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FACULTY OF ECONOMICS

MASTER'S THESIS

OLGA YUGAY

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**ANALYSIS OF KAZAKHSTANI INVESTMENT ENVIRONMENT AND
A POLICY FRAMEWORK FOR ATTRACTING FOREIGN DIRECT
INVESTMENTS**

Ljubljana, June 2015

OLGA YUGAY

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INTRODUCTION

The 2008 global financial crisis was largely caused by the weaknesses in financial structures of a number of major economies. This period of global economic fragility and policy uncertainty created unease among investors, which resulted in reduced investment activity across the globe. After a steep fall (-18% year-on-year) in global foreign direct investment (hereinafter: FDI) flows in 2012, 2013 eventually brought back again cautious optimism to investors. The global FDI in 2013 returned to positive growth, reaching €1.09 trillion, which is 9% higher than a year before (UNCTAD, 2014).

After the 2008 global financial and economic crisis, FDI flows decreased significantly, shifting the entire structure of foreign investments decisions from developed to developing markets. Once surpassing the developing economies in FDI inflows, the developed economies in 2013 comprised only 39% of global FDI flows reaching €426 billion. FDI flows to developing economies hit a record €585 billion. Although the FDI flows to developing economies are expected to stay high in the future, the growth in global FDI flows projected by UNCTAD (2014) will be driven predominantly by developed markets due to the acceleration of their economic recovery.

Developing economies, together with transition economies now comprise half of the top 20 markets ranked by FDI inflows. In 2013, transition economies attracted €81 billion of FDI inflows which is 28% higher than the previous year. Countries of the Commonwealth of Independent States (hereinafter: CIS countries) have also become more attractive for foreign investors. The FDI flows to CIS countries in 2013 rose by 28%, primarily due to significant growth of FDI to the Russian Federation, reaching €60 billion (UNCTAD, 2014). However, the recent Russian-Ukrainian conflict and economic sanctions imposed by the European Union have severely affected the investment flows; in the first three quarters of 2014 FDI flows to Russia reached just a third of those in quarter 1 – quarter 3 2013 (Central Bank of Russian Federation, 2015).

Immense deposits of natural resources and a growing consumer market increased the FDI inflows to Kazakhstan to €11 billion in 2012, which was 1% higher than in 2011 (UNCTAD, 2013). However, the decelerating investments in financial services and asset divestiture of some foreign banks led to a decrease in FDI inflows by 29% to €7.5 billion in 2013 (UNCTAD, 2014). According to the World Bank ranking (2015), Kazakhstan takes the 77th position out of 189 countries in ease of doing business which is 1 position lower than the year before. The least difficult procedures for business penetration are property registration, tax payments and starting the business. A number of measures undertaken by the Kazakhstani Government in 2015, resulted in a jump of resolving insolvency and enforcing contracts indices for 19 and 5 positions respectively from 2014 (The World Bank, 2015). Similarly, the world economic forum ranked Kazakhstan as 50th out of 144 economies in overall global competitiveness index 2014-2015. Macroeconomic environment and labor market efficiency are the most attractive factors for doing business in Kazakhstan, whereas the most

problematic areas are corruption, access to financing and inefficient government bureaucracy (World Economic Forum, 2014). EY (2014a) survey shows that the investors' awareness of Kazakhstan is increasing as the percentage of "can't say" responses to how they see Kazakhstan in 2030 has declined from 42% in 2013 to 19.8% in 2014. In addition, around 40% of respondents that are aware of Kazakhstan stated that the economy will be a leader in energy by 2030. More than 47% of respondents also said that Kazakhstan's attractiveness will increase over three years. This might be a result of various ongoing government efforts such as the EXPO 2017 campaign, international forums and visits and strengthening relations with key trade partners. Despite future uncertainty in the Kazakhstani market due to the significant influence of the crisis in the Russian Federation and the decline of oil prices, the Kazakhstani Government's prompt responses to challenges, by enforcing new policies and reforms and constantly enhancing the existing economic model, appear to be starting to shift the economy back to growth (Grant Thornton, 2014).

The main purpose of this master's thesis is to highlight the untapped potential for inward FDI to Kazakhstan, particularly in terms of greater diversification from natural resources and related energy industries which have so far attracted the majority of inward FDI to Kazakhstan. This thesis has two primary goals, namely: (1) to draw the attention of potential foreign investors who have little knowledge about investment opportunities in Kazakhstan, and (2) to encourage present foreign investors to investigate the potential in other fast growing industries of the Kazakhstani economy, other than the energy industry and sectors related to extraction of natural resources. Investors not yet operating in Kazakhstan still lack clarity about the country's strengths and opportunities, and are not familiar with its attractive features for investment, according to the research of EY (2014a). Likewise, high investment focus on energy sector reinforces, to a certain extent, the country's dependence on fluctuations of global commodity prices and underdevelopment of other sectors (OECD, 2014c). The recommendations provided within this master's thesis aim to increase the inward flow of FDI to Kazakhstan and stimulate the higher degree of FDI diversification across various industries. In addition to the two main objectives, other goals of this master thesis are:

- (1) To systematically present the key determinants of FDIs.
- (2) To make a thorough analysis of the Kazakhstani market from the economic, business, institutional and socio-cultural perspectives in terms of attracting inward FDI.
- (3) To identify and to explore sectors with high inward FDI potential.
- (4) To provide specific inward FDI-related recommendations for Kazakhstani policy makers in terms of attracting inward FDI and greater industry diversification.

In order to achieve the purpose and reach the set goals, the focus in my master thesis is on the following research questions:

- (1) What kind of advantages is Kazakhstan able to provide to foreign investors presently?

- (2) Which industries are ‘hidden gems’ for foreign investors in Kazakhstan and why?
- (3) How does one re-direct the investment focus from the natural resources and energy sectors to other industries?
- (4) What kind of actions should the Kazakhstani Government take in order to stimulate inward FDI in those industries?
- (5) What are the key sectors foreign investors should pay attention to in terms of their FDI to Kazakhstan, beyond the natural resources and energy sectors?

The answers to these questions will help build a strategic policy framework for attracting inward FDIs to Kazakhstan with an emphasis on industry diversification beyond the natural resources and energy sectors, where most inward FDI currently take place.

In order to build a solid theoretical foundation for this thesis, a number of traditional FDI theories, such as: (1) the Product Life-Cycle Theory by Vernon (1966), (2) Internationalization Theory by Coase (1937), (3) Monopolistic Advantage Theory by Hymer (1960), and (4) OLI Paradigm by Dunning (1981) were drawn upon. Different types of FDI distinguished in economics literature are investigated mainly through the works of Krugman (1979) and Helpman (1981) who made considerable improvements in trade theories, as well as the Knowledge Capital Model of Markusen (1966). For the examination of entry modes, theoretical literature from Root (1994), Nocke and Yeaple (2008), Grossman and Hart (1986) and others, is used to identify factors influencing companies’ decisions on market entry. Further, the determinants of FDI are explored through various studies, which tried to explain the drivers of investment decisions in certain economies. Particular emphasis in the examined theoretical literature is given to the specifics of the emerging markets (hereinafter: EMs) in terms of FDI, as Kazakhstan relates to this country group. The role of FDIs in EMs and key risks in those economies are also examined in this regard. This thesis further complements the above-mentioned traditional theoretical frameworks to the study of FDIs by drawing on New Institutionalism theory by Scott (1995) and the Institutional Distance concept by Kostova (1996). Likewise, other FDI related international economic and business theories serve as a foundation of my research. In particular, Hollensen’s (2008) model of determinants of market entry modes in the international business and marketing literature.

This research is based exclusively on available secondary data, mainly published from archives of the national library, books, periodicals, and academic journals. Additionally, governmental and public sectors’ records were employed. The statistical data was obtained from the reports of Kazakhstan National Bank, Organization for Economic Co-operation and Development (hereinafter: OECD), The World Bank, World Economic Forum, United Nations Conference on Trade and Development (hereinafter: UNCTAD), International Monetary Fund (hereinafter: IMF) and others.

The basis of this research, which is focused on the Kazakhstani market potential (in terms of attracting inward FDI), various analytical tools like the PESTEL framework, SWOT analysis at the country level, comparative analysis, competitive advantage analysis, and various tools for industry and policy analyses have been used. The combination of the OLI Paradigm by Dunning (1981) and Hollensen's (2008) entry mode factors are further used as a framework for the investigation and comparison of potential industries for investment in Kazakhstan in terms of assessing their attractiveness and way of market entry.

A general-to-specific approach in structuring the master thesis was employed. Thus, the first two parts provide a broad theoretical framework relevant for understanding FDI – from the broader view of its theories and especially FDI determinants to the investigation of FDI in EMs. The third and fourth parts are devoted to the analysis of Kazakhstani market, mainly its economic, business, institutional, and socio-cultural environment, as well as the potential barriers associated with the market entry. The fifth part focuses on the investment opportunities existing in highly developing sectors of Kazakhstani economy where particular focus is placed on the following sectors: Information and Communications Technology (hereinafter: ICT) and pharmaceuticals. The final section includes recommendations for increasing inward FDI in Kazakhstan from the perspective of Kazakhstani policy makers. This is followed by concluding remarks.

1 A REVIEW OF TRADITIONAL FDI THEORY

Increasing globalization and international competition compel nations to search for the business opportunities and resources available beyond their borders. Aside from attracting the investment flow in the country, it has also become important to engage in outward investment to foreign markets. This opens new opportunities and creates links between economies and, under certain regulative measures, facilitates host market's development (Shenkar & Luo, 2007, pp. 59-92).

1.1 Definition of FDI

One of the most common ways to enter a foreign market is through foreign direct investments. OECD (1996) and IMF (1993) define FDI as a cross-border investment by an entity residing in one country in an enterprise residing in another country with a purpose of obtaining a lasting interest. The lasting interest relates to a long-term relationship between the direct investor and the enterprise, and entails a high degree of influence on the management of that enterprise. In his seminal book *Multinational Enterprise and Economic Analysis*, Caves (1996) defined FDI as an investment made by a firm outside its home country. It is the flow of long-term capital based on long-term profit consideration involved in international production. The definition is similar to that of the OECD and IMF, however, it omits the main dimensions of management and control over the enterprise by investor.

In his studies of FDI Hymer (1976), on the other hand, emphasized the importance of control in the direct investments in foreign enterprises and did not pay that much attention to the actual duration of the investment. However, he also mentioned that the dividing line between some control and no control is arbitrary. The fifth edition of the IMF's Balance of Payment Manual (1993) specifies that a direct investor is a resident of another economy who owns at least 10% of an incorporated or unincorporated enterprise's ordinary shares and effective voting power. This percentage is recommended as a symbolic threshold to distinguish between direct investment and portfolio investment with respect to shareholdings, as it allows the investor to exercise control. A foreign portfolio investment occurs when individuals, firms, and public organs invest in overseas equity and debt securities, except for any such instruments that are defined as direct investment or reserve assets (OECD, 1996). Essentially, a portfolio investor is not particularly interested in having an impact on enterprise's management; the purpose of investment is solely financial gain (Kanuk, 2007). Having addressed several different definitions of FDIs, the OECD and IMF definition of FDI is used throughout this master's thesis.

1.2 Review of key FDI theories

This section provides a brief discussion of key traditional FDI theories, which are generally accepted in the international business and trade literature on FDI.

1.2.1 Monopolistic Advantage Theory

The Monopolistic Advantage Theory was first introduced by Stephen Hymer in 1960 in his attempts to explain the wide spread of US multinational enterprises (hereinafter: MNE). As he discovered, the main incentive for MNEs to go abroad is monopolistic advantage the home country firms enjoy over the host country companies.

Compared to local firms, foreign investors are likely to incur additional costs associated with the market entrance. To ensure the profit, MNEs have to possess certain advantages over the local competitors, specific to the investing firm rather than to the location of its production. According to the theory, the major factors of monopolistic advantage are superior knowledge and economies of scale. Superior knowledge includes such important driving forces for product differentiation as better production technology, industrial organization and marketing techniques, or superior organizational management of enterprise. Besides superior knowledge, another determinant of FDI is the opportunity to achieve the economies of scale by expansion to several markets and gaining profit from the local advantages of lower production costs (Shenkar & Luo, 2007, pp. 59-92).

Kindleberger, the supervisor of Hymer's thesis, used his work as a basis and argued that "in a world of perfect competition in goods and markets, FDI cannot exist" (Kindleberger, 1969, pp. 11–12). He pointed out that there must be some market imperfection for FDI to prosper.

Otherwise, local firms would have advantage over foreign investors, making it hard for the latter to survive (Barclay, 2000).

1.2.2 Product Life-Cycle Theory

The Product Life-Cycle Theory was founded by Raymond Vernon in 1966 in an effort to explain why U.S companies made certain types of FDI in the manufacturing industry in Western Europe after the Second World War.

In his theory, he identified three stages of product development: new product, maturing product, and standardized product. At the first stage, the production of a new product in small scale occurs near R&D centers where it was technologically developed. Due to the product's innovativeness, the demand increases and prices become inelastic. The introducer creates new products for domestic consumption and exports the surplus to foreign countries (Kuslivan, 1998, pp. 163-180). At the maturity stage, a certain degree of product standardization occurs due to increasing demand; competition gets stronger and overseas investments turn to be more beneficial. The introducer has an incentive to invest abroad to exploit lower manufacturing costs and economies of scale. At the standardization stage, when a product is no longer innovative, the demand declines, and companies start competing on prices rather than product differentiation. The introducer transfers all of its production to an economy with the lower production costs. Thus, in this stage developing markets may receive high proportion of FDI and become most competitive destinations for production due to their lower labor costs (Vlysidis, 2008).

This theory highlights how an innovative firm cannot completely rely on home markets and home production to sustain a lasting advantage. Despite of the fact that the theory has certain shortcomings (for instance, it does not take into account various comparative advantages of different countries at the initial stage of production) Vernon has argued that it still may be applied to smaller companies that have not yet developed an international network of manufacturing affiliates (Vernon, 1979, pp. 255-67).

1.2.3 Internalization Theory

The Internalization Theory was developed by Peter Buckley and Mark Casson in 1976, based on the pioneering study of Ronald Coase (1937, pp. 386–405) on transaction costs of a firm. The economists tried to explain the growth of MNEs and their motivations for achieving foreign direct investments.

According to the theory, the available external market fails to provide with efficient conditions in which the firm can benefit by utilizing its technology or product resources. Therefore, the firm tends to create an internal market through investment in multiple countries in order to attain its objectives of profitability and cost minimization (Shenkar & Luo, 2007, pp. 59-92). In such cases, FDI takes place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad (Hymer, 1976).

Basically, the Internalization Theory evolves from the concept of market failure. Some transactions are performed more efficiently inside the company than in the market. Transactions with other firms take time and it might be costly to track those companies' activities or deal with uncontrollable events. Therefore, replacing these market inherent hurdles with internalized processes can reduce insecurity (Moosa, 2002).

1.2.4 The Eclectic Paradigm

The Eclectic theory was first introduced by John H. Dunning in 1981 as a general framework to explain the international production. Dunning's work covers the studies of various economists on macroeconomic theories of international trade and microeconomic theories of the firm.

The eclectic theory provides a broad explanation of MNEs' motives for FDI. Also known as the OLI paradigm, the theory includes three factors, which according to Dunning (1979, pp. 269-295), are important in determining the extent and pattern of FDI:

- (1) Ownership-specific (O) – advantages (in production technology, managerial resources, marketing techniques, etc.) vis-à-vis foreign competitors;
- (2) Location-specific (L) - advantages in using the firm's ownership advantage in a foreign location rather than in domestic market;
- (3) Internalization (I) – advantages in having full control over the foreign business rather than using an independent local company to carry out those duties.

