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Kazakhstan and Its Investment Development Path

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Abstract: Historically, it turned out that the state cannot successfully develop without integration into the global economy. Although such integration is often associated with risks and high costs, these short-term factors overlap with long-term benefits. Foreign direct investment (FDI) is a criterion for this integration, and over the past 30 years, policies in developing countries have been increasingly focused on attracting them. This article attempts to explore the theory of investment development path (IDP according to Dunnings's theory) of Kazakhstan which economy was considered as transitional, and its key component, the net external investment position, the starting point for data analysis is the beginning of Kazakhstan's transition to the market system in 1991. The objective of the article is to identify at which stage Kazakhstan is situated. Many studies have been conducted among Western scientists and so far, not a single one among Kazakh scientists. The research was conducted empirically with data mainly from periodic reports published by the United Nations Confederation for Trade and Development (UNCTAD) entitled World Investment Report and studies by the National Bank of Kazakhstan. During the research, the author found out that Kazakhstan is in the second stage of its investment development path. The outcome of the research can

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be used in the work of state ministries of departments and in the teaching of economic disciplines on investment activities.

Introduction

This topic is important for Kazakhstan since no one has yet explored the Investment Development Path of Kazakhstan (IDP). In contrast, in the western scientific community, the issue of the IDP is very widely developed (Durán & Úbeda, 2001, 2005; Dunning, 1977, 1979, 1980, 1981, 1988; Lall, 1996; Narula & Guimón, 2010, Barry, Goerg & McDowell, 2003; Bellak, 2001; Boudier-Bensebaa, 2004; Buckley & Castro, 1998; Clegg, 1996; Ferencikova & Ferencikova, 2012; Fonseca, Mendonça & Passos, 2016; Gorynia, Nowak, Tarka & Wolniak, 2012; Gorynia, Nowak, Trąpczyński & Wolniak, 2013, 2016; Gorynia, Nowak & Wolniak, 2005, 2006, 2010; Götz & Trąpczyński, 2016; Graham, 1996; Kayam & Hisarciklilar, 2009; Marton & McCarthy, 2006; Verma & Brennan, 2011).

To fill this gap, this article aims to identify at which stage Kazakhstan is situated in the context of IDP. The investment development path was created to see the relationship in dynamics between foreign direct investment and the level of development of a country. A transitional economy has several specific characteristics that distinguish it from an economy in a relatively stable state and is developing on its basis by improving its inherent institutions, ties and relations.

In transition economies[1], attracting foreign direct investment is extremely important to effectively complete market restructuring, ensure consistently high rates of economic rates, and effectively integrate into the global economy.

Over the last 30 years, the acquired foreign capital in the form of FDI has been an important factor supporting economic growth and structural changes in Kazakhstan. As a result, foreign direct investment contributed to the improvement of the productivity of domestic resources, supported the diffusion of technology and increased the innovativeness of the economy. On the basis of

[1] According to the World Investment Report 2006, transition economies include the countries of Southeast Europe (SEE) and the Commonwealth of Independent States (CIS). At the same time, UNCTAD experts believe that on May 1, 2004, after joining the European Union (EU), eight Central and Eastern European (CEE) countries completed their transition process. Thus, twelve CIS countries and eight SEE countries are now considered to be in transition: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, and Serbia (UNCTAD, 2021).

this, a research question is formulated: At which stage of development is Kazakhstan in the context of Investment Development Path (IDP)?

The paper is organised as follows. The following section provides a brief general overview of the literature related to the FDI and Investment Development Path. Next, the methodology used in the research is presented. Then, the research findings are discussed. Finally, the general conclusions are stated.

Theoretical Review of the Literature

The IDP is a systematic relationship between FDI position and economic development that was initially partitioned into four stages and subsequently into five stages of development. This term was introduced by Dunning and Narula (1996). According to the theory, a country's imports and exports of FDI directly depend on its level of economic development relative to the rest of the world. Countries can be recipients of investment or external investors, depending on their classification, which determines which phase of their investment development they are in. According to this theory, companies place their FDI in markets where GDP per capita is lower than in the investor's country and until investor countries reach the fifth stage of their investment development.

Dunning's eclectic paradigm brings together many factors for multinational companies to enter the world capital markets. This is why his paradigm is called the eclectic paradigm (Dunning, 1977; 1979; 1980; 1981; 1988). It did not simply mechanically combine what economic thought had accumulated but selected those success factors that had been tested by economic practice. The eclectic paradigm in the West was widely known and became immensely popular.

The eclectic paradigm attempts to explain three circumstances (Dunning, 2001):

- when it is more profitable to export capital than goods;
- when it is more profitable to use the resources of other countries than to use national resources;
- when abroad a company can make monopolistic profits that are not available at home.

