

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

**Foreign trade impacts on economy of the Republic of
Kazakhstan (2010-2019)**

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BACHELOR THESIS ASSIGNMENT

Nikita Parkhachev

Business Administration

Thesis title

Foreign Trade Impacts on Economy of Kazakhstan (2010-2019).

Objectives of thesis

The main research method is the literature review, which includes an analysis of news branches, scientific treatises and articles, materials from the conducted international researches. Aim of the thesis is identify what industries drive an economic growth in Kazakhstan and positively influence on the development of foreign trade, identify major foreign trade impacts on the economy of Kazakhstan, investigate the Republic of Kazakhstan in the light of attractiveness for foreign investors.

Methodology

The thesis consists of two parts, theoretical part and practical part. Comparative and descriptive methods will be used in thesis.

The proposed extent of the thesis

35 – 40 pages

Keywords

Foreign trade, the Republic of Kazakhstan, foreign direct investments, economy, economic development, economic attractiveness, developing countries

Recommended information sources

Alfaro L., Charlton A. (2007). Growth and the quality of foreign direct investments: Is all FDI equal? Center for Economic performance. ISBN 978-0-85328-095-8.

Chan S. (2016). Foreign direct investment in a changing global political economy. Springer. ISBN 978-0-333-66476-6.

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DECLARATION OF AUTHORSHIP

I declare that I have worked on my bachelor thesis titled “Foreign trade impacts on economy of the Republic of Kazakhstan (2010-2019)” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague

Nikita Parkhachev

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Foreign trade impacts on economy of the Republic of Kazakhstan (2010-2019)

ABSTRACT

The following thesis would like to investigate aspects of foreign trade and its impacts on the example of the Republic of Kazakhstan through a deep analysis of its current economic situation, a role of foreign direct investments and challenges, which the country has met for the recent decades. The study is going to present some proper recommendations about how the foreign trade could be intensified in Kazakhstan and how the foreign direct investments could be increased sufficiently, based on the previous experience and a current economic situation in the country. This study summarises the major aspects and findings from existing articles and books and investigates a current situation with foreign trade means in Kazakhstan. The research has not only present arguments and data, but also a critical analysis of the current foreign trade situation in Kazakhstan and its attractiveness in a global market.

Key words: *foreign trade, the Republic of Kazakhstan, foreign attractiveness, economics, foreign direct investments, Dining theory, neoclassical model, endogenous model, investors, economy, CIS, Central Asia.*

Dopady zahraničního obchodu na ekonomiku Kazašské republiky (2010-2019)

ABSTRAKT

Následující práce prozkoumává aspekty zahraničního obchodu a jeho dopady na příkladu Kazašské republiky prostřednictvím širší analýzy její současné ekonomické situace, role přímých zahraničních investic a výzev, kterým se země v posledních desetiletích potýká. Studie představí několik správných doporučení, jak lze v Kazachstánu zintenzivnit zahraniční obchod a jak lze dostatečně zvýšit přímé zahraniční investice na základě předchozích zkušeností a současné ekonomické situace v zemi. Tato studie shrnuje hlavní aspekty a poznatky z existujících článků a knih a zkoumá současnou situaci s prostředky zahraničního obchodu v Kazachstánu. Výzkum obsahuje nejen argumenty a data, ale také kritickou analýzu současné situace zahraničního obchodu v Kazachstánu a jeho atraktivity na globálním trhu.

Klíčová slova: *zahraniční obchod, Kazašská republika, zahraniční atraktivita, ekonomika, přímé zahraniční investice, teorie stravování, neoklasický model, endogenní model, investoři, ekonomika, SNS, Střední Asie.*

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1. INTRODUCTION

1.1 Relevance of the topic

At the moment, considering gradual globalisation processes, a development of foreign trade and attracting more foreign direct investments is one of the major purposes of economic directions for modern countries. At the beginning of the XXI century, a lot of countries have shifted from a state of developing country to a status of transition economies to a developed condition. Generally, the major cause why so many modern states would like to have as many investments as possible and promote more opportunities for foreign trade is because it helps to solve a variety of serious financial issues, economic troubles and provide more effective ways and prospects for sufficient economic growth. Such position allows to boost a population's wealth, intensify a recognition of the nation in a global market and increase a position there¹. When the Soviet Union was collapsed, which was the greatest superpower with which the United States of America were involved in the Cold War processes, the post-Soviet countries were united and created a new union, which got a name of CIS (Commonwealth of Independent States). After the USSR collapse, these countries have met serious economic and financial problems with following political and social instabilities, which have taken a long period of time to be overcome. However, during the years the countries of CIS survived and now have relatively stable economic indicators and some of the states became attractive for foreign direct investment and claiming long-term foreign trade relations. Because of the internal factors, such as a wide range of natural resources, not so expensive job, and a perfect position from a geographical aspect as the CIS states are located in the middle of Eurasia continent, such attitude of other countries is obvious².

Undoubtedly, the Republic of Kazakhstan is a country, which is one of the most recognisable and economically developed countries in the Central Asian region. The country has a high number of natural resources, especially in energy sector, such as oil and gas, but also it is rather rich in agricultural directions and mining. After getting the independence Kazakhstan became an attractive country for foreign investors, such as Europe, China, Russia and the United States. One more sufficient detail is that the major economic direction

¹ Chan S. (2016). *Foreign direct investment in a changing global political economy*. Springer. Pp. 33-182

² Arazmuradov A. (2016). *Can development aid help promote foreign direct investment? Evidence from Central Asia*. *Economic Affairs*, Volume 35, Issue 1, pp. 123-136

of Kazakhstan is a free market, so the country is always open to new foreign trade opportunities and extension for different foreign markets for discovering its abilities and opportunities³.

Foreign trade gives a variety of great economic opportunities, a recognition of the country by a global community and an intensification of the international cooperation. Through foreign trade instruments the countries could improve a new production direction, obtain modern technologies, increase an involvement of the country to different efficient economic processes, modify a structure of industrial enterprises, provide qualified training facilities and get new products and services for a domestic market⁴. At a certain stage of early economic development, nearly all developed countries had foreign financing assistance. Many countries' international experiences show that foreign capital inflows have a positive impact on the economy of the host countries.

Eastern Europe and post-Soviet post-communist states which had faced a shortage of internal economy in market-building, required for rapid economic modernisation. Investment climate is a criterion for the maturity of market reforms, the confidence of the global community in property rights stability and a general situation in that country. That was a reason why foreign investors did not take Kazakhstan as a place for good business relations at the beginning of state independence⁵.

The Republic of Kazakhstan is the second country among the CIS and the Baltic countries, that got internationally recognised credit ratings. Argentina, Mexico, Turkey and Brazil had the same loan ratings over the time period for comparison purposes. Also, it should be noted that Kazakhstan was a new country in the international market and many creditors and investment holders still had no clear vision about possible investment-related country-specific risks. The Republic of Kazakhstan's investment climate was rather perspective, but not so unstable⁶. These unstable conditions have been followed by several negative moments, which have connection with an increasing number of foreign investments

³ Akpan U., Isihak S., Asongu S. (2014). *Determinants of Foreign Direct Investment in Fast-Growing Economies*, pp. 3-19

⁴ Ifaro L., Charlton A. (2007). *Growth and the quality of foreign direct investments: Is all FDI equal? Center for Economic performance*, pp. 1-44

⁵ Garcia F., Jin B., Salomon R. (2013). *Does inward foreign direct investment improve the innovative performance of local firms?* Research Policy, No. 42, pp. 231-244

⁶ Lall S., Narula R. (2013). *Understanding FDI-assisted economic development*, pp. 45-111

to the country. These factors were mainly caused by the government's domestic policy, which was adverse towards foreign trade.

1.2 Scientific novelty

Foreign trade is one of the most popular topics for the researchers, who investigate such fields as economics, finance, international relations, politics and other. In this regard, there are a lot of different qualified works and studies about foreign trade, which describe its lacks and benefits, an influence on the domestic and international economy, and also instruments how to intensify and increase a flow of foreign direct investments to a certain country. However, there are few studies about the foreign trade specifics and features in the Central Asian countries, especially, Kazakhstan, which seems to be one of the most developed states in this region. In addition, there is a lack of proper investigations, which can provide a good comparison of major economic instruments for foreign trade strategies and methods how to increase an attractiveness of the country for foreign direct investors and other stakeholders. Therefore, the following research would like to update an existing information, provide a new outlook on foreign trade in Kazakhstan and underline the reasons why this country is a perfect place for investors and conducting international trade activities.

1.3 Theoretical significance

For the following study it was selected a set of appropriate and relevant articles and investigation of both Kazakhstan and foreign authors and researchers, Internet resources and statistical data for a good information background. Taking into account that a topic of foreign trade is relatively informative, it met no lack of finding out necessary data and arguments. The theoretical significance of this thesis is a qualified and well-organised research of foreign trade means in Kazakhstan and the ways of a further improvement and strengthening a general investment environment in the country. After a deep analysis of the previous works and studies, it was detected that the researchers have investigated a development of foreign trade and its specifics on the case studies of other countries through a process of analysing the phases of its growth and spreading. In addition, the authors have applied a variety of updated instruments for making the country more attractive for foreign trade conduction and foreign direct investments, highlighted sufficient problems and recommendations for preventing issues between a foreign cooperation.

In this regard, this thesis would like to prepare a general overview of the most popular outcomes from the revised articles, including not only an information background, but an economic inquiry about a main impact of foreign trade means on the economic conditions of Kazakhstan, too. So, the research will unite both theoretical and statistical claims, based on the outcomes from different articles and research about foreign trade in the CIS, Central Asian and Kazakhstan markets.

1.4 Practical significance

The practical significance of the following thesis includes a development of proper recommendations about how the foreign trade could be intensified in Kazakhstan and how the foreign direct investments could be increased sufficiently, based on the previous experience and a current economic situation in the country. This study summarises the major aspects and findings from existing articles and books and investigates a current situation with foreign trade means in Kazakhstan. Therefore, it becomes obvious that the following research will be rather useful and informative for everyone, who analyses the same topic as foreign trade and foreign direct investments.

1.5 Structure

The current study has six major parts, such as introduction, objectives and methodology, literature review, research, discussion of the results and conclusion. First, an introduction part includes a short description of the work, methods and problems of a research, scientific novelty, theoretical and practical significance. Second, objectives and methodology part is about the major tools and instruments, which were used for applying the research. Third, a literature review part provides a brief analysis of foreign trade in the Republic of Kazakhstan. This chapter revises foreign trade activities in the country and analyses an influence of foreign trade on the economy of the Republic of Kazakhstan. Fourth, the research study part investigates foreign trade and economic growth, based on neoclassical and endogenous models. Fifth, a discussion of the results and recommendation part highlights a process of development of foreign trade in Kazakhstan, indicating the core peculiarities and discussion points of foreign trade aspects in the economy of the Republic of Kazakhstan and further directions for improving an economic attractiveness of the country in terms of the foreign trade. Finally, a conclusion part summarises general ideas from the whole study.

2. OBJECTIVES AND METHODOLOGY OF THESIS

2.1 Purpose

There are two major purposes of this study:

1. Reveal what specific economic industries drive an economic growth in the Republic of Kazakhstan and positively effect on a gradual development of foreign trade;
2. Reveal major influences of foreign trade means on the economy of the Republic of Kazakhstan.

2.2 Objectives

There are six major objectives of this study:

1. To give general information background and definitions of foreign trade;
2. To reveal an influence of foreign trade means on a gradual economic development of Kazakhstan;
3. To analyse core industries for a development of foreign trade means in Kazakhstan;
4. To discuss main drawback and discussion points of foreign trade growth and development in Kazakhstan;
5. To highlight possible directions for strengthening an economic attractiveness of Kazakhstan for foreign trade.
6. To research whether Kazakhstan can be emphasised as an attractive region for foreign trade development and implementation of foreign trade strategies.

2.3 Methods of research

For the following study it was decided to take a qualitative research method as a literature review and a theoretical analysis. First, the literature review includes an overview of a variety of relevant academic articles and scientific works, materials and arguments from the international studies and some official statistics from the governmental documents. Second, a theoretical analysis for the current research includes two major models, such as Neoclassical and Endogenous ones.

