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## THE ROLE OF MULTINATIONAL COMPANIES AND THEIR IMPACT ON THE ECONOMIC POLICY OF KAZAKHSTAN

**Abstract.** This article is devoted to studying the activity of the main participants of economic globalization – transnational corporations, in the context of Kazakhstan. I considered the main volumes and streams of direct foreign investments in the country in recent years. Key indicators of direct foreign investments (further DFI) in the country and the prospects of development are defined in this work. The article also studies the major factors of attraction of direct foreign investments. A review of scientific literature on the factors defining the inflow of direct foreign investments to Kazakhstan is made. The paper investigates investment shares into priority sectors of the economy of Kazakhstan and provides analytical and statistical methods of knowledge and observation, which serve as a methodological basis of research. The article has the scientific value and novelty of research where the relevance of work is the application of an integrated approach to research of the international investment activities and the role transnational corporations play in the development of different economic sectors and infrastructure in Kazakhstan..

**Keywords:** *transnational corporation (TNC), transnational company, direct foreign investments (DFI), multinational corporations, industry, priority sectors.*

## Майра Дүйсембекова, Нұрдәулет Көпбаев, Евгений Ким ТРАНСҰЛТТЫҚ КОМПАНИЯЛАРДЫҢ РӨЛІ ЖӘНЕ ОЛАРДЫҢ ҚАЗАҚСТАННЫҢ ЭКОНОМИКАЛЫҚ САЯСАТЫНА ӘСЕРІ

**Аңдатпа.** Бұл мақала Қазақстан контекстінде экономикалық жаһандандудың негізгі қатысушылары – трансұлттық корпорациялардың қызметін зерттеуге арналған. Соңғы жылдардағы елге тікелей шетелдік инвестициялардың негізгі

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көлемі мен ағындары қарастырылды. Бұл жұмыста елдегі тікелей шетелдік инвестициялардың (бұдан әрі – DFI) негізгі көрсеткіштері және олардың даму перспективалары айқындалған. Мақалада шетелдік инвестицияларды тартудың негізгі факторлары да қарастырылады. Қазақстанға тікелей шетелдік инвестициялардың ағынын айқындайтын факторлар бойынша ғылыми әдебиеттерге шолу жүргізілді. Мақалада Қазақстан экономикасының басым секторларына инвестициялардың үлесі зерттеледі және зерттеудің әдіснамалық негізі болып табылатын таным мен байқаудың аналитикалық және статистикалық әдістері келтіріледі. Мақаланың ғылыми құндылығы мен зерттеудің жаңалығы бар, мұнда жұмыстың өзектілігі халықаралық инвестициялық қызметті және трансұлттық корпорациялардың Қазақстанның экономикасы мен инфрақұрылымының түрлі секторларын дамытудағы рөлін зерттеуге кешенді тәсілді қолдануда жатыр..

**Түйінді сөздер:** *трансұлттық корпорация (ТҰК), трансұлттық компания, тікелей шетелдік инвестициялар (DFI), трансұлттық корпорациялар, өнеркәсіп, басым секторлар..*

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**Майра Дюсембекова, Нурдаулет Копбаев, Евгений Ким**  
**РОЛЬ ТРАНСНАЦИОНАЛЬНЫХ КОМПАНИЙ И ИХ ВЛИЯНИЕ**  
**НА ЭКОНОМИЧЕСКУЮ ПОЛИТИКУ КАЗАХСТАНА**

**Аннотация.** Данная статья посвящена изучению деятельности основных участников экономической глобализации – транснациональных корпораций, в контексте Казахстана. Рассмотрены основные объемы и потоки прямых иностранных инвестиций в страну за последние годы. В данной работе определены ключевые показатели прямых иностранных инвестиций (далее DFI) в стране и перспективы их развития. В статье также исследуются основные факторы привлечения иностранных инвестиций. Проведен обзор научной литературы по факторам, определяющим приток прямых иностранных инвестиций в Казахстан. В статье исследуются доли инвестиций в приоритетные секторы экономики Казахстана и приводятся аналитические и статистические методы познания и наблюдения, которые служат методологической основой исследования. Статья обладает научной ценностью и новизной исследования, где актуальность работы заключается в применении комплексного подхода к исследованию международной инвестиционной деятельности и роли транснациональных корпораций в развитии различных секторов экономики и инфраструктуры политическую жизнь Казахстана.