Dunning classified the advantages a company must demonstrate in the global capital market to solve the latter problem.

O-advantages associated with the internal potentials of the company of investors. “Ownership” refers to the benefits that an investor can obtain by investing in a foreign firm rather than building a domestic one (Dunning, 2001).

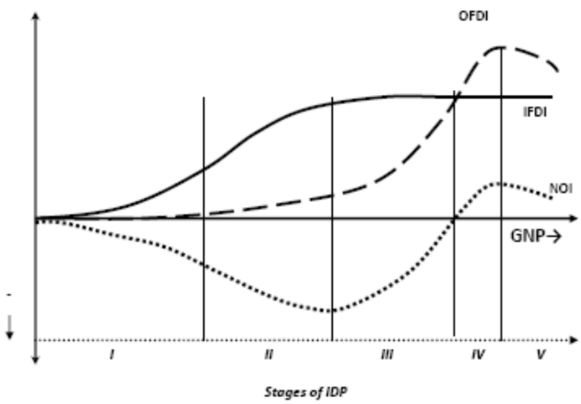
L-advantages provided by the recipient country (preferential taxation, government participation in financing investment projects, etc.). “Location” refers to the benefits that an investor can obtain by investing abroad (Dunning, 2001).

I-advantages caused by the use of own networks in the process of internationalization, promoting their goods and products in foreign markets. “Internationalization” refers to the advantages that a multinational company receives over a company operating in one market.

As indicated above, the investment development path was described by Dunning together with the Dutch scientist Narula in 1996 (Dunning & Narula, 1996). This path goes through 5 stages and is characterised by the dependence of FDI on the level of development of the country (figure 1, table 1):

1. Countries with labour-intensive, low-tech industries and with the prevalence of extractive industries are always FDI importers.
2. As soon as they begin to develop capital-intensive production and move towards NTT, FDI imports to these countries intensify.
3. Then the country starts to export FDI itself. This can happen if foreign capital imports are supported by stimulus policies and a focus on.
4. The fourth stage is characteristic of developed countries, with FDI exports exceeding their imports.
5. The fifth stage, where FDI exports and imports balance each other out, is characteristic of very developed countries. They have all the advantages (O, I, L), which ensure their world leadership in capital-intensive and high-tech sectors. In addition, these countries are characterised by high incomes and, therefore, by a capacious market.

Figure 1. Graphical representation of the IDP



Explanations: IFDI – Inflows Foreign Direct Investment, OFDI – Outflows Foreign Direct Investment, NOI– Net outward FDI stock

Source: Narula & Dunning, 2010.

Table 1. Evolving motivations of inward and outward FDI across the IDP

IDP stage	Inward FDI	Outward FDI
1	Little IFDI initially. As L advantages improve, resource-based motives, and market seeking later.	Very little OFDI. Mainly minor strategic investments and capital flight.
2	Growing presence of market-seeking FDI, which may attract some labour-intensive manufacturing.	Little OFDI. Some resource- and market-seeking investment in other developing countries; some "escape" investment to developed countries; mostly natural resource investment or light manufacturing employing established technologies.
3	Raising inward FDI, market-seeking and increasing efficiency-seeking FDI in manufacturing, even in activities supplying more sophisticated products for domestic markets, or requiring more skilled labour.	Growing OFDI. All kinds of investment including efficiency-seeking and some asset augmenting investment; mass-produced differentiated consumer goods, e.g., electrical products, clothing; more service investment, e.g., construction, banking.
4 and 5	Increasingly market-seeking, efficiency –seeking and asset-augmenting investment.	Increasingly efficiency-seeking and asset augmenting investment; regional and global; more M&As and alliances; investment in knowledge intensive sectors, e.g., ICT, biotechnology, and high value-added services, e.g., consultancy.

Source: Narula & Guimón, 2010, p. 9.

Research methodology

The study was conducted using information mainly from periodic reports published by the United Nations Confederation for Trade and Development (UNCTAD) entitled World Investment Report and studies by the National Bank of Kazakhstan. On their basis, an analysis was made of changes in assets and liabilities due to foreign direct investment and directional presentation of FDI positions. The study covers the years 1990–2020.

The selection of economic parameters and the associated parameter formulas used by the authors was based on the results of the query of reports and statistical studies and scientific literature.

Results & Discussion

FDI in the World (Developed, Developing and Transition Economies) and in Kazakhstan

Since 1991, after the termination of the socialist system and the emergence of newly-independent states with the status of transit economies, the growth of accumulated FDI differed significantly among the main groups of countries.