3. LITERATURE REVIEW

3.1 Definitions, features, and forms of foreign trade

Actually, foreign trade is the most important and oldest form of international economic relations, which is a combination of foreign trade of all countries of the world. At the present stage, a development of international trade determines the main trends in the functioning of the world economy. Initially, a participation of countries in the foreign trade is based on the international division of labor, which is a specialisation of certain countries in a production of individual goods and a subsequent exchange of these goods among themselves. As a result of international exchange, there is an increase in mass production, an introduction of new technologies, and an increase in employment. In turn, the country's participation in international trade contributes to an accumulation of capital in the country's economy, which increases domestic investment. Inter-country exchange occupies a special place in the international division of labour, the main motivation of which is a desire for economic benefits. The driving force of the international division of labour in the context of commodity production is a law of value, manifested in differences in the national and international cost of production of goods⁷.

The main forms of foreign trade are export (export of goods from a country sold to a foreign buyer for sale on the foreign market or processing in another country) and import (import of goods into a country for the purpose of acquisition). However, in modern trade practice, there are other forms of trade, such as re-export (the export of goods previously imported into the country for resale to other countries) and re-import (the return import from abroad of previously exported national goods). According to the world standards for foreign trade statistics, the key element for the recognition of foreign trade, the sale of goods by export, and the purchase by import is the fact that the goods cross the customs border of the state and record this fact in the corresponding customs reporting⁸.

In addition to normal export-import transactions towards sales of goods, each of which ends with the receipt or payment of a sum of money for an export or import product, the practice of international economic relations widely uses the so-called commodity exchange

⁷ Felipe J., Hidalgo C. (2015). *Economic diversification: implications for Kazakhstan*. Development and Modern Industrial Policy in Practice: Issues and Country Experiences, pp. 160-179

⁸ Lall S., Narula R. (2013). *Understanding FDI-assisted economic development*, pp. 45-111

transactions, or counter-compensatory trade. It includes the sale of goods, when there are counter-obligations of exporters to purchase products from importers for part or all of the value of the exported goods. All the variety of counter-transactions, depending on the organisational and legal basis or the principle of compensation, can be divided into three groups: trade transactions on a currency-free basis, trade compensation transactions on a monetary basis and industrial compensation transactions⁹.

Further, the main indicators of foreign trade include world trade, commodity and geographical structure of foreign trade, a growth rate of foreign trade compared to the previous year, a growth rate of foreign trade relative to production growth rate, terms of trade, foreign trade turnover, commodity and geographical structure of the country's foreign trade, a balance of foreign trade, export and import quotas. So, some of the indicators could be explained in more detail. First, this is a world trade, which is a set of foreign trade turnover of all countries of the world, a set of world exports and world imports. The nominal value of foreign trade is usually expressed in United States dollars at current prices, so it is highly dependent on the dynamics of the exchange rate of the dollar against other currencies. The real volume of foreign trade is a nominal volume converted to constant prices by a selected deflator. Second, this is a commodity and geographical structure of foreign trade. The commodity structure shows a share of certain goods in a total volume of foreign trade in goods. A geographical structure reflects a contribution of a foreign trade entity or country to its total volume. Third, this is a growth rate of foreign trade relative to production growth rate. This indicator characterises a productivity of production in the country and a few goods and services it can provide to a global market. In addition, it can assess an overall level of development of productive forces in the country from the standpoint of participation in foreign trade. Fourth, there are terms of trade, which mean a coefficient that establishes links between the average world prices of exports and imports of goods and services. Calculated as the ratio of export and import price indices for a certain period. If it equals one, it means a stability of international trade conditions and a maintenance of parity between export and import prices. With an increase in the coefficient, trade conditions improve, with a decrease, these conditions worsen. Fifth, this is a balance of foreign trade, which illustrates a difference between export and import of goods and services. If the export exceeds the import, the balance is positive, if the import exceeds the export, the balance is negative. Sixth, this is

⁹ Lall S., Narula R. (2013). *Understanding FDI-assisted economic development*, pp. 45-111

export and import quotas. The export quota is the ratio of exports to the country's gross domestic product (GDP), and the import quota is the ratio of imports to the country's GDP¹⁰.

3.2 Impact of foreign direct investments on the economic development of the country

Clearly, a majority of emerging and developing states have promoted its economies as a perfect place for foreign direct investments and foreign trade over the last years. It was chosen by the authorities as a significant source for economic development. The conventional methods for attracting foreign investors have included removing legal obstacles, granting tax exemptions, setting up special economic areas and investing in different infrastructures.

Finance's national identity, involved in the reproduction process, has no effect on its conditions or outcomes, influencing the country's economic development. In the process of reproducing and developing the national economies of the country, foreign investment, together with domestic investments, is involved. The policy of attracting foreign investments has become an element of economic policy of most countries, because it fosters an economic growth due to the importance of foreign direct investments. Foreign capital streams provide both foreign investors and host countries with a proper competitiveness¹¹.

Foreign investments are always welcomed in all countries, whose economies are open. Foreign investment serves as an impetus for the economic development of countries, especially developing countries. Foreign investment continues to increase rapidly, strengthening the role of international production in the world economy. It can be argued that the impact of foreign investment on the host economy is contradictory: it can be both positive and negative. Investing foreign capital increases a competitiveness of the host country. The flow of investments increases productivity. Investments also improve a quality of products, which affects the competitiveness of products, brings them to an international level, that is, expands ties with external markets. These positive effects of foreign capital investment are most significant for the host economy¹².

¹⁰ Iamsiraroj S. (2015). *Foreign direct investment and economic growth: A real relationship or wishful thinking?* Economic Modelling, No. 51, pp. 200-213

¹¹ Alquist R., Mukherjee R., Tesar L. (2014). *Liquidity-driven foreign direct investment*

¹² Cui L., Meyer K., Hu H. (2014). *What drives firms intent to seek strategic assets by foreign direct investment? A study of emerging economy firms.* Journal of World Business, No. 49, pp. 488-501

Despite the obvious advantages of introducing foreign investment, there are certain disadvantages. Foreign investment increases a demand for highly skilled labor, which increases a well-being of the population, as foreign investors pay higher wages than local firms. Accordingly, the profits of local firms are reduced due to an unfair competition. Foreign investment stimulates the production of intermediate products, as the demand for it is created. Local firms are forced to create additional production facilities, since they would not produce these goods in the absence of demand from foreign companies, countries. Another aspect of the negative impact of foreign investment on the economy of the host country is the effect of crowding out domestic investment by foreign investment, crowding out local firms by more competitive foreign firms, that is, local firms simply do not have the opportunity to develop, grow, break into the world market. This effect can be said to be highly ambiguous, since foreign investment can contribute to the development of domestic firms by increasing productivity, the external effect of technology transfer, which is one of the positive effects of foreign investment on the host economy. Today, with the globalization of the world economy, the flow of foreign capital between countries has reached a high level. The size of foreign capital operating abroad is huge. Each year, the international capital movement is estimated at about \$1.3 trillion, including direct investments, which are about \$0.25 trillion, portfolio - \$0.68 trillion. Only the volume of accumulated direct investment in the world is about \$3 trillion. The picture of modern international economic life is created by those companies that not only actively trade with foreign countries, but also actively invest there¹³.

Today investments are closely connected with other aspect of development of economy, such as a globalization, which often means a growing volume of trade turnovers goods, including services. Trade streams are the most obvious aspects of globalization. However, many analysts claim that the international investments can be a powerful instrument of advance to closer economic integration. Investments often change process of production after transfer of a know-how, new technologies and methods of management, bringing that for themselves much more changes, than simple increase in volume of trade.

¹³ Khan M. (2015). *Role of Human Capital and Foreign Direct Investment in Promoting Economic Growth: Evidence from CIS*, pp. 23-67

For the last decades, the direct investments grew more rapidly, than foreign trade or world production of products¹⁴.

The way of investment into foreign countries includes several methods.

First, there are commercial credits, which exist in the form of crediting by banks of the foreign companies and government institutes. Second, there are official cash flows. In many of the cases, it is a support of developing countries from the governments of the developed countries and international financial institutions. Third, there are foreign direct investments, which represent a form of the international investment, at which the investor draws interest from the share capital in the enterprise in other country. Foreign direct investments can consist in purchase or construction of factory abroad, an acquisition of fixed assets and introduction, or creation of new production. Fourth, there are portfolio investments, which consist in a purchase of financial instruments of the foreign company, which generally not necessarily should be long-termed ones. Portfolio investments can proceed from the pension fund of the small company or from the funds belonging to individuals. Income from portfolio investments consists of dividends and percent. The exact volume of portfolio investments difficult gives in to calculation, because of many involved tools and shortcomings of reporting system¹⁵.

Foreign investment also affects wages in the host country. This influence is expressed in several aspects. Firstly, it is generally accepted that foreign firms pay higher wages than local companies. Several explanations for this fact were suggested. So, it is assumed that foreign companies, in order to form public opinion in their favour, pay for the same work above. Another option suggests that the worker will prefer a local company, so in order to attract him, he needs to be offered a higher salary. In the third option, foreign companies pay more in order to reduce staff turnover, respectively reducing the speed of transfer of technology and ideas to the local economy. The fourth is that foreign firms are not familiar with the specifics of the labor market and are willing to pay more to attract more qualified personnel, while local companies can identify and hire workers of the same qualifications without offering them high wages. A number of researchers have shown that, on average, wages paid by foreign companies exceed the wages of employees of local companies of the

¹⁴ Blonigen B., Piger J. (2014). *Determinants of foreign direct investment*. Canadian Economic Association, pp. 775-812

¹⁵ Masahiro K., Kanda N. (2015). *ASEAN economic integration through trade and foreign direct investment: long-term challenges*, ADBI Working Paper Series, Tokyo, No. 545, pp. 3-29

same level of qualification, which may actually be related to the size of companies. However, a higher concentration of capital and higher productivity in the investing company should also be taken into account¹⁶.

Another important aspect of the impact of foreign investment on wages in the recipient country relates to the overall wage level in the industry. Study of wage dynamics in Mexico and Venezuela showed that the level of wages in the regions of Mexico, where the presence of foreign companies is large, was lower than the national average as a whole, but this value turned out to be statistically insignificant. In Venezuela, however, the negative impact of foreign presence on wages in local companies in the recipient countries was clear, partly due to the interception of skilled workers by foreign firms. Studies of many sources conducted by a number of specialists have revealed the mainly negative impact of foreign companies on the level of wages in local companies. However, for the labor market as a whole, without reference to industries, it is also possible to trace the positive influence of foreign companies on the average level of salaries, whether at the expense of higher wages offered by foreign companies, or at the expense of demand for skilled personnel. The negative impact on a particular industry outweighs the positive effect of increasing demand in the labor market as a whole¹⁷.

3.3 Analysis of foreign trade activities in the Republic of Kazakhstan

To start, in 1994 the First President of the Republic of Kazakhstan Nursultan Nazarbayev has announced the idea of creating a Eurasian integration project and outlined the key principles of the integration association, as well as the stages of its implementation. Today, Kazakhstan is a full-fledged member of the Eurasian Economic Union (EAEU). Like most Central Asian countries, Kazakhstan has a very small domestic market capacity. According to the Committee on Statistics, the population of Kazakhstan barely exceeds 18 million people, while the EAEU provides an access to the market of 183 million people with a total GDP of more than 1.8 trillion dollars. This moment increases the chances of the EAEU countries in attracting foreign investment. In addition, in 2015 Kazakhstan became the 162nd member of the World Trade Organization (WTO), which indicates its integration into foreign

¹⁶ Moon C. (2014). *Credible Commitment Institutions and Foreign Direct Investment: How Are Autocratic Countries Able to Attract FDI?* Florida State University Libraries, pp. 73-124

¹⁷ Moon C. (2014). *Credible Commitment Institutions and Foreign Direct Investment: How Are Autocratic Countries Able to Attract FDI?* Florida State University Libraries, pp. 73-124

trade. To this end, legislation was reformed in the areas of fiscal policy, customs, currency regulation, as well as in the field of protection of intellectual property rights. The main difficulty of joining the WTO was the coordination of customs tariffs within the EAEU. However, these discrepancies were eliminated by bilateral agreements between Kazakhstan and WTO members, as well as with the EAEU countries¹⁸.