According to Dunning, a firm that fulfills the above conditions takes the decision to participate in international production (Vlissidis, 2008).

The three elements of Dunning's Eclectic Paradigm have been assembled using the support of other theories, namely Vernon's Product Life-Cycle (1966, pp. 190-207), Hymer's (1960) ownership advantage, and Internalization Theory by Buckley and Coase (1976). Even though Dunning's work has been criticized for the number of variables it uses, which made it lose efficiency, the OLI theory provides a more comprehensive explanation of FDI than other traditional theories and is still able to explain the patterns of FDI to this day (Shenkar & Luo, 2007, pp. 59-92).

1.3 Different types of FDI distinguished in the economics literature

The aforementioned works of Hymer (1976) and Dunning (1981, pp. 269-295) further helped Krugman (1979 pp. 469-479 & 1980, pp. 950-959) and Helpman (1981, pp. 305-340) to make considerable improvements in trade theories, which incorporated important elements of the industrial organization literature, such as imperfect competition, economies of scale, and product differentiation. This new approach provided a framework in which MNEs could

better integrate into trade theory. Within this approach, some studies are focused on the analysis of vertical FDI, whereas others concentrate on the horizontal side of the phenomenon (Latorre, 2008).

The vertical FDI view is that MNEs arise to take advantage of international factor-price differences. When factor prices differ across economies, companies become multinational by locating the headquarters in countries where skilled-labor costs and manual-labor costs are low (Hanson, Mataloni, & Slaughter, 2001, pp. 245-294). Here, the focus of Helpman (1981, pp. 305-340) was to demonstrate that MNEs have an incentive to fragment the production geographically and that this separation appears only in cases where the countries differ significantly in relative factor endowments. Likewise, Markusen (1995, pp. 169-189) defined that vertical FDI occurs when MNEs geographically separate each stage of the production process in respect of relative cost advantages. In this way, enterprises search for the low-cost inputs and supply their output to other subsidiaries through intra-firm exports.

The horizontal FDI view is that MNE arise due to trade barriers that make exporting costly. When trade costs are high, an enterprise becomes multinational by building production plants, both at home and abroad, each serving that particular country's consumers exclusively (Hanson et al., 2001, pp. 245-294). Further, Brainard (1992, pp. 520-544) discusses the role of scale effects at the firm and plant level in relation to transportation costs. The preferences for horizontal FDI over export increases, if the transport costs are larger than fixed plant costs. Likewise, MNEs favor horizontal FDI if increasing returns at the firm level are greater relative to the plant level. According to Markusen (1995, pp. 169-189), through the horizontal FDI, firms produce the same goods or services in different locations in order to gain easier access to the host market.

The theoretical literature described so far contains mostly separate theories of MNEs, concentrating on either vertical or horizontal FDI. In the attempt to encompass both FDI views, Markusen et al. (1996) and Markusen (1997) developed an integrated framework called the Knowledge Capital (hereinafter: KC) Model. The KC Model is a two-country (parent and host), two-factor (skilled and unskilled labor), and two-sector model in which various combinations of vertical and horizontal multinationals and national companies can emerge endogenously. In equilibrium, horizontal FDI takes place between large countries, with high trade costs and similar relative factor endowments. Whereas vertical FDI arises when trade costs are low, between countries which substantially differ in relative endowments, independently of market size. Both types of FDI have a positive impact on MNE's welfare by avoiding the duplication of headquarter activities and thus making the global production more efficient (Mariel, Orbe, & Rodriguez, 2009, pp. 196-212).

1.4 Market entry modes in the international business literature

A foreign direct investor may acquire voting power in the enterprise through different methods depending on the chosen market entry mode. According to Root (1994), a foreign

entry mode is the institutional arrangement by which a company transfers its products, technology, human skills, management or other resources into a foreign country. In the decisions of market entry, firms consider various factors related to local conditions in the host economy: country-specific advantages, firms-specific, industry-specific, and other strategic motivations. The companies have to decide between establishing a new venture (so-called greenfield investment), extending an existing venture (so-called brownfield investment), merging with or acquiring an existing firm (hereinafter: M&A), and whether to establish a wholly-owned affiliate or partially-owned affiliate (joint venture) (Hebous & Ruf, 2010).

The studies of Nocke and Yeaple (2008, pp. 529-557) show that more productive firms tend to enter the foreign market through the greenfield investment rather than M&A. Likewise, high technological skills and R&D intensity of the project favor greenfield operations (Andersson & Svensson, 1994, pp. 551-560). On the other hand, the developed markets generally attract more M&A investments, as the investing firms are eager to complement their abilities in the foreign economy and exploit the comparative advantage opportunities (Nocke & Yeaple, 2008, pp. 529-557). Farther, the incentive for cross-border M&A could be the undervaluation and mismanagement of a target firm so the MNEs would profit from exploiting the firm's potential (Gonzales, Vasconcellos, & Kish, 1998, pp. 25-45).

An important factor determining the whole or partial ownership of a foreign company is the efficiency gains of the acquirer. Less efficient firms prefer joint ventures to wholly owned affiliates as the former allows companies not only to exploit their existing technological and organizational edge on foreign markets, but also to quickly access new knowledge assets (Raff, Ryan, & Stahler, 2009, pp. 3-10). Moreover, cultural distance can significantly influence the entry mode decision, as long distance increases the value of a local partner who is familiar with the host environment and its peculiarities (Mugele & Schnitzer, 2006, pp. 1274-1289). Further, a number of studies revealed that infrastructure, country institutional setting, openness to international investment, and the host country's law regulations have a huge impact on the market entry decision. Aspects such as high corruption level, restrictive measures on the foreign ownership share in the affiliate and adverse regulative environment, induce a partial ownership of the affiliate (Asiedu & Esfahani, 2001, pp. 647-662). On the other hand, Grossman and Hart (1986, pp. 279-306) defined the following factors that increase the probability of choosing the whole ownership of the subsidiary: high coordination and transportation costs, technology and control right concerns, potential free riding by co-owners, and difficulties in decision making.

1.5 Determinants of FDI

FDIs are classified according to direction (inward and outward), depending on whether the direct investment is made in the reporting economy or abroad (OECD, 2008). The factors influencing decisions to invest in a particular economy have been investigated in detail within the business and economic literature by various authors. In general, the results on FDI

determinants are rather controversial in terms of what kind of effects a particular factor has on FDI considerations. Notwithstanding, certain determinants are proved by majority of the studies to have either a positive or negative impact on FDI. I have summarized these determinants in Table 1, however, this list should by no means be considered as final.

Table 1. The summary of FDI determinants

FDI determinant	Impact on investment decision	Key authors
Market size and growth potential	Market size is usually measured by a country's GDP. High levels of GDP per capita indicate economies with high spending power and this can be expected to increase market-seeking FDI (Rogmans & Ebbers, 2013, pp. 240-257).	Bandera and White (1968), Swedenborg (1979), Rott and Ahmed (1979), Lunn (1980), Kravis and Lipsey (1982), Nigh (1985), Culem (1988), Pearce (1990), Wheeler and Mody (1992)
Trade openness	Export possibilities and access to other international markets determine the trade openness of a host country and can positively affect FDI (Walsh & Yu, 2010).	Kravis and Lipsey (1982), Culem (1988), Singh and Jun (1995), Edwards (1990), De Mello (1999), Pistorresi (2000), Resmini (2000)
Exchange rate	Within an inadequate capital market model, the host countries with weaker currencies attract more FDI because of depreciation effects, which make the asset of the home country more expensive than the ones in the host country (Froot & Stein, 1991, pp. 1191-1217).	Caves (1989), Froot and Stein (1991), Rosengren (1994), Blonigen and Feenstra (1996)
Labor costs	Foreign investors are normally willing to follow low cost opportunities in developing countries. Thus, it encourages more developed economies to invest in less developed markets with labor-intensive industries (Alam & Ali Shah, 2013, pp. 515 - 527).	Caves (1974), Swedenborg (1979), Goldsbrough (1979), Flamm (1984), Culem (1988), Schneider and Frey (1985), Wheeler and Mody (1992), Shamsuddin (1994), Pistorresi (2000)
Resource-seeking	A company that has a resource-seeking motive invests in order to exploit natural resources or agricultural production in the host market (Johnson, 2006).	Dunning (1983)
Tax factors	Higher taxes in the host economy discourage FDI and double taxation can substantially influence the MNE incentive to invest (Bolonigen, 2005).	Hartman (1984), Grubert and Mutti (1991), Hines and Rice (1994), Loree and Guisinger (1995), Cassou (1997), Devereux and Griffith (1998)

(table continues)

(continued)

FDI determinant	Impact on investment decision	Key authors
Country risk	High levels of risks in host countries (frequent government changes, frequent changes in economic policies, military coups, riots, etc.) might induce investors to choose low control ownership modes (Rogmans & Ebbers, 2013, pp. 240-257).	Root and Ahmed (1979), Root (1994), Schneider and Frey (1985) Aharoni (1966), Goodnow and Hansz (1972), Agodo (1978) Root, 1987; Gagnon and Anderson (1988), Fatehi-Sedeh and Safizadeh (1989)
Institutions and corruption	Poor quality of institutions and corruption increases the cost of doing business and, therefore, should also decrease FDI activity (Bolonigen, 2005).	Drabek and Payne (1999), Kaufmann and Wei (1999), Wei (1999), Smarzynska and Wei (2000)
Internalization	Firms are involved in internalization when the external market is imperfect or it is costly to produce through external sources, in these situations FDI becomes beneficial (Buckley and Casson, 1976).	Buckley and Casson (1976), Rugman (1981)
Ownership advantages	MNEs have to possess the ownership benefits like innovative products, management skills, patents etc. to offset high costs and risks (Hymer, 1976).	Kindleberger (1969), Hymer (1976)
Cultural distance	High cultural distance could increase the cost of entry, lead to intra-organizational conflicts and poor implementation of organizational actions. This might diminish FDI (Tihanyi, Griffith & Russell, 2005, pp. 270–283).	Davidson (1980), Hofstede (1983), Anderson and Gagnon (1988), Kogut and Singh (1988), Dunning (1993), Agarwal (1994), Edwards and Buckley (1998), Shenkar (2001)
Psychic distance	The factors that prevent the information flow between the company and the market (e.g.: differences in language, culture, political systems, level of education, etc.) might negatively influence the FDI decisions (Johanson & Wiedersheim-Paul, 1975, pp. 305–322).	Johanson and Wiedersheim-Paul (1975), Stottinger and Schlegelmilch (1998), Evans & Mavondo (2002), Harzing (2003), Zhao et al. (2004), Dow and Karunaratna (2006), Sousa and Bradley (2006), Ellis (2008)

In general, market size and economic growth are considered to be the least arguable determinants, as the majority of authors found a positive correlation of these determinants with FDI inflows in the markets. Also, lower relative labor costs are generally positive for FDI. Country risk, which covers political and economic instability of the market, has been frequently argued to have a negative effect on FDI inflows. Likewise, institutional voids and

corruption might hinder FDI inflows. Although the majority of studies demonstrate the positive correlation of trade openness with FDI, the evidences are quite mixed. Cultural and psychic distances are among the vaguest determinants in terms of their influence on FDI decisions, as some authors do not consider them as important factors in attracting FDI.

Sattarov (2012) in his work found out that market size and trade openness play an important role in determining FDI in Kazakhstan, mainly due to country's steady GDP growth and wide export possibilities and access to other international markets. Likewise, the proxy to ample natural resources represents a significant incentive for FDI in Kazakhstan (Johnson, 2006).

2 FDI IN EMERGING MARKETS

The IMF (2006) defined EMs as "The capital markets of developing countries that have liberalized their financial systems to promote capital flows with nonresidents and are broadly accessible to foreign investors". According to IMF (2015a), Kazakhstan is classified as an emerging market due to its undergoing rapid economic growth and industrialization, directed towards being an open market economy. Thus, in the remainder of my master thesis, Kazakhstan will be referred to as an EM, according to IMF's definition. Additionally, as the so called BRICS (Brazil, Russia, India, China and South Africa) countries are the largest emerging economies in respect to their GDP, in my study I am going to refer to these countries as the most typical representatives of EMs.

2.1 FDI statistics for emerging markets

Global FDI flows increased by 9% to €1.09 trillion in 2013, out of which the developing economies recorded a new high of €585 billion, comprising more than half of global FDI inflows in 2013. Nevertheless, the growth rate of FDI inflows to developing economies slowed down to 7%, compared to an average growth rate over the past ten years of 17% (UNCTAD, 2014).

Developing Asia continues to be the leader in attracting FDI flows with FDI inflows of €320 billion (30% of the world's total). China recorded its largest ever inflows of €93 billion and maintained its position as the second largest FDI recipient in the world. FDI flows in Africa increased by 4% reaching €43 billion driven by international and regional market-seeking and infrastructure investments. The main recipients of FDI inflows in the region were Eastern and Southern African sub regions. Eastern Africa increased FDI inflows by 15% to €4.6 billion, as a result of rising flows to Ethiopia and Kenya. In Southern Africa, flows almost doubled, reaching €10 billion, with infrastructure being a major investment target. FDI flows to Latin America and the Caribbean increased by 5% to €137 billion (excluding offshore financial centers) in 2013. Brazil experienced a slight decline of 2%, despite an 86% increase in flows to the primary sector. FDI flows to Colombia grew by 8% to €13 billion, largely due to cross-border M&As in the electricity and banking industries. Central America and the Caribbean

(excluding offshore financial centers) saw a 64% increase in FDI inflows to €37 billion with Mexico almost doubling its FDI inflows to 28 billion (UNCTAD, 2014).

Inward FDI to transition economies grew by 28%, reaching 81 billion in 2013. The countries of the CIS attracted increasing investor interest, causing inward FDI to rise by 28%, primarily due to the significant growth of FDI to the Russian Federation, reaching €60 billion (UNCTAD, 2014). However, the recent Russian-Ukrainian conflict and economic sanctions imposed by the European Union have severely affected the investment flows; in the first three quarters of 2014, FDI flows to Russia reached just a third of those in Q1-Q3 2013 (Central Bank of Russian Federation, 2015).

FDI outflows from Latin America and the Caribbean (excluding offshore financial centers) went down by 33% to €25 billion, this was primarily due to the ceased acquisitions abroad and loan repayments to parent companies by foreign affiliates of Brazilian and Chilean MNEs. On the contrary, outward FDI from transition economies jumped by 84% hitting a record €74 billion, mainly driven by Russian MNEs' acquisitions and greenfield projects. FDI outflows from China increased by 15% and reached €76 billion driven by megadeals in developed economies. The country's outflows are expected to surpass its inflows within several years. Thus, it is logical to conclude that EMs are not only recipients of inward FDI from developed markets, but have themselves become important investors and sources of outward FDI to other EMs and also developed markets (UNCTAD, 2014).

Several international organizations, including IMF (2014), forecast a moderate increase in net FDI inflows in EMs for the period 2014-2016. However, there are certain risks that might hinder the predicted growth. Various factors, such as the possible deterioration of macroeconomic environment, regional conflicts, structural weaknesses in the global financial system, and significant policy uncertainty in areas crucial for investor confidence, might lead to a decline in FDI flows (UNCTAD, 2014).

