

УДК 330.332.3(574)

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Astana, Republic of Kazakhstan***STATE REGULATION OF FOREIGN INVESTMENT IN EMERGING MARKETS:  
EVIDENCE FROM KAZAKHSTAN**

*Transition to the market economy requires solving a number of problems such as the identification and exploration of new promising areas of investment, including foreign-owned ones. Sophisticated and efficient investment policy can create conditions to overcome the existing crisis by attracting foreign capital. According to the results we state that in order to encourage foreign investment and financial control over their use, it is necessary to improve the effectiveness of the mechanism of state regulation of the investment process, including the organizational structure of the foreign investments and a wide arsenal of legal and economic means.*

**Keywords:** state regulation, foreign investment

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м. Астана, Республіка Казахстан***ДЕРЖАВНЕ РЕГУЛЮВАННЯ ІНОЗЕМНИХ ІНВЕСТИЦІЙ У РИНКОВИХ ЕКОНОМІКАХ,  
ЩО РОЗВИВАЮТЬСЯ, НА ПРИКЛАДІ КАЗАХСТАНУ**

*Перехід до ринкової економіки вимагає вирішення різних завдань, таких як визначення і вивчення нових перспективних сфер для інвестицій, включаючи ті, які належать іноземним власникам. Сучасна та ефективна інвестиційна політика може створити умови для подолання існуючої кризи завдяки залученню іноземного капіталу. Базуючись на результатах, ми стверджуємо, що для залучення іноземних інвестицій та фінансового контролю за їх використанням, необхідно підвищити ефективність механізму державного регулювання інвестиційних процесів, з урахуванням організаційної структури іноземних інвестицій і широкого арсеналу правових і економічних методів.*

**Ключові слова:** державне регулювання, іноземні інвестиції

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Республика Казахстан***ГОСУДАРСТВЕННОЕ РЕГУЛИРОВАНИЕ ИНОСТРАННЫХ ИНВЕСТИЦИЙ  
В РАЗВИВАЮЩИХСЯ РЫНОЧНЫХ ЭКОНОМИКАХ НА ПРИМЕРЕ КАЗАХСТАНА**

*Переход к рыночной экономике требует решения различных задач, таких как определение и изучение новых перспективных сфер для инвестиций, включая те, которые принадлежат иностранным владельцам. Современная и эффективная инвестиционная политика может создать условия для преодоления существующего кризиса благодаря привлечению иностранного капитала. Основываясь на результатах, мы утверждаем, что для привлечения иностранных инвестиций и финансового контроля за их использованием, необходимо повысить эффективность механизма государственного регулирования инвестиционных процессов, с учетом организационной структуры иностранных инвестиций и широкого арсенала правовых и экономических методов.*

**Ключевые слова:** государственное регулирование, иностранные инвестиции.

**Introduction.** During recent two decades Kazakhstan has developed its socio-economic conditions. We notice that transition to the market economy requires solving a number of problems such as the identification and exploration of new promising areas of investment, including foreign-owned ones. Developed countries pay more attention to the implementation of investment projects. The volume of investment is regarded as one of

the key indicators of well-being of the national economy. Sophisticated and efficient investment policy can create conditions to overcome the existing crisis by attracting foreign capital. Investment of foreign capital into the economy of Kazakhstan contributes to the country's integration into the world economy, to the deficit reduction

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of domestic capital investment, to the bringing of advanced technology and equipment, management experience, to the ensuring of competitive production, expansion of exports, to the increasing hard currency reserves and improvement of training, as well as to the assistance in the fight against monopolies. The use of foreign capital in Kazakhstan hampered by the poor quality of investment projects, as well as effective financing schemes, state guarantees, which generates a high degree of risk and uncertainty for potential investors. Thus, it is essential to identify the main trends and methods of forming and evaluating the economic efficiency of investment projects with regard to Kazakhstan.

Practice insistently raises the question of methods of assessing the financial efficiency of investment projects, which would combine the international experience of the calculation and analysis of the economic efficiency of investments and takes into account the specific conditions of Kazakhstan.