Kazakhstan seeks to create a favourable positive image of the country in the international arena. In this regard, the country's participation in international integration projects is becoming increasingly important. Kazakhstan is also seeking permanent observer status in the four committees of the Organization for Economic Cooperation and Development (OECD). Kazakhstan is not a member of the OECD due to unresolved non-economic issues. However, the republic is actively cooperating with the OECD on a competitiveness program, which helps in unlocking the potential of economic development and employment growth, as well as in combating corruption and in transparency and the exchange of information on taxation. Kazakhstan's foreign economic relations are now largely diversified. Kazakhstan, which is exit to the sea, trades with more than 120 countries of the world. The country conducts an active and focused foreign economic policy, making the Kazakh economy open to international institutions¹⁹.

In recent years, Kazakhstan has traditionally developed three main areas of foreign economic activity - with the EU countries, the EAEU (the major share falls on Russia) and with China, while trying to increase the level of economic activity. However, changes in the global environment as a result of the process of globalization negatively affect the economy of Kazakhstan, as a result of which the Kazakh economy becomes more vulnerable. Currently, problems of foreign trade are worsening, negative risks are increasing, the arms race by the largest global players is gaining momentum, and the geopolitical situation remains unstable. All this affects the national economy of Kazakhstan. Thus, in 2016, the Kazakh economy developed against the background of a decrease in the level of business

¹⁸ Tarr D. (2016). *The Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can It Succeed Where Its Predecessor Failed?* Eastern European Economics, Volume 54, Issue 1, pp. 1-22

¹⁹ FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

activity with a slight growth rate of real GDP. As a result, Kazakhstan's foreign trade turnover fell by almost 20% compared to 2015, including a significant decrease in exports²⁰.

Kazakhstan is characterised by a high amplitude of fluctuations in foreign trade turnover. If from 2011 to 2014 the total trade turnover averaged \$127 billion annually, then (starting from 2015) there was a sharp decline in foreign trade volumes - almost double. A significant decrease in external trade was noted in 2016 (its lowest volume in 10 years). Such a sharp drop was due to volatility in prices in world markets (mainly for energy resources), as well as the devaluation of the national currency (1.5 times), which negatively affected the volume of foreign trade turnover. At the same time, the low competitiveness of Kazakh goods, as well as the underdevelopment of the real sector of the economy, create weak external demand, including from the EAEU countries. It should be borne in mind that the Kazakh economy is largely dependent on the export of metals and mineral resources, mainly oil²¹.

However, since 2016, there has been a positive dynamic in foreign trade indicators. Thus, at the end of the year, Kazakhstan's external trade turnover exceeded 77 billion dollars, which is more than the same indicator two years ago, when there was a significant decline in foreign trade. Considering the foreign trade turnover between Kazakhstan and Russia, it is worth noting that the dynamics of mutual trade after 2013 until 2017 had a negative trend, which is primarily due to the devaluation of the national currencies of both countries in the period under review. Since 2017, positive dynamics have been observed. Thus, there was a significant increase (by \$3.3 billion) in foreign trade turnover between Kazakhstan and Russia, which is associated with an increase in the volume of trade relations²².

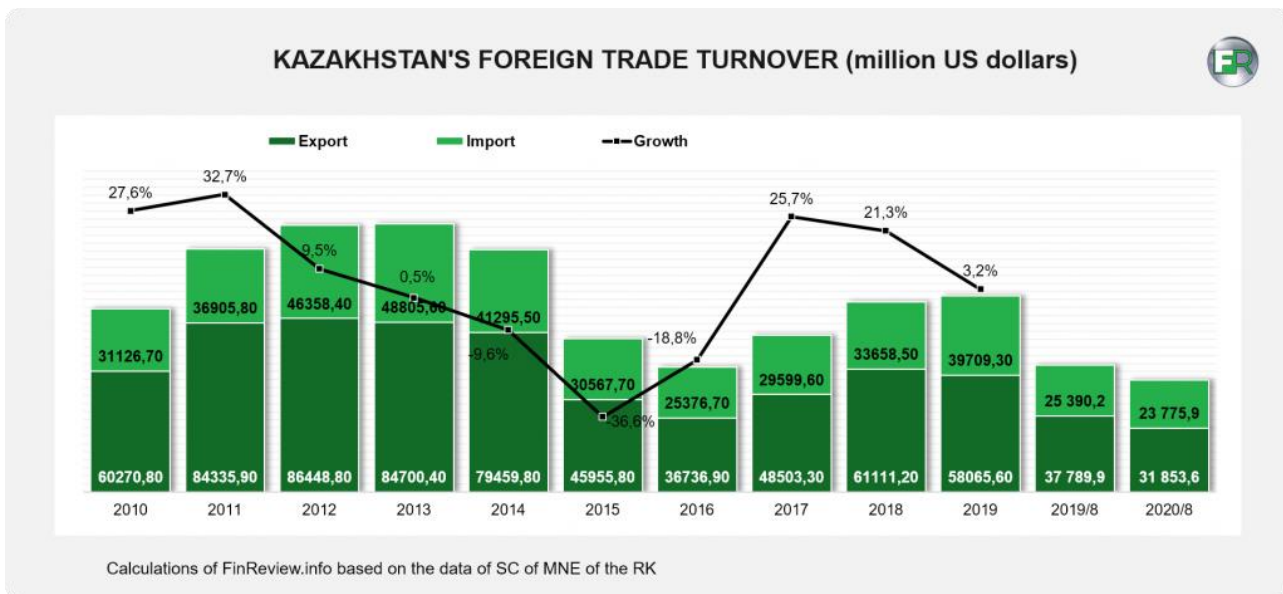
Taking into account the above data, it can be stated that in 2017 compared to 2016 in the foreign trade turnover of Kazakhstan there was a significant increase in the share of the EAEU countries. In addition, there is every reason to assume that this dynamic is likely to continue. Kazakhstan's exports are directly proportional to the dynamics of Kazakhstan's foreign trade turnover. Accordingly, the positive dynamics of export supplies, observed until

²⁰ Doskaliyeva B., Orynassarova Y., Omarkhanova Z., Karibayev Y., Baimukhametova A. (2016). *Development of the System of Investment Support of Projects in the Industrial – Innovative Development of Kazakhstan*. International Journal of Environmental and Science Education, Volume 11, No. 12, pp. 5109-5127

²¹ Toxeitov N. (2016). Foreign direct investment in Kazakhstan. pp. 17-54

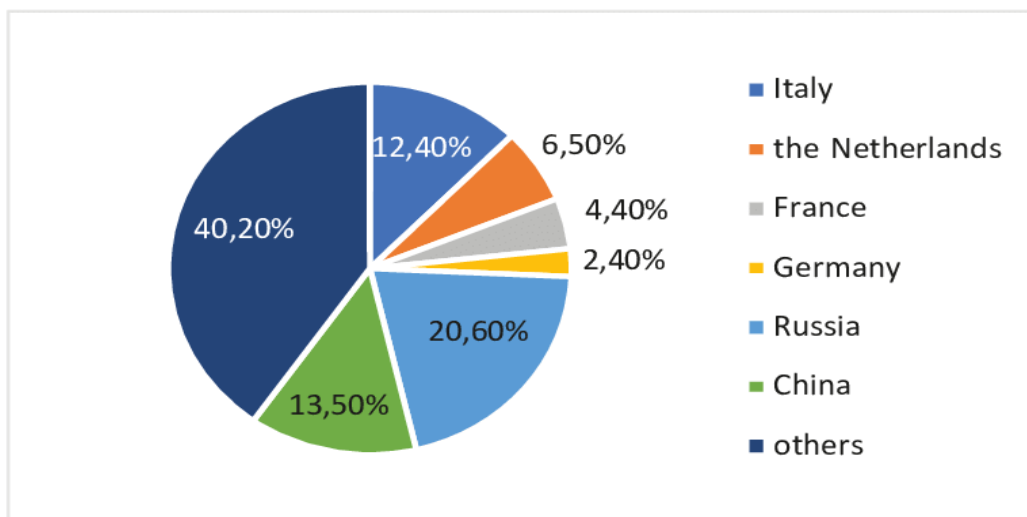
²² Tarr D. (2016). *The Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can It Succeed Where Its Predecessor Failed?* Eastern European Economics, Volume 54, Issue 1, pp. 1-22

the crisis of 2014, was replaced by a sharp drop in the volume of Kazakh exports (almost twice)²³. See Picture 1 below.



Picture 1: Kazakhstan's foreign trade turnover 2010-2020

The main countries - trading partners of Kazakhstan for exports - are Italy, China, the Netherlands, Russia, France and Germany²⁴. See Picture 2 below.



Picture 2: Trading partners of Kazakhstan

²³ FinReview (2021). Kazakhstan's Foreign Trade Turnover Decreased By 12%

²⁴ FinReview (2021). Kazakhstan's Foreign Trade Turnover Decreased By 12%

Metals and mineral products (about 80%) continue to account for a significant share of major commodity groups in exports. Most of Kazakhstan's exports are oil, gas, coal, ferroalloys, copper and a number of other metals. Now let's look at the import structure. Kazakhstan imports mainly from three groups of countries: the EAEU (42%), EU countries (20%) and China (16%). In the import structure, the product group “Machines, equipment and mechanisms, electrical equipment” traditionally leads. In comparison with exports, imports of goods and services have similar dynamics, but with the smallest amplitude. So, in 2016, the volume of imports amounted to about \$25 billion, which is 17% less than the previous period. At the same time, Russia remains the largest importer. It should be noted that Russia and China are still the main suppliers of imported goods to Kazakhstan, including machinery and equipment, textiles, chemical products, animal and plant products. Russia and Kazakhstan geographically have the longest continuous land border in the world. Historically, friendly relations have developed between them, so trade and economic ties are always marked by a high level of trust and the desire for mutually beneficial cooperation. Over the past four years, there has been an increase in the share of Russian goods and services in the country's structure of Kazakh imports. At the same time, European imports continue to decline annually²⁵.

In general, the decrease in imports in value terms is due to the devaluation of the national currency, as a result of which imported goods and services have become more expensive and inaccessible to enterprises and the population of the country. Meanwhile, the balance of foreign trade turnover, although declining, remains positive throughout the period under review. While exports have halved over the past seven years, imports have declined by just a quarter, keeping the trade balance positive despite downward momentum. If, according to the results of 2017, indicators of foreign economic activity, according to the national statistics of Kazakhstan, have a positive dynamic, then international rating studies show a less optimistic picture. Negative dynamics of macroeconomic indicators of the economy of Kazakhstan, including low economic growth rates (in 2016 - 1.1%)³, affected international ratings indices. So, in the ranking of “Doing Business”, formed by the World Bank, in 2017, Kazakhstan ranks 36th in terms of ease of doing business among 190 countries, including indicators: “Protection of minority investors” - the 1st place, “Execution

²⁵ O’Neill D. (2014). *Risky business economy of Chinese investment in Kazakhstan*. Journal of Eurasian Studies, Volume 5, Issue 2, pp. 145-156

of contracts” - the 6th place, “Registration of property” - the 17th position, “Receipt of loans” - the 77th line, and according to the indicator “Foreign trade” - only the 123 place²⁶.

According to a study conducted by the World Economic Forum in 2016, Kazakhstan occupies 88 positions among 136 countries of the world according to The Global Enabling Trade Index, falling by 5 positions compared to the previous rating of 2014. According to another study, according to the Global Competitiveness Index 5 in 2017, Kazakhstan fell by 7 positions compared to 2014, when it occupied the 50th line of the rating. The analysis shows that the Kazakh economy still remains dependent on the export of metals and mineral products, and the largest part of imports are processed goods from the EU, China and Russia. While in the first decades of Kazakhstan's independence in the development of foreign economic relations, emphasis was placed on expanding the scale of production and increasing the export of raw materials, now the policy in the field of attracting foreign capital is focused on the extensive expansion of production in the country. It is important to note that the current priority areas of attracting foreign capital coincide with the main areas of implementation of the State Program of Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019 (SPIID), among which the development of the manufacturing industry is planned to increase the volume of exports of processed goods. This is a key factor in creating an enabling environment for foreign investors²⁷.