2.2 The role of FDI in emerging markets

One of the positive implications of FDI flows on the growth potential of host economies could be the provision of capital. The inflow of foreign funds can help overcome the pervasive investment-saving gap, thus enabling countries to grow faster without sacrificing current consumption, and eliminate the vulnerabilities associated with external debt burden (Lipsey, 1999). Another positive impact of FDI on growth in emerging economies might be the introduction of more efficient technology, know-how and effective managerial practices to the host market. Both offer important spillover effects for EMs. With the supply of innovative technology and superior know-how, foreign investors could impact the way the local companies will eventually adapt and implement superior technology, increasing productivity and enhancing growth (Caves, 1994, pp. 176–193). FDI might also strengthen corporate institutions by exposing host economies to developed markets' best business practices and corporate governance. Moreover, FDI contributes to human capital development through

trainings and labor mobility. Trained local employees may move to locally-owned firms or set up their own companies, making a substantive contribution to the host business. Besides these aspects, FDI may bring access to new goods and services in the receiving country, which brings benefits to the local consumers (Meyer, 2005). Finally, Blomstrom and Kokko (1998, pp. 247-277) highlighted that the increased competition accompanying FDI entry can force domestic firms to increase their productivity through modernization of manufacturing technologies and the implementation of innovative management techniques to tackle the competition.

On the other hand, foreign firms may also reduce the productivity of domestic firms, generating a so called *crowding-out effect*, which occurs when foreign companies take away the demand from the local competitors and make it harder for the domestic firms to differentiate. Similarly, the productivity of domestic firms can be reduced if the MNEs' entry is followed by a rise in input costs, such as raw materials and labor (Aitken & Harrison, 1999, pp. 605–618). Some studies also demonstrate the significance of the technology gap between foreign firms and domestic firms. Thus, if the foreign company is much more technologically advanced than the domestic company, the latter might not have internal knowledge resources to recognize the value brought by the foreign investor, so in this situation the positive spillover is not likely to occur (Kokko, 1994, pp. 279-293).

Other studies demonstrate no significant effect of FDI on host economies in terms of growth. Thus, for example, Carkovic and Levine (2005, pp. 195–220) found out that FDI does not have any robust influence on economic growth in the host country. Likewise, Herzer et al. (2008, pp. 793-810) have argued based on 28 developing countries' data that there is neither a long-term or short-term effect of FDI on host market's growth.

Although the role of FDI in EMs is not exactly clear, certain evidence, which demonstrates a positive impact of FDI flows into Kazakhstani market, does exist. Even though Kazakhstan has vast deposits of mineral resources, the lack of finance and access to markets might be obstacles to fully exploit its potential. Thus, FDI inflows may play an important role in the provision of financial sources to the extractive industries, as well as bringing managerial and technical capabilities and other kinds of know-how (UNCTAD, 2007). However, FDI concentration might also negatively affect the Kazakhstani economy, causing the country's dependence on fluctuations in global commodity prices and underdevelopment of other sectors (OECD, 2014c). Lastly, it might even increase Kazakhstan's level of industrial concentration within only a few select industries, something that the government is actually trying to avoid.

2.3 Business and institutional environments in emerging markets

The extent to which FDI might impact the host economy also depends on the host market's business and institutional environment. There, more attention is devoted to these two aspects in the following two subchapters.

2.3.1 Business environment

In the period 2004-2012 (except for 2008 global economic and financial crisis), EMs managed to grow on average 6.2% annually (IMF, 2012). Searching for the opportunities to compensate the modest growth, mature economies started focusing on the active presence in fast-growing EMs. According to the Accenture survey (2012), 80% of around 600 business leaders world-wide initiated a greater involvement in the emerging countries, as the expected increase in income in those economies would also boost future consumption and demand. However, 40% of the executives were not confident in the strategic and operational capabilities of their companies to fully reap the advantages in fast developing markets, since they will also have to encounter the barriers and risks associated with operations on those markets and the intensifying competition from the local players (Accenture, 2012).

Despite the promising prospects in EMs, doing business in such economies might represent considerable difficulties for foreign investors, particularly for the developed markets. World Economic Forum (2015) conducted a survey among business executives on the most problematic areas for doing business in their economies. Among the EMs, the most problematic areas included: inadequate supply of infrastructure, tax regulations, inefficient government bureaucracy, restrictive labor regulations, corruption, inadequately educated workforce, access to finance, and policy instability. All these factors might turn into significant obstacles for MNEs entering new markets, as the business environment is an important issue for an investor's decision regarding whether to bring capital into a foreign country and what kind of ownership structure to use. Additionally, the weaknesses in public administration can substantially complicate and slow down the process of launching a new business in emerging countries. For example, the top largest emerging economies like the BRICS are lagging significantly behind in setting up new businesses due to the numerous and lengthy procedures necessary to register a firm or obtain the necessary licenses and permits for construction (The World Bank, 2015). Even though the general landscape for doing business in BRICS countries is not particularly appealing, some of them are performing relatively well in certain areas. For example, Russia ranked among the first 15 countries in ease of registering property and enforcing contracts. Brazil was ranked 19th in obtaining a permanent electricity connection for a newly constructed warehouse and India was ranked 7th in protecting minority interests. In general, during 2015, EMs earned slightly better ratings in Ease of Doing Business in comparison with previous years, gradually moving upwards (The World Bank, 2015). These rankings show that EMs are focusing on improving their business environments to attract FDIs, although such improvements are at the same time also the results of considerable inward FDI accumulation so far.

2.3.2 Institutional environment

Within the institutional framework, the host market's institutional environment is a key determinant of an investing company's structure and behavior (DiMaggio & Powell, 1983, pp. 147-160). It might have a considerable influence on the costs and risks MNEs face

establishing local operations, as well as on their access to local resources. Thus, for instance, strong and stable host country institutions lower transaction costs and the level of policy uncertainty, making FDI inflows more attractive (Henisz, 2000, pp. 334-364). On the other hand, an institutional environment in EMs may also cause a deficit of reliable market information and extensive state intervention in business operations. This may bring additional risk to MNEs performing in those countries (Makino, Isobe & ChanShige, 2004, pp. 1027-1043).

In the New Institutionalism Theory, Scott (1995) distinguished between three pillars of institutional environment, regulative, normative, and cognitive, which together influence the individual and corporate behavior through rules, norms, and other regulative frameworks. Based on his work, Kostova (1996) developed a concept called *institutional distance*, which refers to the national differences between institutional environments of two countries from the regulative, normative and cognitive perspectives. The regulative pillar refers to “existing laws and rules in a particular national environment that promote certain behaviors and restrict others”. The normative pillar stresses “the values and norms held by the individual in a given country”. The cognitive pillar reflects “the cognitive categories widely shared by the people in a particular economy which affect the way people notice, categorize, and interpret stimuli from the environment” (Kostova, 1999, pp. 308-324). Thus, MNEs entering a non-familiar economy have to be ready to adapt and cope with the local market norms and be able to establish the legitimacy within the local world of institutions.

The work of Ionascu, Meyer, and Erstin (2004) revealed the interaction of different aspects of institutional distance and MNEs’ choice of market entry mode. For example, the higher the normative and cognitive distance between the home country and host country, the more likely the failure in cross-cultural communication between them becomes. Therefore, between developed markets and EMs, where normative and cognitive distances are large, the probability of entry through joint ventures or acquisitions is higher, as a foreign investor might attain the local legitimacy and benefit from the status and network of a local partner. On the other hand, as regulatory rules are mostly codified, foreign investors might find it relatively easy to adapt to local regulatory pressures without a local partner, even if the regulatory distance is high (Ionascu et al, 2004).

Among the obstacles that foreign investors might face in EMs in the respect of institutional environment are also problems of law enforcement, which bring into question the ability of new entrants to enforce contracts, fewer marketing capabilities and less experience in forming and managing strategic alliances (Fahy et al, 2000, pp. 63-81; Lewin, Long & Carroll, 1999, pp. 535-550). According to the Global Competitiveness Index conducted by the World Economic Forum (2013), the institutional environments of the majority of emerging countries have the following shortcomings: high diversion of public funds to companies, individuals or groups due to corruption; low public trust in ethical standards of politicians; and high favoritism of government officials to well-connected firms and individuals when deciding

upon policies and contracts. On the other hand, the majority of EMs ranked relatively high in the strength of investor protection, strength of auditing and reporting standards, and the protection of minority shareholders' interest by the legal system.

Even though there are similarities among emerging markets, they are not homogeneous entities and each economy has unique features that have to be taken into consideration while analyzing the business and institutional environment of emerging markets.

2.4 Key risks in emerging markets

When foreign investors decide to invest in a particular market, there are a number of uncertainties they have to face, related to the host market general economic situation, political issues, specifics of country's policy and regulative measures, the peculiarities of conducting business there to mention a few. These factors might influence the business activities of investors present in those economies, especially in the EMs, as they are in the process of stabilization and institutional development, which creates additional environmental uncertainties (Petrovic & Stankovic, 2009, pp. 9-22). Thus, despite the good fit of what investors want and what the host markets need, and the favorable business environment is, success is still far from guaranteed. For this reason, foreign investors have to be ready for potential risks anticipated in the host markets. This is also since any kind of international business venture is more risky *per se*, compared to doing business domestically (Brenčić et al., 2009).

There are a number of studies demonstrating the impact of various types of risks for FDI inflows in emerging economies. The most relevant risk in EMs is the country risk, which relates to the possibility of adverse changes in the country environment of the host economy. This is a broad term and generally, country risk encompasses three interrelated components: political, economic, and financial risks.

Political risk reflects the degree of uncertainty associated with various decisions taken by the political institutions such as governmental and legislative agencies, which might hinder the FDI activities (Luo, 2009, 740-764). For example, governmental discriminatory and regulatory policies, nationalization and expropriation of assets, wars, and other events ensuing from the political system, may disrupt business operations, damage assets or endanger employees (Butler & Joaquin, 1998, pp. 599-608). Jun and Singh (1996, pp. 67-105), working with the data sample of 31 developing countries, found out that countries with higher political risk attract less FDI. Spiegel's study (1994, pp. 400-414) revealed that political instability reduces the volume and rate of investment, although to different degrees across different industries. Additionally, the work of Busse and Hefeker (2005) showed that government stability, the absence of internal conflict and ethnic tensions, and democratic accountability are highly significant determinants of FDI inflows. On the other hand, some studies show different results. For instance, Asiedu (2002, pp. 107-119) and Noorbaksh, Paloni and Ali (2001, p. 1593-1610) revealed insignificant relation between political risk and inward FDI.

Economic risk is that risk related to the macroeconomic development of the country, such as the development in GDP, interest, exchange rates and inflation, which might influence the profitability of an investment (Nordal, 2001, pp. 197-217). Several studies consider economic risk as an important factor for FDI decisions in a host market. For example, Addison and Heshmati (2003), using a large sample of countries, found out that the level of macroeconomic risk affects FDI negatively. Additionally, according to Wyk and Lal (2008, pp. 511-526), the absence of stable and well-accepted currency in a host country may lead to unanticipated depreciation and volatility in the exchange rate that create unfavorable FDI environment. Moreover, Stopford et al. (1991) found out that the increase of market's relative costs of production due to inflation decreases the attractiveness of FDI for that economy.

Another uncertainty the foreign investors might meet in EMs is the financial risk, which takes place when a country is not able, or not willing to carry out its financial obligations. This may further result in the so-called payment risks, which is the threat of customers not meeting their financial obligations to sellers at the level of the individual business venture. Countries experiencing the deterioration of solvency are more likely to face the financial crisis, which would prevent them from fulfilling their commitments. Thus, there would be a greater chance of a bigger gap between actual returns and expected returns that might negatively influence investors' decisions (Hayahawa, Fukunari & Lee, 2011, pp. 60–78). The works of Cline (1984, pp. 389-391) and Callier (1985, pp. 105-115) show that a country's financial state (equity and credit markets' breadth) plays an important role in attracting FDI. On the other hand, Hayahawa et al. (2011, pp. 60–78), using the sample of 93 countries (including 60 developing countries), demonstrated that the financial risk does not appear significant in determining FDI.

There are many studies, which do not focus on specific types of risks, as all of them are interconnected. Nevertheless, the majority of the previous studies confirm that the risks have a significant impact on FDI decisions.

3 ANALYSIS OF THE KAZAKHSTANI MARKET

3.1 Current level of inward FDIs to Kazakhstan: industries and countries

Favorable business climate, together with political stability in the country contributed to a considerable FDI inflow to Kazakhstan. Since 2005, Kazakhstan attracted gross FDI of over €156 billion (The Ministry of investments and development of the Republic of Kazakhstan, 2014). Immense deposits of natural resources and a growing consumer market promoted FDI inflows in Kazakhstan to €11 billion in 2012 which was 1% higher than in 2011 (UNCTAD, 2013). However, the decelerating investments in financial services and asset divestiture of some foreign banks has led to a decrease in FDI inflows by 29% to €7.5 billion in 2013 (UNCTAD, 2014). A further slump of total FDI in the fourth quarter of 2014 has contributed to the decline in total FDI in Kazakhstan from €18 billion in 2013 to €17.9 billion in 2014 (Trading Economics, 2015). FDI outflows from Kazakhstan in 2014 increased from the

previous year by 60% reaching €2.7 billion (National Bank of the Republic of Kazakhstan, 2015).

Mergers and acquisitions in the landlocked developing countries (hereinafter: LLDC) were dominated by Kazakhstan in 2013. Out of 73 M&A deals worth over €75 million completed in LLDCs over the last 10 years, almost half were in Kazakhstan. From 2005 through 2013, the average value of greenfield investments has been greater than that of M&As in Kazakhstani market. In 2013, the value of greenfield projects in the country almost doubled from 2012, reaching \$221 million (UNCTAD, 2014).

In 2014, around 60% of FDI inflows in Kazakhstan were concentrated on mining industry and professional, scientific and technical activities. The mining industry grew by 14% to €6.4 billion from 2013, whereas the professional, scientific and technical activities sector declined by 20% to €4.4 billion in the same period. The manufacturing sector increased by almost 50% year on year to €2.8 billion in 2014, while financial and insurance sector again experienced a steep decline of 48% and reached €0.3 billion (National Bank of the Republic of Kazakhstan, 2015).

The largest countries-investors in Kazakhstan are the Netherlands, USA and Switzerland, which invested €44, €16 and €10 billion respectively in its economy in the period 2005-2014. Kazakhstan is currently the largest recipient of FDI (among the former Soviet Union countries) from China, which invested around €9.6 billion from the year 2005 through 2014. At the 2015 Kazakh-China investment forum, the launch of 20 joint projects with Chinese companies in the near future was announced, mainly in mining, oil and gas, construction, chemical and transport sectors, which would positively influence Kazakhstani economic growth (The Ministry of investments and development of the Republic of Kazakhstan, 2014).

3.2 Analysis of the market through PESTEL framework

PESTEL analysis is a useful tool to analyze any country environment and its impact on FDI flows from various perspectives. Therefore, the following sections provide a general PESTEL analysis of Kazakhstan from an inward FDI perspective.

3.2.1 Political environment

The Republic of Kazakhstan is a democratic, unitary state with presidential rule. The president determines the main direction of domestic and foreign policy and acts as a representative of Kazakhstan in international relations. Likewise, the head of state is also the commander in chief of the armed forces and may veto legislation that has been passed by the parliament. The state power is based on Constitution and laws and is divided between legislative (Parliament which consist of Senate and Majilis chambers), executive (the Government headed by the Prime Minister) and judicial (Supreme Court) authorities (EYb, 2014).

Presently, the political situation in Kazakhstan is relatively stable, as the President Nursultan Nazarbayev, who has been the Head of the State since 1991, governs the country. He has already set diplomatic relations with over 110 countries and formed alliances with the neighboring countries. Nevertheless, there are some international concerns that the political situation might deteriorate over the next ten years due to the uncertainty connected with the change of the State's authority and consequently future political predictability (Baker & McKenzie, 2014). In 2014, the Institute of Economics and Peace ranked Kazakhstan as 103rd out of 162 economies in its Global Peace Index, which also covers such indicators as political instability and political terror. The Kazakhstani position has deteriorated from 2013 by 25 position points. This is mostly due to regional crisis and internal conflicts such as anti-government movements, which has caused an increasing number of deaths in the country (Institute of Economics and Peace, 2014).