Countries with developed market economies have already developed and successfully applied this kind of economic tools. However, it is not possible in Kazakhstan to use of fully applied abroad tools for assessing the effectiveness of investment projects activity, since the strong variability of the macroeconomic environment, the quality of structural changes and many other factors.

**Methodology.** This study is based on qualitative research methods to address the research questions and objectives. Depending on these research questions the methods of literature review, content analysis and comparative analysis will be used. Different methods will allow the different research objectives and questions to be fully explored.

**Definition of foreign investment.** The scientific literature pays a lot of attention about the problem of the definition of foreign investment. The feasibility of developing a definition of foreign investment is a clear need to limit those private foreign investments, which allow investors to demand extension to his investment legislation [4, 8]. This is a clear distinction in the public interest of the recipient. Various definitions of investments contained in the economic and legal literature. However, all the definitions proposed by different authors are not exhaustive; there are usually some of the characteristics of the investment, which is caused by the complexity, multidimensionality of the studied phenomenon.

In economic terms, investment is defined as "the process costs of labor and materials to build production facilities in which during production creates more value living labor than it consumes"

A differentiated approach to the definition of «investment» can be traced in the analysis of the current currency legislation of Kazakhstan. Thus, the giving and receiving of financial credits, depending on the period by the legislation (up to 180 days) related to the category of the current foreign exchange operations related to capital movement. It is in contrast to the investments related to foreign exchange transactions associated with movement of capital (Article 1 of the «On Currency Regulation» law of Kazakhstan) [9]. Thus, the current legislation has limited financial loans on investment for the duration of funding.

At the present stage of development Kazakhstan as a new independent state is guided to a market economy, the main focus of economic reforms directed on development

and implementation of the investment policy of the state aimed at ensuring high rates of economic growth and improving the efficiency of the economy.

With regard to the definition of studied phenomenon given the current legislation of Kazakhstan in Article 1 of the Law of the Republic of Kazakhstan of December 27, 1994 «On foreign investments», investments are defined as all types of assets and intellectual property rights invested by investors in objects of entrepreneurial activity for profit.

**Current state of the investment climate in Kazakhstan: challenges and prospects.** The exceptional importance is the attraction of foreign capital into the economy of the republic in order to solve these problems, as well as to ensure the structural reforms on the basis of the government's action program to deepen the reform of the economy and in the context of limited domestic sources of funding.

Attraction and effective use of foreign investment in the country's economy is the basis, one of the directions of mutually beneficial economic cooperation between Kazakhstan and foreign countries [2, 10]. Many economists estimate very contradictory foreign investments and their role in the economy. Some economists believe that the investment will lead to the loss of economic independence, while others see them as almost the only source of salvation and recovery of the national economy. First claim that occurs sale of the fatherland, loss of independence while second see them as an opportunity to rely on the international mobility of factors of production, transfer of knowledge, technology, management experience.

But with the opposite view, they are united in one thing is that foreign investments will have a significant impact on the course of economic reforms and thus they offer to objectively evaluate the possible negative and positive consequences of attracting external factors of production development, to develop an investment policy that meets the interests of Kazakhstan and its people, providing overcoming the crisis and achieving of long-term goals. Using of foreign investment can really improve the deformed industrial structure of Kazakhstan's economy, create new high-tech production, modernize fixed assets, technically re-equip many companies, actively use the existing potential of skilled workers and specialists of the republic, introduce the latest achievements in the field of management, marketing and know-how, to fill the domestic market with quality domestic products while increasing the volume of exports to foreign countries.

Attraction of foreign investments into the economy of Kazakhstan is objectively necessary process. Matter how successful Kazakhstan's economy will integrate into the world economy depends on the strategy and tactics to overcome the crisis. Today it is clear that the historically high level of isolation of Kazakhstan's economy from the world economy has no future, so orientation on it is one of the most effective ways to improve the competitiveness of Kazakhstan's national economy [3]. The fact that today Kazakhstan needs Western investment funds much more than yesterday, confirms the current situation in Kazakhstan, where almost all businesses in debt, increasing arrears, when in the end, all this leads to a decline in production, the cessation of public investment industry.