In today's environment, the role of foreign direct investment is growing. In particular, in the context of the limited size of the domestic market, external integration through increased international trade and FDI will remain the main stimulus for the growth of Kazakhstan's economy in the next 10 years. To date, the world economy is actively engaged in the fight for FDI for economic growth and the realisation of economic potential. Despite a significant decline in FDI flows (an average of 20 per cent), developed countries remain leaders among investor and recipient countries. While in the early 2000s developed countries accounted for 82% of imports and 92% of direct investment exports, by 2016 these figures fell to 59% of imports and 72% of capital exports. The shift in the flow of direct investment was in favour of developing countries, where China today receives the bulk of foreign capital, which became first the “world factory”, and then the main world exporter of goods

²⁶ Kuznetsov A., Kvashin Y., Lukonin S., Chetverikova A., Shchedrin A. (2014). *Monitoring of direct investments of Russia, Belarus, Kazakhstan and Ukraine in Eurasia*, pp. 2-43

²⁷ FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

and services, overtaking the United States. At the same time, it was becoming one of the largest recipients of FDI. Even if we take into account that approximately 40% of FDI to mainland China comes from Hong Kong, but is included in statistics as foreign, the flow of investment from other countries is still very significant²⁸.

Economies in transition, although showing positive dynamics, are in much smaller proportions. Over the past 10 years, FDI flows have averaged 4 per cent of world FDI, with outflows ranging from 2 per cent. As in all previous years, Russia remains the leader among the post-Soviet countries in terms of inflows and outflows of direct investment. Economies in transition seek to take full advantage of their economic growth. The desire of Kazakhstan to act as a bridge between the West and the East seems rather logical. The peculiarity of geographical location, the presence of almost the entire table of Mendeleev in the bowels of Kazakhstan, the improvement of legislation in the tax, budget, currency, labor and customs spheres contribute to the deep integration of Kazakhstan into the world economy and the attraction of potential investors. In this regard, Kazakhstan seeks to adopt the experience of economic development of Asian countries by creating the Astana International Financial Centre²⁹.

One of the factors for improving the investment climate in Kazakhstan in recent years is the creation of free economic zones (FEZs) on its territory, mainly in large cities, including in the capital. FEZs are free trade zones that provide for customs preferences and tax benefits, which are recorded in the Tax Code of the Republic of Kazakhstan and in Law of the Republic of Kazakhstan of July 21, 2011 No. 469-IV “On Special Economic Zones in the Republic of Kazakhstan”. Other privileges of participants in some FEZs are the provision of land plots free of charge for up to 10 years, as well as the opportunity to invite foreign labor without first finding employees among the local population. This fact encourages foreign companies (in particular, TNCs) to transfer production to the territory of Kazakhstan³⁰.

Another important factor is ensuring direct dialogue between Kazakhstan and foreign investors. The Government has established special bodies to coordinate and support potential

²⁸ Toxeitov N. (2016). Foreign direct investment in Kazakhstan. pp. 17-54

²⁹ Pekkanen S., Tsai K. (2014). *The evolution of foreign direct investment in Asia. The Oxford handbook of the International Relations of Asia*, pp. 327-342

³⁰ Pekkanen S., Tsai K. (2014). *The evolution of foreign direct investment in Asia. The Oxford handbook of the International Relations of Asia*, pp. 327-342

investors, such 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, National Company KAZAKH Invest JSC under the Ministry of Investment and Development of the Republic of Kazakhstan, as well as the investment ombudsman. Taking into account the implementation of Kazakhstan's state development programs aimed at the formation of a competitive manufacturing industry, the transition to an environmentally friendly economy, active state support for foreign investors, Kazakhstan has a chance to get away from commodity dependence. Over the past two decades, Kazakhstan has strengthened its economic relationship with the whole world, one of the key factors of which is foreign investment. The flow of gross direct investment to Kazakhstan for 10 years averages almost \$22 billion annually. Currently, Kazakhstan has not reached the level of 2012, when the volume of direct investments reached record of \$29 billion. At the same time, net direct investment inflows to Kazakhstan's economy decreased by 2 times in 2017³¹.

Kazakhstan has developed two areas of FDI investment by country: the first to invest in existing companies (for example, in the oil industry), and then expand production; the second transfers production enterprises from other regions of the world to Kazakhstan. At the same time, while the first group of countries and companies has been developing activities since the independence of Kazakhstan, the investment activity of the second group of countries and companies is associated with the beginning of the implementation of the new state policy in the field of industrial and innovative development. Despite the successful implementation of the II five-year plan of SPIID, the share of investments in the oil sector (48%) still exceeds the volume of direct investments aimed at the development of other sectors of the Kazakhstan economy. Thus, we are still seeing a shift towards the development of Kazakhstan's mining industry³².

The main problem and threat of preservation of the raw material national economy of Kazakhstan lies in the unwillingness of the largest investors to invest in long-term and less profitable projects, in particular, in the manufacturing industry, in the field of high technology and others. On the one hand, the desire of foreign investors is justified, since the oil industry brings the greatest dividends at minimal cost. On the other hand, the state needs

³¹ FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

³² FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

to create favourable conditions for doing business in all sectors of the economy of Kazakhstan and increase the investment attractiveness of the country on the world stage. To this end, Kazakhstan is taking serious actions, including amendments to the Labour Code of the Republic of Kazakhstan. Kazakhstan still has a raw material industry, which is heavily dependent on the international situation of the extractive industry. Considering Kazakhstan as an investor in direct investments, it should be noted that in general the accumulated economic potential of national companies allows the country to invest in other countries. In particular, in China, which since the beginning of the 21st century has begun to implement a strategy of "transnational management," which includes several areas: foreign trade, foreign investment, the creation of TNCs. However, while Kazakhstan, like most countries in the post-Soviet space, accepts more investments than it invests in other countries³³.

³³ Mantel R. (2015). *EU-Central Asia Relations in the energy sector with a special focus on Kazakhstan*. Pp. 43-85

4. RESEARCH STUDY

4.1 Foreign trade and economic growth - Neoclassical model

The neoclassical theory of foreign trade was developed within the framework of the classical theory of foreign trade. Thus, one of its foundations is the Ricardian principle of comparative advantage in foreign trade. Based on this principle, one of the classics of economics, J. S. Mill in the XIX century for the first time in the world began to develop issues of capital movement between countries. Following D. Ricardo, he has showed that capital moves between countries due to a difference in the rate of return, which in the most capital-rich countries tends to decline. Moreover, Mill emphasised that the difference in profit standards between countries should be significant in order to cover the risk that a foreign investor has in a foreign country. English economists of the late XIX and early XX centuries, especially J. A. Gobson and J. Cairns, used the concept of J. B. Say about the factors of production, transferring it to international economic relations, including the movement of capital. Thus, J. Cairns formulated an important postulate for neoclassical theory on the alternative of international trade and the international movement of factors of production, that is, that under certain conditions the migration of production factors could replace foreign trade. Hence the interest of supporters of the theory under consideration in the issues of marginal productivity of factors developed in the works of the founders of marginalism as K. Menger, W. Jevons, and E. Böhm-Bawerk. At the same time, however, English economists recognised that production factors are low in international economic relations (unlike their great mobility within the country) and therefore their participation in these relations is small. Finally, the neoclassical theory of the international movement of capital was formulated in the first decades of the XX century by E. Heckscher and B. Ohlin, R. Nurkes and K. Iversen³⁴.

So, E. Heckscher within the concept and being guided by the theory of marginal utility formulated a thesis about a tendency to the international balance of the prices of production factors. This trend makes the way in life both through international trade, and through the international movement of factors of production whose cost and quantitative ratio are in different countries not identical. B. Ohlin showed in the theory of foreign trade that the movement of factors of production is explained by different demand for them in different

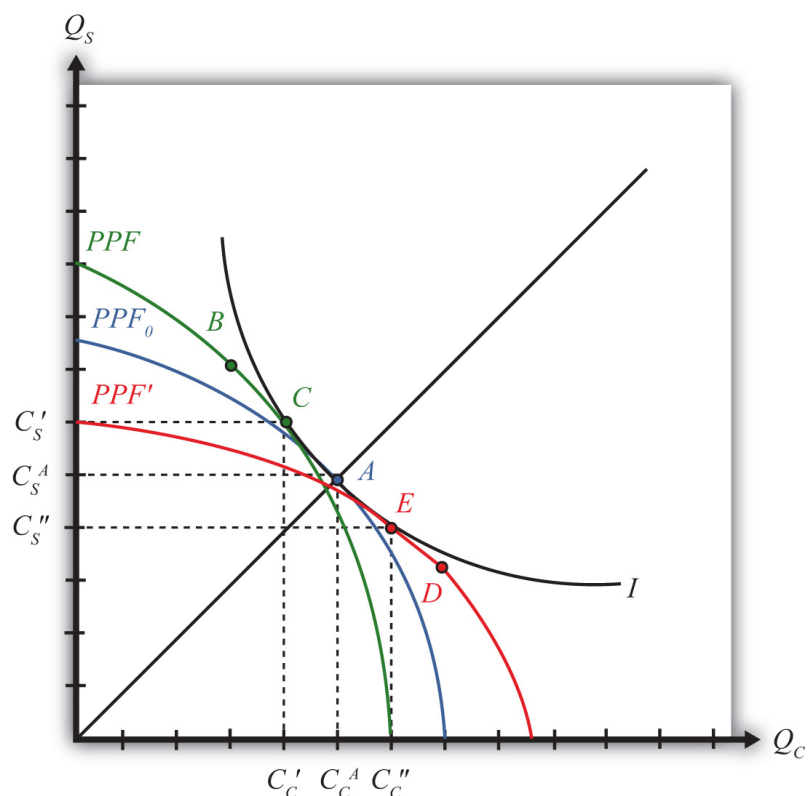
³⁴ Gandolfo G. (2021). The Neoclassical Theory Of International Trade. *International Economics*, pp. 33-75

countries: they move from there where their extreme performance is low, there, where it is high. For the capital extreme performance is defined by an interest rate. At the same time Ohlin pointed to the additional moments (besides a difference in interest rates) which influence the international capital flow: customs barriers (prevent import of goods and by that push foreign suppliers on capital inflow for penetration on the market), aspiration of firms to geographical diversification of capital investments, political differences between the countries, risk of foreign investments and their division on this basis on safe and risky. R. Nurksa created various models of the international capital flow and came to a conclusion that demand for the capital quickly grows in the country with quickly growing export of goods and she imports it. K. Iversen complemented the neoclassical theory with some new regulations, in particular, on division of the international capital flow into real and counterbalancing, which are necessary for regulation of the balance of payments. He also showed that the capital is reckoned different extreme international mobility (because of expenses of the translation of the capitals) and that the fact that the same country can actively take out and import the capitals is explained by it. Iversen accurately formulated a conclusion that the translation of the capital from the country where its extreme performance is low, to the country with higher performance means more effective combination of factors of production in both countries and increase in their comprehensive national income³⁵.

As the theory of labor value was supplanted in the West by various versions of the theory of factors of production, the concept of comparative expenses was significantly modified. They began to consider it from the point of view of the international distribution of factors of production or the relative abundance of factors of production. The neoclassical approach to foreign trade analysis differs somewhat from the views of classics in the theories of absolute and comparative advantages. First, if Ricardo has viewed the country as an ensemble formed by social classes with more or less antagonistic interests, then neoclassicists consider it as a kind of “super-individual”, which is both a producer and a consumer, as a single center for decision-making, acting as “one person”. Second, Ricardo explained the specialisation and production capabilities of countries mainly by technological differences, and not by the availability of production resources, which, in his opinion, can be produced. The point of view of neoclassicists is the opposite, but their opinion is that technology is the same everywhere, and the country's comparative advantages depend on the

³⁵ Gandolfo G. (2021). The Neoclassical Theory Of International Trade. International Economics, pp. 33-75

presence of factors of production. Third, unlike the labor theory of value, Ricardo neoclassicists consider the value of a product as a result of its usefulness, that is, the degree of satisfaction of the individual's need. At the same time, priority is given to demand: the goods have a price not because labor is spent on it, but because there is demand for it. In the 1920-1930 Swedish economists E. Heckscher and B. Ohlin developed neoclassical views on the nature of foreign trade, explaining why there are cross-country cost differences through Heckscher-Ohlin theorem³⁶. See Picture 3 below.