**Ключевые слова:** *транснациональная корпорация (ТНК), транснациональная компания, прямые иностранные инвестиции (DFI), транснациональные корпорации, промышленность, приоритетные секторы.*

## **Introduction**

The widespread distribution and growth of transnational corporations (TNC) in the post-World War II period is one of the most important phenomena of recent times and has spawned numerous studies of it. When defining the very concept of TNC, attention is paid to the fact that they possess, control, produce and/or provide services outside the country where they are based. The ambiguous nature of TNC ownership can be private, public or corporate (mixed). The role of TNCs in global economic development and international relations is assessed differently, but it is generally accepted that TNCs have very broad capabilities, expanding their activities beyond national borders. TNCs are usually recognized for extensive investment of capital in the national economy of a specific country [1].

Transnational corporations are the link between world trade and international manufacturing. They operate in dozens of countries around the world through their subsidiaries and affiliates, using a single cutting edge scientific, technical and financial policy [2]. In addition, they have great research, production and market potential, which ensures high rates of development. The export of capital and its efficient allocation are the basis of the world domination of transnational corporations. The aggregate foreign investment of all TNCs currently plays a more significant role than trade. TNCs control a third of the productive capital of the private sector around the world, up to 90% of direct investment abroad [3]. Kazakhstan is the leader in attracting foreign investments among the central Asian countries. Today transnational corporations are the main tool in business expansion internationally.

## **Methodology**

The methodological part of this piece consists of two main methods: literature review and comparative analysis. Kazakhstani market is the topic of interest, the scope of this article mainly covers local authors and their works. As foreign pieces are concerned, the data is collected from Russian authors because of historical neighborhood and close economic and political ties with Kazakhstan. Comparative analyses are made between different regions of Kazakhstan and the difference in sectors of the economy in FDI share.

## **Distribution of FDI in Kazakhstan**

As stated in Kazakhstan International Business Magazine (2012), due to the uneven distribution of capital investment, the imbalances in the industries are enhanced by imbalances at the level of economic development of the regions. According to the estimation, about 60% of all investments in the country are directed to the cities of Almaty and Astana, and Western Kazakhstan, particularly Atyrau, Aktobe, Mangistau and Kyzylorda regions, where the raw material sector enterprises are located. These regions contain more than 80% of all the enterprises with foreign participation and affiliates of the fuel-and-energy sector operate [4].

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International enterprises like Chevron, British Gas, Exxon Mobil, BP/Statoil, Royal Dutch/Shell, Texaco, Total, Coca-Cola, ENI, Mitsubishi, Samsung and Agip entered the Kazakhstani industry at the end of 80s and the beginning of 90s, during the economic reform in Kazakhstan. Most of foreign TNCs are concentrated in oil-gas sector. Moreover, it is important to note that foreign companies played a vital role in identification, exploration and development of oil deposits in our country during the last 15 years. There was allowed to set up not only the joint production in Kazakhstan, but also the companies with 100% participation of foreign capital, by that moment 85% of oil production capacity belonged to nongovernmental structures, mainly to foreign TNCs [5].

Foreign direct investment includes both the investor's initial acquisition of property abroad and all subsequent transactions between the investor and the enterprise in which his capital is invested. The composition of direct investment includes:

- Investment of equity capital by foreign companies;
- Reinvestment of profits: the share of the direct investor in the income of the enterprise with foreign investments not distributed as dividends and not transferred to the direct investor;
- Intra-corporate capital transfers in the form of loans and borrowings between the investor, on the one hand, and associates and subsidiaries, on the other [6, 153].

TNCs in Kazakhstan are focused mostly on raw materials production. They are mainly interested in this sector of economy and sometimes use their position to lobby own interests. Today we still do not have powerful corporations that can act in the world scene and be competitive. In this case, we need to carry out diversification and direct TNCs to production of finished goods within joint venture with Kazakhstani companies.

