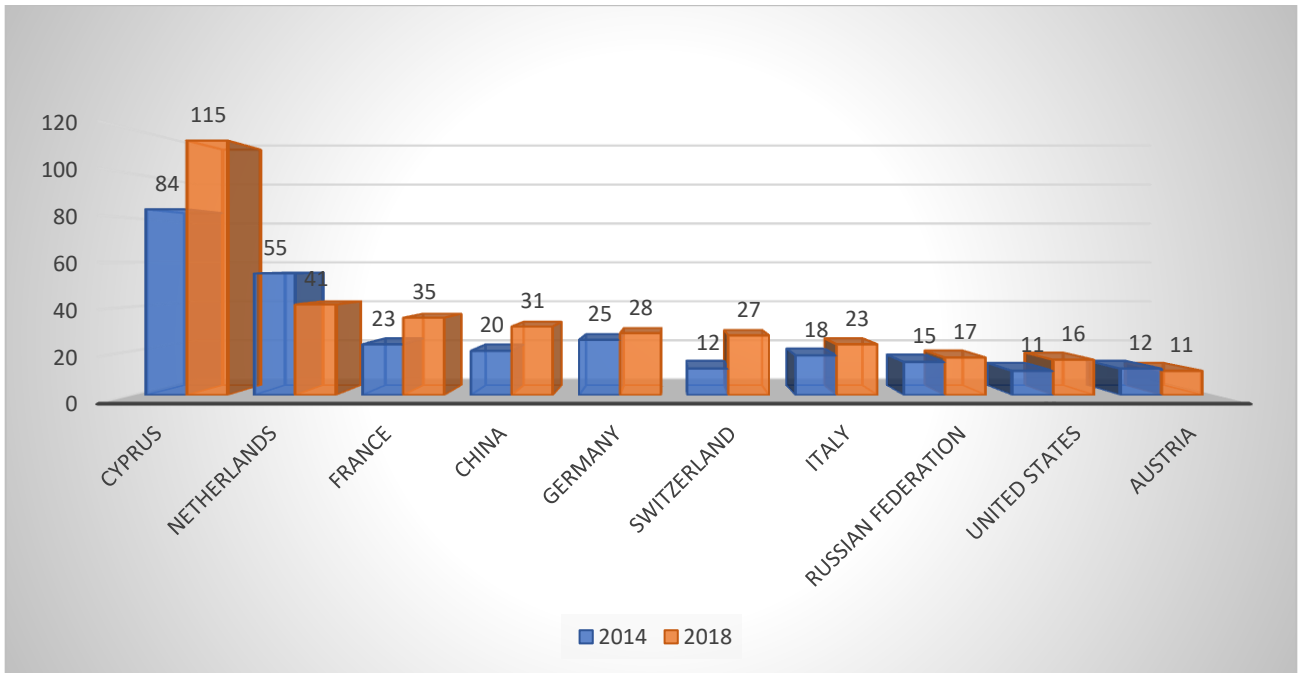
Source: own processing, source by UNCTAD 2019.

Note: Outflows from the United States turned positive (mostly in the form of reinvested earnings) after falling to -91 billion in 2018 when firms repatriated funds as a result of tax reforms.

Transition economies: FDI flows, top 5 host economies. 2019(values and change).

Outflows: Top 5 home economies(Billions of dollars and 2019 growth).Russian Federation – 22.5\$; Azerbaijan – 2.4\$; Ukraine – 0.6 \$; Georgia – 0.3\$; Serbia – 0.3\$.

Graph 3: Top 10 investor economies by FDI stock, 2014-2018 Billion of dollars



Source: own processing, source by UNCTAD 2019.

Kazakhstan is the third recipient of FDI among economies in transition experienced a decline in 2019, by 17 per cent which accounted to 3.1\$ billion. The biggest project that launched in the country was Chinese manufacturer of chemical productions. Metal mining kept on attracting the highest volumes of investments. United states, Russian Federation and China were the main core of the source country.

3.5 Global effect of FDI due to Covid-19

UNCTAD (2019) states that COVID-19 Crisis Will Cause Dramatic Drop in (FDI) for year 2020 and 2021. With a full assurance of current disease Covid-19, it will have a negative impact on economy in 2020. UNCTAD (2019) states that global FDI flows are predicted to decrease by 40 per cent in 2020, from 2019 value of \$1.54 trillion dollars. It will bring FDI lower than 1 trillion USD for the very first time since the year 2005. Moreover, it is forecasted that the FDI is projected to decrease by the next 5-11 per cent in 2021.

At their lowest level (\$1.2 trillion) then, in 2009, global FDI flows were some \$300 billion higher than the bottom of the 2020 forecast. The downturn caused by the pandemic follows several years of negative or stagnant growth; as such it compounds a longer-term declining trend. The expected level of global FDI flows in 2021 would represent a 60 per cent decline since 2015, from \$2 trillion to less than \$900 billion. (UNCTAD,2019)

The next year is already coming up, and it becomes very uncertain for 2021

Figure 2: Global FDI inflows, 2015-2019 and 2020-2022 forecast in (US trillion dollars)



Source: UNCTAD(2020a)

The speediness' of virous covid-19, the manufacturing plants as well as construction sites stopped implementation processes and investment projects, although the outlays are blocked entirely. Many mergers and acquisitions such as M&As are terminated. Strict regulations and rules that have been by European Union and United States created a delay of mergers between Deliveroo (UK) and *Amazon(US) and the acquisition of Embraer(Brazil) by Boeing (US). The stocks of firms have been priced down on a financial market that have been impacted by delays in approval for a merge.

Regions of economic groupings will experience a negative FDI growth rate in 2020. As mentioned above by developed economies are forecasted to decrease between (-25,-40 per cent) thus, developing economies become more vulnerable to this crisis. Africa is expected to see the same numbers on decline, as far as, analysts predict that potential spread of virous Covid-19 in Africa. Besides that, the continent struggles with structural vulnerability and commodity dependence(UNCTAD,2019). Foreign direct investments flow to transition economies are forecasted to decline by 30-45 per cent. Those regions with a natural-resource-base are being revised downward because of demand for such commodities weakens and the price for oil stays depressed. Basically, export-oriented production will be heavily affected as well.

3.6 Concept of Policy investment

Every single country around the globe have implemented different types of policies to attract Foreign Direct Investment, so it protects domestic industries and provides with an economic growth. Investment policy is a natural part of economic policy, which is directed towards the achievement of certain goals. The sense of the investment policy is to define an organization structure and definition of the investment enterprise structure as well as the definition of their volume and the definition of direction (Baiashvili & Gattini,2020). The main purpose of the investment policy is to ensure stable growth and development of government or enterprise. It is worth noting that the investment policy in most cases is part of the financial strategy of entrepreneurship and it promotes the achievement of good financial results. This is a set of targeted measures that the state implements in order to create favorable conditions for business entities in order to revive investment activity, raise the economy, increase production efficiency and solve social problems.

Fiscal and financial support for companies and its employees are the core of economic policies. Attraction and effective use of foreign investment in the economy is essential, one of the areas of mutually beneficial economic cooperation between host and foreign countries. For example, (Caves ,1974) claims that the inflows of FDI to growth depend on the sector of the economy. She found that FDI in manufacturing leads to positive impacts on growth while, FDI's in primary sector have tendencies to decrease economic growth and have negative effect. There are so many aspects to consider as an investor before entering country's

economy such as: human capital, location, natural resources, policy investments, political recognition and extra.

According to UNCTAD (2019) statistic, in 2019, 54 economies introduced 107 new policies that affected foreign investment. Out of 107 investment policy, 66 of them are liberalized and 21 came into force with restrictions and regulations. The remaining 20 were neutral. Hence, there was a noticeable decrease in percentage of more regulatory and restrictive policies.

At the same time, many countries introduced policy measures in 2019 for liberalizing, promoting, or facilitating foreign investment, (UNCTAD, 2019). Steps toward liberalization were made in various industries, including mining, energy, finance, transportation, and telecommunication. In addition, many countries made efforts to simplify or streamline administrative procedures, and some others expanded their investment incentive regimes with a view to attract more foreign investment.

3.6.1 Types of policy investments

In that chapter will cover all the policies that are directly linked with investments, both from the investors and recipient prospective. There is a list of these policies as well as questions to each of them so the author can get a clearer picture of what each represents by (OECD,2019b).

- a) Investment policy
 - b) Investment promotion and facilitation
 - c) Trade policy
 - d) Competition policy
 - e) Tax policy
 - f) Corporate governance
 - g) Policies for promoting responsible business conduct
 - h) Human resource development
 - i) Infrastructure and financial sector development
 - j) Public governance
- a) The quality of investment policies is a primary part of what influences the decisions

of all investors in the world, no matter whether it is a large or small company and even regardless it is foreign or a domestic company (OECD, 2005b). There are main priorities for all investors to consider whether the business will run smoothly or not, it is transparency, property protection and non-discrimination policy.

- Has the government taken steps to establish non-discrimination as a general principle underpinning laws and regulations governing investment? Does the government have mechanisms in place to ensure transparency of remaining discriminatory restrictions on international investment and to periodically review their costs against their intended public purpose?
- Has the government ratified and adopted common international instruments for solving any investment disputes? Does it apply for all sector groups ?
- What action has been taken by government to secure an effective and lawful registration methods for land and the other types of property?

b) Investment promotion and facilitation measures according to (OECD,2019c) including incentives, can be effective tools to attract investment, provided they are designed to correct market failures and are designed to capitalize on the strengths of a country's investment environment.

- Does the government have a strategy for developing a general business environment and within this strategy, what role is given to investment promotion and facilitation measures?
- What structure has the government established to evaluate costs and benefits of investment incentives, transparency, and its duration? Is there any impact on economic interests of the other countries ?

c)Trade policy is a policy links directly with a trading activities of good and services that will support more of quality investments by increasing opportunities to boost economies and enhance integrations into a global supply chains, boosting productivity as well as rates of return on investments (OECD,2019d).

- What kind of trade policies government established for investors that

affect them in both ways, some works in favor and some do discourage?
Import tariffs or banned products?

- To what extent do trade policies raise the cost of inputs of goods and services, thereby discouraging investment in industries that depend upon sourcing at competitive world prices?

d) Competition policy ensures that everyone who is in circle, understands the rules of the game. It requires that all the policies are transparent, and their implementation is understandable (OECD, 2019d). Another words, there are no two different outcomes from the similar situations under similar circumstances. The final decision is the same for both.