Picture 3: Heckscher-Ohlin theorem³⁷

Heckscher-Ohlin theorem states that since countries have different degrees and ratios of AF, each country seeks to export goods that use factors that are excessive for it and import goods that use scarce AF intensively. Exports of goods with high costs of relatively excessive factors serve as an export in the hidden form of the AF data themselves in exchange for importing the country's missing relatively scarce AF. The Heckscher-Ohlin model considers

³⁶ Batra, R., Casas, F. (1976). *A Synthesis Of The Heckscher-Ohlin And The Neoclassical Models Of International Trade*. Journal of International Economics, Vol. 6, Is. 1, pp. 21-38

³⁷ Batra, R., Casas, F. (1976). *A Synthesis Of The Heckscher-Ohlin And The Neoclassical Models Of International Trade*. Journal of International Economics, Vol. 6, Is. 1, pp. 21-38

two countries and two factors of production (labor and capital), with no overflow of factors from country to country, and the production function of each product in both countries is the same, that is, this amount of labor and capital produces the same number of goods there (in other words, the same technology is assumed). In addition, perfect competition is a prerequisite for analysis. This model functions schematically as follows. Capital-rich country A specialises in the production and export of capital-intensive goods. Demand for capital is growing, its price is growing. At the same time, a labour-rich country specialises in labour-intensive goods, resulting in increased demand and labour prices. As a result, the prices of factors of production in various countries are equalised, which means that the goods produced in them become equal in labor intensity and capital intensity³⁸.

The development of this concept went further along the path of taking into account new factors and conditions of production. In particular, comparative advantage factors, such as skilled and unskilled labour, human capital, land and other natural resources, structural shifts due to NTP, product lifecycle, etc. have been included in the models. The Heckscher-Ohlin theory still successfully explains the structure of inter-country exchanges in the world economy. Numerous comparisons of the structure of trade of various countries with the endowment of their respective production factors showed the fairness of the theory. The logical flawlessness of the Heckscher-Ohlin theorem was first questioned in the late 1940s. American economist of Russian origin Vasily Leontyev. With the help of the created intersectional balance model, he studied the structure of imports and exports and came to surprising conclusions, later called the Leontyev paradox. It turned out that US imports in 1947 were capital-intensive compared to exports, while the latter was characterised by a labor-intensive structure but compared to imports. This was impossible to believe at that time, since US technological leadership was undeniable, and according to the Heckscher-Ohlin theorem, on the contrary, the predominance of capital-intensive exports and labor-intensive imports was to be expected. Subsequently, Leontyev's calculations were repeated both by the author himself and other researchers, and the results refuting the theorem were confirmed both for the United States and for other countries³⁹.

³⁸ Batra, R., Casas, F. (1976). *A Synthesis Of The Heckscher-Ohlin And The Neoclassical Models Of International Trade*. Journal of International Economics, Vol. 6, Is. 1, pp. 21-38

³⁹ Batra, R., Casas, F. (1976). *A Synthesis Of The Heckscher-Ohlin And The Neoclassical Models Of International Trade*. Journal of International Economics, Vol. 6, Is. 1, pp. 21-38

The explanation of Leontyev's paradox boils down to the following provisions proposed by both the author himself and his critics. First, it is a differentiation of AF: it was necessary to take into account the quality and heterogeneity of such aggregated factors of production as labor and capital, in particular, it was necessary to divide the labor force into low and highly skilled ones. The United States and other highly developed countries export such labor-intensive products, which are dominated by a share of highly skilled labor. Consequently, developed countries could import capital-intensive products produced through traditional low-tech capital. Second, it is a reversibility of AF: the same goods can be labor-intensive in a labor-making country and capital-intensive in a capital-making country. For example, rice produced in a capital-efficient US country is a capital-intensive product because it is produced using advanced technology. The same rice produced in labor-surplus and capital-insufficient Vietnam cannot but be laborious, since it is produced almost manually. The reversibility of production factors was first proved by the American economist B. Minhas in the early 1960s⁴⁰.

If we use the methodological provision on the international division of labor as the basis of foreign trade, we can note that the vulnerable parties of the Heckscher-Ohlin theorem were to ignore the single division of labor. Indeed, the theorem assumes that factors of production are not subject to migration, so countries exchange such goods, the production of which is based on the full technological set of resources present in each country initially. While the increasing volume of exports of each country is the result of the import of foreign capital and international cooperation of production within the framework of a single division of labor. The theorem may explain the specialisation of a country based on an abundance of natural resources, but it is difficult to apply it to reproducible resources, such as capital, skilled labor, technology. Finally, the leading methodological premise of the neoclassical theory of international trade is the provision for exchange based on pure perfect competition, while many sectors of the world economy have long had an oligopolistic structure. The leading agents of international exchange are not states as a set of micro-units unconsciously subordinate to the wisdom of the "invisible hand" of the market, but the largest transnational

⁴⁰ Gandolfo G. (2021). *The Neoclassical Theory Of International Trade*. International Economics, pp. 33-75

companies engaged in a very concrete struggle against national governments and similar giants of world business⁴¹.

P. Krugman's contribution to the neoclassical theory of international trade. The 2008 Nobel Prize in Economics was won by Paul Krugman, an American scientist, professor at Princeton University, now better known as a publicist, leading his own column in the New York Times. The official wording of his Nobel merits is an analysis of the structure of trade and the location of centres of economic activity. In other words, for a new theory of international trade and a new economic geography. The presentation of the prize to P. Krugman was not a surprise - it was predicted two decades ago. The results he obtained in only two works, articles 1979 and 1980. [1], are so important and beautiful that it was clear: he will not remain without a prize. The first and only Nobel Prize in economics in the field of international trade was awarded to Bertil Ohlin back in 1977⁴².

Applying the theory of monopolistic competition to international trade, P. Krugman made it possible to enrich the Pache understanding of the mechanism of international commodity exchange. The scientist refuses the assumption of technologies with constant return, replacing it with the assumption of the existence of economies of scale internal to the company. Economies of scale mean that unit costs of production fall as the scale of production increases. The term “internal” emphasises that it is the scale of a firm's production that determines the level of unit expenses compared to the case of external savings, when only the size of the entire industry, and not a single firm, is decisive for the expenses of the firm. This difference is fundamental, since it determines the monopolisation of the industry. To avoid this problem, P. Krugman assumes the free entrance of firms into the market or if a representative firm has a positive profit in the economy, then there are incentives for the emergence of new firms. In substantiating this assumption, P. Krugman refers to the famous thesis of Chamberlin (1962): the increase in the number of firms in the market, caused by the excess of the monopoly price of goods over the firm unit expenses, contributes to the diversity of products produced, which leads to a drop in the demand for a single product to the extent that the price assigned by the monopolist, taking into account the shift in the demand curve for its product, becomes equal to its unit expenses. With free entrance of firms

⁴¹ Batra, R., Casas, F. (1976). *A Synthesis Of The Heckscher-Ohlin And The Neoclassical Models Of International Trade*. Journal of International Economics, Vol. 6, Is. 1, pp. 21-38

⁴² Gandolfo G. (2021). *The Neoclassical Theory Of International Trade*. International Economics, pp. 33-75

into equilibrium, zero profit of monopolist firm is achieved. This situation is called monopolistic competition. On the one hand, each producer is a monopolist, on the other, receives zero economic profit. The results of foreign trade exchange in conditions of monopolistic competition and economies of scale are as follows: (a) there is an increase in total sales; b) reduction of average expenses; c) price reduction; d) increased assortment of products⁴³.

If the country's foreign trade is based on economies of scale, it will be characterised by intra-industry specialisation in the production of a differentiated product. Such trade is possible even when countries have the same ratio of factors, but their firms produce different differentiated products. The areas of intra-industry exchange are unpredictable: it is impossible to say what kind of goods each country will produce. Therefore, intra-industry trade will always have an element of unpredictability and randomness. Thus, the main result of the Krugman model is the emergence of trade between absolutely the same countries, which can be interpreted as intra-industry. P. Krugman managed to demonstrate and explain the mechanism and reasons for the growth of intra-industry trade, primarily between similar countries. Such a statement of the question laid the foundations of a direction called the new theory of international trade⁴⁴.

4.2 Foreign trade and economic growth - Endogenous model

The next model for analysing foreign trade is an endogenous model. Modern analysis of international trade relations studies prerequisites, patterns and restrictions on the exchange of goods and services between economic entities, such as countries and firms. Its main tool is theories that focus on manufacturers, suppliers and buyers of goods and services on the world market: the theory of intersecting demand, the theory of the technological gap, intra-industry trade theory, product life cycle theory, new trade theory, competitive advantage theory, incomplete contract theory, spatial trade theory and other. All these theories go beyond the assumptions of classical economic theories of international trade, such as mercantilism, factor advantages and market equilibrium, and explain various aspects of the economic activities of economic agents that determine their competitiveness in the

⁴³ Gandolfo G. (2021). The Neoclassical Theory Of International Trade. *International Economics*, pp. 33-75

⁴⁴ Batra, R., Casas, F. (1976). *A Synthesis Of The Heckscher-Ohlin And The Neoclassical Models Of International Trade*. *Journal of International Economics*, Vol. 6, Is. 1, pp. 21-38

international arena, taking into account various factors: imperfection of markets, degree of competition, state economic policy, location of resources and production⁴⁵.

In general, world trade theories reflect different prerequisites, factors and implications of the international exchange of goods and services. In addition, theoretical optimums are not always achievable in practice. Both internal factors (and not only economic ones) and external changes (for example, changing demand for exported products in foreign markets) can be an obstacle. The effectiveness of theoretical tools depends on what limitations are observed in practice. The choice of theory in solving applied problems is also determined by the specific goals that are faced by participants in international trade relations. In any case, the application of a particular theory is primarily concerned with the task of optimising actions in the international arena⁴⁶.

Endogenous theory claims technological standards. Various characteristics of scientific and technological progress emphasise some of the potential roles that international trade could play in economic growth. First, the non-competitive nature of technology implies that to maximise the benefits of new ideas requires the integration of the vast majority of countries into the world economy. In addition, international trade increases competition between firms and industries that could narrow the gap between the creation of new ideas and their application. Increased communication between people and firms in different countries is also likely to increase the speed with which new ideas spread across industries, sectors and national economies. Advantages of free trade is a dynamic analysis in general. So-called implicit knowledge tends to spread more intensively when accompanied by trade or foreign direct investment. The fact that much of what is called knowledge or technology is not intended to be easily learned and copied also implies the important role of international trade. Trade allows countries to import products and equipment that already include knowledge and technology. When a country imports equipment, the technology built into the equipment can be applied simply with the equipment included. This is clearly easier than studying technology and using it to create a tool or equipment on its own. In addition, in the

⁴⁵ Cappelin R. (2014). *Growth in Post-Industrial Cities: An Endogenous Model*, pp. 505-524

⁴⁶ Long N., Wong, K. (1997). *Endogenous growth and international trade: A survey*, *Diskussionsbeiträge - Serie II*, No. 337, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz, pp. 1-64

event that technology requires implicit knowledge, international trade promotes establishing contacts between people necessary for the transfer of implicit knowledge⁴⁷.

The special nature of scientific and technological progress suggests that international trade offers opportunities for communication between different societies and increases the knowledge available to innovators and, therefore, stimulates the process of creating new combinations of benefits. Different countries have different sets of knowledge, since innovation is manifested in different ways everywhere. At the same time, combinations of more distant ideas may turn out to be more profitable and effective. Given these features, it can be concluded that open economies are characterised by higher rates of technologies than closed ones. This idea emphasises that technology allows open economies to achieve faster research and development. It is confirmed when foreign trade is included in the relevant rigorous models in the analysis⁴⁸.

Further, the production function is like a standard neoclassical one with some elements of technical progress, which is neutral to Harroda model:

$$Y_t = K_t^\alpha (A_t L_t)^{1-\alpha}$$

Investments can be illustrated as:

$$\dot{K} = sY_t - \delta K_t$$

Then, the population grows with a rate of a gain:

$$\dot{L}_t / L_t = n_{49}$$

Considering a technological progress, it is possible to include a function of training of an employee, which could be calculated in two major ways:

1. As a dependence on the total amount of the capital:

⁴⁷ Jensen, B., Zotti, J. (2021). *International Trade Models With Endogenous Term Of Trade, World Equilibrium Allocations, And Trade Patterns*, pp. 1-24

⁴⁸ Long N., Wong, K. (1997). *Endogenous growth and international trade: A survey, Diskussionsbeiträge - Serie II, No. 337*, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz, pp. 1-64

⁴⁹ Long N., Wong, K. (1997). *Endogenous growth and international trade: A survey, Diskussionsbeiträge - Serie II, No. 337*, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz, pp. 1-64

$$A = K^{\phi} \quad 50,$$

where \mathbf{f} is a learning efficiency parameter and elasticity of a stock of knowledge of the capital.