Kazakhstan is a member of United Nations, IMF, The World Bank, European Bank for Restructuring and Development (hereinafter: EBRD), Asian Development Bank, International Finance Corporation, the Islamic Development Bank and a number of other international organizations and the country expects to join the World Trade Organization in 2015. Moreover, in November 2012 the International Exhibitions Bureau decided to hold an international exhibition EXPO-2017 with the theme "Future Energy" in Astana for which the country is actively preparing (Bureau International des Expositions, 2015).

3.2.2 Economic environment

Kazakhstan is one of the fastest growing economies among CIS countries, located in the heart of Eurasia with abundant reserves of oil, gas, uranium, chrome and other natural resources. The Heritage Foundation (2015) ranked Kazakhstan as 69th among 178 countries in its economic freedom for doing business, with the score of 63.3 which is by three points above the world's average. Over the past five years the country's Index score has advanced by 1.2 points with enhancement in monetary, fiscal and investment freedoms and government spending. Table 2 summarizes the results of the ranking for 2015.

Table 2. The Kazakhstani Economic Freedoms, 2015

Indicator	2015 rank	Change in rank from 2014
Property rights	124	- 5.0
Freedom from corruption	145	+ 0.3
Fiscal freedom	16	+ 0.3
Government spending	33	0
Business freedom	46	- 0.7
Labor freedom	11	+ 0.3
Monetary freedom	112	+ 0.2
Trade freedom	76	+ 0.8
Investment freedom	131	0
Financial freedom	70	0

Source: Heritage Foundation, Index of Economic Freedom, 2015, p. 263.

Despite the fact that Kazakhstan's GDP growth was revised downwards by almost three percentage points in 2015, due to lower oil prices and weakness in the global economy, Kazakhstan is expected to return at least to the level of 2014 by 2020, according to IMF (2015).

Table 3. Economic indicators of Kazakhstan, 2014-2016

Indicator	2014	2015 projection	2016 projection
Population (million)	17.4	17.7	17.9
GDP (Current prices, US\$ billion)	225.6	248.6	276.9
GDP per capita (Current prices, US\$)	12950.0	14063.0	15433.0
GDP annual growth rate (%)	4.3	2.0	3.1
Unemployment rate (% of labor force)	5.2	5.2	5.2
Inflation (Average consumer price change, %)	6.9	6.0	6.0
General government gross debt (% of GDP)	13.7	14.5	14.3

Source: Trading Economics, Economic Outlook 2015-2050 for Kazakhstan, 2014.

To mitigate the slowing economic growth and increasing external risks, Kazakhstan has accepted the New Economic Policy, put in act in January 2015. The new large-scale development programme was designed to reorient the economic policy in order to prevent further negative trends. The following initiatives have been accepted to stimulate business activities and employment in the nearest four years (Embassy of the Republic of Kazakhstan, 2014):

- (1) Support and crediting of small and medium businesses as drivers of economic growth.

- (2) Development of transport and logistics infrastructure, i.e. connecting various regions through highways, railways and airlines as well as creating logistic hubs and marine infrastructure that would contribute to the export potential.
- (3) Development of tourism infrastructure that would generate opportunities to create new jobs.
- (4) Development of the energy infrastructure that would allow generating a balanced energy supply from Kazakh power plants to all regions of the country.
- (5) Modernization of housing and utilities infrastructure and water and heat supply networks.
- (6) Strengthening of housing infrastructure. “The state will construct social housing to rent and provide it to the population for long term rent with the right to buy it out. The provision of housing directly, without mediators, with low-interest loans will allow the reduction of acquisition costs and make it affordable for everyone” (Embassy of the Republic of Kazakhstan, 2014).

Due to the fact that the exploitation of minerals and raw materials creates more than a half of the gross product, the quality and extent of deposit utilization and the reproduction of raw material reserves play a decisive role in the present and future of Kazakhstan. Therefore, the top priority of the Kazakhstani Government is to encourage foreign direct investments into agriculture, innovation and processing industries, in order to diminish its dependence on energy and extracting sectors. The New Economic Policy also supports the government’s priorities. (Grant Thornton, 2014).

3.2.3 Socio-cultural environment

According to the United Nations Development Programme (2014), Kazakhstan was ranked 70th out of 187 countries in Human Development Index (hereinafter: HDI) in 2013 and falls under high human development category with the value of 0.757, whereas the average is 0.738 for the Europe & Central Asian (hereinafter: ECA) region. HDI is a summary measure for assessing long-term progress in dimensions like long and healthy life, access to knowledge and decent standard of living. Kazakhstan progresses every year in each of the HDI indicators such as life expectancy at birth, expected years of schooling, mean years of schooling and GNI per capita. Another social indicator, Gender Inequality Index (hereinafter: GII), reflects gender-based inequalities in such dimensions as health, empowerment, and economic activity. GII value for Kazakhstan is 0.323 ranking 59th out of 149 economies in 2013 and for ECA the average GII value is 0.317 (UNDP, 2014). Kazakhstan has ratified the UN Convention on the Elimination of All Forms of Discrimination against Women, which obliges it to take broad-based efforts to eliminate gender inequality in the country. Besides, in 2011 Kazakhstan’s Gini index was 28.9 meaning that the country has a low degree of inequality in the distribution of family income, especially comparing with, for example, Russia which has Gini index of 41.7 (Central Intelligence Agency, 2011).

The economic growth has led to employment expansion from 6.2 million people in 2000 to 8.5 million in 2012 (OECD, 2013b). Kazakhstan has an educated workforce, although the demand for highly technically competent workers exceeds the local supply. The labor market lacks technical and marketing skills and managerial expertise. Due to the fact that large investors attract foreign labor to fill the void, the Government of Kazakhstan highly encourages large-scale companies to hire local people for managerial and executive ranks, in order to ensure that country's citizens are well represented in foreign workforce. Likewise, to support the quality of labor market, local regulations require the companies to assign at least 1% of project's budget to training programs and workforce development (U.S. Department of State Diplomacy in Action, 2014).

One of the most significant peculiarities of the Kazakh business culture is building and maintaining personal relationships and networks. It is of high importance for local businessmen to establish trust and strong bonds with their business partners at any level of business. Such intangible aspects of business culture are considered more valuable than the actual contracts. As a result, negotiations tend to continue for a longer period, until closer relationships between the two parties are established. Understanding the Kazakh business culture might help MNEs avoid costly mistakes and achieve success in unfamiliar market environment (Terterov, 2004).

House et al. (2004) has launched the GLOBE¹ research programme across 62 economies, including Kazakhstan, designed to investigate how cultural variables affect leadership and organizational processes and the effectiveness of these processes. The results of the research were based on the responses of 17,000 managers from 951 organizations functioning in 62 societies throughout the world. GLOBE researchers identified nine cultural dimensions encompassing the actual society practices and values, reported in terms of what "Should Be". The defined variables are independent and make it possible to capture similarities and/or differences in norms, values and practices among various societies (House et al., 2014). Table 4 summarizes the cultural competencies for Kazakhstan.

¹ GLOBE stands for Global Leadership and Organizational Behavior Effectiveness

Table 4. Scores of Kazakhstan for the GLOBE Study, 2004

Cultural dimensions	Practices (As Is)	Values (Should Be)
Performance Orientation	3.72	5.57
Uncertainty Avoidance	3.76	4.52
In-Group Collectivism	5.50	5.62
Power Distance	5.40	3.19
Gender Egalitarianism	3.87	4.85
Humane Orientation	4.44	5.66
Institutional Collectivism	4.38	4.16
Future Orientation	3.72	5.22
Assertiveness	4.51	3.88

Source: House et al., Culture, Leadership, and Organizations: The GLOBE Study of 62 societies, 2004.

The Performance Orientation dimension emerged from the research as extremely important. It shows the degree to which a community encourages and rewards group members for innovation, excellence and performance improvement. Kazakhstan scored 3.72 for performance orientation practices, while the average score among 62 societies was 4.10 on the 1-to-7 scale. The average “Should Be” values were substantially higher at 5.94. Another significant dimension is Uncertainty Avoidance, measuring “the extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate the unpredictability of future events” (House et al, 2004). Kazakhstan scored 3.76, which is lower than average sample score of 4.16. In the cultural dimension, In-Group Collectivism, Kazakhstan scored 5.5 which is close to its “Should Be” value of 5.62 and higher than the average score of 5.13. The high score means that there is a high degree to which individuals in Kazakhstan express pride, loyalty and cohesiveness to their organizations or families. Gender Equalitarianism score, showing the degree to which a community minimizes gender inequality, was higher in Kazakhstan (3.87) than the economies’ average (3.37), although it was still significantly lower than “Should Be” score (4.85). The variable Human Orientation, which expresses the extent to which community encourages and rewards individuals for being altruistic, generous, fair and kind to others, also emerged to be above average in Kazakhstan, scoring 4.44. In the cultural dimension, Assertiveness, Kazakhstan scored higher than the “Should Be” value, meaning that the country should be less confrontational and aggressive in their relationships with others (House et al, 2004).

3.2.4 Technological environment

Kazakhstan’s objective of refining the competitiveness of the manufacturing industry is closely linked to the development of science and innovation. After the adaptation of “The State program on forced industrial-innovative development” (hereinafter: SPFIID) in 2010, Kazakhstan set course for a large-scale industrialization in order to shift from the efficiency-driven economy to the innovation-driven economy. For this purpose, a number of new legal acts, such as “About the Science” and “On state support for industrial and innovative

activities” were accepted in the last several years, which incorporated the new tools with already presented structure to support the whole innovation cycle, from scientific ideas to implementation and products’ introduction (The State program on forced industrial-innovative development 2015-2019, 2014).

Since the acceptance of SPFIID reform, the share of active innovative enterprises increased from 5.2% to 8%, the volume of the innovative projects increased four times (from €592 million to €2.4 billion), gross domestic expenditures increased by almost 60% (from €139 million to €256 million) and expenses of enterprises for technological innovation grew from €0.9 billion to €1.79 billion (Committee for Technical Regulation and Metrology, 2014). In addition, new financing mechanisms have been implemented, such as basic and program-target grants. Also, national research councils in scientific areas have been established, which connect scientists, business representatives and foreign experts, whose main focus is social and economic development (The State program on forced industrial-innovative development 2015-2019, 2014).

According to the World Economic Forum (2014-2015), Kazakhstan is ranked 61st for technological readiness and 85th for innovation out of 178 economies in Global Competitiveness Index in 2014; the results deteriorated from the previous year by 4 and 1 position respectively. Despite insignificant improvements from the year before, the following indicators are still low: quality of scientific research institutions (99), availability of scientists and engineer (88), availability of latest technologies (93), and FDI and technology transfer (107).

Despite actively working on the development and support of technology and innovation activities, Kazakhstan is still lagging behind its peers. This is as a result of a lack of expert and managerial skills, inefficient usage of existing infrastructure and underdeveloped “innovation climate (The State program on forced industrial-innovative development 2015-2019, 2014).

3.2.5 The Natural environment

Environmental protection in Kazakhstan is regulated by the Environmental Code, which is generally in line with international standards of environmental regulation. The Ministry of Environmental Protection of the Republic of Kazakhstan (hereinafter: MEP) is the regulatory body which organizes state environmental inspections (Baker & McKenzie, 2014).

Any business activity that has an impact on the environment is subject to the environmental requirements. For instance, before the beginning of any project that might have a negative impact on environment, it is necessary to obtain a positive state environmental expert evaluation. Moreover, for companies involved in potentially environmentally hazardous activities, it is required to have an environmental insurance. Additionally, all entities that are

engaged in the production of air discharges, sewage or solid consumption or industrial waste are obliged to obtain the environmental permit from MEP (Baker & McKenzie, 2014).

After the ratification of Kyoto Protocol in 2009 to the United Nations Framework Convention on Climate Change, Kazakhstan joined the worldwide effort to combat the global warming. Additionally, in 2013 Kazakhstan accepted the so-called “Green Economy Concept” policy, which sets the agenda for the following areas: water, agriculture, energy efficiency in specific sectors, energy production, air pollution and waste, ecosystems and human resource development. The main objective of the policy is to diversify the economy with alternative, cleaner sources of energy and to spur the scientific innovation and the use of advanced technologies (EYb, 2014).

3.2.6 The Legal environment

Generally, Kazakhstani legal environment remains complex and challenging despite notable reforms to its legal system. Although, according to some experts, it is considered to be one of the most comprehensive among former Soviet Union countries (U.S. Department of State Diplomacy in Action, 2014).

The Law on Investments of the Republic of Kazakhstan, accepted in 2003 (and updated on a regular basis), governs investment activities in the country and sets the legal and economic framework for investment stimulation. It defines the measures of support for investors and guarantees protection of the investors’ rights in Kazakhstan. It also assures stability of the existing contracts, certain provisions of international treaties, provides for dispute settlement through negotiation, use of local judicial procedures and international arbitration (Grant Thornton, 2014). Other legislative acts influencing foreign direct investments are: the Civil Code, the Tax Code, the 2003 Customs Code and the Customs Code of the Customs Union, the Law on Currency Regulation and Currency Control and the Law on Government Procurement. These laws guarantee legal stability and transparent government procurement and provide non-expropriation and currency convertibility (U.S. Department of State Diplomacy in Action, 2014). Despite the prominent progress to maintain the legal system at a sufficient level, Kazakhstan still faces a challenge to further improve the competence and independence of prosecutors and market regulators, tackle corruption and enhance the court system.

The authorized state body for the tax services in Kazakhstan is the state Revenues Committee of the Ministry of Finance. In accordance with the Tax Code, the taxes shown in the Table 5 are levied for residents of Kazakhstan. The tax rate for non-residents varies between 5% and 20% depending on the type of income.

Table 5. Tax rates in Kazakhstan, 2014

Tax and mandatory contribution	Statutory tax rate	Tax base
Corporate income tax	20%	taxable profit
Social tax	11%	gross salaries less obligatory pension contributions
Property tax	1.5%	property annual average net book value
Environment pollution fee	€8.3 to be adjusted by coefficient	amount of waste and fuel consumption
Land tax	€0.14 per square meter	land area
Vehicle tax	€8.3 to be adjusted by coefficient	carrying capacity
Value added tax	12%	value added
Social security contributions on employee	10%	gross salaries

Source: World Bank, Paying taxes in Kazakhstan, 2014.

Kazakhstan was ranked 17th by the World Bank (2015) for paying taxes indicator. This takes less time to prepare, file and pay taxes and mandatory contributions in Kazakhstan, but the total number of tax payments per year is on average three times lower than that of ECA countries.

3.3 Analysis of the Kazakhstani business environment

According to the World Bank's ranking (2015) Kazakhstan takes 77th position out of 189 countries in ease of doing business, which is 1 position lower than in the year before.

Table 6. Easiness of doing business in Kazakhstan, 2015

Indicator	DB 2015 rank	Change in rank from 2014
Starting a business	55	-2
Dealing with construction permits	154	-2
Getting electricity	97	-5
Registering property	14	+ 4
Getting credit	71	-4
Protecting minority investors	25	-4
Paying taxes	17	-1
Trading across borders	185	+ 1
Enforcing contracts	30	+ 5
Resolving insolvency	63	+ 19

Source: World Bank, Doing business: Going beyond efficiency, 2015, p. 11.

Kazakhstan is ranked 55th by the World Bank in ease of starting a business. In order to start a business in the country, it is necessary to accomplish six procedures, whereas the average number of procedures required in ECA is five. It takes ten days to register a firm in Kazakhstan and twelve on average in ECA. Costs, as a percent of income per capita, are much lower than in ECA countries and represent 0%, with no minimum capital required to start a company (World Bank, 2015).