- Do the competition authorities have adequate resources, political support, and independence to effectively implement competition laws?
- Does the competition authority periodically evaluate the costs and benefits of industrial policies and take into consideration their impact on the investment environment?

e) Tax policy, all governments require a taxation from revenue. Nevertheless, the structure of the tax policy and its burden on all the businesses directly affect costs and returns on investments. It allows government to keep the same investment environment and achieve public policy tasks (United Nations,1966).

- Whether the tax burden differs by size of the company, board management , sector of the business, location and extra.? And if so, can that be justified according to the stated policies ?
- Whether the tax burden evaluated by government , is consistent and doesn't exceed its objectives and its investment attraction strategy ?

f) OECD (2005,a) explains that the corporate governance is a management system designed to maintain effective interaction between shareholders and the company's management. With its help, shareholders or investors have at their disposal a mechanism to control company managers, as well as to defend their interests in the event of problems with other influence groups.

- What steps and institutions are in place to guarantee that shareholders have abilities to fully control the company's actions ?

➤ What institutions to address all the judicial cases where shareholder's rights have been violated ? What measures are in place to ensure and control business-owners from extracting private benefits or tax evasions ?

g) Policies for promoting responsible business conduct, simply means complying with the laws, such as on respecting human rights, labor relations , environmental protection, financial accountability, and corporate social responsibility (OECD,1998).

- Does the government interfere with company's policy on respecting human rights based on the rumors about the company ?
- What types of tools can the government use in case it knows that a particular company doesn't comply with business conduct regime? Fines, legal costs ?
- Does the government take part in inter-governmental sessions to promote international standards for business conduct such as United Nations Global Compact?

h) Human resource development is the crucial part for investors to look at, as an attraction part of foreign direct investment, the host country should maintain and ensure that the population is being healthy, educated, skilled to support a competitive business environment. (IMF,2005).

- Does the government promote an importance of education in order to increase its quality instructions so as to improve leverage of human resource assets for attraction of investment opportunities?
- How exactly the does the government deal with the low Human Resource Index? Does it support schooling programs in order to achieve international standards for labor market?

g) Infrastructure and financial sector development, by helping either domestic or foreign countries to promote the products or service so to make the host country look reliable for the future foreign investments. Also, how exactly government support all projects with scarce resources. (OECD,2004).

- What relationships does government have with local and regional

governments to establish infrastructure investment priorities ?Has the government invested into electricity supply-chain so to ensure all the investors have access to it.

- Does the government invest into the path-roads and reconstruction of roads for smooth logistic transportation?

h) Public governance consists of two different field, there are regulation quality and public sector integrity that crucial for all investors and their decisions. Two reforms are established to work for regulatory quality. (APEC,1997)

- What institutions exist for assessing the performance of regulations and law on anti-corruption and integrity? Does the government fight corruption and tries to improve integrity inside the country?
- Does the government announce changes in laws and regulations officially that are very crucial for investors to follow ? If so, how exactly ?

3.6.2 What investment policies were introduced by different countries during Covid-19

Several countries have included drug and vaccine development incentives in their government aid programs according to (OECD,2020). Other incentive schemes are related to the expansion or conversion of production lines to increase the supply of medical products. To help domestic air carriers, several governments have decided to acquire shares or nationalize companies or are considering doing so. Finally, most programs government aid provides tax breaks or financial assistance to SMEs to help preserve supply chains. The COVID-19 pandemic has led to increased scrutiny of foreign investment in healthcare and other strategic sectors. In at least nine countries, measures have been taken to safeguard domestic manufacturing capacity in health care, pharmaceuticals, and medical products and equipment. Almost all these measures have been taken by developed countries. The COVID-19 pandemic is slowing the pace of negotiations on international investment agreements (IIAs). Several rounds of negotiation of BITs and Investment Clause Treaties

(RIPs) scheduled for 2020 have been canceled or postponed.

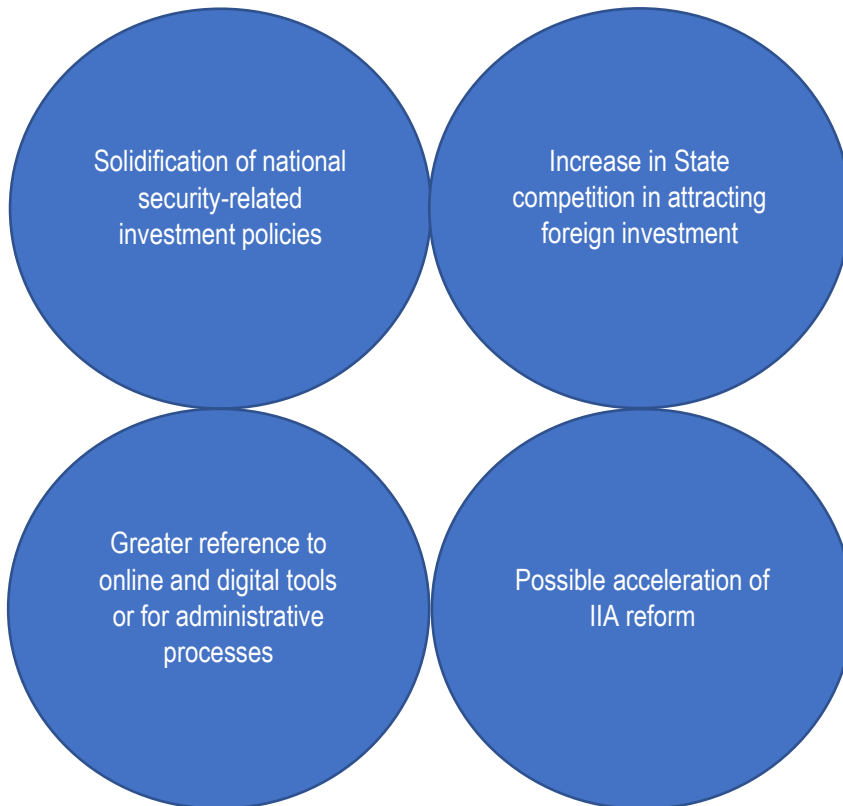
OECD(2020) explains that certain policies to respond to the health crisis and its economic impact can be challenged by foreign investors through IIA arbitration, further highlighting the need for IIAs to provide sufficient regulatory space to protect public health and minimize the risk of dispute resolution. Investor-Government Disputes. A pandemic could have a lasting impact on investment policy. This could reinforce and exacerbate the current trend of tightening restrictions on foreign investment admission policies in industries considered critical for host countries. In the same time pandemic could lead to increased competition for investment as countries seek to emerge from the crisis. The pandemic has also led to all kinds of difficulties such as logistical, economical, and operational for foreign companies.

(UNCTAD,2019) states that despite the pandemic situation, several economies have implemented policy measures in order to increase investments in those fields that are very crucial to tackle the spread of the virus. These countries provide different incentives to improve research and development efforts and to get a successful vaccine and then focus on medical and pharmaceutical fields for treating covid-19. Exemplary countries would be (Czechia, European Union and Korea) (UNCTAD,2019). There are other incentive structures that are very appealing for manufacturers to switch production lines to medical equipment, to make the quantity available on the market. (e.g. Italy, United states, and Czechia). Another group of incentives try to enhance contracted economic activities. These incentives are based on subsidy programmers such as, price reduction of natural gas as well as electricity and other expenditures for industrial usage. (e.g. Canada, China). (UNCTAD,2019)

Pandemic has also influenced a pace of treaty-making processes. So many negotiating rounds have been postponed or even cancelled for bilateral investment treaties and treaties with investment provisions. That means that all the summits that were linked to the bilateral investment agreements have also canceled or postponed. Even in the future, the pandemic will result in continuous effects on investment policy, various economies may reinforce and be more restrictive towards foreign investments in such industries where it is very crucial for host countries. Due to this fact, it will result in even more competitive environment for

different economies for attracting investor whereas every economy will try to recover as soon as possible in order to set-up a good supply-chain. (See.Figure 3)

Figure 3: Investment policy making



Source: own processing, source by UNCTAD 2019.

The importance of the post-pandemic period will bring problematic reconstruction tasks and it will differ from country to country. Nevertheless, all economies will face a major challenge on how to adjust investment policies and bring their economies back at sustainable development path.

3.7 Advantages of FDI

Foreign direct investments play a crucial role in providing benefits for the recipient country. However, it still has a negative effect on some economies, let's compare advantages and disadvantages of both perspectives.

3.7.1 Advantages of FDI to the host country

There are various levels of economic benefits that can host country have by attracting foreign direct investment, among which:

- Boost of economic growth as well as an increase of employment growth. As we all know, FDI always create job positions, especially in developing countries. By inflowing FDIs into the country, it automatically boosts manufacturing and service sectors. That helps to reduce unemployment rate as well as it sorts out the skilled and unskilled labor force. By increasing employment rate, it transforms into increased incomes of people, it also empowers population with buying power, because all of that, the economy of the country increases.
- Human capital development is one of the advantages of FDI. It is less obvious but still, human capital refers as the knowledge and competence of labor-force. Once the labor-force is on a high level, it is easier to provide training and develop skilled workforce in the future, that potentially increases the Human Capital Index, that is very relevant for investors.
- FDI has a power of transforming backward regions of any country, into industrial centers. It also transfers the social economy to the area. An Example is a Hyundai center at Sriperumbudur.
- Increase of export, not all the goods and services that are produced in the country are meant to be for domestic consumption. The source-based country with oil and gas is a perfect example of export increase.
- Stimulation of economic development is another very important advantage of FDI. It provides an additional job opportunity for local workers in a field of utility set-ups or other services. Which initially enables these local workers to make more money.

Government in that case, has an additional tax revenue that initially can be used for governmental project, such as building hospitals or roads (Pierre, 1999).

- Creation of competitive markets, inflows of FDI can prevent domestic monopolies and create competitive environment, which forces all firms to enhance their processes and product offerings. End users benefit from that, as they have a wider range of products and prices.

Table2: Contributions of multinational companies in developing countries.