Return from training can be constant as $\mathbf{f}=1$, or decreasing one as $\mathbf{0} < \mathbf{f} < 1$.

So, if $\mathbf{f}=1$, then a production function will be look like:

$$Y_t = K_t L_t^{1-\alpha}$$

In this example there is no stable growth, so, obviously, a rate of a gain of release of constant increases and a rate of a gain of the capital looks like:

$$g_K = sL^{1-\alpha} - \delta$$

A gradual growth is possible only in that situation, when a rate of an increase in population will be equaled to zero. If there is a decreasing return as $\mathbf{0} < \mathbf{f} < 1$, then a production function is:

$$Y_t = K_t^{\alpha + \phi(1-\alpha)} L_t^{1-\alpha}$$

Then, a rate of a gain of economy will be possible with constant rate of a gain of release and the capital equal:

$$g_Y^* = g_K^* = \frac{1}{1-\phi} n \quad 51,$$

and a release per capita and capital are equal:

$$g_y^* = g_k^* = \frac{1}{1-\phi} n \quad 52$$

⁵⁰ Jensen, B., Zotti, J. (2021). *International Trade Models With Endogenous Term Of Trade, World Equilibrium Allocations, And Trade Patterns*, pp. 1-24

⁵¹ Long N., Wong, K. (1997). *Endogenous growth and international trade: A survey*, *Diskussionsbeiträge - Serie II*, No. 337, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz, pp. 1-64

⁵² Long N., Wong, K. (1997). *Endogenous growth and international trade: A survey*, *Diskussionsbeiträge - Serie II*, No. 337, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz, pp. 1-64

Thus, a rate of a gain of a capital positively depends on a learning efficiency during the practice and a rate of an increase in population.

2. as dependence on capital level:

$$A = k^\phi = \frac{K^\phi}{L^\phi}$$

In this situation, a return can also be decreasing or constant. If there is a constant return, then a production function will have the following appearance: $Y_t = K_t$ ⁵³.

Further, if it is an intensive form, a function will look like: $y_t = k_t$.

A steady rate of a gain of economy is equal to $g_y = s - n - \delta$.

A zero increase in population is: $g_y = g_y = s - \delta$.

Therefore, from this model, it is obvious that a proper rate of a gain is higher than equilibrium $g_{opt} > g_{eq}$. The major cause is that the government considers a social background accordingly⁵⁴.

⁵³ Jensen, B., Zotti, J. (2021). *International Trade Models With Endogenous Term Of Trade, World Equilibrium Allocations, And Trade Patterns*, pp. 1-24

⁵⁴ Long N., Wong, K. (1997). *Endogenous growth and international trade: A survey, Diskussionsbeiträge - Serie II, No. 337*, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz, pp. 1-64

5. DISCUSSION OF RESULTS AND RECOMMENDATIONS

5.1 Major drawbacks and discussion points of foreign trade in the economy of the Republic of Kazakhstan

Actually, there are many discussion moments towards how to make foreign trade means in the economy of Kazakhstan more beneficial and attractive for developed countries, which could become perfect partners and collaborators in a variety of economic strategies and international projects. Clearly, there are three moments, which should have highlighted.

1. The current economic conditions of Kazakhstan have no real conditions for activating foreign investments from authority and people.
2. Kazakhstan has a huge potential, but a low motivation to open up new horizons in its economic opportunities.
3. Kazakhstan has no effective instruments for strengthening its investment resources for a variety of production sectors and that is a major reason why the capital meets regular financial vulnerabilities.

These drawbacks determine a necessity to create a certain tool or a mechanism of a development of foreign trade policies, which would be capable to intensify and boost a potential of Kazakhstan.

5.1.1 OLI Paradigm of Dunning Theory

At this moment, OLI Paradigm of Dunning Theory should be mentioned towards a development of foreign trade prospects of Kazakhstan as a country with a huge economic potential. One of the most famous modern theories that claims to be a comprehensive explanation for the growth of foreign direct investment and the emergence of transnational companies is the so-called eclectic theory of J. Dunning. Since its author is a Senior Economic Adviser to UNCTAD, the impact of this theory can be seen in analytical reports and other publications produced under the auspices of this organisation. Historically, theories of foreign trade and the movement of factors of production between countries existed separately. J. Dunning tried to combine them in a single theoretical model. According to his theory, TNCs arise from the realisation of three advantages. First of all, the company must have a unique competitive advantage, for example, a patent or trademark, which allows it to successfully operate in the foreign market (property advantage). Then, from the point of view of the firm, it should be effective to operate foreign production assets plus or instead

of assets in a country (advantage of location). The reasons for the advantages of location may be transport expenses, the need to provide a service on the spot, bypassing tariff and other restrictions, access to the best price-quality factors of production and other. Finally, a firm should prefer its own control over the operation of a foreign production asset to transfer it under a contract to an external company (the advantage of internalisation)⁵⁵.

Applying Dunning's theory to the international expansion of companies, it can be seen that its proposed explanations are generally satisfactory. Indeed, if TNCs were completely identical to local companies, their entrance into the market of a foreign country would be associated with losses, since there are always, albeit reduced as a result of the development of internationalisation and globalization, but still the additional expenses of doing business in a foreign country are different from zero. These costs, known in the literature as alien costs, include communication and transportation costs, the additional cost of sending staff abroad, the cost of overcoming language, cultural, customs and other barriers, the cost of being outside the usual business and regulatory environment⁵⁶.

When developing an eclectic paradigm Dunning set several purposes: to integrate various approaches to the analysis of the international production, give the general analytical framework for empirical researches and to explain why and when the firm makes the strategic decision to supply foreign market through the foreign production, but not by means of export of goods, made in domestic market, or through licensing.

Dunning allocates three conditions, which have to be observed that the firm was involved in process of direct foreign investment:

1. The investing firm has to have true specific advantages of property (Ownership-specific advantages or O-advantages) which can be and can be not embodied in a form of assets and which provide competitive advantages over local firms in that market where it is supposed to make investments.

2. The host country has to have specific advantages of location (Location-specific advantages or L-advantages) in comparison with other countries, including the country of

⁵⁵ Eden L., Dai L. (2010). *Rethinking The O In Dunning's OLI/Eclectic Paradigm*. *Multinational Business Review*, 18 (2), pp. 13-34, taken from https://www.researchgate.net/publication/235287049_Rethinking_the_O_in_Dunning%27s_OLIEclectic_Paradigm

⁵⁶ Cruz C., Floriani D., Amal M. (2020). *The OLI Paradigm As A Comprehensive Model Of FDI Determinants: A Sub-national Approach* Dinor a Eliete Floriani. *International Journal of Emerging Markets*

the investor, which do it attractive to foreign investors and placement of the international production.

3. There have to be advantages of internalisation (Internalisation advantages or I-advantages), or advantages of implementation of certain transactions in firm (between various divisions) in comparison with implementation of these transactions in the market⁵⁷.

Summarising, the opinion could be emerged that the eclectic paradigm assumes that companies have advantages of property in comparison with the main competitors which these companies use, placing production in those places where advantages of location are had. Enterprises retain or hold control over the networks of assets (production, commercial, financial) thanks to advantages of internalisation. Often this approach is called by a “OLI paradigm”, or “advantages of OLI”, on the first three letters of necessary conditions: Ownership - Location - Internalisation. There is a variety of factors, which explain a process of the international production within a paradigm of advantage of OLI. Here there are also factors, which explain the initial act of foreign direct investments and also those advantages, which are connected with a general management of geographically scattered activity of the companies are included and more useful in an explanation of consecutive acts of the international production⁵⁸.

1. Ownership-specific advantages of a company of one nationality (or its branch) over a company of another nationality.

a. Property advantages arising from ownership of property rights and intangible assets (Qa), and a structure of resources (assets) of the firm, such as a product innovation, production management, organisational and marketing systems, innovative capabilities, organisation of work, unmodified knowledge: qualified human capital, marketing, finance, know-how and other, an ability to reduce expenses on intra-firm and inter-firm transactions.

b. Benefits of co-management (Ot), that is, combining advantage Oa with additional assets.

⁵⁷ Cruz C., Floriani D., Amal M. (2020). The OLI Paradigm As A Comprehensive Model Of FDI Determinants: A Sub-national Approach Dinor a Eliete Floriani. *International Journal of Emerging Markets*

⁵⁸ Eden L., Dai L. (2010). *Rethinking The O In Dunning's OLI/Eclectic Paradigm*. *Multinational Business Review*, 18 (2), pp. 13-34, taken from <https://www.researchgate.net/publication/235287049> Rethinking the O in Dunning's OLI/Eclectic Paradigm

First, there are the advantages that branch plants of existing firms have on new firms. These advantages are mainly the result or consequence of the size of the enterprise, product diversification and the experience of the enterprise, exclusive or favourable access to resources, such as human, natural, finances and information. There is also an ability to obtain resources on better terms (as a result of enterprise size or monopolistic influence), the ability of the parent company to establish productive and cooperative inter-firm relationships, an exclusive or favourable access to commodity markets, an access to parent company resources at marginal expenses and synergistic savings (not only in production, but also in purchasing, marketing, and financial agreements)⁵⁹.

Second, there are advantages, arising directly from a multinational nature of the firm. Multi-nationality includes an operational mobility or flexibility by providing greater opportunities for arbitration transactions, shifts in production and global supply of resources. In addition, there are better access to knowledge about the international market (information, finances, market relations), an ability to derive advantages from geographical differences in the availability of factors of production, an ability to diversify or mitigate risks and an ability to examine differences in organisational and management processes across societies and systems⁶⁰.

2. Internalisation incremental advantages (overcoming or exploiting market failures). Internalisation allows to avoid the cost of finding and negotiating partners, avoid the costs of moral damage and adverse selection, and protect the reputation of the internalised firm, avoid the expenses of breaking contracts and legal expenses, avoid uncertainty of the buyer's position regarding the quality and cost of resources, avoid a situation where the market does not allow discrimination in prices; derive savings from interdependent and interrelated activities, compensate for the lack of future markets, avoid or use government intervention in the economy (quotas, tariffs, price controls, tax differences, monitor the supply and terms of sales of resources (including technology), control markets (including those that can be

⁵⁹ Eden L., Dai L. (2010). *Rethinking The O In Dunning's OLI/Eclectic Paradigm*. *Multinational Business Review*, 18 (2), pp. 13-34, taken from https://www.researchgate.net/publication/235287049_Rethinking_the_O_in_Dunning%27s_OLIEclectic_Paradigm

⁶⁰ Cruz C., Floriani D., Amal M. (2020). The OLI Paradigm As A Comprehensive Model Of FDI Determinants: A Sub-national Approach Dinor a Eliete Floriani. *International Journal of Emerging Markets*

used by competitors), be involved in various kinds of activity, including cross-subsidisation, devastating pricing, transfer pricing as competitive or anticompetitive strategies⁶¹.

3. Location-specific advantages. These benefits include a geographical distribution of natural and established resources and markets, resource prices, quality and productivity (labour, energy, materials and components, semi-finished products), international transport and communications costs, incentives for investment and disinvestment (including production requirements), artificial barriers (import controls) to trade in goods and services, social and infrastructure conditions (commercial, legal, educational, transport and communication), intercountry ideological, linguistic, cultural, business and political differences, an economic system and management strategies, an institutional framework for resource allocation⁶².

Dunning allocates two types of advantages of property. The first type of advantages includes an exclusive possession of firm of assets (Oa or asset advantages), such as, for example, the special, available only for this firm technology. These advantages allow firm to create new assets, increasing thus the competitiveness. The second type of advantages of property arises owing to joint management within the company of the available assets (Ot or transaction costs minimising advantages) and also additional assets which can arise owing to cross-border activity. They include advantages of branches of already working firms over the new enterprises and the advantages arising directly from the enterprises⁶³.