### **Benefits of FDI**

In most studies on foreign investment, there can be found a positive role played by investment in the development of the economy of each country, and Kazakhstan is not an exemption. In recent years, investment attractiveness accounts for the share of industrial real sectors of Kazakhstan, attracting almost 2/3 of all capital investments. One of the strategic plans of the Ministry for investment of the Republic of Kazakhstan for 2017-2021 is the development of a diversified economy by improving the investment atmosphere, including the involvement of TNCs in the manufacturing industry rather than only in the raw materials sector of the economy.

The inflow of FDI in Kazakhstan is carried out through the development of joint ventures and subsidiaries, privatization of enterprises owned by the state with foreign capital. The main form of attracting direct investment in the Republic are joint ventures, to a lesser extent – with 100% foreign capital-subsidaries. Due to the fall in prices for the main export commodities, there has been a decline in FDI

inflows to our country. For example, in comparison with the volume of gross foreign direct investment in 2014 (\$23.7 million), the FDI for 2016 decreased by 11.5 % to \$ 21 million. At the same time, despite the decline in FDI in several industries, compared with 2014, FDI in the manufacturing industry increased in 2016 [7].

According to the National Bank of the Republic of Kazakhstan in the 1st half of 2017, the volume of gross FDI inflow amounted to \$ 10.5 million [8]. that is 8.6% more than in the same period of 2016 (\$9.6 million). The largest increase in gross FDI inflows is seen in industries such as:

- Trade – by 54.2% (\$1.3 million);
- Mining – by 2.2% (\$5.7 million);
- Manufacturing – by 46.7% (\$2.4 million);
- Transport – by 10.3% (\$308.4 million);
- Agriculture – by 13.7% (\$14.3 million).

These numbers are increasing each year. The share of the manufacturing industry in the production of oil and coal, processing of petroleum products in the investment structure increased from 16.9% (in the 1st half of 2016) to 22.8% (in the 1st half of 2017).

Almost three quarters of all investments in the industry are directed to the mining sector – 73.5%, or 1.6 million tenge, which is 56.6% more than a year ago. And this trend is shown almost in every sector of the DFI.

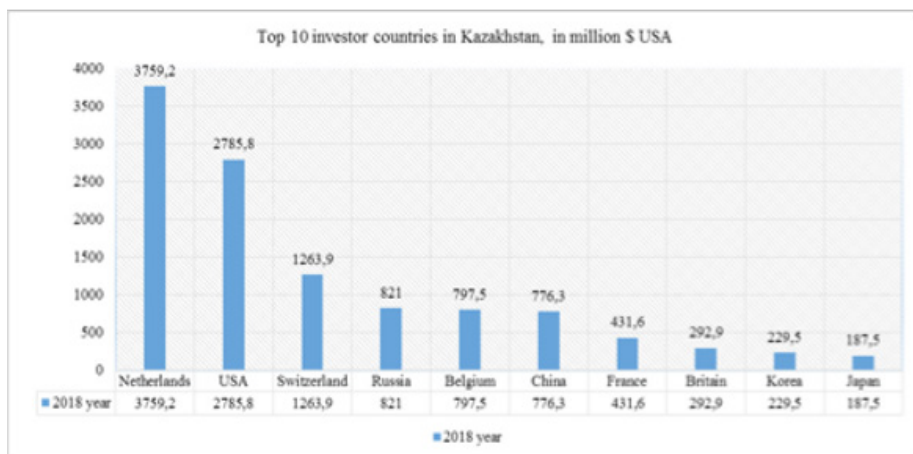
In general, the analysis of activity of foreign transnational corporations in Kazakhstan allows us to see the following number of the developed trends:

– Concentration of the TNCs' capital in a mineral and raw complex is caused by the fact that there was new international division of labor according to which Kazakhstan is considered as a large supplier of raw materials.