Advantages	Reasons & factors that help achieving advantages	Primary effects	Secondary effects
Increase of foreign capital inflow and the effect on balance of payments.	<ul style="list-style-type: none"> - Establishing economic relations among the various economic activity sectors. - Exploiting domestic resources. - Opening new export markets. 	Expected improvement in balance of payments and an increase in incomings due to foreign transfer	Improvement of economic and political capacity and growth due to the active and productive use of economic resources, price decline, increase of export, support of economic independence, developing or creating an independent identity for host countries.
Development of national product	<ul style="list-style-type: none"> -Importing fewer numbers or quantities of raw materials and needs. - In general, foreign companies do not enter the same economic field of activity that the national companies' practice, which ensure not to exclude any national company from market. 	A probability that some (or a very few number) of national companies may leave	<p>Improvement of economic and political capacity and growth of host countries due to:</p> <ul style="list-style-type: none"> - Increasing State tax returns from profit tax, and development of national property, and creating a new class of businessmen. - Improvement of competitiveness and productivity of national companies through improving production and management or when such companies imitate multinational companies.

Transfer of technology	Implementing development and training programmer for human resources (even if multinational companies focus their development programmer and activities in their homeland) - Introducing advanced technology by promoting multinational companies host government.	Direct investment through multinational companies contribute to transferring a great deal of knowledge or technology to host countries (in comparison with other methods), in addition to the continuous modernization and technological development to such countries.	Developing current skills and knowledge. - Introducing new kinds of skills and knowledge in many economic fields. - Gaining new skills and knowledge when national manpower imitates its foreign counterpart in all fields (technical & administrative). - Supporting and developing economic relations among various sectors of economic activities.
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Source: Abdusalam Abu Qahf, International Business Management, 2006.

3.7.2 Disadvantages of FDI to the host country

Even though FDI bring so many crucial benefits mentioned above, it also has a negative influence for both, host country in general as well as investors.

- Investors could allocate their resources besides the host country, sometimes they can hinder domestic investments and send money abroad, effecting balance of payments in general
- Risk of a political change can influence both sides, the host country and investors.
- Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.
- Higher costs, you might notice when you travel, that your domestic products are much more expensive abroad, due to FDI.
- Economy colonialism is the big fear of the host country that FDI will expose the host country and afterwards just leave them weak.

4. Overview and background of Kazakhstan

Kazakhstan is one out of 15 countries that was a part of post-Soviet Union until 1991. In 1991, December 16, Kazakhstan has declared its independency and became a sovereign state due to collapse of USSR and Nursultan Abishevich Nazarbayev became a president of Kazakhstan. In the same year Kazakhstan has joined the CIS (Commonwealth of Independent States). To date, Kazakhstan is located in central Asia with more than 2.7 million square kilometers. Kazakhstan is neighboring with (Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan). Kazakhstan represents 63.1%. Other ethnic groups include Russians 23.7%, Uzbeks 2.9%, Ukrainians 2.1%, Uyghurs 1.4%, Tatars 1.3%, Germans 1.1% and others 4.5% (The Agency of statistics of the Republic of Kazakhstan, 2017).

Map 1: The Republic of Kazakhstan



Source: <https://www.eia.gov/international/overview/world>

Population of Kazakhstan is counted on 2019, over 18,4 million people. Which is considered not that big, for such a vast. Despite the fact, Kazakhstan is being one of the multinational countries with over 126 nationalities living in and consider to be their motherland. Its currency is KZT. After the collapse of USSR, Kazakhstan's capital city was Almaty, after a while in 1997 governors decided to move the capital from Almaty to

Astana, to date, Astana was renamed to Nursultan. In terms of economy sectors Kazakhstan is very rich with reserves of Oil and Gas. It is ranked as 12th largest exporters of Oil and Gas right after USA. Kazakhstan is comparatively rich with raw materials and minerals. Over ninety out of one hundred eighteen elements of periodic table can be found within the territory of Kazakhstan. Whereas half of these elements are used in various manufacturing industries to date. Kazakhstan is very much resourced with zinc, rare-earth metals, coal, silver, iron, gold, copper, natural gas and oil. That information is very luring for foreign direct investment as it shows many ways of investing in different Kazakh industries. As it has been mentioned before that Kazakhstan is being a member of CIS. In terms of production of oil and gas, Kazakhstan rates as the 2nd among all the countries.

4.1 Formation of Kazakhstan after the collapse of the USSR

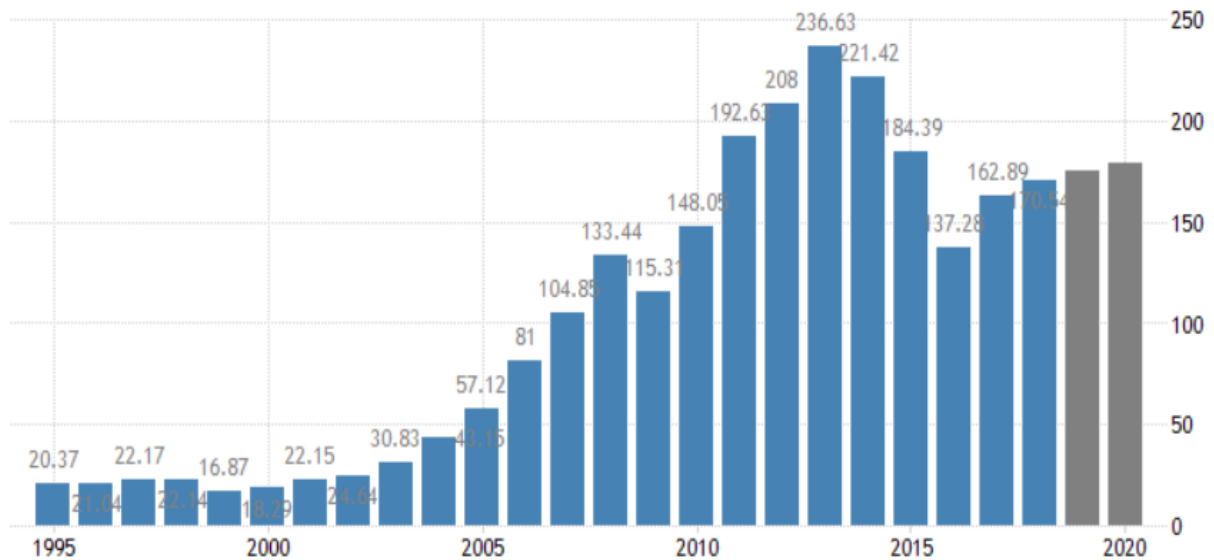
Batalden & Batalden (1997), claims that the main task after the collapse of USSR was to modernize an economy of Kazakhstan. Understanding the fact that Kazakhstan is very much resources oriented, Kazakh's governors still had issues maintaining and kept doing the right decision. At that time, every decision was crucial for Kazakh's nation. Right after the collapse, an unemployment and overall crisis comprehended Kazakhstan. Full stagnation, empty industries, loss of the main business partners because whilst Soviet Union , every region was relatively connected with each-other. Allocation of resources were distributed equally but after the collapse it all has faded away. Kazakhstan played a main role in that chain, since it was a key supplier of overall resources within USSR. Economists think that bowels of Kazakh land have helped to overcome the crisis. Kazakhstan in that case, had to shift its economy from "Planned economy" to "Market economy". Various manufacturers had to change their work-plan as well. Because of it, it was very hard to overcome all these struggles that Kazakhstan had at the very beginning of its independency. Back then, government has decided to attract FDI right after the collapse. Batalden & Batalden (1997) have predicted unemployment, stagnation and other factor that influenced stagnation of economy. Because they had to attract FDI, they also had to change the criteria for Foreign Direct investments. During 1991 till 1995, Kazakhstan succeed in many ways, by implementing a complex economy, social and political reforms to creating a democratic state with a strong market economy. The task was to create a well-functioning market economy

through fulfilling a liberalization, stabilization, and privatization of different economy sectors. Government, which was led by Nursultan Nazarbayev, decided to go with a first stage.

From (1992-1995) Kazakhstan had a transition from planned economy to the market economy, liberalization of economy and mainly filling the market with consumer goods. The economy back then got stuck mainly on production side which by the way had rather a negative impact on development. Considering a financial crisis that fact also had a negative impact on the development of Kazakhstan.

Kazakhstan had to experience a severe recession in 1999, that year is considered to be the worst year out of all. Since the centralized Soviet economic system has collapsed, Kazakhstan had no choice but to attract the foreign direct investment. As it has been mentioned before that Kazakhstan overcame its downturns because of the deposits of oil and gas sectors (Ipek,2007).

Graph 4: GDP from 1993 till 2020

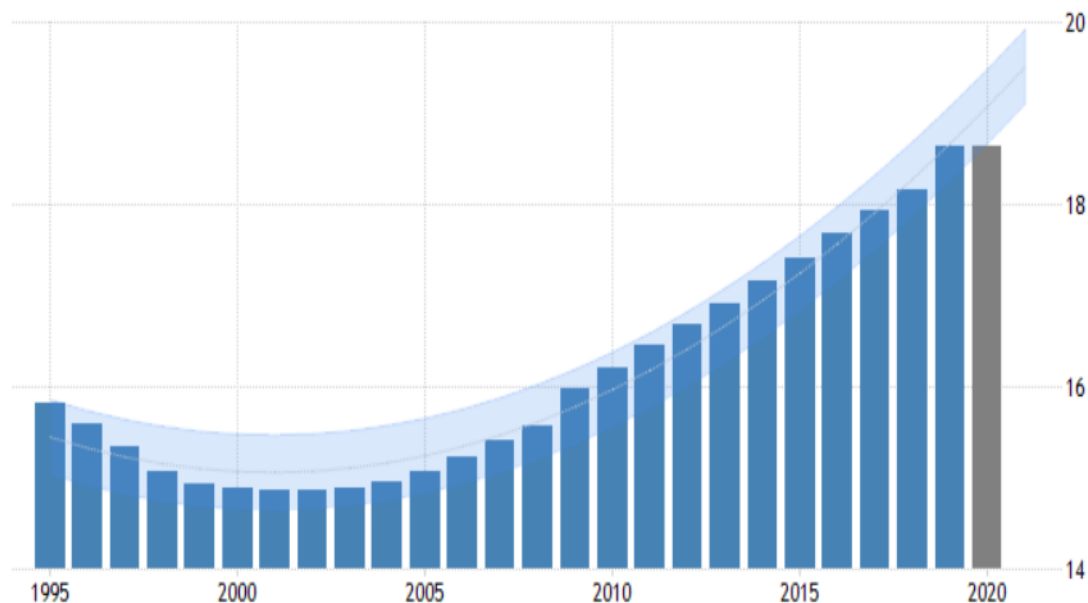


Source: Agency of statistics of the Republic of Kazakhstan, 2019.