The essence of the problems accumulated in the material factors of production. All tangible becomes the aging of fixed assets [4]. Kazakhstan industry needs new techniques, more advanced technology. All this makes it necessary to attract foreign investment.

Kazakhstani enterprises often do not meet the requirements of a market economy, not only because of deterioration of the equipment, but also on many other indicators. Most of them face the problem of the closure and the organization in their place new, really modern enterprises and organizations. And it also requires considerable investment inflows.

It should be added that in Kazakhstan, as in other countries of Eastern Europe which in the process of formation of market relations, the problem is not only the lack of domestic savings to the rapid modernization of the economy. We argue that investment climate is the criterion of maturity of market reforms, the international community confidence in the stability of property rights, to the situation in the country as a whole. Although Kazakhstan is characterized by a large potential market, abundant natural resources and a strategic business location, we state that according to many foreign investors, the investment climate of the Republic of Kazakhstan is promising, but is unstable. The instability is accompanied by a predominance of negative factors that hinder the inflow of foreign investment into the country. The presence of these factors is due to the negative attitude of foreign investors to the domestic policy of the Government of the Republic of Kazakhstan. The survey of interested foreign investors identified five main obstacles for attracting foreign investment in Kazakhstan:

- bureaucracy;
- financial risk;
- tax and financial regime in Kazakhstan;
- legal infrastructure / pace of change in the field of law;
- exchange controls.

Two factor of five, while not purely economic, have a significant impact on the flow of investment into the country. Although such factors as tax and fiscal regime and currency control in Kazakhstan is recognized as one of the most liberal in the countries of Central Asia, they also do not work in favor of foreign investment. Financial risk is associated with inflation and currency fluctuations.

Currency risks associated with inflation and currency fluctuations. High inflation often creates a lot of difficulties, which are reflected in the ways of transnational firms. The most significant challenges include the following:

- 1) accelerated depreciation, or depreciation of the local currency, or a maxi devaluation;
- 2) the establishment of more stringent capital controls and the introduction of import restrictions;
- 3) decrease in credit availability and increasing interest on loans;
- 4) accumulation accounts receivable collection and extension periods;
- 5) the introduction of price controls with the intention to take control of inflation;
- 6) economic and political chaos and unrest among the population;
- 7) the flight of capital;
- 8) complication of evaluating the performance of subsidiaries abroad.

Another component of the currency risk is the exchange rate fluctuations. Exchange rate fluctuations involve the identification of three types of risk: the risk associated with currency recalculations; risks associated with foreign exchange transactions; the risk of economic consequences [8].

The next factor is the tax and fiscal regimes. General taxation levels act as impediments to the participation of foreign investors due to the fact that they reduce the profitability of investments. The levels of regulation and taxation, leading to a decrease in investment profitability after taxes, are below the level required for an investor compensation for inherent risk to which they are forced to go and build artificial barriers to the inflow of investments into Kazakhstan.

Based on the above, it is important to note that the foreign investor is important not to preferential taxation, and their stable, predictable and cost-effective for the state and for the state of the investor. In accordance with these requirements, it is advisable to perform such tasks as tightening payment discipline, as well as the observance of the agreements and contracts with the state on taxation.

There is no doubt that all of these factors are related to the overall economic strategy of the Government, so the solution of these problems requires a comprehensive approach. It requires a clear landmark action program to attract foreign investment, and it is necessary to create the controls, attracting and encouraging foreign investment on the basis of this program. This opinion is shared by many economists.

**Results.** Despite the reforms undertaken by the Government of the republic, the basis for a broad and comprehensive investment cooperation are the richest natural resources of Kazakhstan. According to the conclusions of the UNESCO experts, properly using of Kazakhstan's land can feed population of more than 1 billion. General literacy of the population and at the same time the relative cheapness of the labor force, political stability and absence of interethnic conflicts are the real social and economic benefits of Kazakhstan, aspiring to wide investment cooperation with foreign partners.