The eclectic theory of international production should undoubtedly be recognised as a successful and well-working theory. The OLI paradigm introduced into scientific circulation is widely used by economists dealing with TNC activities and international direct investment. At any conference on international business, there are at least two or three works where Dunning's approach serves as a format within which new hypotheses and models are proposed⁶⁴.

⁶¹ Eden L., Dai L. (2010). *Rethinking The O In Dunning's OLI/Eclectic Paradigm*. Multinational Business Review, 18 (2), pp. 13-34, taken from https://www.researchgate.net/publication/235287049_Rethinking_the_O_in_Dunning%27s_OLIEclectic_Paradigm

⁶² Cruz C., Floriani D., Amal M. (2020). The OLI Paradigm As A Comprehensive Model Of FDI Determinants: A Sub-national Approach Dinor a Eliete Floriani. International Journal of Emerging Markets

⁶³ Eden L., Dai L. (2010). *Rethinking The O In Dunning's OLI/Eclectic Paradigm*. Multinational Business Review, 18 (2), pp. 13-34, taken from https://www.researchgate.net/publication/235287049_Rethinking_the_O_in_Dunning%27s_OLIEclectic_Paradigm

⁶⁴ Eden L., Dai L. (2010). *Rethinking The O In Dunning's OLI/Eclectic Paradigm*. Multinational Business Review, 18 (2), pp. 13-34, taken from https://www.researchgate.net/publication/235287049_Rethinking_the_O_in_Dunning%27s_OLIEclectic_Paradigm

Dunning's approach is also very attractive because he proposes to consider direct foreign investment as a consequence of the simultaneous existence of the advantages of ownership, location and internalisation. Dunning is thus trying to integrate micro- and macro-elements of analysis and explain international trade and international production in the same analytical format. Although Dunning prioritises internalisation theory over market power theory, it would be wrong to mix or identify an eclectic approach with that of internalisation, as is sometimes done in some literature reviews on the topic. The general nature of the eclectic paradigm has been repeatedly mentioned: it attaches equal importance to theories that emphasise the importance of the advantages of macroeconomic placement of international production, as well as the interaction between a firm and its macroeconomic environment. Thus, the theory of production belonging to foreigners stands at the intersection between the macroeconomic theory of international trade and the microeconomic theory of firm⁶⁵.

The strength of the eclectic paradigm is also that it can be seen as a dynamic approach in which the advantages of ownership, location and internalisation interact with each other. The eclectic paradigm states that the significance of each set of factors or advantages and the configuration between them will vary according to industries, regions or countries, as well as depending on the firms involved in international production. The advantages of country location can provide incentives for internalisation, while internalisation creates additional property advantages and promotes their effective use in conjunction with existing property advantages. Changes in outflows and inflows of country investment can be explained in terms of changes in the advantages of ownership of enterprises of a given country compared to enterprises of other countries, changes in the country's location assets compared to other countries, as well as changes in the internal organisation of assets within the firm⁶⁶.

The main doubt about this approach is whether it will be able to go somewhere further, beyond the boundaries of classification analysis, that is, simple taxa. Dunning himself

⁶⁵ Cruz C., Floriani D., Amal M. (2020). The OLI Paradigm As A Comprehensive Model Of FDI Determinants: A Sub-national Approach Dinor a Eliete Floriani. *International Journal of Emerging Markets*

⁶⁶ Cruz C., Floriani D., Amal M. (2020). The OLI Paradigm As A Comprehensive Model Of FDI Determinants: A Sub-national Approach Dinor a Eliete Floriani. *International Journal of Emerging Markets*

recognised this problem at the very beginning of research, when he wrote that by presenting a systemic theory, we admit that we are in danger of being.

5.1.2 Analysis of Kazakhstan's location determinants

Kazakhstan is one of the largest and most developed countries in Central Asia. It ranks the ninth one among the countries of the world in terms of territory and the fifteenth one in the Central Asia in a quantity of of population. The country's natural conditions and resources are diverse, which contributes to the development of multi-sectoral agriculture. Kazakhstan has significant natural resource potential. The population of Kazakhstan is characterised by high growth rates and uneven placement, which is explained by large natural features, historical and socio-economic conditions. The Kazakh nation, which has passed a long period of formation, in the process of which many tribes and peoples took part, occupies an important place in the history of Eurasia and is one of the oldest ethnic groups⁶⁷.

Kazakhstan has a sufficient and diverse natural base for development. Over the years of Soviet power, a powerful industry has developed in the country, and the specialisation of agriculture has been determined. The participation of the state in the international division of labor is determined by such branches of specialisation as non-ferrous and ferrous metallurgy, mechanical engineering, fuel, chemical, food industry. The agro-industrial complex relies on developed agriculture, which specialises in the production of grain and livestock products. Transport in the country is represented by all types. Rail plays a leading role. Kazakhstan has close economic ties with the countries of the Central Asian region, with Russia and with other CIS countries, China, Mongolia. Most of Kazakhstan's exports and imports are taught to CIS countries. The potential for further development of Ukraine's economic relations with Kazakhstan is significant⁶⁸.

Kazakhstan is located at the junction of two continents - Europe and Asia, between 45 and 87 degrees east longitude, 40 and 55 degrees north latitude. The geographical centre of the European-Asian subcontinent is located in Kazakhstan (at the intersection of 78 meridians with 50 parallels) - at the epicentre of the former Semipalatinsk atomic test site.

⁶⁷ Dalrymple R. (2014). *The impact of the Eurasian Customs Union on Foreign Direct Investment in Kazakhstan*. University of Washington, pp. 11-61

⁶⁸ Doskaliyeva B., Orynassarova Y., Omarkhanova Z., Karibayev Y., Baimukhametova A. (2016). *Development of the System of Investment Support of Projects in the Industrial – Innovative Development of Kazakhstan*. International Journal of Environmental and Science Education, Volume 11, No. 12, pp. 5109-5127

Kazakhstan covers an area of 2724.9 thousand square meters. km (1048.3 thousand square miles) and spread east of the Caspian Sea and the Volga plains to the Altai mountain from the foothills of Tian-Shan in the south and southeast to the West Siberian lowland in the north. The length of its territory from west to east exceeds 3,000 km (1150 miles), from south to north - 1700 km (650 miles). Kazakhstan is in ninth place in the world in terms of occupied area, it is one of the top ten largest countries in the world - Russian Ambassador, Canada, China, the USA, Brazil, Australia, India and Argentina. In the expanses of Kazakhstan, such seven major European states as France, Spain, Sweden, Germany, Finland, Italy and Great Britain, or such Asian states as Pakistan, Turkey, Iraq, Japan and Vietnam combined, would be combined. Only this can indicate the enormous potential of this region of the world⁶⁹.

In the east, north and north-west, Kazakhstan borders with Russia (the length of the border is 6477 km), in the south - with the states of Central Asia - Uzbekistan (2300 km), Kyrgyzstan (980 km) and Turkmenistan (380 km), and in the southeast - with China (1460 km). The total length of the borders of Kazakhstan is almost 12.2 thousand km, including 600 km along the Caspian Sea (in the west). Kazakhstan is located in the centre of the Eurasian mainland, at an almost equal distance from the Atlantic and Pacific Oceans and is also significantly remote from the Indian Ocean. Such a deep mainland location largely determines its natural conditions. More than a quarter of the territory of Kazakhstan is occupied by steppes, half - deserts and semi-deserts, the remaining quarter - mountains, seas, lakes and rivers. In Kazakhstan, forests and plantations are located on almost 22 million hectares, there are 11 thousand rivers and rivers, more than 7 thousand lakes and reservoirs; the plant fund exceeds 6 thousand species, the animal world is diverse. The terrain rises from vast lowlands below ocean level to the highest mountain ranges, reaching 5,000 meters. Its territory from north to south is divided into the following natural-climatic zones: forest-steppe, steppe, semi-desert, desert, then foothill and mountain zone⁷⁰.

On the territory of Kazakhstan, located between two regions of Eurasia that are very different in nature - Central Asia and Siberia, the influences of the air masses of the cold north and the sultry south are crossed. That is why the main properties of Kazakhstan's

⁶⁹ O'Neil D. (2014). *Risky business economy of Chinese investment in Kazakhstan*. Journal of Eurasian Studies, Volume 5, Issue 2, pp. 145-156

⁷⁰ O'Neil D. (2014). *Risky business economy of Chinese investment in Kazakhstan*. Journal of Eurasian Studies, Volume 5, Issue 2, pp. 145-156

climate are its sharp continental nature and uneven distribution of natural precipitation. Over its vast territory, spring in some years moves from south to north for 1.5-2 months (when spring sowing takes place in the south, in the north the land is still shackled with ice and snowstorms often rage). The lands of Kazakhstan are also represented by diverse soils: most of the forest-steppe zone is occupied by chernozems, to the south of them are dark chestnut, light chestnut and brown soils. Desert soils and semi-deserts are represented in the form of serozems. This is followed by mountain soils. Crossing the territory of Kazakhstan from north to south, you fall not only in various climatic zones, but also in the same diverse territories that each have its own flora and fauna⁷¹.

5.2 Directions for improvement of an economic attractiveness of the Republic of Kazakhstan for foreign trade

After gaining independence in 1991, Kazakhstan faced serious economic challenges. Ultimately, in 2006, revenues from exports of oil, gas and other commodities, along with the implementation of structural reforms, helped Kazakhstan to reach the above-average income level. Today, Kazakhstan is a major economic and political power in Central Asia. Over the past two decades, in parallel with the growth of incomes and the decrease in the unemployment rate, the quality of life of the average Kazakhstan people has significantly improved. Nevertheless, Kazakhstan continues to work to diversify the economy, strengthen institutions and balance regional imbalances between several economic centres and the vast periphery, where public services are not fully and adequately provided. The economy relies heavily on hydrocarbons and capital-intensive extractive industries. Over the past 25 years, agricultural and manufacturing performance has declined in extractive industries account for about 30% of GDP and almost a half of budget revenues and more than two-thirds of exports⁷².

Excessive dependence on commodity exports has made Kazakhstan's economy vulnerable to external shocks. GDP growth slowed significantly due to falling commodity prices following the global financial crisis of 2008. A similar trend was observed after the decline in oil prices and the slowdown in the growth of the economy of the main trading partners in 2014, when the deficit in export income led to a decrease in revenues to the

⁷¹ Doskaliyeva B., Orynassarova Y., Omarkhanova Z., Karibayev Y., Baimukhametova A. (2016). *Development of the System of Investment Support of Projects in the Industrial – Innovative Development of Kazakhstan*. International Journal of Environmental and Science Education, Volume 11, No. 12, pp. 5109-5127

⁷² Forbes Kazakhstan (2017), *Impact of foreign investments in Kazakhstan*. No. 3 (March, 2017), pp. 14-16.

National Fund of the Republic of Kazakhstan, a decrease in budget revenues, a decrease in investments and an increase in pressure on the exchange rate. Such changes contributed to the decision of the National Bank of Kazakhstan (NBK) on the transition to a floating exchange rate regime, combined with monetary policy focused on interest rates. This led to exchange rate adjustments and protracted inflation due to the large share of imported goods. The long-term impact of these external economic shocks significantly affects the results previously achieved by Kazakhstan in terms of economic development and inclusiveness⁷³.

Over-reliance on exports of natural resources has increased the value of non-internationally traded goods, making the creation of a competitive manufacturing sector a challenge for Kazakhstan. The manufacturing sector has failed to generate high productivity and employment growth. Similarly, diversification of the service sector to provide high-tech services with high export potential requires greater expansion. To increase labor productivity and resilience to external shocks, Kazakhstan needs to increase production capacities in the field of goods and services for foreign markets. A diversifying economy facilitates adaptation to a changing external environment, which in turn reduces vulnerability to commodity price shocks and increases economic resilience. In the aftermath of the 2014 oil price shock, the Government launched the Nurly Zhol program for 2015-2019, a \$9 billion economic stimulus package to improve transportation and logistics capacity, economic and social infrastructure, and support small and medium-sized enterprises (SMEs) and business activities as a whole. Nurly Zhol has shown efficiency in increasing public investment and subsidising loans for certain business representatives. At the end of 2016, implementing measures to support housing construction and housing provision through subsidising interest rates, the government launched the Nurly Jer program. In addition, in order to reduce the vulnerability of the economy, the Government also strengthened its state program for new industrial development and launched institutional reforms and new plans for the privatisation of state enterprises (SEs)⁷⁴.