One of the largest obstacles to establish business in Kazakhstan is dealing with construction permits, due to numerous required procedures (25 procedures), which is almost twice as much as in ECA. Nevertheless, it takes less time to build a warehouse in Kazakhstan (156 days) and the procedures cost almost four times less (1.5% of warehouse value) than in ECA (The World Bank, 2015). Trading across borders represents another difficulty, due to high import and export costs, which are more than twice higher as in ECA. Moreover, 79 days are required to comply with all the necessary procedures to export goods and 67 days to import goods, whereas in ECA it can be done within 23 and 26 days respectively. Despite the shortcomings, the index trading across borders improved for one position from the previous year (World Bank, 2015).

The least difficult procedures for business penetration are property registration and tax payments. Due to certain measures undertaken by Kazakhstani Government in 2015, insolvency resolution and contract enforcement indices gained 19 and 5 positions respectively from 2014 (World Bank, 2015).

Similarly, the World Economic Forum ranked Kazakhstan 50th out of 144 economies in overall global competitiveness index 2014-2015. This index includes 12 pillars, which consist of a number of indicators that measure Kazakhstan's performance on the global scale. Macroeconomic environment and labor market efficiency are the most attractive factors for doing business in Kazakhstan, whereas the most problematic areas are corruption, access to financing and inefficient government bureaucracy (World Economic Forum, 2014).

EY (2014a) survey shows that the investors' awareness of Kazakhstan is increasing, as the percentage of "can't say" responses to how they see Kazakhstan in 2030 has declined from 42% in 2013 to 19.8% in 2014 and around 40% of respondents, aware of Kazakhstan, stated that the economy will be a leader in energy by 2030. Moreover, more than 47% of respondents said that Kazakhstan's attractiveness will increase over three years. This might be a result of various ongoing government efforts such as the EXPO 2017 campaign, international forums and visits and strengthening relations with key trade partners. According to the survey, investors, who are operating in Kazakhstan, are attracted by the country's macroeconomic stability, stable political and social environment and telecommunication structure. Investors, who are not established in Kazakhstan, find attractive the local labor costs, telecommunication infrastructure and domestic market.

3.4 SWOT analysis of the Kazakhstani market

SWOT analysis is a helpful tool to identify a country's internal and external issues that could influence foreign investors' decisions. The SWOT analysis of Kazakhstan is summarized in Table 7.

Table 7. SWOT analysis of Kazakhstan, 2014

Strengths	Weaknesses
Wide range and availability of natural resources	High level of corruption
Relative macroeconomic and political stability	Low availability of qualified human capital
Constant improvement of business climate with the acceptance of reforms and legal acts	Unbalanced economic development in various regions of Kazakhstan
Is a member of a number of international organizations (OECD, UN, etc.)	Presence of bottleneck in infrastructure (water supply, logistics, etc.)
Geographical proximity to large consumer markets (Russia, China, Asia-Pacific etc.)	Low investment activity in other sectors rather than natural resources
Provides with a superb investor protection	Poor private sector
Opportunities	Threats
Market opportunities in China and Central Asia	"Dutch disease"
Service sector and infrastructure enhancement to develop business tourism	High dependence on Russia and world mineral commodity markets
Increased access to foreign markets after entering WTO	Negative impact of the regional and global crisis
EXPO 2017 "Future Energy" as a source of innovative ideas	Dependence on international investments
Investments in private sector to decrease state's involvement in business	Entrance to WTO might put some limitations on current trade structure
Expected increase in oil exports due to exploitation of Kashagan oil fields	Shortage of fresh water

Source: The State program on forced industrial-innovative development 2015-2019, 2014.

One of the biggest advantages of Kazakhstan is the availability of ample natural and mineral resources. This has sparked the most interest of foreign investors in the last decade. However, high investment focus on extractive industry has led to country's dependence on mineral commodity prices and underdevelopment of other sectors. Thus, in order to decrease the economy's dependence on the commodity market and prevent low investment activity in non-extractive sectors, Kazakhstan has set the objective to use the financial resources earned on extractive industries and redirect them to the development of other economic areas. For example, if Kazakhstan improves its infrastructure and enhances the service sector, the country could develop its business tourism and, by this increase the investors' awareness of the Kazakhstani market. The EXPO 2017 campaign might also strengthen economic position, bring innovative ideas and increase global awareness of the Kazakhstani market potential (Embassy of the Republic of Kazakhstan, 2014).

Kazakhstan's relative macroeconomic and political stability and favorable location enables the country's participation in multilateral international projects that promote regional integration. Despite the regional crisis, Kazakhstan should still search for new opportunities for cooperation with large markets, such as China, Russia and Central Asia. The advantageous position between the consumer markets of strategic partners and participation in economic unions provide access to new sales outlets of industrial products. The Kazakhstani export promotion will positively influence the foreign investors' market entry decision (The Ministry of investments and development of the Republic of Kazakhstan, 2014).

Additionally, Kazakhstan has focused on establishing a favorable investment climate by providing superb investor protection, incentives and support for business entities. The priorities in policy measures are combating the corruption, reducing bureaucracy procedures and eliminating bottlenecks in infrastructure (Embassy of the Republic of Kazakhstan, 2014).

3.5 Government policies and institutions for attracting inward FDIs to Kazakhstan

The principal state body overseeing investments in Kazakhstan is the Committee on Investments within the Ministry of Industry and New Technologies. Amongst other responsibilities, the Committee on Investments is in charge of negotiating and concluding investment contracts with investors in compliance with the Law of Investments. The Law of Investments equalized the rights of foreign and domestic investors and guarantees the protection of investor's rights and arbitration of disputes, assures against nationalization and the right to repatriate profits. Apart from that, in order to support FDI inflows in Kazakhstan, the Law on Investments creates a system of benefits for the foreign investors (The Ministry of investments and development of the Republic of Kazakhstan, 2014) including:

- (1) exemption from customs duties on the import of equipment, its components and spare parts, raw materials and supplies;
- (2) in-kind grants of not more than 30% of the total investment in fixed assets (land plots, buildings, machinery and equipment, computer equipment, measuring and control devices and equipment, vehicles, production and farm - agricultural implements).

As Kazakhstan is deeply committed to diversifying the economy outside the energy and mining sectors, even more support from the government obtain the so-called priority investment projects (in non-energy sectors) which have to meet the following criteria (The Ministry of investments and development of the Republic of Kazakhstan, 2014):

- (1) Match the List of Priority Activities which is approved by the Government (agriculture, agricultural chemistry, agricultural machinery, manufacturing, construction materials, metallurgy, chemistry, food production, oil refining, oil and gas machinery manufacturing, transport, electric equipment, and mining);

- (2) Newly created legal entity with investments of more than two million MCI2, approved by the Law on the national budget.

Incentives for the priority investment projects are as follows:

- (1) tax exemptions: Corporate income tax – 0% up to 10 years, Land-tax – 0% up to 10 years, Property tax – 0% up to 8 years;
- (2) reimbursement of up to 30% for expense on construction and installation works and procurement of equipment after full commissioning;
- (3) guarantee of stability of the legislation: tax legislation and in the sphere of attraction of foreign labor;
- (4) state support of investments by the authorized body, established by the Government of the Republic of Kazakhstan, which interacts with investors on the principle of “single-window”;
- (5) assistance to investors in providing the guaranteed order from the interested legal entities according to the investment contract signed between the authorized body and the investor.

Additionally, as the Government of Kazakhstan is actively attracting investors to promote the country’s stable economic growth, certain measures have been taken to improve the business environment in the country, and make it more favorable for investors. In the past three years the following reforms had been accepted (World Bank, 2015):

- (1) In 2013, the process of starting a business became easier as the requirement to pay in minimum capital within 3 months after incorporation was eliminated.
- (2) In 2014, the time it takes to register a company at the Public Registration Center was reduced. Likewise, property transfer became less complicated after the introduction of a fast-track procedure for property registration.
- (3) In 2015, Kazakhstan made trading across borders easier by opening a new border station and railway link that helped reduce congestion at the border with China. Moreover, after the introduction of an electronic filing system for court users, the contracts enforcement became easier. In addition, Kazakhstan made insolvency resolution less complex, by clarifying and simplifying provisions on liquidation and reorganization, introducing the concept of creditors’ meetings, authorizing payment in kind to secured creditors, expanding the rights of creditors during insolvency proceedings and clarifying the process for submitting creditors’ claims.

² Monthly calculation index is used for calculation of benefits and other social payments, as well as for the penalties, taxes and other charges in accordance with the Republic of Kazakhstan legislation for 2014 was €7.8

4 BARRIERS FOR DOING BUSINESS IN KAZAKHSTAN

There are certain factors that might create obstacles for foreign investors entering a new market. These could be country barriers, such as adverse changes in the political or economic environment of the host economy. There are also financial barriers connected to the country's ability to pay its liabilities. And, finally, business barriers that hinder investor firms' market entry due to unfavorable local business environment (Hayakawa et. al, 2011, pp. 60–78). The Kazakhstani barriers to entry are described in the following sections.

4.1 Country factors

Kazakhstan has always been characterized as a politically stable economy, due to the country's strong leadership for almost a quarter of a century by President Nursultan Nazarbayev. In April 2015, the president had been reelected for another term to maintain the country's economic growth. Notwithstanding, there are some international concerns that the political situation might deteriorate over the next ten years after Nazarbayev's eventual departure, due to the uncertainty connected with the change of the State's authority and, consequently, future political predictability (Baker & McKenzie, 2014). Kazakhstan does not have experience in political transition and currently there is no publicly designated successor, despite close involvement from his two daughters and their husbands. Also, the mechanisms to ensure a smooth and legitimate transfer of power are untested (The Economist Intelligence Unit, 2015). The uncertainty of future political situation in Kazakhstan might hinder the FDI activities.

The policy efforts to support the economy aftermath of the global financial crisis have led to a further increase of the state's role in the economy. The governmental interventions resulted in underdevelopment of the private sector in Kazakhstan, with the National Welfare Fund Samruk-Kazyna managing a major part of industrial and banks assets. The private sector is still subject to numerous constraints and distortions; large enterprise privatization has not advanced and competition policy remains underdeveloped. At the same time, the excess involvement of the state has increased focus on extractive sector, while slowing down the progress in privatization and diversification of the economy (EBRD, 2013). Nevertheless, the Government of Kazakhstan has taken measures directed to widen economic diversification through reforms and investment incentives.

Presently, some economic volatility can be observed in Kazakhstan. Economic growth has slowed down significantly in 2014 due to weaknesses in banking sector, overvalued currency and high dollarization, leading to a monetary crisis. The shift of depositors' funds into foreign currency caused the reduction of tenge's liquidity, which resulted in high pressure on the financial sector. The expectations of devaluation had been high since February 2014 when the government had to make currency adjustments due to the fall in oil prices, after which tenge was devaluated by almost 20% against US dollar. Moreover, the Ukrainian crises and Western sanctions have pushed Russian Ruble to new lows against the dollar, which also correlates to

the movement in the Tenge. If the Kazakhstani authorities decide to undertake a large one-off devaluation, this would lead to a high inflation rates and undercut the terms of trade of Kazakhstan's non-oil economy. The vulnerabilities in the Kazakhstani macro environment might eventually negatively influence foreign investors' decisions for market entry (The Economist Intelligence Unit, 2015).

4.2 Financial factors

Most domestic companies obtain credit from Kazakhstani banks. However, foreign investors often find the margins and collateral requirements in Kazakhstan burdensome, so it is usually cheaper and easier for investors to finance internally, or borrow from their home country. Besides, it is difficult to obtain the necessary credit in Kazakhstan, which causes restraints in the firms' development, undermines competitiveness and lessens the attractiveness to potential investors (EBRD, 2013). According to the World Bank (2015), Kazakhstan was ranked 71st out of 189 economies in the ease of getting credit, whereas ECA region was ranked 52nd. In addition, the Kazakhstani score on strength of legal rights for borrowers and lenders was 3 out of 12, where higher score indicates that collateral and bankruptcy laws are better designed to ease the credit access in the country. Kazakhstan does not have a centralized public credit information system available to banks where they would be able to collect credit histories and information on borrowers. Also, there is no dedicated collateral registry to gather and share information on movable assets which could act as collateral to back loans and reduce the cost of obtaining information (OECD, 2013a).

The banking sector of Kazakhstan is still recovering from the 2008-2009 financial crisis, after which external financing from local banks had become tighter. Seeking to reduce its external liabilities, local banks reduced exposure to potential shocks and tightened the global liquidity levels that resulted in restrictions in their access to long-term financing. In response, domestic banks focused lending on short-term unsecured consumer credit with more favorable interest rates compared to the spread for retail deposits. While the total lending increased by 13.4% in 2013, the stock of consumer credit expanded by 46% over the same period. The rapid growth might signalize that the lending conditions have become inefficient, increasing the risk of bad debt growth in a banking sector already burdened with more than 30% of non-performing loans. Countries experiencing the deterioration of solvency are more likely to face the financial crisis, which would prevent them from fulfilling their commitments. Funding difficulties in Kazakhstani banking sector already forced such international players as Unicredit and HSBC to withdraw from the local market (The Economist Intelligence Unit, 2015). Although Kazakhstani banking system remains stable, it has not yet recovered due to asset quality deterioration of the majority of the large banks, capital constraints and the aggressive growth of consumer lending (U.S. Department of State Diplomacy in Action, 2014).

4.3 Business factors

In 2013, the World Bank conducted an Enterprise Survey among the top managers and business owners of 600 firms. The firms' representatives highlighted the biggest business environment obstacles experienced in Kazakhstan. Around 20% of companies emphasized the problems with corruption as a barrier for business operations in the country. Corruption by public officials might create substantial administrative and financial burden on enterprises by raising costs and risks associated with doing business. The survey conducted by the World Bank (2013) shows that almost 27% of firms experienced at least one bribe payment request during six transactions dealing with utilities access, permits, licenses and taxes, whereas the same bribery incidences were experienced by only 17% of firms in ECA countries. Kazakhstan was ranked 126th out of 175 economies for the level of transparency, meaning that the country was defined as highly corrupted (Transparency International & EY 2014). Transparency remains one of the most important challenges in Kazakhstan and enterprises themselves are responsible for combating non-transparent practices that can lead to bribery and corruption (OECD, 2014b). The large amount of unregistered enterprises operating on Kazakhstani market poses an additional problem. The practices in the informal sector, according to 15% of firms, create unfavorable business environment, as it represents a threat for legally registered enterprises posing unfair competition in the market (World Bank, 2013).

Another barrier discovered by the World Bank (2013) in its survey were the regulations and taxes that 14% of firms found as one of the biggest obstacles to conduct business. In addition, customs and trade regulations also might represent a barrier to entry. Open economies allow firms to expand to other markets and enable companies to import supplies at low costs. According to the World Bank (2015), Kazakhstan takes 185th place out of 189 economies in cross border trading. Among 600 interviewed firms, only 5% export directly or indirectly at least 1% of their total annual sales whereas in ECA this number reaches 20 % (World Bank, 2013).

Likewise, access to finance is an important issue in Kazakhstan that more than 10% of firms perceive as a barrier for conduction of business. The Enterprise Survey, analyzing how companies finance their operations, showed that the proportion of investments financed internally comprises 83% whereas in ECA this proportion represents 73%. Excessive reliance on internal funds might be a sign of inefficient financial intermediation. Also, according to the data of the World Bank (2013), the percentage of firms whose recent loan was rejected is almost 4 times higher than in ECA countries. This might be connected to the financial barriers described in the section 4.2.