After 2000, GDP have slightly increased, but Kazakhstan has experienced high

emigration pick during 1995 till 2002 (see Graph 4). Its population growth fell from 15.9 million to 14.8 million people (see Graph 5). In author's opinion, people were unsure of the Kazakhstan independency, most of them left the country and moved to Russian, Germany, USA, and Ukraine. The main reason was all the criteria related with economy such as (unemployment, high inflation, and high interest rate). As Gronwald & Mayr (2009) explained that economic downturn in 1990-1995 was closely linked with the collapse of economic and trade relations with formers of Soviet countries, mainly associated with downturn of Russian economy and other CIS countries. A sharp oil price has also influenced the GDP.

Graph 5: Population in millions. 1995 – 2018



Source: Agency of statistics of the Republic of Kazakhstan,2019.

During the second phase of reforms (1996-1998). Government focused on macroeconomic stability which mainly were:

- Legislative framework for FDI
- Financial system
- Social services
- Manufacturing sector

- Privatization

That phase was responsible to create a very competitive environment and develop small and medium businesses. Privatization was a main key to the economic reform. But before the author goes further on, I would like to emphasize a bit of attention of FDI which stands for Foreign Direct Investment, what kinds of FDI exist and how it became a major part of Kazakh economy. The next chapter will describe the potential of natural wealth.

4.2 The potential of natural wealth of Kazakhstan

Pomfret (2005) states that the republic of Kazakhstan started ramping-up in different sectors. Majority of reforms during 1990, due to freely convertible currency, oil boom increased, which positively influenced the economy followed by Russian crisis. Because of it, Kazakhstan started exporting oil and economy was stabilizing, the growth was getting stronger in late nineties. From 2000 onwards, it was surprisingly strong, which made Kazakhstan one of the fastest economies that has grown for the short period of time. Kazakhstan was becoming more successful among CIS countries in attracting Foreign Direct Investments (Pomfret 2005). At that time, in 1990 Tengiz oilfield started negotiation with American company Chevron. It was considered the biggest FDI deal in the Soviet history. FDI was at peak in 1996 to 2000, when it reached a billion dollars a year, a year later it reaches \$2 billion deal, where 85 per cent were going to natural resources activities. Philip Morris made a greenfield project with over \$340 million tobacco factory in 2000 and now controls 80 per cent of tobacco market in Kazakhstan (Olcott, 2010). The economic growth was very noticeable from 2000-2007, when oil and gas sector began a rapid recovery. In 2007, GDP of Kazakhstan increased by 2.4 times. (See Graph 4). FDI plays a significant role in Kazakhstan's GDP, it is directly linked with the oil and gas industry which accounted for 67 per cent. The economy of Kazakhstan has been increasing drastically from since 2010, more and more of FDI flows implemented their projects in different sectors of Kazakh economy. Being a small country, Kazakhstan still performed well in overall, with its share inward FDI stock to GDP (of \$119.8 billion or 55 per cent) is the highest among CIS countries. The main focus of Kazakh government is to attract FDI into different sectors rather than oil and gas or source-based sectors, which all together accounted more than 70 per cent of FDI stock

(OECD, 2019a).

4.4 The stages of oil and gas sector development in Kazakhstan

As of January 1, 2019, there are more than 250 oil and gas fields in Kazakhstan, the total volume of oil reserves is about 30.0 billion barrels, or 1.7 per cent of world oil reserves. In terms of explored reserves, the Republic of Kazakhstan ranks twelfth in the world, behind the countries of the Middle East, Latin America, as well as Russia and the United States. The number of oil and natural gas production enterprises in 2016–2018 increased amounted to 104 enterprises (as of January 1, 2018 - 100 enterprises, as of January 1, 2017 - 99 enterprises). Out of which, 43.3 per cent of natural gas production fell on the Atyrau region 23.7 billion cubic meters, 36.6 per cent - on the West Kazakhstan region 20.0 billion cubic meters and 12.6 per cent - to the Aktobe region 6.9 billion cubic meters.(See Graph 6). Current trends indicate that the oil and gas industry of Kazakhstan continues to be in the zone of active growth, while maintaining its high investment attractiveness. According to the (National Bank of the Republic of Kazakhstan), for the first quarter of 2019, the net inflow of direct investment in the oil and gas industry of the Republic of Kazakhstan amounted to USD 1,888.2 million, or 77.8 per cent of the total direct investment in Kazakhstan. In 2016–2018, the inflow of investments into the oil and gas industry of the Republic of Kazakhstan increased by 95.9 per cent (by \$ 2,012.2 million). Main objectives for improving oil and gas sector should be:

- The increase of crude oil production for 6.5-7 per cent annually save the growth rates of at least 1.8-2 per cent per a year. (See Graph 6)
- The improvement of oil product quality.
- The development of a new petrochemical industry.

4.5 FDI flows in Kazakhstan

Kazakhstan for the past 10 years have recorded a strong reaching peaks of FDI inflows, in 2008 the record was on \$14.3 million and 2011-2012 over \$14 million. After a

fall in 2010, FDI inflows were reduced, mainly due to profitability of the domestic oil sector, oil prices as well as the aftermaths of the crisis in 2008. However, FDI inflows in the country reached to USD 3,1 billion in 2019 (OECD, 2019b) showing a slight decrease from the previous year (USD 3,8 billion). Total FDI stock stood at 150 billion in 2019. The country remains the 2nd.

Among CIS countries, the largest recipient of FDI in the region, after Russia. The oil industry and metallurgy are the main sources attracting FDI to the country (UNCTAD,2020b). The main problem of Kazakh government remains the same, attracting FDI into the other sectors besides oil and gas, as it is accounted for 70 pe cent of total FDI stock, as well as try to retain the already existing FDI in the country. The biggest US energy firm Chevron's Tengiz oil field expansion project, one of the largest foreign investments in the country, which is expected to be realized by the end of 2020. (UNCTAD,2020b). In past, Kazakhstan, with its oil and mineral deposits, has attracted significant amounts of FDI in these sectors. Since Kazakhstan established its independence in the early 1990, the sector attracted such companies as: Chevron, Lukoil, Canadian Hurricane, Texaco, Hydrocarbons Ltd, according to (UNCTAD, 2019a). Most of the major players of the mining and quarrying sectors are present in Kazakhstan as well, such as, BP, Exxon Mobile, Royal Dutch, Shell and Total. UNCTAD (2019a) shows that the country is firmly focused on exporting fuel to the European Union, accounted to \$40 billion annually. According to Kazakhstan’s FDI statistic, most investments coming from EU, followed by United States, Russia, and China. Worth to mention that Netherlands, is a country with a significant share of resident SPEs.

Table 2: Oil and Gas producers in Kazakhstan and its shares

Oil Field / Develop	Shareholders	Start year	Production
Tengiz/ Tengizchevroil	Chevron (U.S.) – 50% ExxonMobil (U.S.) – 25% KMG (KZ) – 20% Lucarco (RU) – 5%	Signed in 1993 for 40 years	27.158 million tons of hydrocarbons in 2015

Kashagan/ North Caspian Operating Company	Eni (IT)16.81%; Royal Dutch Shell (NL/U.K.) – 16.81% ExxonMobil (U.S.) – 16.81% Total (FR) – 16.81% KMG (KZ) – 16.81% ConocoPhillips (U.S.) – 8.4% Inpex (JP) – 7.55%	Signed in 1997	Production commenced in October 2016
Karachaganak/ Karachaganak Petroleum Operating B.V.	BG (U.K.) – 29.25% Eni (IT) – 29.25% Chevron (U.S.) – 18% Lukoil (RU) – 13.5% KMG (KZ) – 10%	Signed in 1997	Production: 11.7 million tons (49 percent of gas production, 18 percent in KZ)
	KMG Exploration & Production JSC (KZ). KMG – major shareholder	Established in 2004	12.351 million tons of oil (2015)
	CNPC-Aktobemunaigas JSC (CN/KZ)	1981	5.9 million tons (2014)

Source: own processing, source by KaznexInvest 2018.

Kazakhstan is known for a good investment climate and several international companies established regional headquarters (KaznexInvest,2018). The government have been improving the business climate for foreign investors and planning to create an institution in a form of international company “Qazaq Invest”. Kazakhstan is ranked 25th out of 190, (World Bank Group, 2020). From the given table, the author tries to show that oil and gas sector is a relevant sector for Kazakhstan Republic.

Table 3: Foreign Direct Investments in numbers in Kazakhstan for the past 3years

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow (million USD)	4,669	3,757	3,118
FDI Stock (million USD)	146,491	149,051	149,369
Number of Greenfield Investments	31	68	60
Value of Greenfield Investments (million USD)	6,616	7,193	5,811

Source: own processing, sourced by UNCTAD,2019.

4.6 Foreign investment policies of Kazakhstan

ADB (2016) states that the development of Kazakhstan, oriented to market relations, the main direction of economic reforms is the development and implementation of the investment policy of the state, aimed at ensuring high rates of economic growth and increasing the efficiency of the economy. With the help of foreign investments, states improve the structure of the economy, modernize fixed assets, and technically re-equip enterprises, train specialists and workers, introduce innovations and much more. Considering the crisis in the world economy, the competition between states to attract investment has intensified. Therefore, to ensure structural transformations of the economy and in conditions of limited domestic sources of financing, it will be extremely important to attract foreign capital to the country. Currently, targeted work is underway to improve the investment climate and create an enabling environment for doing business, considering the recommendations of the Organization for Economic Cooperation and Development (OECD 2018). Kazakhstan has joined OECD in February 2015. However, according to APEC-OECD (2017), OECD conducted an Investment Policy Review of Kazakhstan using the Policy Framework for Investment. Following the review, 12 recommendations were developed to improve the investment climate in Kazakhstan. To date, most of the OECD recommendations

have already been considered. At the same time, some recommendations are being actively developed, as they require discussion in the society and with an involvement of domestic companies.