The maximum growth in the volume of accumulated FDI was in transit economies (which include Kazakhstan), which is naturally due to the low base effect due to the extremely limited presence of foreign companies in the socialist states before the 1990s. This obvious effect has led to a 384-fold increase in the volume of accumulated FDI in transit economies from 1991 to 2020. The outpacing dynamics has continued in the 21st century: from 2001 to 2020 this indicator grew by almost 11, while the world average is 4.2 times. This context should also be taken into account when assessing the success of FDI in Kazakhstan. With its transit economy, Kazakhstan has demonstrated an 11.3-fold increase in the volume of FDI during 2001–2020 at the same level as this group of countries.

Considering the annual volume of FDI inflows for transit economies, it peaked in 2008 at $118 billion, followed by a decade-long decline. This is the case with Kazakhstan, where the FDI trajectory has been the same as in the past. In this case, the trajectory of FDI inflows to Kazakhstan also follows the pattern typical for this group of countries.

In the twenty-first century, the distribution of accumulated foreign investment between developed and developing economies changed rapidly, while in the late 1990s, almost 80% of global FDI was concentrated in developed countries; by the second decade of the 21st century, this figure had already fallen to 64% (Jaworek & Karaszewski, 2021; Karaszewski & Jaworek, 2022).

Another trend is much more important in changing the global economic system, which has also taken shape in the first decades of the twenty-first century. This is the trend of outstripping the growth of investment flows from developing countries, which will make the largest developing economies the main source of FDI for the world. Developing economies have been experiencing growth in outward FDI since the end of the twentieth century, but it has accelerated sharply in the current century. Between 2001 and 2020, annual outward FDI from developing countries grew sevenfold, compared with only 1.6 times for developed economies.

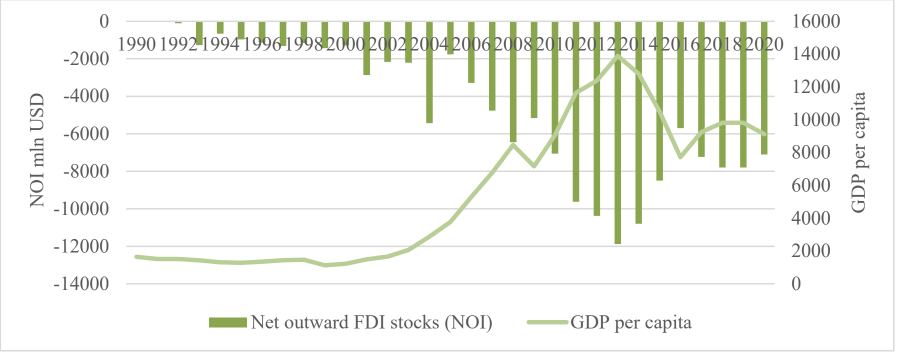
FDI outflows from developing countries still lag behind those from developed countries, but the gap between the two is steadily narrowing (Jaworek & Karaszewski, 2021). While in 1991 the annual volume of outward FDI from developed economies exceeded that of developing economies by 17 times, the gap narrowed to 10.4 times in 2001, reaching a low of 1.4 times in 2014 (that is, developing countries are almost equal to developed countries as suppliers of FDI abroad). By the end of 2017, it was 2.4 times. The upward trend in FDI outflows from developing countries is closely related to the upward trend in investment inflows to them. Both of these trends demonstrate the growing influence of the “developing” world on global investment processes, which over the next decade will lead to the final establishment of developing economies as a significant force in the of the world market of direct investments.

At the same time, Kazakhstani investments abroad have a clearly expressed specificity, which manifests both in the sectoral structure of investors and the structure of the types of investments being made. Let’s consider the sectors of the Kazakh economy that are most actively investing abroad. We can note a very high level of their concentration in only two types of activities public administration and finance, which account for 73% of the total volume.

Kazakhstan’s Position on the Investment Development Path

For more specific information, figure 2 shows the relationship between NOI and GDP per capita in Kazakhstan where it is clearly seen that the first stage lasts from 1990 to 2002. Starting from 2003, Kazakhstan enters the second stage, which lasts until today.