It is impossible to overlook the fact that the formation of a favorable investment climate should take into account not only internal but also external factors that can influence it, including the general state of the global capital market. Foreign investors, expanding the scope of its activities, prefer to deal with countries with a stable political situation and similar socio-economic conditions [1]. Therefore, at the beginning of attracting Kazakhstan needs to create special conditions favorable for foreign investors.

Kazakhstan seeks to create a favorable social, financial and cost legal regime for foreign investors taking into account their corresponding interests and appropriate investment climate, at the same time trying to solve its own problems and achieve its own goals. In this regard, the Government of the Republic of Kazakhstan made a significant step and put into operation in December 1994 the Law «On Foreign Investments», which defined the legal status of foreign investments in Kazakhstan, established the form of the objects of foreign investment investments in the Republic of Kazakhstan. It should be noted that it is a solid, consistent and steadily carried out strategy for the continuous improvement of the legal regime of foreign

investment in Kazakhstan. Also, the Government of Kazakhstan have been developed and put in place other laws and regulations governing the investment activity in the country in order to attract foreign investments.

From the perspective of politicians and economists of the country, participation of foreign capital will lead to performance of the following tasks:

- improvement of the export potential, overcome its raw orientation;
- strengthening of the country's export expansion and strengthen its position in foreign markets;
- development of import-substituting production;
- improvement of the scientific and technical level of production with the help of new equipment and technology, management and marketing;
- formation of the complete technological cycle with the release of the finished product;
- increasing of tax revenues to the state budget;
- promotion of the development of backward and depressed areas;
- creation of new jobs in the national economy;
- application of modern production and management experience through training and retraining;
- achievement of economic independence of Kazakhstan.

All developed and developing countries are guided by such criteria, as evidenced by the history of development of individual countries, which are directly guided by these criteria [8].

Thus, foreign investment acts as objectively necessary process for Kazakhstan, because it helps to curb crisis and at the same time leads to the financial stabilization of the economy, solve the strategic and tactical objectives of macroeconomic nature, such as the fight against inflation, structural adjustment, and the elimination of technological and managerial backwardness of the economy. That is, all of these factors demonstrate the importance of attracting and using foreign capital investments. Therefore, foreign investment is regarded as a universal means of solving all the problems associated with overcoming the investment crisis and should play the role of a strong enough catalyst in the investment process. Nevertheless, having a certain attractive features such as a rich in natural resources, the availability of sufficient skilled labor, high scientific and technical potential, Kazakhstan has not yet passed the stage of resource, and especially energy efficiency. For this reason, domestic prices exceed world prices. In this regard, Government takes measures on orientation of investment to address resource problems. Implementation of this policy is provided in the «Development Strategy of Kazakhstan till 2030», where in «The most important challenges facing the local authorities in 1998 and until 2030» one of the priority objectives is the creation of a favorable investment climate, including in the energy sector [6, 7]. It will reduce the resource intensity of the economy, the traditional dominance of raw materials and fuel and energy sectors, which will enable to switch the investment in favor of processing industries and end, and the development of high energy-saving technologies.

**Conclusions.** Thus, we have attempted to define and identify the main purpose of attracting foreign investment policies is to overcome the economic backwardness of the country providing a high quality of life based on the use of foreign capital in the modernization and structural

transformation of the national economy. Achieving this strategic goal provides the following tasks:

- the development of export potential;
- the development of import substitution industries;
- an increase in tax revenues;
- creation of new jobs, etc.

According to the results we state that in order to encourage foreign investment and financial control over their use, it is necessary to improve the effectiveness of the mechanism of state regulation of the investment process, including the organizational structure of the foreign investments and a wide arsenal of legal and economic means, used by experts of this structure; improve the system of insurance and reinsurance; establish high-quality and timely information support of foreign investors; to carry out a number of other measures. The main task is to make investment policy of Kazakhstan more flexible, pragmatic and appropriate to ongoing internal and external economic realities.

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