Thus, a number of recommendations were taken into account in the framework of the adopted legislative acts, such as the law on the legal regulation of intellectual property, on tax and customs administration, on public-private partnerships, as well as the Entrepreneurial Code, which provides for new incentives for investors and the investment ombudsman mechanism. In particular, to ensure favorable conditions for investors, Kazakhstan unilaterally introduced a visa-free regime for 19 priority countries (Australia, Hungary, Italy, Monaco, Belgium, Spain, Netherlands, Norway, Sweden, Malaysia, UAE, Singapore, UK, USA, Germany, Finland, France, Switzerland and Japan). It is planned to further expand the list of countries with a visa-free regime to 54. 10 priority countries have been selected (USA, Great Britain, Italy, South Korea, Iran, Japan, Germany, France, China, India), where special investment advisers are sent, 5 foreign representative offices of “KazNexInvest” have been opened in New York, Dubai, Frankfurt, Istanbul and Beijing. These offices provide a full range of services for the entire region and act as a "one-stop shop" abroad. In particular, they assist in the preparation of documents, conduct consultations on issues such as determining an investment site, selecting partners, etc.

In Kazakhstan, such dialogue platforms as the Council of Foreign Investors under the President of the Republic of Kazakhstan, the Council for Improving the Investment Climate under the Prime Minister of the Republic of Kazakhstan and the Investment Ombudsman are actively operating, which are designed to quickly resolve problematic issues arising in the course of investment activities in Kazakhstan.

At the central level, a Government Council has been established under the Prime Minister of the Republic of Kazakhstan on strategic issues of attracting investments.

One of the innovations within the framework of improving the country's investment climate was the introduction of the principle of "one window" for investors, over 300 government services. One window for investors is not just a mechanism. It is a one-stop shop for providing investors with coordinated government support and reducing bureaucratic red

tape. Investors are guided from entering the Kazakhstan market to the final implementation of the project. To date, over 2,500 investors have received consultations, while about 1,800 government services have been provided. It is planned to create a separate legal procedure for investment disputes. In 2018, the International Arbitration Center will be created in Astana based on the experience in Dubai. Kazakhstan launched a new privatization program. Our goal is to attract investors to more than 60 large companies in Kazakhstan in such areas as power supply, infrastructure, telecommunications and extra.

For investors working in priority industries and making investments of USD 12.5 million or more (2 million MCI), certain benefits are provided. Thus, they are exempt from paying corporate income tax, land tax for a period of 10 years, property tax for 8 years. They are reimbursed up to 30% of the actual costs of construction and installation work and the purchase of equipment. (OECD,2015).

To increase the investment attractiveness of the country, the infrastructure is being improved, it is brought to the level of world standards. This is, first, industrial infrastructure in special economic and industrial zones. World practice shows that FEZs are the main platforms for attracting investments and points of economic growth. 10 SEZs have been created and operate. Infrastructure construction was completed in Ontustik FEZ in 2011, Burabay FEZ in 2012 and Saryarka FEZ in 2015. In 5 FEZs, the construction of infrastructure is at the completion stage. 150 projects are operating in FEZs, out of which 24 with foreign participation (Tenaris, Alstom, Talgo, Ipek Kagit, Aselsan, EuroCopter, Bohmer, Kerpel, Baltekstil, Hyunwoo Central Asia). Over 500 billion tenge have been invested in the projects, about 12 thousand workers are involved (OECD,2015).

According to the results of the analysis by APEC-OECD (2017), more than 60% of all foreign investments in Kazakhstan are reinvestments. That's why, the activities of each foreign investor operating in the country are constantly monitored. It is very important that investors working in Kazakhstan continue to increase their production, expand the product line, create new products and create new quality jobs with high levels of productivity.

Also, in 2016, 5 operating companies, including transnational companies Tikkurila, Eczacibasi, Danone, reinvested about \$ 20 million in production in such industries as the

construction industry, light and food industries. For more than a decade, Kazakhstan has been building a competent investment policy step by step. And thanks to the measures taken by the head of state and clear tools to support investors, a solid foundation has been laid for the smooth and comfortable work of investors in Kazakhstan. The measures currently being taken by the state are helping to improve the investment climate in Kazakhstan, while it is necessary to build up potential and not stop there, since it is necessary to promptly respond to the newly emerging challenges in the global economy (OECD 2015).

4.7 Foreign investment policy recommendations by APEC-OECD

Corporate governance

- Given that state-owned enterprises (SOEs) are still present in many sectors of the economy, strengthen measures contributing to a level playing field, including by supporting the enforcement of corporate governance frameworks for SOEs. The OECD guidelines on corporate governance of state-owned enterprises advise countries on how to manage more effectively their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient, and transparent.

Public governance

- Implement determinately anti-bribery and integrity measures, notably in the areas highlighted by the third-round monitoring report on Kazakhstan under the Istanbul Anti-Corruption Action Plan and the Integrity Scan of Kazakhstan undertaken under the auspices of the OECD's CleanGovBiz Initiative.
- Pursue on-going efforts aimed at fighting bribery in civil service and promoting public sector integrity, notably through the development of efficient systems that proscribe conflicts of interests. The OECD Recommendation on Guidelines for Managing Conflict of Interest in the Public Service advises countries on how to avoid and manage more effectively conflicts of interest.
- Adopt clear and robust implementing rules to articulate the new public procurement law's vision, especially in terms of transparency and accountability, oversight, and

fair and equitable treatment for potential suppliers, and reduce the exceptions that limit the application of the law to the greatest extent possible. The 2018 OECD Recommendation on Public Procurement advises countries on how to establish a well-functioning public procurement system.

- Take further action, as appropriate in co-operation with business organizations and other civil society stakeholders, to advise and assist companies throughout Kazakhstan in their efforts to prevent bribery through, for example, the development of seminars, guidelines and other forms of guidance.

Responsible business conduct

- Develop a National Action Plan on Responsible Business Conduct, in collaboration with stakeholders and in line with international good practices. Clearly communicate expectations on RBC, provide guidance on accepted practices, and promote policy coherence and alignment on RBC. Support awareness raising events.

4.8 Executive summary of APEC-OECD recommendations

The government of Kazakhstan has incrementally improved the business climate for foreign investors, and national legislation does not discriminate against foreign investors. Corruption, lack of rule of law and excessive bureaucracy, however, do remain serious obstacles to foreign investment.

Bilateral Investment Agreements and Taxation Treaties, since independence, Kazakhstan has signed treaties on the avoidance of double taxation with 53 countries according to (KGD,2020) and bilateral investment protection agreements with 47 countries according to (MFA,2020).

Kazakh Invest (2020) stated new implications of government's primary industrial development strategies, such as the Concepts for Industrial and Innovative Development 2020-2025 and the National Investment Strategy for 2018-2022, aim to diversify the economy from its overdependence on extractive industries. The Entrepreneurial Code and Tax Code provide tax preferences, customs duty exemptions, investment subsidies,

and in-kind grants as incentives for foreign and domestic investment in priority sectors. Priority sectors include agriculture, metallurgy, extraction of metallic ore, chemical and petrochemical industry, oil processing, food production, machine manufacturing, and renewable energy. Firms in priority sectors receive tax and customs duty waivers, in-kind grants, investment subsidies, and simplified procedures for work permits. The government's preference system applies to new and existing enterprises. The duration and scope of preferences depends on the priority sector and the size of investment.

A lot of attention were paid on Business Conduct by president of Kazakh Republic, Nursultan Nazarbayev. State-Gov (2020) states that he has repeatedly asked foreign investors and local businesses to implement corporate social responsibility (CSR) projects, to provide occupational safety, pay salaries on time, and invest in human capital. The president presents annual awards for achievements in CSR. Foreign investors report that local government officials regularly pressure them to provide social investments to achieve local political objectives. Local officials attempt to exert as much control as possible over the selection and allocation of funding for such projects.

State-Gov (2020) shows that Kazakhstan is bound by Article 8 of the International Monetary Fund's Articles of Agreement, adopted in 1996, which prohibits government restrictions on currency conversions or the repatriation of investment profits. Money transfers associated with foreign investments, whether inside or outside of the country, are unrestricted; however, Kazakhstan's currency legislation requires that a currency contract must be presented to the servicing bank if the transfer exceeds USD 10,000. Money transfers over USD 50,000 require the servicing bank to notify the transaction to the authorities, so the transferring bank may require the transferring parties, whether resident or non-resident, to provide information for that notification.

State-Gov (2020) states that the government has developed dispute resolution mechanisms aimed at enabling aggrieved investors to seek redress without requiring them to litigate their claims. The government established an Investment Ombudsman in 2013, billed as being able to resolve foreign investors' grievances by intervening in inter-governmental disagreements that affect investors.

For more information about all the amendments of foreign investment policies, please see (State-Gov,2020).

5. Descriptive analysis of the activities of Foreign companies in oil and gas sector in Kazakhstan

Chevron's case: in 1993, Formed Tengizchevroil, a joint venture with the Republic of Kazakhstan, to develop and produce the giant Tengiz Field, becoming the first major Western oil company to enter newly independent Kazakhstan. Afterwards, Chevron has increased its production times more. Chevron has a 50 percent equity ownership interest in Tengizchevroil (TCO) (see Table 4), which operates the Tengiz and Korolev crude oil fields in Kazakhstan. On December 31, 2019, the company's carrying value of its investment in TCO was about \$110 million, higher than the amount of underlying equity in TCO's net assets. (Chevron's report 2019). Chevron has also its operations of polyethylene pipe plant and a valve plant in Atyrau, the valve plant is run only by Kazakhstanis. TCO develops the Tengiz and Korolev crude oil fields are located in western Kazakhstan and its daily production volumes averaged 290.000 barrels of crude oil in 2019.

5.1 Chevron's annual report of production in 2019

According to the data of Chevron Annual Report 2019, The are about to invest, approximately \$5 billion of the upstream program is planned for major capital projects underway, including \$4 billion associated with the Future Growth and Wellhead Pressure Management Project at the Tengiz field in Kazakhstan. From the annual report of Chevron 2019, The author took a date of Capitalized costs related to oil and gas producing activities and its results, whereas the second one represents results. From the given data (See Index 1) The author can conclude that Chevron company is being very successful and profitable because of investments made in oil and gas sector on the territory of Kazakhstan. It is very clear that the company benefits a lot from that investment but how exactly benefits the host country from the investment of Chevron. According to the Chevron's data,

Chevron contributes to Kazakhstan's economy with employee wages, purchases of goods and services from local suppliers, tariffs and fees paid to state companies, and taxes

and royalties paid to the government. Since TCO's launching, the company paid about \$125 billion to the Republic of Kazakhstan. In 2017, total direct payments to the government amounted \$ 8.5 billion.