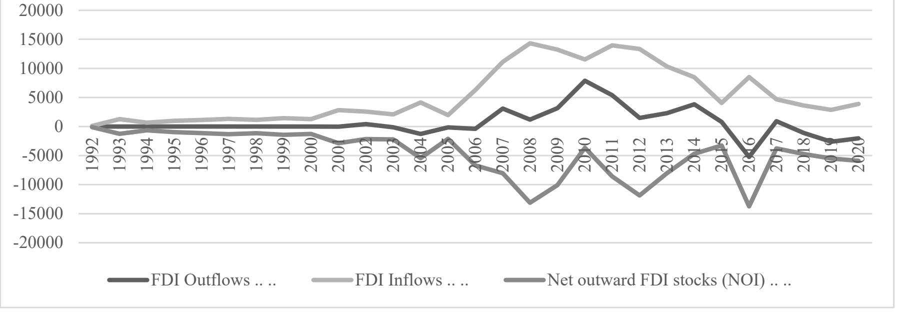
Figure 2. Relationship between Net outward FDI (NOI) and GDP per capita in Kazakhstan in 1990–2020 years



Source: based on data from the UNCTAD.

In order to analyse the IDP of Kazakhstan in relation to net outward FDI stock, it is better to focus on tendencies and trends in FDI flows. Figure 3 demonstrates FDI flows changed over time in years 1992–2020. It can be seen a clear trend to increase FDI outflows net during the first stage in 1992–2001 years. Next three years brought about significant fluctuations. 2008, 2012 and 2016 saw explicit surpluses in investment inflows over investment outflows.

Figure 3. FDI flows and FDI net outflows in Kazakhstan in 1990–2020 years



Source: based on data from the UNCTAD.

In comparison with neighbouring countries such as Russia and China, Kazakhstan lags behind in its investment development path. Since 2015, China has entered Stage 4 of IDP because its outward FDI has surpassed incoming FDI into the country (Liu, 2019; Ke Dai, 2021). The situation with Russia is controversial. Russia is theoretically at stage 4 of development, however, the country's income is below average while being a net exporter of capital (Kalotay, 2008).

Conclusion

Kazakhstan is one of the countries that are recipients of net foreign capital. The NOI position is definitely negative, and the difference between the value of independence and the balance of liabilities due to foreign direct investment is constantly increasing. This is because the scale of FDI inflow is several dozen times higher than the value of investments undertaken abroad by Kazakh enterprises.

The scientific question is: At which stage of development is Kazakhstan in the context of Investment Development Path (IDP)? It was found from the empirical research that Kazakhstan is at the second stage of its Investment Development Path (IDP), because of growing presence of market-seeking FDI, which are attracting some labour-intensive manufacturing. Also, Kazakhstan is the recipient of investments mostly based on the extraction of natural resources. There are little Outward FDI; these show that Kazakh enterprises and entities are still at low level of competitiveness in foreign markets. In order to solve this problem local entities should actively enter the markets of neighbouring countries. Based on these, there is a tendency for investors to increase their investments in the economy of Kazakhstan and that will be a significant driver of economic growth. This may lead to an upgrade to a higher level of Kazakhstan's Investment Development Path. As the experience of the EU shows, there are regularities in the spread of FDI across the territory of individual countries and their parts. Regional strategies of foreign business are also beginning to be traced within Kazakhstan. In the case of emerging Kazakhstani TNCs, it is probably too early to talk about such studies. Most Kazakhstani firms have significant assets in only two to five foreign countries (when analysing Western companies, it does not mention allowing them to be listed as full-fledged TNCs).

The presence of Kazakh enterprises in the world markets, including expansion in the form of direct investment, is a fact. Observing the statistics of the

Kazakh national bank, it cannot be ignored that the involvement of domestic enterprises in FDI has increased significantly over the last ten years. Although on the scale of international capital flows Kazakh foreign direct investments constitute only a fraction of them, they should be considered an important phenomenon in the scale of the Kazakh economy. Empirical analysis shows the impact of the pandemic on FDI. Despite the pandemic it can be clearly seen that Kazakhstan is at the second stage of the investment development path. Kazakhstan demonstrated one of the largest increases in net foreign direct investment among 17 countries with transition economies and 34 landlocked countries. At the same time, thanks to structural reforms and the government's investment attraction policy, according to UNCTAD, Kazakhstan has seen the largest increase in net FDI inflows among transition and landlocked countries. This growth was ensured by investments in such industries as manufacturing, transport, telecommunications, financial activities, energy, mining, etc.

The inflow of FDI usually brings not only the effect of filling the equity deficit gap but also contributes to the economy's modernization, thus increasing the productivity of the production factors involved. In order to increase the inflow of FDI to Kazakhstan, it is necessary to introduce:

1) Amendments to the regulatory legal acts on state property in terms of increasing the efficiency of the privatization process;
2) Development of proposals to ensure the stability of investment legislation for strategic projects;
3) Formation of country investment programs;
4) Formation of individual implementation plans for large investment projects with the development of targeted support measures for each investor based on priority and the potential effect on the economy.

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