– The existing low efficiency of the mechanism of a contract control system. In general, results of programs of privatization and a contract control system were unambiguous. On the one hand, production was stabilized, and plants continued to provide with jobs and social services settlements, in those regions where they worked. For instance, the Ispat International company (Great Britain-India) took iron and steel making production of ArcelorMittal under control, Samsung (South Korea) negotiated bargains with copper plants located in Zhezkazgan and Balkhash cities, Glencore Trading (Switzerland) concluded commercial bargains with Kaztsink [6, 157].

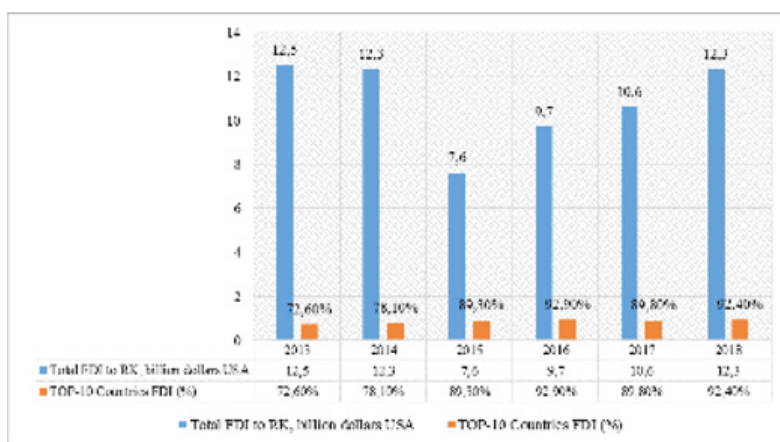
– There is unresolved a problem concerning activity of TNCs and respect for human rights. So, the mechanism of recognition, observance and protection of human rights in developing countries, in particular, and in Kazakhstan has not been effectively developed.

## Main investors



**Figure 1.** – The analysis of the volumes of attracted FDI over the country’s investors during 1995-2018, in % Note – calculations Ranking.kz on the basis of data of NB RK.

According to Figure 1, most of the FDIs come from western countries. It is noted that the northern neighbor – Russia is not only one of the key investors of the national economy, but also an important strategic partner. The flow of investments from Russia to Kazakhstan for all years of relations is 12.2 million dollars. Russian investors, unlike their counterparts (TOP 10 investor countries), have made a more diversified portfolio, distributing investments in relatively equal shares 24.3% (\$3 million) was allocated to the manufacturing industry all means [8].



**Figure 2.** – The histogram of FDI inflows to Kazakhstan, billion dollars USA Note – calculations Ranking.kz on the basis of data of NB RK.

Figure 2 illustrates not only how top-10 investor-countries steadily made investments into the economy of Kazakhstan from 2013 to 2018 but also the increase in the amount of those investments year by year.

## Conclusion

Making a conclusion on the study of trends in outflow and inflow of foreign direct investment in the priority sectors of the economy of the Republic of Kazakhstan, we can see that the main share of those investments is still focused on mining, oil and gas industries. The main investors in Kazakhstan are developed countries such as the USA, the Netherlands, Switzerland, Russia, China, Belgium, Korea, France, and the UK.

To sum up, this article attempts to show how foreign investments by TNCs affects the economy of Kazakhstan and the future prospects of such a trend. As KISS (Kazakhstan Institute for Strategic Studies) experts forecast, the tendencies of the world economic development in the short run are mostly negative and at least with high level of probability of GDP growth rates delay in global scale and also in leading economies. Delay of economic growth rates is predicted in reviews practically of all authoritative international organizations worsened estimates of growth of world economy prospects. In this situation of delay in economic growth all over the world, there is a question how FDI flows and TNC activities will change globally and particularly in Kazakhstan. As analyses show, within the Central Asia and CIS countries Kazakhstan is one of the rapidly growing and one of the most FDI attractive countries. Kazakhstan government has already formed the most favor condition for investors. From my point of view, the number of TNCs in Kazakhstan will continue to grow. They can find good opportunities for business: the extension of the market to Central Asian countries and Kazakhstan's location on New Silk Road strengthens its geopolitical role as a bridge between Europe and Asia.

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