From 1993 to 2017, TCO spent over \$24 billion on Kazakhstani goods and services provided by small and medium state companies, \$2.5 billion in 2017 alone. In addition, more than 30,000 Kazakhstanis, 92 percent of the total project's workforce in Kazakhstan, are currently working on FGP-WPMP, so not only the workers of Chevron are involved in work progress of oil fields, but local companies also provide services with accordance of state-standard measures. The anticipated project named "Future Growth Project" will be able to apply to skills local workers will be gaining as well as production. TCO anticipates providing 20,000 jobs approximately.

In 2017, Chevron, together with its partners at Karachaganak, entered into contracts with Kazakh companies for the supply of goods and services worth about \$ 400 million. Since 1997, local content in all partnerships has totaled \$ 6.54 billion. From all of this, it is already clear that oil and gas sector is a very attractive place to go with investments and it benefits both sides. (Chevron Annual report 2019). Chevron works very closely with local and national governments, non-governmental organizations, institutions, and communities to support on health, education and economic development. Chevron is committed to promoting healthy lifestyle among young generation and women. It has promoted HIV/AIDS awareness among youth in Almaty in 2017. Chevron organized summer camps for teenagers and series of public events that had a focus on healthy lifestyles. Medical centers from Almaty and Astana receive a donation in a form of medical equipment in order to support professional development of health workers. In 2017, together with Ayala Charity Foundation, chevron has supported trainings of approximately 200 doctors and nurses from Almaty hospitals, who are directly involved in children's intensive therapies where the program is aimed at reducing illness and mortality for newborn-babies.

Chevron is also involved in supporting educational development programs in Kazakhstan that benefits thousands of teachers, trainers from urban and rural schools. Chevron has implemented a social investment program that prepare young generation to be successful in both ways, workplace, and community. Since the launch of that program, over

7000 young people including 400 teachers in Atyrau have benefited from the interactive trainings, scientific subjects, technology, engineering, and math.

5.2 Methodology and Data of FDI and GDP.

One of the objectives of this research is to investigate a relationship between FDI and economic growth of Kazakhstan. The author has analyzed most of the literature and examined the relationship between FDI inflows and GDP. The author suggests the following econometric method and data. The author uses Gretl Software.

The author uses an annual data from 2000 to 2017, which includes 18 years of observation. After comprehensive review of the various data, the author selected three main variables: GDP, FDI inflows and Inflation Rate. Using the given time period for Kazakhstan, this study aims to examine the relationship between level of FDI inflows into the country and economic growth. The study is based on the following hypothesis: there is a positive relationship between GDP and FDI in Kazakhstan. The regression equation for the study is following:

The author applied quantitative research method using secondary data. Which covers dynamics of FDI inflows over the period of 2000 – 2017. The data was provided by (OECD database) and the author certainly can rely on this data.

Variables that were used for modelling: real GDP of Kazakhstan measured in gross inflow of FDI and inflation rate .

The author run the model of multiples regression analysis; the regression is presented based on the following equation:

- Economic model: $Y_{1t} = f(x_{1t}; x_{2t})$.
- Econometric model: $B_1 Y_{1t} = Y_1 X_{1t} + Y_2 X_{2t} + U_t$.

Where Y is the real GDP (in million USD)

β_0 – constant or the intersection of the regression line with Y axis, measuring the value of

Y, when values of x equal 0.

$Y_{1x_{1t}}$ = FDI inflow to the host country (in billion USD)

$Y_{2x_{2t}}$ = inflation rate in Kazakhstan (in % measure)

U_t – represent a random error.

T – time for 18 years.

First of all, the author needs to run the model. By putting all necessary data that mentioned above in Gretl Software. Since the main hypothesis for the empirical research is that FDI have a positive impact on economic growth. This hypothesis can be either confirmed or rejected based on the estimation of β . The null hypothesis $H_0: \beta_t = 0$, FDI do not impact the economic growth, against alternative hypothesis H_1 where $\beta_t \neq 0$.

Before estimation we should check assumptions of the LRM. The author will consider and test the following assumptions:

- Model Verification
- Autocorrelation has to deal with the structure of the residuals. For checking autocorrelation, we use Durbin-Watson test. The null hypothesis is: No autocorrelation. In our case d-statistic equals 1.3. We know that if d is closer to 0, it means positive autocorrelation, but if d is closer to 4, it means negative autocorrelation. First of all, we need to determine the upper and lower critical values for d, which depend on the number of observations (N=18) and number of independent variables (k=2).
- Multicollinearity occurs when two or more explanatory variables are near perfect linear combinations with each other. (0.9 is an indicator that variables have strong relationship).
- Normality, this is when the residuals are normally distributed. Normality of residuals is necessary only for valid hypothesis testing. Assumption about normal distribution of residuals is a mandatory requirement of the linear regression model. Whereas H_0 : Normally distributed; H_1 : Not Normally distributed. The author plans to use Jarque-

Bera test.

- Heteroskedasticity, for that the author plans to use White’s test for heteroskedasticity, whereas: H_0 : Homoskedasticity ; H_1 : Heteroskedasticity

$$\text{Equation: } Y_{1t} = -11,26 + 0,0078 x_{2t} + 0.52 x_{3t} + U_t$$

Figure 4: Gretl model OLS (FDI in relation to GDP)

	coefficient	std. error	t-ratio	p-value
const	-11,2691	27,4853	-0,4100	0,6876
FDIInflows	0,00779334	0,000913217	8,534	3,85e-07 ***
Inflation	0,522273	2,56801	0,2034	0,8416

Mean dependent var	118,0801	S.D. dependent var	73,98586
Sum squared resid	15878,06	S.E. of regression	32,53517
R-squared	0,829372	Adjusted R-squared	0,806621
F(2, 15)	36,45519	P-value (F)	1,74e-06
Log-likelihood	-86,58179	Akaike criterion	179,1636
Schwarz criterion	181,8347	Hannan-Quinn	179,5319
rho	0,444000	Durbin-Watson	1,110142

Source: Own processing in Gretl

Let the author detect the significance of these two variables in relation to GDP.

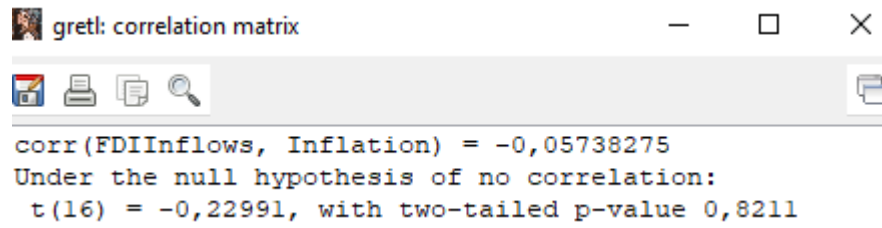
Model verification: In this part the author focuses on the verification of chosen parameters at 5% level of significance.

Variables	P – value		Alfa	Accept/Reject: H_0	Significant/insignificant
X_{2t}	3,85e-07	<	0.05	Accept	Significant
X_{3t}	0.84	>	0.05	Reject	Insignificant

Source: based on Gretl data.

According to p-value, we rejected H_0 for Inflation rate. Out of these two variables, the X_{2t} is more significant in relation to Y_{1t} .

Autocorrelation:

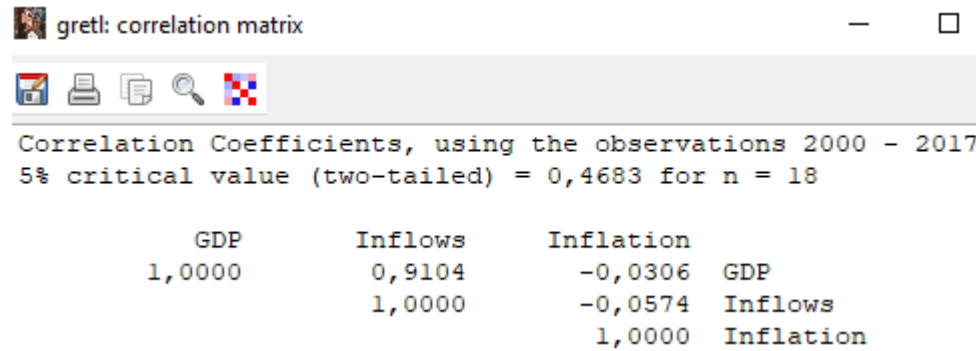


```
gretl: correlation matrix
corr(FDIInflows, Inflation) = -0,05738275
Under the null hypothesis of no correlation:
t(16) = -0,22991, with two-tailed p-value 0,8211
```

Source: Own Processing in Gretl.

We have no autocorrelation in our model.

Multicollinearity:

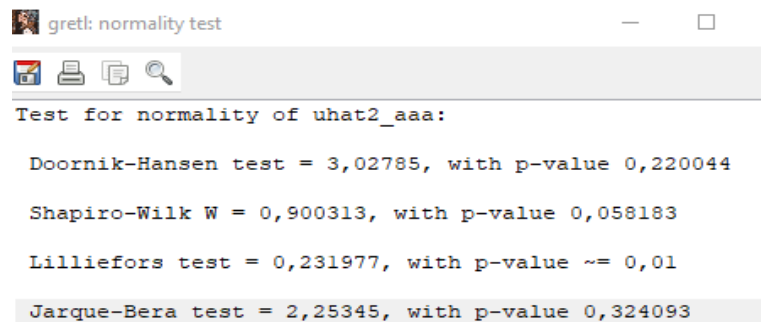


```
gretl: correlation matrix
Correlation Coefficients, using the observations 2000 - 2017
5% critical value (two-tailed) = 0,4683 for n = 18
```

	GDP	Inflows	Inflation
GDP	1,0000	0,9104	-0,0306
Inflows		1,0000	-0,0574
Inflation			1,0000

Based on the matrix, the correlation between FDI inflows and Inflation is not strong. So, the author can conclude that there is no multicollinearity.