Finally, infrastructure is a significant component of the market's general business environment attractiveness. Strong infrastructure enhances the competitiveness of an economy and enables the use of modern technologies. In Kazakhstan, more than 10% of firms find the weak electricity infrastructure as an entry barrier. Moreover, access to land and transportation represent obstacles for 4% and 3% of interviewees respectively (World Bank,

2013). The Government of Kazakhstan is increasingly investing in various sectors in order to make its business environment favorable for foreign investors. A number of reforms and policies have been accepted in recent years to strengthen the macroeconomic environment, eliminate non-transparent transactions, support the financing of firms and improve the infrastructure.

5 OPPORTUNITIES FOR FOREIGN INVESTORS

According to the Global Foreign Direct Investment Country Attractiveness Index, Kazakhstan was ranked 57th out of 111 economies in 2014, which is 8 positions higher than in the previous year. Despite the fact that foreign investors are becoming increasingly interested in the Kazakhstani market, most of the investments are directed to such sectors as energy and extraction of natural resources. The Government of Kazakhstan is aware of the problem of high investment focus on energy and extractive industries that reinforces to a certain extent the country's dependence on fluctuations of global commodity prices and results in underdevelopment of other sectors. There is a clearly stated policy objective to move from an extraction-based to a knowledge-based economy, using earnings from the oil, gas and mineral sector to facilitate diversification and modernization (OECD, 2014c). In this research the focus was posed on two particular sectors with high investment potential, namely (a) information and communication technology (ICT), and the (b) pharmaceutical industry. Both of them fall under the category of priority sectors, which are subject to government's incentives that were described in section 3.5.

The Republic of Kazakhstan is slowly transforming from traditional industry based economy into a knowledge-based economy. Information and Communications Technology has become one of the most important components of the country's economic development. In 2013 the ICT sector in Kazakhstan grew by 18% reaching €5.4 billion and comprising 3.8% of GDP. The share of information technology and telecommunications in ICT structure in 2013 were 31.4 and 50%, respectively, growing proportionally with the whole sector (Kazakhstan Association of IT-companies, 2014). According to the World Economic Forum (2015) Kazakhstan was ranked 40th out of 143 countries by the level of ICT development in 2014. The index increased in indicators such as infrastructure, skills and economic impacts. There is an increasing local demand for high quality telecommunication infrastructure and services, in particular internet access and data transfer services. The Government of Kazakhstan promotes technological development of the country aspiring to become a major ICT hub in the Central Asia and attract more foreign investments in this sector, which in 2013 reached €150 million (Embassy of the Republic of Kazakhstan, 2014).

The pharmaceutical industry has also gained high importance in Kazakhstan in the last decade as progress in this sector contributes to the sustainable socioeconomic development and the improvement of quality of life in the country. The pharmaceutical sector in Kazakhstan is among the most rapidly developing markets today, although it comprises only 0.07% of GDP. In 2013, the market size of the Kazakhstan's pharmaceutical industry represented €1.35

billion that is 11% higher in monetary terms in comparison with the year before. The rapid growth is promoted by the strong increase in demand on domestic market, which has outpaced the development of manufacturing facilities. The local production of pharmaceutical products is able to satisfy only 15% of local demand. The Government of Kazakhstan actively encourages the development of pharmaceutical industry through attraction of foreign direct investments that accounted for €6.1 million in 2013, which is nine times more than in 2009 (Ministry of National Economy of the Republic of Kazakhstan, 2014).

In order to analyze the FDI attraction potential of the pharmaceutical and ICT sectors, the combination of works of Dunning on OLI paradigm (1981, pp. 269-295) and Hollensen (2007) on entry mode factors are going to be used. Using their studies, these two sectors will be investigated through the following framework shown in Table 8.

Table 8. Industry-specific determinants of FDI

Structural variables	Industry
Ownership	Firm size
	International experience
	Degree of product or process technological intensity
	Innovations
	Extent of product differentiation and product complexity
Location	Competition between firms in industry
	Financing
	Tax incentives
	Direct/Indirect trade barriers
	Regulations
	Favored access to inputs and/or markets
Internalization	Government incentives
	Distribution system
	Extent to which vertical or horizontal integration is possible/desirable
Internalization	Use made of ownership advantages
	Extent to which local firms have complementary advantages to those of foreign firms

Source: Dunning and Lundan, *Multinational Enterprises and the Global Economy*, 2008; Hollensen, *Global marketing 4e*, 2007.

As was described in the subsection 1.2.4, Dunning (1981) identified three factors that are important in determining the extent and pattern of FDI: ownership-specific, location-specific and internalization. For this research, Dunning’s model explaining international production from the perspective of industry-level determinants, rather than country-level determinants was used, and was complemented with the factors influencing the entry mode decisions from Hollensen’s (2007) studies.

5.1 Ownership-specific factors

The Eclectic Paradigm of Dunning (1981) emphasizes the importance of advantages such as the extent of product differentiation, product complexity, production economies and so on that foreign enterprise has vis-à-vis host competitors. Foreign investors who are considering entering the Kazakhstani market should be aware of their competitive advantage and also consider the examples of other companies that are operating in certain industry: their size, international experience and other.

5.1.1 The ICT sector

Currently, there are 11 operators providing the service of international telephony (6% of market share), 4 mobile operators (43%) and more than 400 operators of local telephony, Internet access and other services (51%) in the Kazakhstani telecommunications market. Internet access has grown dramatically in Kazakhstan, from 11% of penetration rate in 2008 to 54% in 2013, although the trend has been gradually slowing down in the last few years (*International Telecommunication Union – ICT agency, 2013*). The growth of the telecommunications sector was mostly driven by mobile services with the penetration rate of over 180% in 2013. The largest and most important player in telecommunications is the state-owned company KazakhTelecom, which is the only company on the Kazakhstani market that obtained a license to operate 4G mobile networks. The share of KazakhTelecom as a mobile operator is 5.1%. Other mobile operators are GSM Kazakhstan (50.4%) majority-owned by Fintur Holdings B.V., Kar-Tel (34.2%) operating under Beeline Russian trademark and Swedish company Tele-2 (10.3%) which in 2009 acquired a majority share of Kazakhstan based mobile operator Neo ((EECA Horizon, 2014).

Among more than 500 information technology (hereinafter: IT) and business services enterprises in 2013, the leading IT company in Kazakhstan was Logicom, which is headquartered in Almaty and has €160 million revenue. In 2013, Logicom grew by 5% year-on-year, which is considered a modest growth in the Kazakhstani IT market. Arta Software, the local enterprise, on the contrary, showed significant sales increase of 90% in 2013, reaching €4 million. The company is specializing in software development for medium- and large-size enterprises and around 25% of its business is devoted to government and state-owned enterprises. Other large IT companies are EPAM Systems and NAT Kazakhstan with €8 million and €5 million of sales value respectively for the year 2013 (*Expert RA – rating agency, 2013*).

Most of the leading ICT companies in Kazakhstan are locally based and offer their products and services only for domestic market. In 2011 ICT goods export comprised €93 million, whereas the import of ICT goods was €1.7 billion (*IndexMundi – data portal, 2011*). Given the growing demand, Kazakhstani IT-companies are not able to supply necessary products and services at the required level. One of the reasons is the lack of interest of Kazakhstani companies in buying domestic developments, which is sometimes a consequence of the low

competitiveness of domestic enterprises. This is associated with the fact that, as in most other industries, Kazakhstan is lacking qualified IT-specialists. Despite the recent national programs aiming towards intensive practical IT-trainings of the population and development of younger generation's intellectual potential, this is a long-term process, so currently foreign companies with skilled personnel are in high demand (EECA Horizon, 2014).

Innovation policy plays an important role in Kazakhstan's economic strategy. The country invests in technological parks and universities, which promote the development of innovative ideas in ICT sector. With the support of the largest telecom providers, the National ICT Holding Zerde was established in 2008 with the main objectives to develop modern ICT technologies, implement breakthrough projects, examine the international and intergovernmental programs and projects in the field of ICT and coordinate mutual activities between the countries of CIS. The Government of Kazakhstan has showed a strong commitment to its intentions of continuous improvement of the ICT sector. However, the effectiveness of public intervention is often limited by the underdevelopment of innovation services and market infrastructure. One of the biggest issues in Kazakhstan is a weak entrepreneurial culture, which hinders the creation of a dynamic innovation system in the ICT sector. Since 2006, only few patents on innovative ICT products were registered (EECA Horizon, 2014). Also, according to the Network Readiness Index 2014, Kazakhstan takes 69th place out of 143 economies on innovation capacity and 93^d place on the availability of latest technologies (World Economic Forum, 2015).

Despite lagging behind some general ICT indicators, Kazakhstan makes huge steps forward in other areas. In 2014, Kazakhstan became a leader in Central Asia in e-government participation. The country jumped from 38th position in 2012 to 28th in 2014 out of 193 economies, falling under the category of countries with high e-government development index. The procedure of obtaining state license, registration and other services were significantly simplified with the transition to the electronic formats. The system makes it easier to start the business and simplifies the process of market entry (United Nations, 2014).

5.1.2 The pharmaceutical sector

According to the Ministry of Investments and Development of the Republic of Kazakhstan (2014) there are 79 enterprises working in the pharmaceutical field, including medium- and small-size enterprises. Among them, six largest companies produce more than 90% of Kazakh medical products in monetary terms. The largest pharmaceutical enterprises in Kazakhstan with €70.8 million of sales value is a French multinational pharmaceutical company Sanofi. Other important players on the market are Santo, Nobel Almaty, Abdi Ibrahim Global Pharm LLP and Pharmstandard. All of those largest pharmaceutical companies represent full-cycle businesses with the turnover of over a billion euro. Pharmaceutical giants such as Pfizer, Merck and Janssen have also shown high interest in the Kazakhstani market (Eurasian Economic Commission, 2014).

The share of foreign pharmaceutical companies in Kazakhstani market in monetary terms represents around 85% of the market (Ministry of National Economy of the Republic of Kazakhstan, 2014). One of the reasons for such a small stake (15%) of domestic producers is that the Kazakhstani pharmaceutical industry is mostly represented by production of generics and products “in bulk”: the market is lacking of innovation. The scientific and industrial foundation of local pharmaceutical companies is currently not developed and the investments in R&D are negligible. According to the experts’ estimations, the average cost of development and promotion of innovative product in the world represents €750 million. In Kazakhstan, those costs are a thousand times less as not every local pharmaceutical manufacturer is able to invest heavily in the costly projects needed to develop original drugs. Another problem is that Kazakhstan experiences a huge shortage of specialists such as chemists and pharmacologists. Most local pharmaceutical companies face the problem of lack of qualified personnel and, consequently, high costs of skilled labor. In addition, there are only three pharmaceutical companies in Kazakhstan that have Good Manufacturing Practice (hereinafter: GMP) certificate, which indicates a company’s compliance with all the conditions and requirements in drugs’ manufacturing, although admittedly there is currently no certification body in Kazakhstan, which would be able to perform GMP certification. As a result, most of the companies do not have export access to other markets. Several companies are exceptions, but their export is limited to the countries of CIS (Kaznex Invest, 2014). In 2013, the export of the pharmaceutical products from Kazakhstan was insignificant (€17.7 million), growing 4% year-on-year. The key export markets for Kazakhstan are Kirgizstan and Russia, which, in 2013, comprised €6.5 million and €2.8 million of pharmaceutical exports respectively. After entering the Eurasian Customs Union (hereinafter: EACU), Kazakhstan started exporting pharmaceutical products to Belarus, although the export amounts in 2013 were negligible (Eurasian Economic Commission, 2014).

5.2 Location- specific factors

According to Dunning (1981), one of the most important FDI determinants is the benefit of using the firm’s ownership advantage in a foreign location rather than in the domestic market. Therefore it is necessary to consider the industry business environment and how an entering firm might succeed given the local regulations and competition.

5.2.1 The ICT sector

The Kazakhstani ICT sector is regulated by the Agency of Communication and Information, which is responsible for managing issues of communication, information and archives; and by the Ministry of Transport and Communication, which is responsible for the technology infrastructure sector. At present moment there is no independent body holding a regulatory mandate to oversee the Internet.

There is a high degree of government intervention in the ICT network in Kazakhstan. In 2014, two laws were signed that authorized the prosecutor general and government officials to block

or censor online content and block websites without a court order in case websites were found to host illegal content. The same year another decree on “Rules for the Application of Additional Measures and Temporary Restrictions during a State of Emergency” was accepted, which allows Kazakh authorities to suspend or terminate media publications, and suspend the activities of political parties and public associations during the state of emergency. According to the results of the Internet Freedom Status, Kazakhstan went one position down to 60 (where 0 signifies most free and 100 signifies least free) in 2014, positioning the economy as “partly free” (Freedom House, 2014)

The provision of communication service is subject to license, except for certain cases stated in the Licensing Law. Normally the license is given within 15 days from the date of submission of the documentation although the process of its consolidation could take up to two months. The communication license cannot be transferred to third parties. According to the Information Technology and Innovation Foundation (hereinafter: ITIF), Kazakhstan relates to the group of countries with low level of taxes for ICT sector, ranging from 1% to 5%. Analyzing the tariffs and tax rates, which are levied on ICT goods in Kazakhstan, including the VAT and other payments, ITIF found out that the tax environment for companies providing ICT goods and services in Kazakhstan is favorable. Only 30 out of 125 economies have the same low level of taxation in the ICT sector. Besides, there are no additional taxes and fees in the area of ICT in Kazakhstan (ITIF, 2014).

One of the largest customers in the ICT sector is the state. Some of IT-companies have difficulties in cooperation with it, for example, due to imperfections of public procurement mechanisms in terms of long contracts and restrictions on purchasing through clearly defined product parameters (EECA Horizon, 2014). These companies also experience difficulties in dealing with other customers in Kazakhstan. One of the biggest problems is the conservatism of domestic firms and their fear or unwillingness to cooperate in adoption of innovative technologies.

These issues have a negative impact on industry growth and hinder the development of the market. Although Kazakhstan is ahead of its Central Asia neighbors, the country’s ICT is not sufficiently liberalized, with the Internet and telephony services prices higher than in Central and Eastern Europe. Also, some IT companies mentioned that there are administrative barriers related to export and certification of IT products.

In the recent years, the Government of Kazakhstan has been taking numerous measures to support the ICT industry. In 2013, the investments in IT sector reached €470 million. In addition, in 2013, the country accepted the State Programme “Information Kazakhstan-2020” which emphasized the importance of the development of ICT sector and a number of actions that are going to be undertaken by the government to ensure its growth. In 2014, a venture ICT Development Fund has been created. Its main goal is to support ICT sector and to invest in technology-focused IT projects ranging from €0.75 million to €2.6 million (*ICT Development Fund*, 2015). Moreover, the Development Bank of Kazakhstan provides

financial support for the development of local telecommunications industry. In 2013, it increased lending to the sector by 15% year-on-year to €370 million.

Despite certain drawbacks, Kazakhstan has competitive advantages in the ICT sector, such as the lower labor cost compared to Central and Eastern Europe and somewhat Russia. The government is also focusing on the development of human resources in the last decade. The state increased its education budget six-fold between 2005 and 2012, providing funds for equipment in computer classes and library expansions. In addition, OECD interviewed 25 foreign investors present in Kazakhstan who specified that both local and foreign firms would most likely consider IT Outsourcing (hereinafter: ITO) services to the Kazakhstani market. This could become an opportunity for further market expansion (OECD, 2011).