Despite some early privatisation efforts, SEs continue to dominate various sectors. They tend to be large organisations that do not have incentives to continuously improve the quality and efficiency of services and products, while their tariffs and prices often remain

⁷³ Dalrymple R. (2014). *The impact of the Eurasian Customs Union on Foreign Direct Investment in Kazakhstan*. University of Washington, pp. 11-61

⁷⁴ Tarr D. (2016). *The Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can It Succeed Where Its Predecessor Failed?* Eastern European Economics, Volume 54, Issue 1, pp. 1-22

below self-sufficiency. These factors have hampered the stimulation of innovation and increased participation of the private sector in the economy, especially SMEs. As an example, in 2015, gross value added generated by SMEs was only 24.9 per cent of GDP, of which medium-sized enterprises accounted for less than 5 per cent of GDP and small businesses were represented mainly by individual entrepreneurs with low productivity⁷⁵.

Since 2011, Kazakhstan has consistently experienced a low unemployment rate (below 5 per cent), with a fourth of those employed being self-employed. The participation of the population of working age in the number of employed is 71.1%⁸, while Kazakhstan has the highest share of women in the number of employed in Central Asia. However, the gender pay gap remains a concern, with women earning a percentage of what men earn. Kazakhstan has an educated workforce due to the high level of educational coverage, but the country has a low assessment of the quality of education, which is an obstacle to private sector operations, especially in rural areas. There are also problems due to the mismatch of qualifications, since the labor market profile indicates a high demand for low-skill specialists and a weak demand for high-skilled labor, despite the fact that enrolment indicators show a downward trend in technical and vocational education at a lower level⁷⁶.

Most of the added value of the republic falls on two main cities - Astana and Almaty, as well as on oil producing regions. As a result, income and access to quality services are unevenly distributed across 14 regions and two cities of Kazakhstan. Low agricultural productivity and poor sector governance limit income opportunities in rural areas, hampering rural growth and inclusion. For example, in 2013, wages paid to workers in the agricultural sector, where most self-employment is concentrated, were 90% lower than the national average. Moreover, a significant but declining share of the self-employed population - from 29.5% in 2014 to 13.6% in 2016 - earns less than the subsistence minimum, which is low - in 2016 it amounted to 21,612 tenge per month (equivalent to 63.2 dollars. US \$ or US \$2.1 USA per day). According to the indicators of the same year, the average monthly salary also varied greatly by region: from an indicator 6.2 times higher than the subsistence minimum - in Atyrau to 2.2 times - in South Kazakhstan⁷⁷.

⁷⁵ Forbes Kazakhstan (2017), *Impact of foreign investments in Kazakhstan*. No. 3 (March, 2017), pp. 14-16.

⁷⁶ Toxeitov N. (2016). Foreign direct investment in Kazakhstan. pp. 17-54

⁷⁷ Toxeitov N. (2016). Foreign direct investment in Kazakhstan. pp. 17-54

There are differences between regions of Kazakhstan are related to unequal access to quality social and urban services outside large cities. Most of the networks and enterprises of water supply and sanitation, solid waste processing, district heating and urban road infrastructure of secondary regional centres were built in Soviet times and are in worn-out condition; a similar situation is observed in small towns and agglomerations. In addition, the availability and quality of medical care in rural areas is significantly worse than in urban centres. For example, in 2014, the average number of doctors was 46 per 10,000 people in urban centers, and only 11 doctors per 10,000 people in rural areas. This situation led to significant differences in health indicators, such as, for example, maternal mortality, which ranged from 5.1 deaths at the 100,000 of childbirth in Almaty and 25 at the 100,000 of childbirth in Atyrau and Akmola regions⁷⁸.

Before 2015, Kazakhstan had achieved most of the initial and additional Millennium Development Goals (MDGs), such as poverty reduction, access to primary education, promoting gender equality and the empowerment of women, and improving the well-being of children and motherhood. However, environmental sustainability has only been partially achieved. High economic growth before oil prices fell in 2014 led to negative external impacts, such as industrial and household waste pollution, the combination of coal-fired energy with virtually no renewable energy sources and high energy consumption due to unsustainable use and subsidisation. The poor in the countryside suffer the most from these effects because their income prevents them from acquiring expensive substitutes or moving to another area. Pollution is increasingly affecting the quality of life, especially in cities where rising levels of air pollution from stationary and mobile sources, as well as solid waste processing, are a growing concern. Although Kazakhstan has a relatively low vulnerability to climate change, expectations are that the frequency and scale of extreme climatic events, such as heatwaves, heavy snowfall and rain, as well as floods, will increase over time, also affecting cities such as Astana and Almaty, and the surrounding area. In addition, agricultural, water and transport facilities remain vulnerable to risks associated with uncertain changes in future rainfall, increased dryness and extreme weather conditions⁷⁹.

⁷⁸ Forbes Kazakhstan (2017), *Impact of foreign investments in Kazakhstan*. No. 3 (March, 2017), pp. 14-16.

⁷⁹ Tarr D. (2016). *The Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can It Succeed Where Its Predecessor Failed?* Eastern European Economics, Volume 54, Issue 1, pp. 1-22

Kazakhstan, which has the largest economy in Central Asia in terms of GDP and territory, is an important and active participant in the CAREC program. Although to date Kazakhstan has already benefited from the implementation of the programme, in particular through CAREC corridor transport projects, it has yet to make the most of strategic position to facilitate unimpeded cross-border trade and establish regional and global value chains. In 2014, Kazakhstan joined the Eurasian Economic Union (EAEU), and in 2015 - the World Trade Organization, while Kazakhstan remains committed to accelerating the process of integration and cooperation between the countries of Central Asia and the rest of the world. Kazakhstan also intends to join the OECD as a full member. It is expected that the upcoming TsARES-2030 strategy will contribute to the transformation of Kazakhstan's transport corridors into economic corridors, the opening of new opportunities for trade and business in Central Asia. In addition, as CAREC activities expand and projects are phased in under the "One Belt, One Road" initiative, Kazakhstan's regional economic role is expected to increase significantly, as the country plays an increasingly important role as a hub with transit and logistical infrastructure, which can generate positive external effects and regional public goods, connecting the countries of Central Asia with each other and with neighbouring regions. Kazakhstan also enjoys an advantageous position in terms of the development of regional financial integration between the countries of Central Asia, including through the International Financial Centre of Astana⁸⁰.

⁸⁰ Forbes Kazakhstan (2017), *Impact of foreign investments in Kazakhstan*. No. 3 (March, 2017), pp. 14-16.

6. CONCLUSION

To conclude, one of the priority areas for the development of the economy of Kazakhstan is stimulating foreign trade and attracting foreign investments. As shown by the world experience of many countries, an influx of foreign capital and the government regulation of its use have a positive impact on the economy. Investments contribute to the formation and strengthening of private entrepreneurship in countries with medium and low levels of economic development, mobilise capital for serious projects, the creation of mixed companies, and loan capital markets. The strategy and tactics of overcoming the crisis depend on how successfully Kazakhstan's economy will integrate into world economic relations⁸¹.

The main positive aspect of the impact of foreign trade on the host economy is its impact on the level of investment activity in the country and, as a result, on increased economic growth. Given the lack of investment resources in the country, or their limitations in the country's economy as a whole, foreign investment in some of its sectors partially fills the investment gap. Growth in investment activity leads to GDP growth. Another aspect of the influence of foreign trade on the host economy is its impact on the use of labour and material resources. It is widely believed that foreign trade, expressed both in capital inflows and the creation of modern industries and in the transfer of advanced technologies, is creating a new type of workforce in the host economy comparable to world standards. On the one hand, this is true: workers are adapted to the regime and nature of work in modern market conditions (even within the framework of one enterprise). Also, foreign investors contribute to the creation of new jobs, despite the use of labor-saving technologies⁸².

The investment sphere in the economy of any country is the main one and determines an economic growth of the country, and investment policy is the priority area of economic policy. This is evidenced by world practice. It is noted, for example, that for each percentage of GDP growth, a country that is meeting the challenges of economic growth should allocate at least 3% of GDP for productive investment. Foreign trade activities in Kazakhstan are aimed at revitalising a reproduction process through internal and external sources of financing. Therefore, the state is committed to fully attracting foreign capital, creating a set

⁸¹ FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

⁸² Toxeitov N. (2016). Foreign direct investment in Kazakhstan. pp. 17-54

of attractive factors for this moment. The government is trying to create all conditions for foreign investment, which is the basis, one of the areas of mutually beneficial economic cooperation between the countries. With the help of foreign investments, it is possible to improve the production structure of the economy of Kazakhstan, create new high-tech industries, modernise fixed assets and technically re-equip many enterprises, train specialists and workers, introduce advanced achievements in management, marketing and know-how, fill the domestic market with high-quality goods of domestic production with a simultaneous increase in exports to foreign countries⁸³.

The importance and importance of foreign trade development for the Kazakhstan economy can be confirmed by the following factors: insufficient domestic resources of the country at the time of initial attraction of foreign investment in the form of loans from international financial institutions, an ability to attract foreign direct investment in large investment projects, an access to the latest technologies, techniques, progressive forms of production organisation and a development of international economic relations. Thus, the surge of foreign trade enhancing in the Kazakh economy was to help solve the following problems of social and economic development, such as a promotion of Kazakhstan's goods and technologies to the foreign market, promoting the expansion and diversification of export capacity and the development of import substitutes in selected industries, facilitating capital flows to hard-to-surplus regions and areas with rich natural resources to accelerate their development, a creation of new jobs and development of advanced forms of production organisation, mastering the experience of civilised relations in the field of entrepreneurship and promoting the development of productive infrastructure⁸⁴.

Thus, boosting foreign trade means and attracting foreign investment in the economy of Kazakhstan act as an objectively necessary process aimed at solving strategic and tactical tasks of macroeconomic nature. Attracting foreign capital to the economy of the republic is carried out in the form of foreign direct investment, lending for investment projects and commodity purchases (critical imports), official development assistance, as well as through the establishment of joint ventures, subsidiaries, privatisation of state-owned enterprises with foreign capital, the transfer of large industrial enterprises to foreign firms and investment in the banking sector. Official development assistance is provided to the republic

⁸³ FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

⁸⁴ Akpan U., Isihak S., Asongu S. (2014). *Determinants of Foreign Direct Investment in Fast-Growing Economies*, pp. 3-19

in the form of technical and financial assistance. Technical assistance is usually provided in the form of consultations, seminars, documentation in several main areas - agriculture, the fuel and energy sector, privatisation, the financial sector, transport, telecommunications and other. All technical assistance is provided in the form of grants from international financial organisations or donor countries⁸⁵.

Analysing the position of Kazakhstan on the world capital market, it is possible to state the strengthening of the country's position as an exporter and importer of capital. Thus, according to the data of the UN Conference on Trade and Development, set out in the World Investment Report for 2009, Kazakhstan was among the top ten countries most attractive for investment in 2009-2011 after China, India, the USA, Russia. Foreign investment in Kazakhstan has been growing for the sixth year in a row. According to estimates of foreign investors, Kazakhstan is one of the few countries, in which, according to forecasts, in 2009-2011. it is mainly planned to increase investments. Thus, 40% of Japanese investors announced plan to expand joint investment projects with Kazakhstan⁸⁶.

Based on the analysis, it can be noted that foreign trade contributes to the integration of the host economy into the world economy and can also act as a mechanism for launching and stimulating investment processes in the Kazakhstan economy. Attracting large-scale foreign investment in the Kazakh economy has long-term strategic goals of creating a civilised, socially oriented society, characterised by a high quality of life of the population, which is based on an economy that involves not only the joint effective functioning of various forms of ownership, but also the internationalisation of the market for goods, labor and capital.

⁸⁵ Kuznetsov A., Kvashin Y., Lukonin S., Chetverikova A., Shchedrin A. (2014). *Monitoring of direct investments of Russia, Belarus, Kazakhstan and Ukraine in Eurasia*

⁸⁶ FinReview (2021). *Kazakhstan's Foreign Trade Turnover Decreased By 12%*

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