Test for normality:



```
gretl: normality test
Test for normality of uhat2_aaa:
Doornik-Hansen test = 3,02785, with p-value 0,220044
Shapiro-Wilk W = 0,900313, with p-value 0,058183
Lilliefors test = 0,231977, with p-value ~ 0,01
Jarque-Bera test = 2,25345, with p-value 0,324093
```


Source: Own processing in Gretl

Based on Jarque-Bera test, we accept H_0 , thus our residuals are normally distributed.

Heteroscedasticity:

```
gretl: LM test (heteroskedasticity)
White's test for heteroskedasticity
OLS, using observations 1-18
Dependent variable: uhat^2

      coefficient      std. error      t-ratio      p-value
-----
const      -1961,30      4407,14      -0,4450      0,6642
Inflows     0,365621      0,463933      0,7881      0,4459
Inflation   -40,4302      955,254      -0,04232     0,9669
sq_Inflows  -6,66155e-06  1,03474e-05  -0,6438     0,5318
X2_X3      -0,0179131    0,0344092    -0,5206     0,6121
sq_Inflation 23,9408      51,7361      0,4627     0,6518

Unadjusted R-squared = 0,399028

Test statistic: TR^2 = 7,182501,
with p-value = P(Chi-square(5) > 7,182501) = 0,207417
```

Based on our White’s test, the null hypothesis is that residuals are homoscedastic. Therefore, if p-value is 0.05 or smaller, then the null hypothesis is rejected and there is a significant evidence that there is heteroscedasticity. So in author’s case p-value is 0.20, then we do not reject the null hypothesis. The model is homoscedastic.

Considering regression results, (See Figure 4). The R-squared is equal to 82% and Adjusted R-squared is about 80%, both parameters are good, which means that author’s model fits good with the data. The independent variables explained approximately 80% percent of variations in Gross Domestic Product, in Kazakhstan. The main regression results indicated that FDI inflows has a positive overall effect of GDP. The null hypothesis which stated FDI doesn’t promote the economic growth was rejected. The high t-ratio of FDI inflows (8,53) confirms that the variable is indeed significant. Thus, FDI inflows has a direct positive effect on economic growth of Kazakhstan. According to the equation, FDI inflow’s coefficient seems very small (0,0077) but considering that the data for this variable

measured in (billion USD) it means that, an increase of 1% of FDI leads to an increase of (1.000.000.000.000 USD) or 1 billion (\$) * 0.0077 = 7.700.000.000 USD. Which, in author's opinion, indicates a positive relationship towards GDP.

On the other hand, inflation rate for this model turned out to be statistically insignificant.

5.3 Methodology and Data for Oil Prices and GDP

This is the second part of the research that concerns the Oil Prices Shocks and how exactly they effect the GDP. The author uses an annual data from 2000-2017, since it is the period of more stable monetary policy regime in the Republic of Kazakhstan. Also, the chosen period is a period of stable growth and development of the republic. The author selected three variables for the second model, the following: oil prices, GDP and exchange rate.

The GDP data was obtained by the Kazakhstan Statistic Agency. Oil Prices were taken from BP Statistical Review of World Energy 2017. National Bank of Kazakhstan has provided with exchange rate.

The main aim of this study is to determine the impact of oil prices on GDP. Also see, how will behave the other variable which is an exchange rate. Gretl software was used for this study.

The model specification for that study is denoted as:

Economic model: $GDP_t = f(OP_t, EXR_t)$

Econometric model: $B_1 Y_{1t} = \beta_0 + Y_1 X_{1t} + Y_2 X_{2t} + U_t$.

Where Y is the real GDP (in million USD)

β_0 – constant or the intersection of the regression line with Y axis, measuring the value of Y, when values of x equal 0.

$Y_1 X_{1t}$ = Oil Prices (Dollars per barrel)

$Y_{2x_{2t}}$ = Exchange Rate (1 Dollar per KZT)

U_t – represent a random error.

T – time for 18 years.

Based on the main hypothesis: oil price increases have a clear and positive effect on the oil exporter's GDP growth, the author can either accept or reject, depends on the estimation of β . The null hypothesis $H_0: \beta_t = 0$, Oil prices increases do not impact the economic growth, against alternative hypothesis H_1 where $\beta_t \neq 0$.

Before estimation we should check assumptions of the LRM. The author will consider and test the following assumptions:

- Model Verification
- Autocorrelation
- Multicollinearity
- Normality
- Heteroskedasticity

$$\text{Equation: } Y_{it} = -102.53 + 2,21x_{1t} + 0,43x_{2t} + U_t.$$

Figure 5: Oil Prices in Relation to GDP

```

gretl: model 1
File Edit Tests Save Graphs Analysis LaTeX
Model 1: OLS, using observations 2000-2017 (T = 18)
Dependent variable: GDP

      coefficient   std. error   t-ratio   p-value
-----
const      -102,531      16,5326    -6,202    1,69e-05 ***
OP          2,21398       0,156047   14,19     4,25e-010 ***
Exchangerate 0,435980      0,0621628  7,014     4,18e-06 ***

Mean dependent var  118,0801   S.D. dependent var  73,98586
Sum squared resid  5740,377   S.E. of regression  19,56251
R-squared           0,938313   Adjusted R-squared  0,930088
F(2, 15)           114,0814   P-value (F)         8,44e-10
Log-likelihood      -77,42507   Akaike criterion    160,8501
Schwarz criterion   163,5213   Hannan-Quinn        161,2185
rho                 0,265655   Durbin-Watson       1,414882
  
```

Source: Own processing in Gretl

The author will detect the significance of all three variables in relation to GDP.

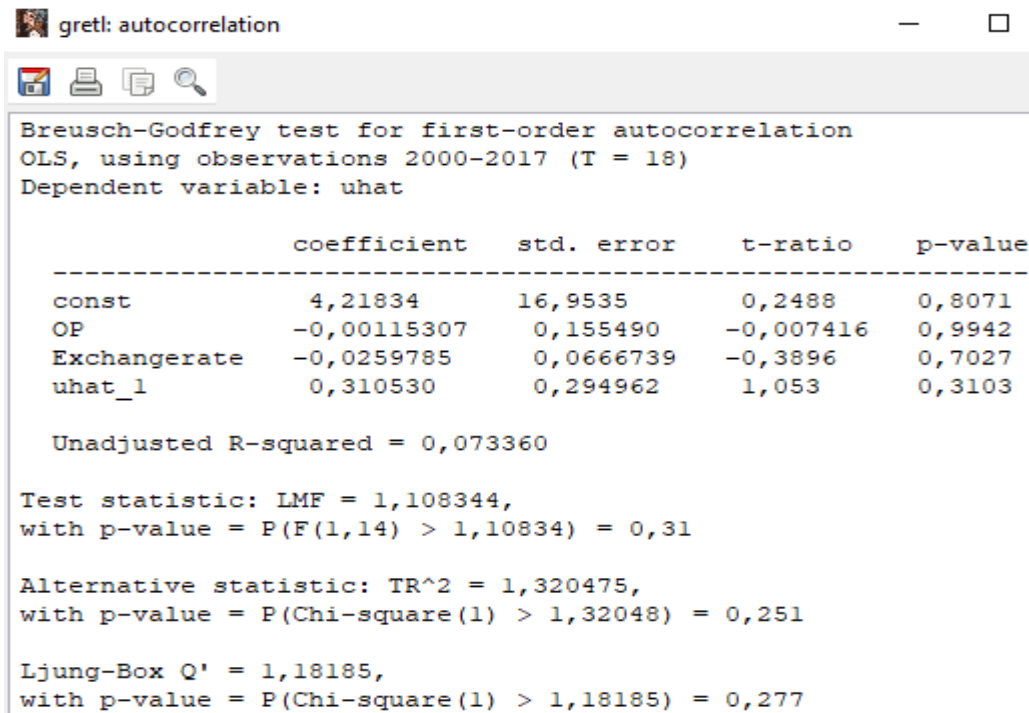
Model verification: The author chooses 5 % level of significance for all parameters to be verified.

Variable	P – value		Alfa	Accept/Reject	Significant/Insignificant
X _{1t}	2,25e-01	<	0.05	Accept	Significant
X _{2t}	4,18e-06	<	0.05	Accept	Significant

Source: based on Gretl data.

According to p-value,). Out of these two variables, the X_{1t} and X_{2t} are both significant in relation to Y_{1t}.

Autocorrelation: The author used Breusch-Godfrey test for first order autocorrelation of OLS.



```

Breusch-Godfrey test for first-order autocorrelation
OLS, using observations 2000-2017 (T = 18)
Dependent variable: uhat

-----
                coefficient      std. error      t-ratio      p-value
-----
const           4,21834          16,9535         0,2488       0,8071
OP              -0,00115307         0,155490       -0,007416    0,9942
Exchangerate   -0,0259785          0,0666739      -0,3896      0,7027
uhat_1          0,310530            0,294962        1,053        0,3103

Unadjusted R-squared = 0,073360

Test statistic: LMF = 1,108344,
with p-value = P(F(1,14) > 1,10834) = 0,31

Alternative statistic: TR^2 = 1,320475,
with p-value = P(Chi-square(1) > 1,32048) = 0,251

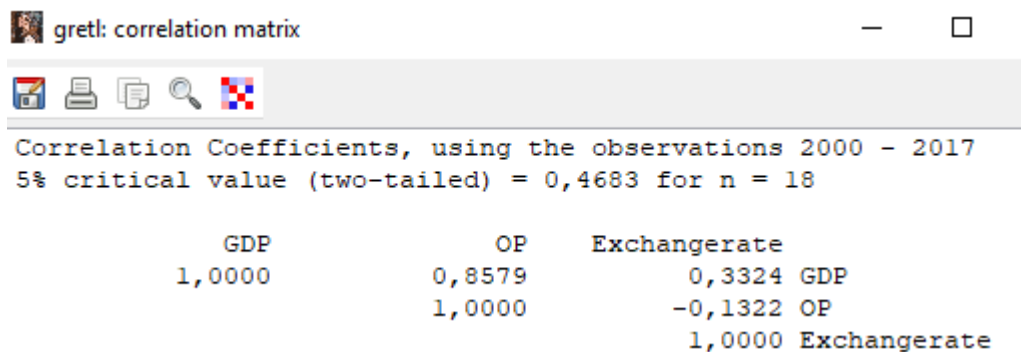
Ljung-Box Q' = 1,18185,
with p-value = P(Chi-square(1) > 1,18185) = 0,277

```

Source: Own Processing in Gretl.