5.2.2 The Pharmaceutical industry

The Kazakhstani pharmaceutical sector is regulated by the Ministry of Healthcare and Social Development of the Republic of Kazakhstan. In order to produce pharmaceutical products in Kazakhstan, it is necessary to obtain a license. The license is valid for unlimited amount of time. However, it has to be periodically confirmed that the firm meets the qualification requirements. The electronic procedure costs 10 MCI and is done within 15 business days. In addition, all pharmaceutical products and medical devices in Kazakhstan are subject to state registration which lasts for 10 working days and costs 11 MCI (Egov – governmental portal, 2015).

The analysis of United Nations Economic Commission (2014) has found out that due to not yet harmonized regulations on state registration of medical products among EACU countries, Kazakhstani companies experience difficulties in exporting the pharmaceutical products to Belarus and Russia. Kazakhstan lacks a legal framework for production and export of products packaged and labelled according to the requirements of the destination markets. There are also disparities in technical regulations of Kazakhstan and Russia, which create significant trade obstacles. Moreover, there is a problem of counterfeit drugs on domestic market, which are mostly imported from Russia, Ukraine and China (United Nations Economic Commission, 2014).

The Government of Kazakhstan encourages the development of the pharmaceutical market and in 2013 invested €176 million in the construction of new pharmaceutical plants. The state support also plays an important role in drug supplies. In 2009, a single distributor, SK Pharmacia, was set up with the purpose of purchasing medicines and medical products directly from manufacturers and delivering them to the medical institutions as a part of the guaranteed free medical assistance programme. Other goals of the company were to increase the transparency of state purchases and to support the domestic manufacturers, as 75% of the domestic production of pharmaceutical products is currently bought by the state. However, the SK Pharmacia policies received some negative feedback from investors. For example, the company initially signed long-term contracts with domestic manufacturers for drugs provision

for seven years, which attracted foreign investments in the amount of €173 million. However, in 2013, the new government's amendments were put into force, according to which SK Pharmacia expected pharmaceutical companies to start deliveries of medical products not within seven, but within two years from the date of signing the contract. Should this period be extended by a supplier, SK Pharmacia has the right to terminate the contract. These actions strongly affect the decisions of foreign investors who consider entering the Kazakhstan's pharmaceutical market (Open Dialog Foundation, 2015).

Despite huge efforts, the government's support for the development of domestic pharmaceutical industry is not enough, as the country is very dependent on imports of pharmaceutical products, which comprised €1.2 billion, in 2013, more than 20% higher than in 2012. The major importers of pharmaceutical products in 2013 were Germany (15.9%), France (9%), and Russia (8.5%). The import of pharmaceutical products is favorable, as it is not levied with VAT tax and import tariffs in Kazakhstan. Besides finished products, almost all the raw materials for production of pharmaceutical products in Kazakhstan are also imported, as well as equipment and packaging materials which make the domestic market even more import-dependent. However, there is potential to produce globally competitive pharmaceutical products in Kazakhstan. The unique flora of the local market and the presence of rare plants contribute to the development of nanopharmacy, which has enormous export opportunities for the country. Given the world's trends in biotechnology and wide promotion of organic products, Kazakhstan could compete on global market in this sector (Ministry of Investments and Development of the Republic of Kazakhstan, 2014).

5.3 Internalization factors

John Dunning (1981) stated in his works that investor firms would internalize if advantages in having full control over the foreign business would be higher than using an independent local company to carry out those duties. It is important to know how an entering firm could make a use of its ownership advantage over the local companies and whether internalization advantages could also be captured through vertical or horizontal integration.

5.3.1 The ICT sector

Currently foreign ownership in telecommunications companies is restricted to 49% and in mass media to 20% in Kazakhstan. The foreign ownership limit for telecommunications operators serving long distance and international calls (except for KazakhTelecom) were agreed to be removed following the accession of Kazakhstan to the WTO, after a two and a half year transition period. The 20% limit for foreign participation in mass media companies will however remain in force. Among the five leading internet service providers, only Beeline is not controlled by the government, while the rest are either affiliated with KazakhTelecom or other national companies (Freedom House, 2014). In mobile telephony, almost all GSM operators are privately owned with large foreign participation in ownership and only one operator is fully owned by KazakhTelecom (Atel).

Logicom provides with a full range of services in the IT market including the manufacturing of computer and digital technology, software development, consulting and retail business. NAT Kazakhstan also represents a full-cycle business, from the development and implementation of software to product delivery and subsequent customer service. Other leading IT companies in Kazakhstan mostly specialize in particular IT-areas. For instance, Kazakhstani company Lime On Global's main activities are supply of licensed software solutions and IT-services, while the Russian company Artwell is specializing in internet projects (Expert RA – rating agency, 2013). Due to high specialization focus, strategic partnerships in IT sector in Kazakhstan are commonly used. For example, in 2013, two local companies Newinttech and KazDoc Technology have signed a partnership agreement through which Newinttech would provide development, distribution and licensing support of the information system “Documentolog”, whereas KazDoc Tehnology would concentrate on sales and implementation of solutions based on this platform. Acquisitions by MNEs are also frequently used to solidify the position on Kazakhstani market. For example, American company EPAM systems acquired a local Kazakhstani company PlusMicro in 2008. The acquisition was a strategic step forward, resulting in EPAM Systems becoming a leader in the field of software and IT-solutions development in Kazakhstan. Another example, Asseco, the largest Polish IT group, acquired 51% of shares of the local company New Technologies Integrator for €0.75 million, with the purpose of expansion to the CIS market (Expert RA – rating agency, 2013).

5.3.2 The Pharmaceutical industry

In Kazakhstan domestic pharmaceutical companies such as Nobel, Global Pharm, Romat and Dospharm represent full-service enterprises, which combine the development and implementation of technological processes, production of finished products and their sales to health institutions and consumers through distribution and pharmacy networks (Eurasian Development Bank, 2013). One of the reasons behind the complete internalization of those pharmaceutical companies is lower transaction costs and lower costs to transfer technology, information and know-how. In addition, higher degree of trust and control over operations are important factors in developing markets such as Kazakhstan. For instance, there is a weakness in protection of intellectual property of innovative pharmaceuticals in the economy. The country still lacks effective means to protect pharmaceutical test and other data against unfair commercial use, although the situation might change with Kazakhstan's accession to the WTO (Office of the US Trade Representatives, 2013).

Kazakhstan's Pharmaceutical Development Programme 2010-2014, introduced in 2010, provided public support, which included long-term procurement contracts, the refunding of expenses for the implementation of the GMP standard and the reimbursement of expenses for the promotion of products abroad, as well as other measures. Those benefits apply to foreign manufacturers, who are prepared to localize their production in Kazakhstan under the same conditions as those for domestic producers. The programme stimulated the advancement of

pharmaceutical industry in Kazakhstan and boosted the FDI flows in the country. In 2011, an investor from Poland, Polpharma, acquired 51% of shares of Kazakhstan's pharmaceutical plant Shymkent JSC Khimpharm and as a result attracted €75 million of foreign investments in Kazakhstan. The company was rebranded as Santo Member of Polpharma Group and today the firm supplies more than 50% of Kazakhstan's pharmaceutical products and employs 1300 Kazakhstani people. Santo Member of Polpharma Group obtained international GMP certificate that allows the company to export pharmaceutical products to Europe. In 2011, a Japanese company Takeda acquired the local firm Nikomed Kazakshtan for €9.6 billion. With a newly formed company, the Japanese investor has gained all subsidiaries and connections of Nikomed, as well as its qualified personnel. In 2012, 60% of shares worth €45 million of the Kazakh company Global Pharm were acquired by an investor from Turkey, Abdi Ibrahim. The companies have agreed to build a new pharmaceutical plant in Almaty. In the same year, a Russian group of companies Pharmstandard became a shareholder of LLP Karaganda Pharmaceutical Plant for €11 million.

Kazakhstani pharmaceutical sector is characterized by significantly lower number of greenfield projects in comparison with M&As. Generally, foreign companies search for a reliable local strategic partner and start a new greenfield project already after they have penetrated the market, with subsequent investments in modernization and building of new facilities (Open Dialog Foundation, 2015).

Table 9 summarizes the results of the analysis of ICT and pharmaceutical sectors.

Table 9. Summary of industry-specific FDI determinants of Kazakhstan

Factor	ICT sector	Pharmaceutical sector
Ownership-specific	<ul style="list-style-type: none"> • The market is characterized by high demand and low supply levels. • Most ICT companies are locally based offering their products and services only for domestic market. • Domestic IT developments are perceived as low quality. • Lack of qualified IT specialists; there is a necessity in foreign IT professionals. • There is an underdevelopment of innovation services and ICT market infrastructure. However, the government does actively invest in technological parks and universities to promote innovation. • In 2014 Kazakhstan became a leader in Central Asia in e-government participation, making the process of starting a business easier. 	<ul style="list-style-type: none"> • The market competition is highly concentrated: six largest companies produce more than 90% of Kazakh medical products. • The share of foreign pharmaceuticals represents 85% of the market. • The export of pharmaceutical products is insignificant. • The industry is mostly represented by the production of generics and products “in bulk”: the market is lacking innovation. • Local investments in R&D are negligible. • There is a huge shortage of specialists: chemists and pharmacologists. • There are only few companies with GMP certification, which is a minimum standard for exporting to the developed markets.
Location-specific	<ul style="list-style-type: none"> • There is a high degree of governmental intervention in the ICT network. • The largest customer of ICT sector is the state. • The provision of communication service is subject to licensing. • There is a low level of taxes for ICT sector, ranging 1-5%. • The domestic firms are conservative and reluctant to accept innovative technologies. 	<ul style="list-style-type: none"> • The production and sales of pharmaceutical products is subject to licensing and state registration. • The regulations on state registration of medical products among EACU countries are not harmonized. • Kazakhstan lacks a legal framework for production and export of products packaged and labelled according to the requirements of the destination markets.

(table continues)

(continued)

Factor	ICT sector	Pharmaceutical sector
	<ul style="list-style-type: none"> • There are administrative barriers related to export and certification of IT products. • ICT is not sufficiently liberalized, with high Internet and telephony services prices. • There is a strong governmental support, especially with ICT infrastructure. 	<ul style="list-style-type: none"> • There is a high amount of counterfeit drugs on domestic market. • The import of pharmaceutical products is not levied with VAT tax and import tariffs. • Almost all the raw materials for production of pharmaceutical products are imported as well as equipment and packaging materials.
Internalization	<ul style="list-style-type: none"> • Currently there are restrictions for foreign ownership in telecommunications companies to 49% and in mass media to 20%. • Among leading internet service providers, only one company is not controlled by the government, others are affiliated either with KazakhTelecom or other national enterprises. • In mobile telephony, almost all GSM operators are privately owned with large foreign participation in ownership and only one operator is fully owned by KazakhTelecom. • Strategic partnerships among IT companies are commonly used. 	<ul style="list-style-type: none"> • Most of the largest domestic companies are fully internalized due to lower transaction costs and higher control over processes. • There is a weakness in protection of intellectual property of innovative pharmaceuticals. • The accepted Pharmaceutical Development Programme provides public support (long-term procurement contracts, refunding of expenses for the implementation of the GMP standard and other) to foreign manufacturers, who are prepared to localize their production in Kazakhstan.

In 2013, IT-services in Kazakhstan showed the highest year-on-year growth in the IT-sector of 18%. However, the share of IT-services in the IT-sector structure is only 3.7%. With an increasing local demand, IT-services are likely to become a potential future driver of the market which could be seized by the country. Likewise, the favorable strategic location of Kazakhstan, between China and Europe allows Kazakhstan to play as an intermediary between two economic giants. Moreover, Kazakhstan could become a platform for IT and business services in Central Asia as the growing interest of investors in the region brings an increasing need for IT and business services to support the foreign investors' operations in those countries. Besides, given lower labor costs, qualification in the sector comparable with Russia and language skills, Kazakhstan could also aim at taking share of the Russian ICT outsourcing market and that of other CIS countries (OECD, 2011).

There is also large potential in the development of Kazakhstani pharmaceutical market. According to Business Monitor International (2014) Kazakhstan's pharmaceutical market is considered to be one of the most accessible, transparent and, from a legislative point of view, progressive in Central Asia. The introduction of more efficient technology, know-how and effective managerial practices to the Kazakhstani market from foreign investors would increase its productivity and enhance growth. Moreover, FDI contributes to human capital development through trainings and labor mobility so the shortage of skilled employees in the local pharmaceutical market could be filled in with the foreign labor. The territory of Kazakhstan has rich natural resources of plant origin that provide opportunities to produce extraction products and the possibility to produce cheap chemical substances for minimum costs (Azembaev, 2010). The industry is highly supported by the government, which is actively trying to create a favorable environment for foreign investors.

6 RECOMMENDATIONS FOR POLICY MAKERS ON HOW TO INCREASE INWARD FDI IN KAZAKHSTAN FOR CHOSEN SECTORS

Numerous policies and reforms have been accepted by Kazakhstan in order to attract FDIs to the country. For instance, the State Program on Industrial Development of the Republic of Kazakhstan for 2015–2019 had been adopted to accelerate the economic diversification and increase the country's competitiveness on the global market. Likewise, the New Economic Policy "Nurly Zhol" was put into force in 2015 to prevent the negative macroeconomic trends, stimulate the economic growth and support small- and medium-size enterprises (hereinafter: SME). Due to attractive incentives for investors in priority sectors and Special Economic Zones, the country has become one of the most promising FDI destinations. So far, Kazakhstan has made significant progress in creating a favorable business environment for foreign investors. Notwithstanding, there are still certain areas that could be improved so the local market becomes even more attractive for inward FDIs.

Chapter 3.1 of this master's thesis has described the barriers influencing foreign investors' decisions to enter the Kazakhstani market. They were grouped into three categories: (a) country factors, (b) financial factors and (c) business factors. In this work, the recommendations for country factors and financial factors relate to the Kazakhstani market in general, whereas business factors refer to ICT and pharmaceutical sectors only. This section provides recommendations for policy makers on how to overcome those barriers and, by this, increase inward FDIs in Kazakhstan, in particular to the chosen sectors.

6.1 Country factors recommendations

6.1.1 High level of corruption

Kazakhstan is implementing the Sectorial Programme for the Fight Against Corruption in the Republic of Kazakhstan for 2011-2015. The strategy was designed to ensure transparency and accountability of local governments to the public and integrity of law enforcement authorities.

Even though Kazakhstan has moved forward towards improved national anti-corruption strategy, there are certain shortcomings in the programme. The action plan should be based on a thorough analysis of the current situation and following the trends in corruption. The history, past experience and efforts against corruption should be assessed, as well research conducted by various organizations and institutions. The suggestions by civil society, public authorities and business sector representatives should also be revised. Based on solid analysis of the corruption status, the Government of Kazakhstan might consider launching a new, more comprehensive, anti-corruption strategy, which would involve proper mechanisms for the implementation monitoring and performance evaluation. The assessment of implementation results would include the effectiveness of implementation measures, achieved performance indicators, the impact of the strategy on the corruption level in the country and follow up actions based on monitoring results (OECD, 2014b). Moreover, the Kazakhstani Government may want to promote the transparency of activities in its combat with bribery through making public commitments and fostering openness and dialog with the public. The involvement of civil society in monitoring processes and publication of all monitoring reports would contribute to the overall effectiveness of strategy implementation. Also, the promotion of corporate governance and proper business conduct across sectors would contribute to development of transaction transparency among enterprises (OECD, 2014a).

6.1.2 Fragile monetary policy framework

In the light of current economic volatility, the Government of Kazakhstan may want to impede the potential increase in inflation by tightening the monetary policy (which involves tightening liquidity directly) and speeding up with the planned introduction of a new policy interest rate instrument. According to the IMF (2014), the current measures of the National Bank of Kazakhstan such as foreign-currency swaps with banks, for the purpose of facilitating the deficit of long-term liquidity, should be taken as a temporary alternative to regular open market operations. Also, in order to prevent the potential damage to the investment climate, currently used price control measures should not be used as a policy tool, especially at the time when the economy aims to diversification (IMF, 2014).