Based on the very last variable uhat_1, its p-value equals to 0.3103, at 5 % significance. In that case we reject H1: There is autocorrelation.

Multicollinearity:



```

Correlation Coefficients, using the observations 2000 - 2017
5% critical value (two-tailed) = 0,4683 for n = 18

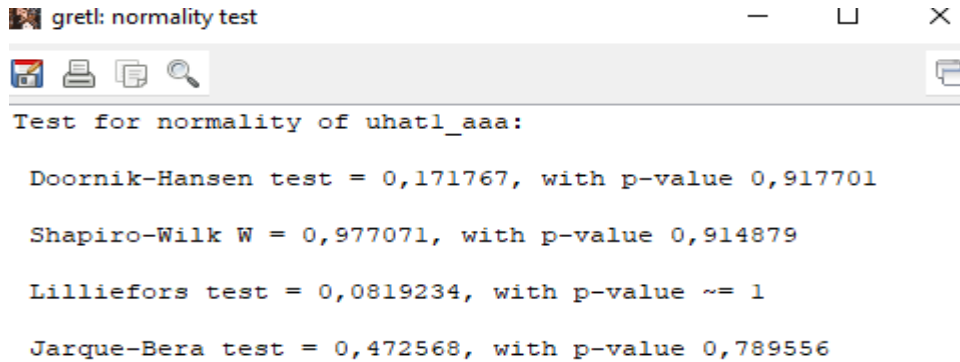
                GDP                OP                Exchangerate
1,0000          0,8579          0,3324 GDP
                1,0000          -0,1322 OP
                1,0000          1,0000 Exchangerate

```

Source: Own processing in Gretl

Based on the correlation matrix, we have the highest correlation between Oil Prices and GDP which is 0,86 %. However, the author doesn't not have multicollinearity of the data.

Test for normality:

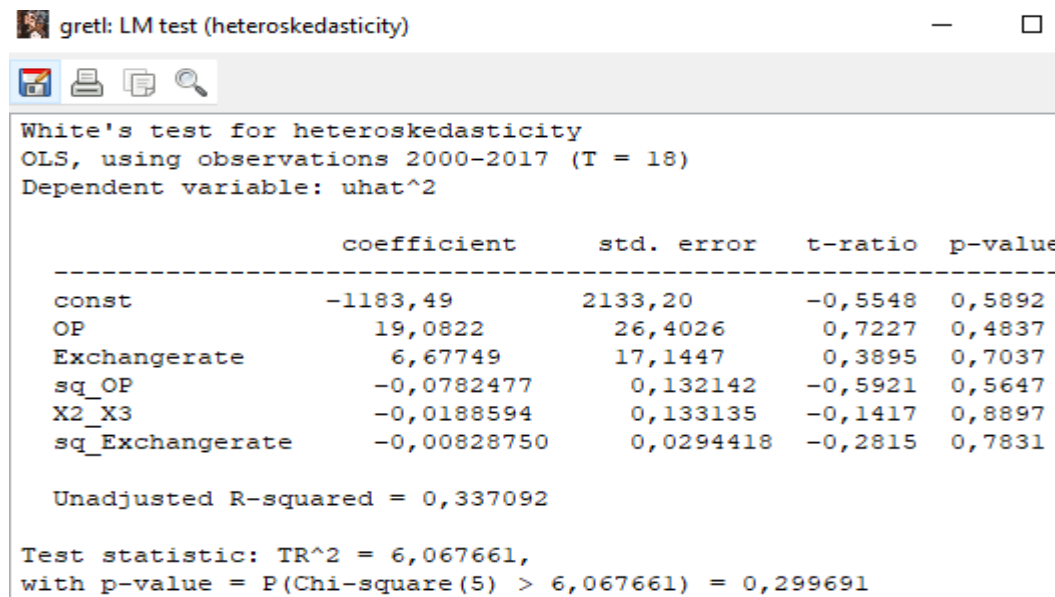


```
gretl: normality test
Test for normality of uhat1_aaa:
Doornik-Hansen test = 0,171767, with p-value 0,917701
Shapiro-Wilk W = 0,977071, with p-value 0,914879
Lilliefors test = 0,0819234, with p-value ~= 1
Jarque-Bera test = 0,472568, with p-value 0,789556
```

Source: Own processing in Gretl

According to Jarque-Bera test, the author fails to reject H_0 , thus the author concluded that the residuals are normally distributed.

Heteroscedasticity:



```
gretl: LM test (heteroskedasticity)
White's test for heteroskedasticity
OLS, using observations 2000-2017 (T = 18)
Dependent variable: uhat^2
-----
                coefficient      std. error    t-ratio    p-value
-----
const            -1183,49           2133,20      -0,5548    0,5892
OP                19,0822             26,4026       0,7227    0,4837
Exchangerate      6,67749             17,1447       0,3895    0,7037
sq_OP            -0,0782477          0,132142     -0,5921    0,5647
X2_X3            -0,0188594           0,133135     -0,1417    0,8897
sq_Exchangerate  -0,00828750          0,0294418    -0,2815    0,7831
-----
Unadjusted R-squared = 0,337092
Test statistic: TR^2 = 6,067661,
with p-value = P(Chi-square(5) > 6,067661) = 0,299691
```

Source: Own processing in Gretl

According to the White's test. The author takes as a measure of p-value = 0.29 which is higher than the set p-value 0.05. In that case, the author rejects the H_0 . The model is homoscedastic.

Considering regression results, (See Figure 5). The R-squared is equal to 93% and Adjusted R-squared is the same 93%. Both parameters are good. Which means that the author's model fits good with the data. The independent variables explained 93 % of variations in GDP, in Kazakhstan. The main regression results indicate that Oil Prices (OP) and Exchange Rate (Exchangerate) have positive effect on overall GDP. The null hypothesis in this case was also rejected that Oil Prices don't promote the economic growth. The high T-ratio of Oil Prices (14,19) confirms that the variable is indeed significant. Thus, GDP is affected positively by Oil Prices within a given time frame (2000-2017). Exchange rate however , showed also a big effect on overall GDP with the T-ratio (7.014) which indicated a big impact on GDP. The stated hypothesis turned out to be accepted.

6. Conclusion

This Master thesis aimed at assessment of economic situation and development of Kazakhstan based on Foreign Direct Investment and its main field of natural resources, specifically oil sector.

Every year increases the world's attention to the Republic of Kazakhstan, It is associated with a rapid development of the country in different areas on economic activity.

At the beginning the author analyzed and processed different literature paper and research papers that concerned a deep analyzing of Foreign Direct Investments and its impact on host country economy.

There are a large number of literatures that estimated the relationship between oil prices and GDP. Kazakhstan is on of the largest exporter of oil products. Before the estimation the author assumed that positive oil price shock has a positive effect on GDP of Kazakhstan.

Also, Foreign Direct Investment inflows were taken as a second indicator that effect GDP of Kazakhstan as well. The author assumed that the more inflows are coming in the stronger Kazakhstan's GDP becomes.

In both cases, the author applied the Linear Regression Model. The author evaluated both model by the main assumptions. All the assumptions were fulfilled and met to consider a model close to reality.

Based on the obtained results, the author concluded that within a given time period the economy of Kazakhstan is vulnerable to oil prices. Oil price as a variable turned out to be significant together with exchange rate. Hence, Oil prices can affect the economy of Kazakhstan positively. Hence, has more effect on GDP overall.

Given the importance of oil to the Kazakhstan's economy, the author recommends greater diversification of the economy through maintenance of the less attractive and less developed sectors. For today, the government of Kazakhstan already supports non-oil sectors. Of course, government efforts should be directed to reduce dependence on oil.

This Master thesis also engaged in research of the impact of Foreign Direct Investment on the Kazakhstan's economy. Most of the papers agree that impact of FDI on growth is positive but depends on economic, institutional and technological conditions in the host country. Based on LRM model, regression results indicated a positive effect on GDP. FDI in author's model was indicated as significant variable on 5% level of significance. Author's results confirmed that FDI has a direct positive effect on economic growth of Kazakhstan.

As a result of it, the author shows the performance of Chevron company on the territory of Kazakhstan and its impact on society. See the annual report of Chevron 2019.

Since its independence, the Kazakhstan was able to independently choose its own future way of country development. The problem of economic growth is the most relevant for any country in the world. There are different approaches to its definition, measurement any analysis. Creation of country's strategy focused on economic growth and to address the social and economic problems are even more challenging task.

Kazakhstan has adopted a course of the creation of its own economic model and the choice of a unified long-term stratagem "Kazakhstan -2030: where, Prosperity, Security and Ever-Growing Welfare of All the Kazakhstanis". The main idea on which the Strategy is based is the national unity of Kazakhstan.

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Appendix: Data collection

GDP in (million USD)	A (constant)	Inflows (billion USD)	Inflation %	Oil Prices (per Barrel/ USD)	Exchange rate (1USD to Tenge)	Period
18,292	1	2781	8,37	28,5	140	2000
22,152	1	4557	5,85	24,44	146,73	2001
24,636	1	4106	6,45	25,02	153,27	2002
30,832	1	4624	6,87	28,83	149,57	2003
43,15	1	8317	7,52	38,27	136,03	2004
57,123	1	7916	8,58	54,72	132,88	2005
81,003	1	12066	10,78	65,14	126,08	2006
104,306	1	19418	17,15	72,13	122,55	2007
133,44	1	21301	7,3	97,26	120,29	2008
115,306	1	21437	7,13	61,72	147,46	2009
148,052	1	22246	8,35	79,5	147,35	2010
192,627	1	26467	5,12	111,3	146,67	2011
208,002	1	28885	5,83	111,65	150,78	2012
236,633	1	24098	6,72	108,66	153,23	2013
221,417	1	23726	6,65	100,75	181,91	2014
184,387	1	15170	14,56	54,15	307,51	2015
137,278	1	20949	7,43	46,75	339,67	2016
166,806	1	20765	7,43	60,12	370,3	2017