Increasing dollarization might signalize the fundamental lack of credibility in the current monetary regime. The Government of Kazakhstan might consider the enhancement of the monetary policy framework through the set of measures such as gradually widening the exchange rate band and, by this, leaving more room for interest rate policy. This also helps adjust any small exchange rate undervaluation with less pressure on inflation and reserves. The government could also improve the internal and external communication by, for example, publishing yearly monetary policy guidelines (IMF, 2014).

The next steps might be the strengthening of inflation forecasting model and establishment of a money market committee, which would be responsible for the implementation of monetary policy including the assessment of liquidity conditions of the banking sector on a daily basis and interbank market developments (IMF, 2015b).

6.2 Financial factors recommendations

6.2.1 High stock of NPLs

Currently, the banks in Kazakhstan are overwhelmed with high share of NPLs in their portfolios. In order to achieve the set NPLs' target ceiling of 10% by the end of 2015, Kazakhstani authorities might consider the conduction of asset quality review for all the large banks in Kazakhstan. Preferably, it would be conducted by an independent international entity which would assess the quality of assets of the Kazakhstani largest banks. In case if banks are being sold, the asset quality review should be conducted prior to the completion of the transaction. In addition, there should be set a time-bound plan to work out those NPLs, as part of the deal, and then careful monitoring of the plan's implementation (IMF, 2014).

6.2.2 Poor access to finance

The Kazakhstani policy makers might consider alleviating the finance access for businesses by enhancing its regulatory framework. One of the options would be the creation of credit information services like a collateral registry accessible to financial institutions. Cooperate with the largest banks and create a central database and maintain the electronic system on a regular basis. This would increase the transparency of SMEs' accounting operations and increase banks' confidence. Likewise sector-specific Credit Guarantee Schemes might facilitate access to finance of SMEs by lowering collateral requirements, reducing risks faced by financial institutions and decreasing asymmetric information between banks and companies (OECD, 2013b).

6.3 ICT sector recommendations

6.3.1 Insufficient ICT qualification

The Government of Kazakhstan might consider implementing several policy reforms related to the local ICT skills development. One of the ways to develop human capital, according to Organization for Economic Cooperation and Development (2013b), is to set up business linkage programme, which would enable increased interaction between local SMEs and international companies through skills development activities, peer learning, and promotional activities. The main objective of the programme is to foster a collaborative business environment, facilitate the exchange of experience and information between enterprises and mobilize FDIs to support the transfer of know-how and technology from multinational companies to local SMEs. For establishing the business linkage programme, it is necessary to establish a linkage strategy team. Then preparatory measures, such as finding information, organization of trainings, mobilization of financial resources and other, should be set. Further, the developmental actions should be undertaken which involve identifying opportunities and maintaining engagement of both FDI and SME sectors, followed by the results' assessment (OECD, 2013b).

For example, in Egypt 100 IT companies with export potential have enrolled in the linkage programme and benefit from consulting services from MNE Atos, which leads an international consortium of IT consulting firms. The Egyptian IT industry development agency helps beneficiary companies by subsidizing 85% of costs for all activities provided under the implementation phase (OECD, 2013b).

Besides, organizing and promoting such events, Kazakhstan could significantly increase its chances to attract interested investors who might see the potential in the local market. A step forward would be encouraging IT-companies to go through trainings to obtain international certificates in order to strengthen existing capabilities and have an access to developed markets (OECD, 2011).

6.3.2 Underdevelopment of IT and business services

The Kazakhstani policy makers may want to support the development of IT and business services sector through the establishment of ICT infrastructure capable of offering multimedia services, high broadband penetration and wide-spread mobile connection. Kazakhstan could compete on labor costs and comparable qualifications against the Russian market by providing IT outsourcing activities such as financial and legal services, transaction processing and other. For example, when India declared its ITO sector as a top priority, the government created a partnership with Nasscom, “the premium organization that represents and sets the tone for public policy for the Indian software industry” (About Nasscom, 2015). The organization took control over the industry, from setting the ITO standards (e.g. training, quality, security) to industry representation within India and beyond. As a result, the Indian government undertook the following key policy measures for ICT industry: it reduced licensing requirements, removed restrictions on investment, liberalized telecom sector and set up National Venture Fund for the Software and IT industry to support start-ups (OECD, 2011).

The next step would be the promotion of IT-services and IT-support specialization by the government on certain industries like oil and gas, retail, health care and so on. Kazakhstani IT-companies are delivering too broad spectrum of services so it would be more efficient to focus on acquiring industry expertise and move from programme offering to solutions (OECD, 2011).

6.4 Pharmaceutical sector recommendations

6.4.1 Insufficiencies in legal framework for pharmaceutical products

The Government of Kazakhstan may consider adjusting current regulations in order to accommodate for the production of pharmaceutical products for export purposes, so labeling, name and packaging correspond to the requirements of the destination market. This could be, for example, implemented at least on the EACU level, where the standards and technical regulations for the pharmaceutical products would be aligned. Simultaneously, it would be

necessary to tighten the control of imported products from Russia and Belarus countries without appropriate common EACU technical requirements in order to prevent the sales of counterfeit drugs on the market (United Nations, 2014).

6.4.2 Lack of innovation

The Government of Kazakhstan might consider implementing a policy of pooling together the R&D projects for pharmaceutical products on the EACU level. Due to the lack of funding for screening and pre-clinical tests, not all developments that were initially tested by research institutions and universities are put into production, despite their high potential for becoming the basis for original drugs. The EACU would provide an opportunity to utilize the economies of scale by joining the efforts and financing to conduct the expensive R&D projects, which might be very attractive for foreign investors (Eurasian Development Bank, 2013).

6.4.3 Low number of GMP certified companies

Very few local pharmaceutical companies have GMP certificate, which allows the export of pharmaceutical products outside CIS. The Government of Kazakhstan may want to promote the process of obtaining the certificate through, first of all, establishing an authorized organ to perform GMP certification. Further, it would be necessary to improve the legislative source for transition to the new standards and create a state certified structure according to GMP. In addition, a system of test laboratories for determination and confirmation of the quality of drugs according to GMP standards should be created (Musilimovich, 2014, pp. 722-725).

Table 10 summarizes the recommendations and outlines the resources necessary for the strategy implementation.

Table 10. The summary of recommendations for overcoming FDI barriers in Kazakhstan

Issue	Recommendations	Responsible bodies
High level of corruption	Design and implement the new Anti-Corruption Programme. The actions plan should be based on a thorough analysis of the current situation, following the trends in corruption. The history, past experience and efforts against corruption in previous strategy should be assessed, as well as research conducted by various organizations and institutions. The suggestions by civil society, public authorities and business sector representatives should also be revised (OECD, 2014b).	The Presidential Commission of Corruption-related issues performs monitoring exercises and analyzes the status of the fight against corruption on a regular basis. The Inter-ministerial Working Group is responsible for designing the strategy and monitoring the outcomes of the Programme implementation and addresses them to the Commission (OECD, 2014b).
	Involve the civil society in monitoring processes by maintaining an official website and publishing there annual interim monitoring reports on the Programme and strategy implementation progress. In addition, invite non-government officials or non-profit organizations (hereinafter: NGO) to the sessions of Presidential Commission or incorporate them to the Commission (OECD, 2014b).	The Agency for the Fight against Economic and Corruption-related crimes, The Presidential Commission of Corruption-related issues
Fragile monetary policy framework	Speed up with the planned introduction of a new interest rate policy, supported by open market operations. Additionally, the gradual widening of the exchange rate band would give more room for interest rate policy and also help adjust any small exchange rate undervaluation with less pressure on inflation and reserves (IMF, 2014).	The National Bank of Kazakhstan

(table continues)

(continued)

Issue	Recommendations	Responsible bodies
High stock of NPLs	Invite an independent international entity which would assess the quality of assets of the Kazakhstani largest banks. In case if banks are being sold, the asset quality review should be conducted prior to the completion of the transaction. In addition, there should be set a time-bound plan to work out those NPLs, as part of the deal, and then careful monitor the plan's implementation (IMF, 2014).	The Ministry of Finance of the Republic of Kazakhstan, The National Bank of Kazakhstan
Poor access to finance	Create the credit information services like a collateral registry accessible to financial institutions. Cooperate with the largest banks and create a central database and maintain the electronic system on a regular basis (OECD, 2013b).	The Ministry of Finance of the Republic of Kazakhstan, The National Bank of Kazakhstan
Insufficient ICT qualification	Set up business linkage programme which would enable increased interaction between local SMEs and foreign MNEs. First of all, it is necessary to establish a linkage strategy team. Then preparatory measures, such as finding information, organization of trainings, mobilization of financial resources and other, should be set. Further, the developmental actions should be undertaken which involve identifying opportunities and maintaining engagement of both FDI and SME sectors, followed by the results' assessment (OECD, 2013b).	The Investor Support Center, The Ministry of Transport and Communications of the Republic of Kazakhstan
Underdevelopment of IT and business services	Promote IT and business services and create a favorable environment by reducing licensing requirements and removing restrictions on investments. Establish a strategic partnership with NGO which would represent and set the tone for public policy for the Kazakhstani software industry and overtake control over the IT market and its regulations (OECD, 2011).	The Agency of Communication and Information

(table continues)

(continued)

Issue	Recommendations	Responsible bodies
Insufficiencies in legal framework for pharmaceutical products	Adjust current regulations in order to accommodate and harmonize them at EACU level for the production of pharmaceutical products for export purposes (United Nations, 2014).	The Committee of Technical Regulation and Metrology together, the Committee for the Control of Medical and Pharmaceutical Activity
	Adjust current regulations in order to prevent the sales of counterfactual drugs on the market by tightening the control of imported products from Russia and Belarus countries without appropriate common EACU technical requirements (United Nations, 2014).	The Committee for the Control of Medical and Pharmaceutical Activity
Lack of innovation in pharmaceutical sector	Pool together R&D projects for pharmaceutical products on EACU level utilizing the economies of scale by joining the efforts and financing (Eurasian Development Bank, 2013).	The Ministry of Industry and New Technology of the Republic of Kazakhstan
Low number of GMP certified companies	Improve the legislative source for transition to new GMP standards. Establish an authorized organ to perform GMP certification. After the analysis of best foreign practices, create the state certified structure according to GMP standards. Establish a system of test laboratories for determination and confirmation of the quality of drugs according to GMP standards (Musilimovich, 2014, pp. 722-725).	The Ministry of Healthcare and Social Development of the Republic of Kazakhstan, The Committee for the Control of Medical and Pharmaceutical Activity

The effectiveness of the provided recommendations highly depends on the degree of governmental involvement in the development of the private and public sectors. Inter-ministerial cooperation is a key success factor for developing a common outlook on competencies required by the market and generating integrated solutions. Additionally, it is also important to obtain the support from local enterprises since their engagement plays an important role in sustainability of the whole economy. By overcoming the barriers to entry, Kazakhstan would create a favorable investment climate and, doing so, attract higher amount of FDIs.

CONCLUSION

Ever since it gained its independence in 1991, Kazakhstan has made significant progress towards creating a strong market economy. Similarly, it has achieved considerable results in its efforts to attract FDIs. The main reasons behind the rapid growth of FDI inflows in Kazakhstan in the last several years have been: political stability, advantageous location,

abundant natural resources, myriad investor protection policies, strong economic growth, and favorable investment climate. To counter the future uncertainty regarding the Kazakhstani economy, due to a significant influence of the crisis in the Russian Federation and a decline in oil prices, Kazakhstan promptly responded to challenges and put efforts to re-direct the economy back to prosperity by enforcing new policies and reforms and constantly enhancing its existing economic model.

The high investment focus on extractive industry has led Kazakhstan to increased dependence on the mineral commodity prices and underdevelopment of other sectors. In an effort to diversify, Kazakhstan set the objective to redirect the financial resources earned on extractive industries to the development of other economic areas. Kazakhstan has defined the priority investment sectors and created a system of benefits for foreign investors, who were willing to operate in those sectors, such as tax exemptions, reimbursements of certain expenses and facilitated procedures to start a business. ICT and pharmaceutical sectors, with annual growth of more than 10%, are included in the country's programme of economic diversification and thus gained high importance for the Kazakhstani economy in the last several years.

This master's thesis has had two primary goals, namely (1) to draw the attention of potential foreign investors who have little knowledge about investment opportunities in Kazakhstan, and (2) to encourage present foreign investors to investigate the potential in other fast growing industries of the Kazakhstani economy, other than the energy industry and sectors related to extraction of natural resources. The focus of this work was on in-depth analysis especially on the ICT and pharmaceutical sectors, which are growing the fastest, and outlined opportunities for both potential foreign investors and current investors.

With an increasing local demand, IT-services are likely to become a potential future driver of the IT market which could be seized by the investors. Likewise, the favorable strategic location of Kazakhstan, between China and Europe, could present an opportunity to play as an intermediary between two economic giants. Moreover, Kazakhstan could become a platform for IT and business services in Central Asia as the growing interest of foreign investors in the region brings an increasing need for IT and business services to support their operations in those countries. Finally, considering lower labor costs, qualification in the sector comparable with Russia and language skills, Kazakhstan also has potential to take a share of the Russian ICT outsourcing market and that of other CIS countries (OECD, 2011).

The rapid growth of the pharmaceutical industry in Kazakhstan was stimulated by the strong increase in demand on the domestic market, which has outpaced the development of manufacturing facilities. Presently, the local production of pharmaceutical products is able to satisfy only 15 % of local demand, presenting an attractive opportunity for investors. The territory of Kazakhstan has rich natural resources of plant origin that provide opportunities to produce extraction products and cheap chemical substances at minimum costs (Azembaev, 2010). The unique flora of the local market could also be used to develop so-called nanopharmacy, which has enormous export opportunities. Given the global trends in

biotechnology and the wide promotion of organic products, companies based in Kazakhstan could leverage the attractive environment and become global players in this sector (Ministry of Investments and Development of the Republic of Kazakhstan, 2014).

Despite significant progress, room for improvement in the Kazakhstani regulations and policies designed to attract inward FDIs still exists. Kazakhstan should be prepared to take certain measures in order to create favorable business environment and decrease the barriers to entry for investors. The recommendations provided in my thesis cover some of the country barriers, which could be reduced by implementing a new comprehensive anti-corruption strategy with performance evaluation. Moreover, the enhancement of the monetary policy framework, by speeding up the planned introduction of a new policy interest rate instrument and widening the exchange rate band, could positively influence FDI inflows. Fiscal barriers could be decreased by enhancing the banking structure in Kazakhstan and strengthening the financial policy. Recommendations provided in my work also address common problems that foreign investors meet while entering the Kazakhstani ICT and pharmaceutical markets such as insufficiencies in the legal framework for pharmaceutical products, lack of innovation, lack of qualified personnel and underdevelopment of IT and business services sector.

The results of my work will hopefully contribute to an increased awareness among foreign investors regarding the potential investment opportunities in the Kazakhstani market. This thesis is also designed to promote multilateral cooperation between Kazakhstan and other interested parties to increase the inward flow of FDI to the Kazakhstani market and stimulate its economic growth. Likewise, the recommendations provided within my master thesis will also stimulate a higher degree of FDI diversification across various sectors other than extractive sector. The research should also help the Kazakhstani Government to focus their attention on the key measures with which the investment climate can be substantially improved, especially for the chosen industries with high potential. Finally, as Kazakhstan has been designated, in some foreign policy documents, as a strategic market by the Slovene foreign affairs ministry, this research may be particular valuable to Slovene companies and the Slovene export economy and will promote a stronger bilateral economic cooperation between the two countries.

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